

U.S. CENTRAL FEDERAL CREDIT UNION

QUARTERLY FINANCIAL REPORT

FIRST QUARTER ENDED MARCH 31, 2010

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QUARTERLY FINANCIAL REPORT
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Management's Discussion and Analysis

Recent Market Developments

The economic recovery that began in the second half of 2009 continued during the first quarter of 2010. Gross Domestic Product grew for the third consecutive quarter. Non-farm payroll growth during March was the strongest level of job creation in three years. Prices on fixed-income securities improved during the quarter as the recovery gained momentum. Liquidity levels at U.S. Central remained high as deposit growth continued to outpace loan demand at natural person credit unions.

Projections of losses in U.S. Central's existing investment portfolio moderated during first quarter, with total projected losses remaining largely flat with fourth quarter 2009 levels. However, a few specific bonds did have increased loss projections in the first quarter, which are required under generally accepted accounting principles to be recorded as other-than-temporary impairment (OTTI) charges.

A more detailed discussion of U.S. Central's first quarter operating results and OTTI charges is provided below.

Results of Operations

U.S. Central recorded a \$45.4 million net loss for the first quarter of 2010, compared with a net loss of \$507.3 million for the same period in 2009. In both instances, U.S. Central's net losses were driven primarily by OTTI charges, which totaled \$57.7 million and \$519.5 million in the first quarters of 2010 and 2009, respectively. OTTI charges recorded in earnings during 2010 and 2009 reflect only "credit losses", in accordance with guidance included in Accounting Standards Codification (ASC) 320 *Investments – Debt and Equity Securities* (formerly known as Financial Accounting Standards Board Staff Position 115-2/124-2), which U.S. Central adopted on January 1, 2009. Additional discussion of U.S. Central's OTTI recognition policy is provided in Note B to the consolidated financial statements.

First quarter 2010 OTTI charges of \$57.7 million were caused by further deterioration in certain of U.S. Central's non-agency residential mortgage-backed securities (RMBS). Excluding OTTI charges, U.S. Central recorded net gains on financial instruments of \$3.8 million in the first quarter of 2010, compared with losses of \$4.7 million for the same period in 2009. U.S. Central holds a portfolio of jumbo mortgage loans (total book value of \$90.8 million at quarter end) purchased from the originating credit unions through U.S. Central's wholly-owned subsidiary, Charlie Mac, L.L.C. The portion of these loans classified as held-for-sale is carried at fair value on the balance sheet with changes in fair value recorded in earnings. Net of related hedging activities, unrealized gains of \$4.0 million were recorded in the first quarter of 2010 related to these loans. During the first quarter 2010, \$0.4 million was added to the jumbo mortgage loan loss reserve, with total reserves reaching \$1.1 million as of Mar. 31, 2010. U.S. Central uses derivatives, primarily interest rate swaps, to hedge interest rate risk associated with fixed rate assets and liabilities. In some instances, the derivatives are not completely effective in hedging the changes in fair value of the matched asset or liability. This

mismatch (or hedge “ineffectiveness”) resulted in a net unrealized gain of \$0.3 million for the first quarter of 2010.

Net interest income totaled \$14.3 million in the first quarter of 2010, compared with \$24.3 million during the same period in 2009, a decrease of \$10.0 million (41.1 percent). U.S. Central maintains an asset-sensitive interest rate risk exposure. As a result, when the average 1-month LIBOR rate decreased from 0.46 percent in the first quarter of 2009 to 0.23 percent in first quarter of 2010, net interest income also decreased. Also, as principal payments on investment securities were received throughout 2009 and the first quarter of 2010, U.S. Central placed these amounts in a cash account at the Federal Reserve Bank of Kansas City, which earns a lower rate of interest than the maturing securities. Finally, because interest income on impaired (OTTI) securities is recorded based on the reduced cost basis of the assets (see Note B to the consolidated financial statements), interest income was reduced by an additional \$2.5 million in the first quarter of 2010 compared with the same period in 2009.

Fee income totaled \$6.1 million in the first quarter of 2010, compared with \$5.4 million for the same period in 2009, an increase of \$0.7 million (13.4 percent). U.S. Central earns fee income from payment products, such as Automated Settlement and APEX-ACH. Fee income also includes income from services provided by wholly- or partially-owned subsidiaries, such as electronic bill payment services offered by Corporate Network eCom, L.L.C., and broker-dealer services offered by CU Investment Solutions, Inc. (ISI). Increased trade activity related to ISI’s Corporate Agent program was the primary reason for the increase in fee income.

Operating expenses were \$11.7 million for the first quarter of 2010, a decrease of \$1.1 million (8.8 percent) as compared with the same period in 2009. Expenses for salaries and benefits decreased \$1.1 million, primarily the result of fewer staff and reductions in other employee benefits. Professional and outside services increased \$0.9 million, as increased trade activity for ISI’s Corporate Agent program generated higher commissions costs. Also, costs associated with litigation were incurred in the first quarter of 2010, while there were no such costs for the same period in 2009. Decreases in data processing, office occupancy and administration, and other miscellaneous expenses comprised the remainder of the change.

Balance Sheet

U.S. Central’s assets as of Mar. 31, 2010 totaled \$32.4 billion, a decrease of \$2.7 billion, or 7.7 percent, from \$35.1 billion as of Dec. 31, 2009. The decrease in total assets primarily reflects a decrease of \$2.3 billion in cash held at the Federal Reserve Bank of Kansas City.

Total funding, excluding capital accounts, was \$38.0 billion as of Mar. 31, 2010, compared with \$41.5 billion as of Dec. 31, 2009, a decrease of \$3.5 billion (8.4 percent). Within this category, borrowed funds decreased by \$5.8 billion, reflecting the repayment of U.S. Central’s borrowings under the NCUA’s Credit Union System Investment Program (CU SIP), while members’ share and certificate accounts increased by \$2.3 billion. Member accounts remain U.S. Central’s primary source of funding,

totaling \$28.8 billion at Mar. 31, 2010. U.S. Central's borrowings of \$164.3 million under the NCUA's Credit Union Homeowners Affordability Relief Program (CU HARP) mature in the fourth quarter of 2010.

Portfolio Overview

The following tables present overviews of U.S. Central's investment securities based on lowest and highest ratings by Standard & Poor's (S&P) or Moody's Investor Service (Moody's). (If specific securities are not rated by S&P or Moody's, U.S. Central uses ratings of Fitch Ratings.) The amortized cost amounts presented in these tables, and the tables that follow, have been adjusted to reflect cumulative OTTI charges recorded in earnings as of the date presented.

Investment Securities Portfolio - March 31, 2010 (dollars in thousands)

	Amortized Cost of Securities Based on Lowest Rating:						Total	Total	Avg. Credit
	AAA	AA	A	BBB	<BBB	Not Rated	Amortized Cost	Fair Value	Enhancement
Gov't Securities	\$ 104,995	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,995	\$ 104,995	
Agency Debt	49,331	-	-	-	-	-	49,331	49,381	
Agency RMBS	1,187,659	-	-	-	-	-	1,187,659	1,173,656	
Non-Agency RMBS									
FICO 720 or higher	112,042	144,230	129,274	101,353	2,399,255	-	2,886,154	1,900,897	18.7%
FICO 719 - 680	98,813	986,614	11,890	151,339	4,615,629	-	5,864,285	3,211,755	52.9%
FICO 679 - 620	529,049	513,959	484,974	74,462	2,330,533	-	3,932,977	2,121,190	35.7%
FICO 619 or lower	142,142	77,243	-	48,777	426,523	-	694,685	345,999	49.1%
Subtotal	882,046	1,722,046	626,138	375,931	9,771,940	-	13,378,101	7,579,841	40.3%
ABS									
Credit Cards	5,024,846	-	-	-	-	-	5,024,846	4,961,012	
Student Loans	2,428,923	30,000	-	68,984	-	-	2,527,907	2,375,457	
Autos	159,900	289,519	-	1,047,000	35,000	-	1,531,419	1,497,127	
CMBS	372,523	-	-	-	-	-	372,523	389,849	
Other	313,105	110,037	12,598	-	27,360	-	463,100	458,802	
Subtotal	8,299,297	429,556	12,598	1,115,984	62,360	-	9,919,795	9,682,247	
Corporate Bonds & Notes	-	356,228	650,022	77,895	170,000	105,085	1,359,230	1,227,213	
Common Stock	-	-	-	-	-	16,278	16,278	23,488	
Total Investment Securities	\$ 10,523,328	\$ 2,507,830	\$ 1,288,758	\$ 1,569,810	\$ 10,004,300	\$ 121,363	\$ 26,015,389	\$ 19,840,821	

Investment Securities Portfolio - March 31, 2010

(dollars in thousands)

	Amortized Cost of Securities Based on Highest Rating:						Total Amortized Cost	Total Fair Value	Avg. Credit Enhancement
	AAA	AA	A	BBB	<BBB	Not Rated			
Gov't Securities	\$ 104,995	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,995	\$ 104,995	
Agency Debt	49,331	-	-	-	-	-	49,331	49,381	
Agency RMBS	1,187,659	-	-	-	-	-	1,187,659	1,173,656	
Non-Agency RMBS									
FICO 720 or higher	448,500	406,076	67,609	225,427	1,738,542	-	2,886,154	1,900,897	18.7%
FICO 719 - 680	1,116,607	184,057	76,424	219,244	4,267,953	-	5,864,285	3,211,755	52.9%
FICO 679 - 620	1,319,155	198,102	227,385	101,001	2,087,334	-	3,932,977	2,121,190	35.7%
FICO 619 or lower	181,040	53,754	23,849	62,968	373,074	-	694,685	345,999	49.1%
Subtotal	3,065,302	841,989	395,267	608,640	8,466,903	-	13,378,101	7,579,841	40.3%
ABS									
Credit Cards	5,024,846	-	-	-	-	-	5,024,846	4,961,012	
Student Loans	2,428,923	98,984	-	-	-	-	2,527,907	2,375,457	
Autos	199,419	250,000	1,000,000	47,000	35,000	-	1,531,419	1,497,127	
CMBS	372,523	-	-	-	-	-	372,523	389,849	
Other	423,142	12,598	-	-	27,360	-	463,100	458,802	
Subtotal	8,448,853	361,582	1,000,000	47,000	62,360	-	9,919,795	9,682,247	
Corporate Bonds & Notes	-	706,249	300,001	77,895	170,000	105,085	1,359,230	1,227,213	
Common Stock	-	-	-	-	-	16,278	16,278	23,488	
Total Investment Securities	\$ 12,856,140	\$ 1,909,820	\$ 1,695,268	\$ 733,535	\$ 8,699,263	\$ 121,363	\$ 26,015,389	\$ 19,840,821	

U.S. Central owns certain investment securities guaranteed by monoline insurers. In these cases, the insurance is a secondary form of protection that supplements normal credit enhancements embedded in the security. Management has reviewed the financial condition and claims paying ability of each monoline insurer to which U.S. Central has exposure, and compared that information to U.S. Central's projected reliance on each monoline insurer. In two cases, Financial Guaranty Insurance Company (FGIC) and Ambac Assurance Corporation (Ambac), management projected that the insurers' claims paying abilities were not sufficient to pay all required claims. Management reached this conclusion for FGIC in the fourth quarter of 2008, and for Ambac in the fourth quarter of 2009. As a result, OTTI charges have been recorded on securities insured by FGIC and Ambac if, without the support of insurance, those securities were projected to experience a loss of principal or interest. In calculating OTTI charges for Ambac-insured securities, management assumed that 25 percent of required claims payments due in March 2010 or after would be received. Management has placed no reliance on FGIC in determining OTTI charges for securities backed by that insurer. Insured assets, as well as ratings of the monoline insurers, are presented in the table below as of Mar. 31, 2010:

Monoline Insurer Exposure Summary - March 31, 2010

(dollars in thousands)

	Amortized Cost of Monoline Exposure:				Non-Insured	Total Amortized Cost	Total Fair Value
	Assured	Ambac	FGIC	MBIA			
Gov't Securities	\$ -	\$ -	\$ -	\$ -	\$ 104,995	\$ 104,995	\$ 104,995
Agency Debt	-	-	-	-	49,331	49,331	49,381
Agency RMBS	-	-	-	-	1,187,659	1,187,659	1,173,656
Non-Agency RMBS							
FICO 720 or higher	16,230	62,280	130,847	50,854	2,625,943	2,886,154	1,900,897
FICO 719 - 680	915,186	551,947	294,018	831,660	3,271,474	5,864,285	3,211,755
FICO 679 - 620	227,769	15,497	195,241	231	3,494,239	3,932,977	2,121,190
FICO 619 or lower	7,267	77,393	64,844	-	545,181	694,685	345,999
Non-Agency RMBS	1,166,452	707,117	684,950	882,745	9,936,837	13,378,101	7,579,841
ABS							
Credit Cards	-	-	-	-	5,024,846	5,024,846	4,961,012
Student Loans	-	-	-	-	2,527,907	2,527,907	2,375,457
Autos	39,519	35,000	-	47,000	1,409,900	1,531,419	1,497,127
CMBS	-	-	-	-	372,523	372,523	389,849
Other	110,037	-	27,360	12,598	313,105	463,100	458,802
Subtotal	149,556	35,000	27,360	59,598	9,648,281	9,919,795	9,682,247
Corporate Bonds & Notes	-	43,333	-	170,000	1,145,897	1,359,230	1,227,213
Common Stock	-	-	-	-	16,278	16,278	23,488
Total Investment Securities	\$ 1,316,008	\$ 785,450	\$ 712,310	\$ 1,112,343	\$ 22,089,278	\$ 26,015,389	\$ 19,840,821

Monoline Agency Ratings:

	Assured	Ambac	FGIC	MBIA
Standard and Poor's	AAA	N/r	N/r	BB+
Fitch Ratings	AA+	N/r	N/r	N/r
Moody's Investors Service	Aa2	N/r	N/r	B3

Capital

Historically, U.S. Central's regulatory capital has consisted of retained earnings, Paid-in Capital (PIC), and Membership Capital Shares (MCS). On January 28, 2009, U.S. Central received a \$1.0 billion capital note (Capital Note) from the National Credit Union Share Insurance Fund (NCUSIF) to be treated as capital for all regulatory purposes. Subsequently, the NCUSIF assigned its ownership interest in the Capital Note to the Temporary Corporate Credit Union Stabilization Fund. The Capital Note has no stated maturity and has priority over any other capital accounts at U.S. Central, including PIC and MCS.

Under the definitions of membership capital and paid-in capital in Part 704.2 of the Rules and Regulations of the National Credit Union Administration (NCUA) (Part 704.2), capital is available to cover losses that exceed retained earnings. In May 2009, the NCUA published Letter to Credit Unions 09-CU-10, reinforcing the regulatory requirement in Part 704.2 that PIC and MCS are available to cover losses that exceed retained earnings and stating that, when there is an accumulated deficit (retained earnings deficit) at a corporate credit union, PIC and MCS must be depleted to the extent necessary to eliminate the accumulated deficit. As a result of cumulative OTTI charges recorded

through the first quarter of 2010, U.S. Central's retained earnings have been fully exhausted, and all PIC and MCS balances have been fully depleted. In addition, the Capital Note has been depleted by \$650.3 million.

In April 2009, the NCUA issued an order authorizing corporate credit unions, including U.S. Central, to use capital levels as reported in their respective 5310 regulatory call reports from November 2008 for determining compliance with regulatory capital ratio and retained earnings ratio requirements. Under NCUA regulations, U.S. Central's minimum required capital ratio is 5.0 percent, while its minimum required retained earnings ratio is 1.0 percent. In accordance with this order, U.S. Central's regulatory capital ratio and retained earnings ratio as of Mar. 31, 2010, equaled 6.9 percent and 1.8 percent, respectively, compared with 6.9 percent and 1.8 percent, respectively, as of Mar. 31, 2009. Using actual capital balances as of Mar. 31, 2010, U.S. Central's capital ratio and retained earnings ratio were 0.9 percent and 0.0 percent, respectively, compared with 5.0 percent and 0.0 percent, respectively, as of Mar. 31, 2009.

Liquidity

In October 2009, U.S. Central issued \$4.0 billion par of medium-term notes guaranteed under the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP), which was established by the NCUA Board in October 2008, and amended in May 2009. The notes bear both fixed and floating interest rates and mature in October 2011 (\$2.0 billion) and October 2012 (\$2.0 billion). As of Mar. 31, 2010, U.S. Central had outstanding additional TCCULGP-guaranteed borrowings totaling \$0.2 billion maturing in the fourth quarter of 2010. These borrowings were originated under the NCUA's CU HARP, and are guaranteed under the TCCULGP. U.S. Central may have outstanding at any one time a maximum of \$10.0 billion of guaranteed borrowings under the TCCULGP. The following table presents U.S. Central's sources of liquidity, borrowings outstanding (par value) and unused capacity as of quarter-end.

Sources of Available Liquidity - March 31, 2010

(in thousands)

	Total Capacity	Borrowings Outstanding	Unused Capacity
TCCULGP-guaranteed borrowings	\$ 10,000,000	\$ 4,162,334	\$ 5,837,666
Repurchase agreement borrowing facilities	4,500,000	-	4,500,000
FHLB advances	1,674,267	-	1,674,267
	<u>\$ 16,174,267</u>	<u>\$ 4,162,334</u>	<u>\$ 12,011,933</u>

In addition to the borrowings discussed above, the NCUA extended a \$5.0 billion direct loan to U.S. Central from the NCUSIF in December 2009. The loan matures in December 2010.

Interest Rate Risk and Spread Risk

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, U.S. Central must submit a plan to achieve compliance. Because of the effects of the declines in securities valuations, U.S. Central's NEV became negative in 2008. As a result, U.S. Central did not comply with the NEV sensitivity requirement or the NEV ratio requirement and submitted the required plan to NCUA. The plan was approved by NCUA in April 2008. U.S. Central's NEV remained negative throughout 2009 and the first quarter of 2010.

The following table illustrates NEV sensitivity as of Mar. 31, 2010 in various rate scenarios. Because U.S. Central's base NEV is negative as of Mar. 31, 2010, percentage changes from base case are not presented. A table detailing spread risk as of Mar. 31, 2010 is also provided.

Net Economic Value Sensitivity - March 31, 2010

(dollars in thousands)

	<u>Base Case</u>	<u>Up 100</u>	<u>Up 200</u>	<u>Up 300</u>
NEV Sensitivity	\$ (5,946,304)	\$ (5,987,581)	\$ (6,121,702)	\$ (6,229,026)
Chg. from Base	n/a	(41,277)	(175,398)	(282,722)

Spread Risk Summary - March 31, 2010

(dollars in thousands)

	<u>Book Value</u>	<u>WAL in years</u>	<u>Change in Fair Value</u>	
				<u>From a Spread Increase of 1 Basis Point</u>
Spread Sensitive:				
Assets *	\$ 26,411,026	5.03	\$	(15,151)
Liabilities **	24,104,735	1.14		2,734
Derivatives	6,700,824	2.12		(1,394)
			\$	<u>(13,811)</u>

* Assets with greater than 1 day maturity

** Liabilities and shares with greater than 15 days to maturity

U.S. Central Federal Credit Union
Consolidated Balance Sheets (in thousands)

	March 31,		December 31,
	2010	2009	2009
	(Unaudited)	(Unaudited)	(Audited)
Assets			
Cash	\$ 10,154,050	\$ 7,993,871	\$ 12,489,517
Time deposits	-	1,600,000	-
Federal funds sold	87,872	120,140	138,722
Investment securities	19,840,821	19,503,491	19,958,646
Loans	405,933	1,394,130	490,905
Stock of the Central Liquidity Facility	1,750,551	1,652,429	1,750,551
Other assets	142,528	180,445	246,584
Total assets	\$ 32,381,755	\$ 32,444,506	\$ 35,074,925
Liabilities and Members' Equity			
Liabilities:			
Borrowings:			
CU SIP/CU HARP borrowings	\$ 164,318	\$ 5,934,265	\$ 5,934,739
NCUSIF borrowings	5,000,000	5,000,000	5,000,000
Notes payable	4,015,184	17,484	3,986,395
Short-term borrowings	17,444	25,547	30,398
Member federal funds purchased	-	645,616	-
Total borrowings	9,196,946	11,622,912	14,951,532
Other liabilities	223,788	353,307	258,515
Total liabilities	9,420,734	11,976,219	15,210,047
Members' Equity:			
Members' share and certificate accounts	28,829,803	31,006,365	26,540,542
Capital Note	349,677	1,000,000	395,032
Membership Capital Shares	-	927,385	-
Total capital	349,677	1,927,385	395,032
Accumulated other comprehensive loss	(6,218,459)	(12,465,463)	(7,070,696)
Total members' equity	22,961,021	20,468,287	19,864,878
Total liabilities and members' equity	\$ 32,381,755	\$ 32,444,506	\$ 35,074,925

U.S. Central Federal Credit Union
Consolidated Statement of Loss (in thousands)

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	(Unaudited)
Interest and dividend income:		
Time deposits	\$ 5,655	\$ 2,369
Federal funds sold	25	48
Securities purchased under agreements to resell	1,228	1,037
Investment securities	77,474	137,583
Loans	5,015	13,911
Stock of the Central Liquidity Facility	1,295	8,280
	<u>90,692</u>	<u>163,228</u>
Interest and dividend expense:		
Members' share and certificate accounts	61,942	111,309
Short-term borrowings and notes	14,440	27,621
	<u>76,382</u>	<u>138,930</u>
Total interest and dividend expense		
	<u>76,382</u>	<u>138,930</u>
Net interest income	14,310	24,298
Net (losses) gains on financial instruments:		
Total other-than-temporary impairment charges	(77,457)	(2,247,870)
Portion of loss recorded in other comprehensive loss	19,742	1,728,335
Net other-than-temporary impairment charges recorded in earnings	(57,715)	(519,535)
Other net gains (losses) on financial instruments	3,785	(4,684)
	<u>53,930</u>	<u>(524,219)</u>
Total net losses on financial instruments		
	<u>53,930</u>	<u>(524,219)</u>
Fee income	6,143	5,415
Operating expenses:		
Salaries and benefits	4,804	5,864
Data processing	2,502	2,914
Professional and outside services	3,343	2,431
Office occupancy and administration	583	716
Travel and incidentals	23	217
Marketing and public relations	-	90
Other	486	636
	<u>11,741</u>	<u>12,868</u>
Total operating expenses		
	<u>11,741</u>	<u>12,868</u>
Net loss before noncontrolling interest and equity in loss of unconsolidated affiliate	(45,218)	(507,374)
Noncontrolling interest	(14)	97
Equity in loss of unconsolidated affiliate	(123)	-
	<u>(45,355)</u>	<u>(507,277)</u>
Net loss	<u>\$ (45,355)</u>	<u>\$ (507,277)</u>

U.S. Central Federal Credit Union
Consolidated Statements of Comprehensive Income (Loss) (in thousands)

	Three Months Ended	
	March 31,	
	2010 (Unaudited)	2009 (Unaudited)
Net loss	\$ (45,355)	\$ (507,277)
Other comprehensive gain (loss):		
Reversal of non-credit other-than-temporary impairment charges	-	(3,688,865)
Net change in unrealized gains (losses) on available-for-sale investment securities	805,158	(1,418,731)
Net change in unrealized gains (losses) on cash-flow hedges	(9,949)	25,981
Net unrealized (gains) losses on investment securities reclassified to earnings on fair-value hedging relationships	454	2,150
Reclassification for net (gains) losses on cash-flow hedges included in net income	(1,141)	(8,320)
Reclassification for other-than-temporary impairment charges included in net income	57,715	519,535
Other comprehensive gain (loss)	<u>852,237</u>	<u>(4,568,250)</u>
Total comprehensive gain (loss)	<u>\$ 806,882</u>	<u>\$ (5,075,527)</u>

U.S. Central Federal Credit Union
Consolidated Statements of Members' Equity (in thousands)

	Members' Shares & Certificates	Membership Capital Shares	Capital Note	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Members' Equity
Balances as of January 1, 2009 (audited)	\$ 19,721,998	\$ 1,243,092	\$ -	\$ 195,638	\$ (3,688,865)	\$ (7,897,213)	\$ 9,574,650
Reversal of Non-Credit OTTI charges					3,688,865		3,688,865
Capital Note contribution			1,000,000				1,000,000
Net change in members' accounts	11,284,367	(1,604)					11,282,763
Net loss					(507,277)		(507,277)
Dividends on Capital Note					(2,464)		(2,464)
Depletion of member paid-in capital				(195,638)	195,638		-
Depletion of Membership Capital Shares		(314,103)			314,103		-
Other comprehensive loss						(4,568,250)	(4,568,250)
Balances as of March 31, 2009 (unaudited)	<u>\$ 31,006,365</u>	<u>\$ 927,385</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,465,463)</u>	<u>\$ 20,468,287</u>
Balances as of January 1, 2010 (audited)	\$ 26,540,542	\$ -	\$ 395,032	\$ -	\$ -	\$ (7,070,696)	\$ 19,864,878
Net change in members' accounts	2,289,261						2,289,261
Net loss					(45,355)		(45,355)
Depletion of Capital Note			(45,355)		45,355		-
Other comprehensive income						852,237	852,237
Balances as of March 31, 2010 (unaudited)	<u>\$ 28,829,803</u>	<u>\$ -</u>	<u>\$ 349,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,218,459)</u>	<u>\$ 22,961,021</u>

Notes to Consolidated Financial Statements

A. Consolidated Financial Statements

The consolidated financial statements for the period ended Mar. 31, 2010, included herein have not been audited. Information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the financial condition and results of operations for the periods presented. Such adjustments are normal and recurring in nature.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amount 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) appropriate OTTI charges for investment securities, (3) appropriate loan loss allowances, and (4) the amortization/accretion of premiums/discounts on investments subject to prepayment risk. Actual results could differ from estimates made based on management assumptions.

These interim statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended Dec. 31, 2009.

B. Other-Than-Temporary Impairment (OTTI) Charges and Income Recognition

Prior to April 2009, OTTI charges were recorded fully in earnings, and calculated as the difference between amortized cost and fair value of the assets determined to be impaired. In April 2009, the FASB issued additional guidance under ASC 320 that changed the presentation and amount of OTTI charges recorded in earnings. Under these changes, impairment is to be separated into that related to “credit losses” (the difference between the present value of cash flows expected to be collected and the amortized cost basis) and that related to all other factors, such as market conditions (“non-credit” losses). Only credit losses are recorded in earnings, provided that the entity has no intent to sell the securities and it is more likely than not that the entity will not be required to sell the securities. Upon adoption of this guidance as of January 1, 2009, U.S. Central reclassified the non-credit portion of previously recorded OTTI charges (\$3.7 billion) from retained earnings to accumulated other comprehensive loss (AOCL), resulting in the elimination of U.S. Central’s Dec. 31, 2008 accumulated deficit.

In order to calculate the credit loss portion of OTTI charges, U.S. Central calculates the present value of projected future principal and interest cash flows. The projected cash flows are discounted at the security’s effective yield at acquisition to arrive at the present value. To the extent that the current amortized cost basis of the security exceeds the calculated present value, a credit loss exists.

After an OTTI charge has been recorded, future interest income is recognized at the acquisition yield, based on the new amortized cost basis of the security (*i.e.*, previous amortized cost less OTTI charges recorded in earnings). For floating-rate securities, U.S. Central uses the actual current factor (index spot rate) to determine a security's yield, and updates the yield as the factor changes.

C. Fair Value Measurement

U.S. Central follows ASC 820 *Fair Value Measurements and Disclosures* (formerly known as Statement of Financial Accounting Standards No. 157) in determining the fair values of its assets, liabilities and derivatives. ASC 820 establishes a hierarchy for determining the fair value of a financial instrument. The hierarchy consists of three levels of valuations based on the evidence used to determine the valuation. ASC 820 requires that the highest level of valuation available be used. A "Level 1" valuation is a quoted market price for a particular (or identical) asset in a market that is actively trading. A valuation is considered to be "Level 2" when a quoted market price (in an active market) is not available, but all necessary inputs into the calculation of fair value represent data observable in an active market. A valuation is considered "Level 3" when any significant component of the fair value calculation is based on data that are not observable in an active market, but rather is based on estimates by management or outside parties.

Assets, liabilities and derivatives measured at fair value on a recurring basis are summarized below as of Mar. 31, 2010 (in thousands).

	Fair Value Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities	\$ 23,488	\$ 11,839,673	\$ 7,977,660	\$ 19,840,821
Mortgage loans held-for-sale	-	-	47,724	47,724
Derivative assets	-	33,604	-	33,604
Total assets	\$ 23,488	\$ 11,873,277	\$ 8,025,384	\$ 19,922,149
Liabilities				
Derivative liabilities	\$ -	\$ 66,883	\$ -	\$ 66,883
Total liabilities	\$ -	\$ 66,883	\$ -	\$ 66,883

The table below presents reconciliation for all assets measured at fair value on a recurring basis using Level 3 inputs in 2010 (in thousands).

	Total Fair Value		
	Available-For-Sale Securities	Mortgage Loans Held-For-Sale	Total
Balance, January 1, 2010	\$ 7,764,488	\$ 45,237	\$ 7,809,725
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)	(57,715)	3,743	(53,972)
Included in other comprehensive income	821,785	-	821,785
Purchases, sales, issuances, and settlements	(550,898)	(1,256)	(552,154)
Balance, March 31, 2010	\$ 7,977,660	\$ 47,724	\$ 8,025,384

Supplemental Information

The spread analysis below presents U.S. Central's quarterly operating results as a percentage of daily average net assets (DANA) for the four most recent quarters. This spread analysis precedes a cash flow gap analysis, an analysis of net interest income and a fair value balance sheet as of Mar. 31, 2010. All items are presented on a consolidated basis.

Quarterly Spread Analysis - as a % of DANA

(dollars in thousands)

	First Quarter 2010	Fourth Quarter 2009	Third Quarter 2009	Second Quarter 2009
Interest and dividend income	1.022%	1.021%	1.185%	1.339%
Interest and dividend expense	-0.861%	-0.893%	-1.006%	-1.199%
Net interest income	0.161%	0.128%	0.179%	0.140%
Net losses on financial instruments	-0.608%	-7.637%	-3.330%	-4.535%
Fee income	0.069%	0.054%	0.054%	0.050%
Operating expenses	-0.132%	-0.133%	-0.117%	-0.115%
Net loss transferred to retained earnings	-0.510%	-7.588%	-3.214%	-4.460%
DANA	\$ 35,983,300	\$ 39,258,938	\$ 38,072,045	\$ 42,749,792

The following analysis presents cash inflows from investments and cash outflows from liabilities and members' accounts equaling a net cash flow gap for a given time period. The amounts in the table are based on expected cash flows when assets or members' accounts contain prepayment features, such as in the case of mortgage- or asset-backed securities and U.S. Central's structured certificate offerings. Otherwise, amounts are based on legal maturity.

The table below does not include any reinvestment in U.S. Central by members as their accounts mature, nor does it assume that any borrowings are rolled as they mature. Management fully expects continued reinvestment in U.S. Central shares and certificates by its members and is confident in U.S. Central's ability to continue to borrow from current outside sources in the future. As such, the table does not depict management's expectations with regard to sources of funding in the future.

Cash Flow Gap for Interest Earning Assets and Liabilities (In thousands)

	Apr.10	May.10	Jun.10	Jul.10	Aug.10	Sep.10	Oct.10	Nov.10	Dec.10	Jan.11	Feb.11	Mar.11	> 1 Year	Total
Assets														
Money Market Investment	\$ 10,229,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,229,872
Investment Securities	333,341	275,832	434,135	243,650	292,297	336,878	516,846	450,326	288,639	429,099	317,895	615,809	21,096,291	25,631,038
Loans to Members	3,945	4,198	10,000	2,566	14,598	10,094	5,018	3,246	2,633	18,300	10,583	18,882	211,619	315,682
Purchased Mtg/Auto Loans	2,214	1,641	1,097	1,604	1,554	1,517	1,479	1,442	1,717	1,368	1,843	1,542	82,583	101,601
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,751,701	1,751,701
Total Cash Inflows	\$ 10,569,372	\$ 281,671	\$ 445,232	\$ 247,820	\$ 308,449	\$ 348,489	\$ 523,343	\$ 455,014	\$ 292,989	\$ 448,767	\$ 330,321	\$ 636,233	\$ 23,142,194	\$ 38,029,894
Liabilities & Member Deposits														
Other Borrowings	\$ 16,864	\$ 48	\$ -	\$ 47	\$ 45	\$ 43	\$ 41	\$ 39	\$ 37	\$ 35	\$ 33	\$ 31	\$ 181	\$ 17,444
CU SIP/HARP/NCUA Borrowings	-	-	-	-	-	-	-	-	5,000,000	164,016	-	-	-	5,164,016
MTN/Notes Payable	-	-	-	-	-	-	-	-	-	-	-	-	4,000,000	4,000,000
Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mbr Shares and Certificates	16,573,179	1,567,140	770,794	970,148	1,041,481	667,854	508,050	345,054	549,153	447,318	338,262	544,891	4,522,355	28,845,679
Total Cash Outflows	\$ 16,590,043	\$ 1,567,188	\$ 770,794	\$ 970,195	\$ 1,041,526	\$ 667,897	\$ 508,091	\$ 345,093	\$ 5,549,190	\$ 611,369	\$ 338,295	\$ 544,922	\$ 8,522,536	\$ 38,027,139
Cash Flow Mismatch	\$ (6,020,671)	\$ (1,285,517)	\$ (325,562)	\$ (722,375)	\$ (733,077)	\$ (319,408)	\$ 15,252	\$ 109,921	\$ (5,256,201)	\$ (162,602)	\$ (7,974)	\$ 91,311	\$ 14,619,658	
Cumulative Mismatch	\$ (6,020,671)	\$ (7,306,188)	\$ (7,631,750)	\$ (8,354,125)	\$ (9,087,202)	\$ (9,406,610)	\$ (9,391,358)	\$ (9,281,437)	\$ (14,537,638)	\$ (14,700,240)	\$ (14,708,214)	\$ (14,616,903)	\$ 2,755	

Note: Results include asset and structured liability cash projections with contractual share and certificate maturities

Analysis of Net Interest Income

(dollars in thousands)

	For the Three Months Ended March 31, 2010			For the Three Months Ended March 31, 2009		
	Average Balance	Interest or Dividends	Average Rate	Average Balance	Interest or Dividends	Average Rate
Interest-earning assets:						
Cash	\$ 7,989,297	\$ 5,655	0.29%	\$ 2,879,335	\$ 1,793	0.25%
Time deposits	-	-	-	434,444	576	0.54%
Federal funds sold	99,989	25	0.10%	122,585	48	0.16%
Securities purchased under agreements to resell	2,264,805	1,228	0.22%	774,697	1,037	0.54%
Investment securities	26,449,678	77,474	1.19%	32,669,903	137,583	1.71%
Loans	458,292	5,015	4.44%	1,503,408	13,911	3.75%
Stock of the Central Liquidity Facility	1,750,551	1,295	0.30%	1,652,328	8,280	2.03%
Total interest-earning assets	\$ 39,012,612	90,692	0.94%	\$ 37,157,365	163,228	1.78%
Interest and dividend bearing liabilities and members' accounts						
Liabilities:						
CU SIP/CU HARP borrowings	\$ 1,552,316	\$ 2,210	0.58%	\$ 4,477,555	\$ 13,688	1.24%
NCUSIF borrowings	5,000,000	6,510	0.53%	500,000	427	0.35%
Notes payable	3,998,872	5,703	0.58%	36,023	599	6.74%
Short-term borrowings	26,297	17	0.26%	4,947,149	8,336	0.68%
Member federal funds purchased	-	-	-	5,844,166	4,571	0.32%
Total liabilities	10,577,485	14,440	0.55%	15,804,893	27,621	0.71%
Members' accounts:						
Members' share and certificate accounts	29,276,826	61,942	0.86%	22,439,140	111,309	2.01%
Total interest and dividend bearing liabilities and members' accounts	\$ 39,854,311	76,382	0.78%	\$ 38,244,033	138,930	1.47%
Net interest income		\$ 14,310			\$ 24,298	
Average interest rate spread			0.16%			0.31%
Net interest margin			0.15%			0.27%

Consolidated Fair Value Balance Sheet - March 31, 2010
(dollars in thousands)

	Carrying Value	Fair Value	Wtd. Avg. Life (in years)	Effective Duration
Assets				
Cash	\$ 10,154,050	\$ 10,154,050	-	-
Federal funds sold	87,872	87,872	0.003	0.001
Investment securities				
Government securities	104,995	104,995	0.041	0.021
Agency debt	49,381	49,381	2.340	1.167
Agency RMBS	1,173,656	1,173,656	4.295	0.869
Non-agency RMBS	7,579,841	7,579,841	6.867	1.003
Asset-backed securities	9,682,247	9,682,247	2.839	0.059
Corporate bonds and notes	1,227,213	1,227,213	3.516	0.151
Common stock	23,488	23,488	69.304	-
	<u>19,840,821</u>	<u>19,840,821</u>	<u>4.569</u>	<u>0.476</u>
Loans	405,933	410,247	3.199	1.095
Stock of the Central Liquidity Facility (CLF) *	1,750,551	1,750,551	5.480	-
Other assets	142,528	142,528	-	-
	<u>142,528</u>	<u>142,528</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 32,381,755</u>	<u>\$ 32,386,069</u>	<u>3.016</u>	<u>0.326</u>
Liabilities and Members' Accounts				
Liabilities:				
Borrowings:				
CU HARP borrowings	\$ 164,318	\$ 163,799	0.746	0.370
NCUSIF borrowings	5,000,000	4,999,235	0.725	0.365
Notes payable	4,015,184	4,023,675	2.042	0.900
Short-term borrowings	17,444	17,461	0.028	0.014
Total borrowings	<u>9,196,946</u>	<u>9,204,170</u>	<u>1.299</u>	<u>0.598</u>
Other liabilities	223,788	223,788	-	-
	<u>223,788</u>	<u>223,788</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,420,734</u>	<u>9,427,958</u>	<u>1.268</u>	<u>0.584</u>
Members' share and certificate accounts				
Overnight accounts	13,515,350	13,515,350	0.003	0.001
Term floating-rate certificates	3,447,581	3,450,532	1.566	0.013
Term fixed-rate certificates	10,696,867	10,769,171	0.620	0.307
Structured certificates	1,168,622	1,167,979	0.871	0.647
Other shares	1,383	1,383	0.423	0.001
	<u>1,383</u>	<u>1,383</u>	<u>0.423</u>	<u>0.001</u>
Total members' share and certificate accounts	<u>28,829,803</u>	<u>28,904,415</u>	<u>0.454</u>	<u>0.142</u>
Total liabilities and members' share and certificate accounts	<u>\$ 38,250,537</u>	<u>\$ 38,332,373</u>	<u>0.345</u>	<u>0.188</u>
Net Economic Value		<u>\$ (5,946,304)</u>		

* Stock of the CLF is carried at cost as there is no readily determinable fair value.