

Consolidated Financial Statements

U.S. Central Federal Credit Union and Subsidiaries
Years Ended December 31, 2009, 2008 and 2007
With Report of Independent Auditors

U.S. Central Federal Credit Union and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2009, 2008 and 2007

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Independent Auditors' Report

To the National Credit Union Administration as Conservator of
U.S. Central Federal Credit Union
Lenexa, Kansas

We have audited the accompanying consolidated balance sheet of U.S. Central Federal Credit Union (the "Company") as of December 31, 2009, and the related consolidated statements of loss and other comprehensive loss, changes in members' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of U.S. Central Federal Credit Union as of and for the years ended December 31, 2008 and 2007 were audited by other auditors whose reports dated September 8, 2009 and August 8, 2008, respectively, expressed qualified opinions on those statements. The qualified opinions reported that members' share and certificate accounts and Membership Capital Shares, reported as equity by the Company in the consolidated balance sheets and consolidated statements of members' equity, should have been reported as liabilities in order to conform to accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes 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 the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company has reported members' share and certificate accounts and Membership Capital Shares as equity in the accompanying consolidated balance sheet and consolidated statement of members' equity, consistent with federal credit union law, that which in our opinion, should be reported as liabilities in order to conform to accounting principles generally accepted in the United States of America. If these shares and accounts were reported as liabilities, liabilities would increase and equity would decrease by \$26,540,542,000 as of December 31, 2009.

In our opinion, except for the effects on the consolidated balance sheets and consolidated statements of members' equity of reporting members' share and certificate accounts and Membership Capital Shares as equity as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial

position of U.S. Central Federal Credit Union at December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has been placed under Federal Conservatorship by the National Credit Union Administration (NCUA) Board. This action resulted in the NCUA taking control of the Company's operations. The Company is now dependent upon the continued support and forbearance of the NCUA. We and management have received assurances that the NCUA has the full intent and ability to provide appropriate financial resources and assistance to ensure that the core operations of the Company will continue as a going concern and that the NCUA does not have any plans that would negatively affect the Company's ability to continue business as usual (normal operations) or to continue as a going concern for a minimum period of one year from the date of our opinion.

The Company engaged an independent professional valuation firm to provide cash flow and fair value information as of December 31, 2009 with respect to its portfolio of non-agency residential mortgage backed securities. The Company utilized the fair value information as a data point in arriving at their own determination of fair value of these securities as of December 31, 2009. Further, the Company relied substantially on the cash flows provided by the independent professional valuation firm in its determination of the *other-than-temporary impairment* charges related to such securities for the year ended December 31, 2009.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Company adopted, on a prospective basis, Accounting Standards Codification 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments*.

BDO Seidman, LLP

April 14, 2010

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES
(In conservatorship)

CONSOLIDATED BALANCE SHEETS (in thousands)
DECEMBER 31, 2009 AND 2008

Assets	2009	2008
Cash	\$ 12,489,517	\$ 74,965
Federal funds sold (Note 2)	138,722	134,470
Investment securities (Note 3)	19,958,646	21,655,807
Loans (Note 4)	490,905	3,171,310
Stock of the Central Liquidity Facility	1,750,551	1,643,347
Other assets (Note 8)	246,584	437,031
Total assets	\$ 35,074,925	\$ 27,116,930
Liabilities and Members' Equity		
Liabilities:		
Borrowings (Note 5):		
CU SIP/CU HARP borrowings	\$ 5,934,739	\$ -
NCUSIF borrowings	5,000,000	-
Notes payable	3,986,395	-
Short-term borrowings	30,398	13,864,817
Member federal funds purchased	-	3,313,820
Total borrowings	14,951,532	17,178,637
Other liabilities (Note 8)	258,515	363,643
Total liabilities	15,210,047	17,542,280
Commitments and contingencies (Note 10)		
Members' equity (Note 6):		
Members' share and certificate accounts	26,540,542	19,721,998
NCUSIF capital note	395,032	-
Membership Capital Shares	-	1,243,092
Paid-in capital	-	195,638
Accumulated deficit	-	(3,688,865)
Total capital (deficit)	395,032	(2,250,135)
Accumulated other comprehensive loss	(7,070,696)	(7,897,213)
Total members' equity	19,864,878	9,574,650
Total liabilities and members' equity	\$ 35,074,925	\$ 27,116,930

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES
(In conservatorship)

CONSOLIDATED STATEMENTS OF LOSS (in thousands)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest and dividend income:			
Time deposits	\$ 21,038	\$ 7,266	\$ 10,978
Federal funds sold	141	22,629	59,358
Securities purchased under agreements to resell	3,216	48,917	181,919
Investment securities	440,508	1,338,619	2,160,793
Loans	37,989	103,248	81,051
Stock of the Central Liquidity Facility	17,763	55,128	85,634
	<u>520,655</u>	<u>1,575,807</u>	<u>2,579,733</u>
Interest and dividend expense:			
Dividends on members' share and certificate accounts	363,959	1,044,290	1,957,131
Interest on short-term borrowings and notes payable	87,678	293,359	404,963
	<u>451,637</u>	<u>1,337,649</u>	<u>2,362,094</u>
Net interest income, excluding dividends on Membership Capital Shares	69,018	238,158	217,639
Net (losses) gains on financial instruments (Note 9):			
Total other-than-temporary impairment charges	(4,304,930)	(4,926,639)	(124,612)
Portion of loss recorded in other comprehensive loss	2,206,163	-	-
Net other-than-temporary impairment charges recorded in earnings	(2,098,767)	(4,926,639)	(124,612)
Other net gains (losses) on financial instruments	15,904	(54,765)	(30,046)
	<u>(2,082,863)</u>	<u>(4,981,404)</u>	<u>(154,658)</u>
Total net losses on financial instruments			
Fee income	21,318	20,170	19,414
Operating expenses:			
Salaries and benefits	22,081	27,549	28,234
Data processing	13,074	14,777	14,417
Professional and outside services	9,704	13,837	9,571
Office occupancy and administration	2,671	3,034	3,317
Travel and incidentals	299	1,854	1,765
Marketing and public relations	240	1,258	1,108
Other	1,623	1,889	1,554
	<u>49,692</u>	<u>64,198</u>	<u>59,966</u>
Total operating expenses			
Net (loss) income before dividends on Membership Capital Shares, noncontrolling interests and equity in loss of unconsolidated affiliate	(2,042,219)	(4,787,274)	22,429
Dividends on Membership Capital Shares	-	44,370	73,022
Net loss before noncontrolling interest and equity in loss of unconsolidated affiliate	(2,042,219)	(4,831,644)	(50,593)
Noncontrolling interest	328	241	(102)
Equity in loss of unconsolidated affiliate	(195)	-	-
Net loss	<u>(2,042,086)</u>	<u>(4,831,403)</u>	<u>(50,695)</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES
(In conservatorship)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (in thousands)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net loss	\$ (2,042,086)	\$ (4,831,403)	\$ (50,695)
Other comprehensive income (loss):			
Reversal of non-credit other-than-temporary impairment charges	(3,688,865)	-	-
Net unrealized gains (losses) on available-for-sale investment securities	2,362,841	(11,409,091)	(1,722,123)
Net accretion of basis adjustments in held-to-maturity securities	-	174,915	-
Net unrealized gains (losses) on cash-flow hedges	83,493	(88,951)	(9,017)
Net unrealized losses (gains) on investment securities reclassified to earnings on fair-value hedging relationships	7,003	(575)	(8,226)
Reclassification of net (gains) losses on cash-flow hedges included in net income	(24,077)	262	10,558
Reclassification of net realized gains on investment securities included in net income	(12,645)	(1,814)	114,962
Reclassification for other-than-temporary impairment charges included in net income	2,098,767	4,926,639	124,612
	<u>826,517</u>	<u>(6,398,615)</u>	<u>(1,489,234)</u>
Other comprehensive income (loss)			
Total comprehensive loss	<u>\$ (1,215,569)</u>	<u>\$ (11,230,018)</u>	<u>\$ (1,539,929)</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES
(In conservatorship)

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (in thousands)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Members' Shares & Certificates	Membership Capital Shares	NCUSIF Capital Note	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance, January 1, 2007	\$ 34,539,521	\$ 1,167,441	\$ -	\$ 300,000	\$ 668,094	\$ (9,364)	\$ 36,665,692
Net change in members' accounts	2,454,885	266,620	-	-	-	-	2,721,505
Dividends on paid-in capital	-	-	-	-	(19,139)	-	(19,139)
Net loss	-	-	-	-	(50,695)	-	(50,695)
Other comprehensive loss	-	-	-	-	-	(1,489,234)	(1,489,234)
Balance, December 31, 2007	36,994,406	1,434,061	-	300,000	598,260	(1,498,598)	37,828,129
Net gain upon adoption of Statement of Financial Standards No. 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i>	-	-	-	-	609	-	609
Conversion of membership capital shares to paid-in capital	-	(450,000)	-	450,000	-	-	-
Net change in members' accounts	(17,272,408)	259,031	-	-	-	-	(17,013,377)
Dividends on paid-in capital	-	-	-	-	(10,693)	-	(10,693)
Net loss	-	-	-	-	(4,831,403)	-	(4,831,403)
Depletion of member paid-in capital (Note 6)	-	-	-	(554,362)	554,362	-	-
Other comprehensive loss	-	-	-	-	-	(6,398,615)	(6,398,615)
Balance, December 31, 2008	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
NCUSIF capital note contribution	-	-	1,000,000	-	-	-	1,000,000
Net change in members' accounts	6,818,544	(1,612)	-	-	-	-	6,816,932
Net loss	-	-	-	-	(2,042,086)	-	(2,042,086)
Depletion of member paid-in capital (Note 6)	-	-	-	(195,638)	195,638	-	-
Depletion of Membership Capital Shares (Note 6)	-	(1,241,480)	-	-	1,241,480	-	-
Depletion of NCUSIF capital note (Note 6)	-	-	(604,968)	-	604,968	-	-
Other comprehensive income	-	-	-	-	-	826,517	826,517
Balance, December 31, 2009	<u>\$ 26,540,542</u>	<u>\$ -</u>	<u>\$ 395,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,070,696)</u>	<u>\$ 19,864,878</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES
(In conservatorship)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,042,086)	\$ (4,831,403)	\$ (50,695)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	2,207	2,254	3,173
Net losses on financial instruments	2,082,863	4,981,404	154,658
Net accretion of investment and loan discounts	(17,407)	(31,152)	(65,608)
Minority interest	42	(241)	276
Purchases of loans held-for-sale	-	(6,732)	(51,772)
Principal payments of loans held-for-sale	31,138	9,998	10,254
Net proceeds (purchases) of trading securities	-	783,370	(797,863)
Changes in:			
Other assets	(109,634)	161,189	9,139
Other liabilities	(31,243)	(267,717)	68,601
Net cash (used in) provided by operating activities	<u>(84,120)</u>	<u>800,970</u>	<u>(719,837)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in:			
Time deposits	-	85,518	764,482
Federal funds sold	(4,252)	364,527	487,000
Securities purchased under agreements to resell	-	2,046,937	2,095,799
Loans held for investment	2,653,466	235,554	(2,370,983)
Net proceeds (purchases) of stock of the FHLB	269,611	(77,982)	110,922
Purchases of stock of the Central Liquidity Facility	(107,204)	(77,700)	(86,391)
Purchases of available-for-sale securities	(1,182,154)	(72,772,291)	(239,298,253)
Purchases of held-to-maturity securities	-	(1,761,371)	-
Proceeds from sales of available-for-sale securities	18,679	514,814	8,847,853
Principal payments and maturities of available-for-sale securities	5,240,766	76,021,363	227,395,878
Principal payments and maturities of held-to-maturity securities	-	929,758	-
Net cash provided by (used in) investing activities	<u>6,888,912</u>	<u>5,509,127</u>	<u>(2,053,693)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in:			
Short-term borrowings	(13,798,054)	7,487,685	516,591
NCUSIF borrowings	5,000,000	-	-
Swap fees	1,361	3,492	-
Member federal funds purchased	(3,313,820)	3,313,820	-
Members' accounts	6,825,532	(17,026,182)	2,674,250
Proceeds from issuance of SIP/HARP notes payable	5,932,817	-	-
Proceeds from issuance of notes payable	3,998,288	-	-
Repayments of notes payable	(36,364)	(32,674)	(386,364)
Receipt of NCUSIF capital note	1,000,000	-	-
Dividends on paid-in capital	-	(10,693)	(19,139)
Net cash provided by (used in) financing activities	<u>5,609,760</u>	<u>(6,264,552)</u>	<u>2,785,338</u>
Net increase in cash	12,414,552	45,545	11,808
CASH, BEGINNING OF YEAR	<u>74,965</u>	<u>29,420</u>	<u>17,612</u>
CASH, END OF YEAR	<u>\$ 12,489,517</u>	<u>\$ 74,965</u>	<u>\$ 29,420</u>
CASH PAID DURING THE PERIOD FOR:			
Dividends on members' share and certificate accounts and Membership Capital Shares	\$ 424,112	\$ 1,276,984	\$ 1,993,571
Interest on member federal funds purchased, SIP/HARP borrowings, NCUSIF borrowings, short-term borrowings and notes payable	55,349	309,096	401,597
NON-CASH ACTIVITIES:			
Depletion of NCUSIF capital note	\$ 604,968	\$ -	\$ -
Depletion of member paid-in capital	195,638	554,362	-
Depletion of Membership Capital Shares	1,241,480	-	-
Assignment of CLF borrowings	7,445,217	-	-
Conversion of Membership Capital Shares to paid-in capital	-	450,000	-
Transfer of securities from available-for-sale to held-to-maturity (at par value)	-	10,477,153	-
Transfer of securities from held-to-maturity to available-for-sale (at par value)	-	11,308,106	-

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

(In conservatorship)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

1. ORGANIZATION AND CONSERVATORSHIP

U.S. Central Federal Credit Union (U.S. Central) was chartered in 1974 to act as a corporate 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 and its subsidiaries (collectively, the Company) is generated almost exclusively from U.S. Central's 26 member corporate credit unions.

The principal activity of the Company is to provide wholesale investment, liquidity, custody and payment services to U.S. Central's 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 historically provided liquidity, primarily by purchasing loans originated by the credit union community. However, Charlie Mac ceased such loan purchases in 2008. NFS provides advisory services to a credit union trust fund.

U.S. Central owns a 95.3 percent majority interest in Corporate Network eCom, LLC (eCom), which provides bill payment services to corporate credit unions that in turn can offer these services to natural person credit unions. The 4.7 percent outside ownership interest in eCom is reflected as a noncontrolling interest in U.S. Central's consolidated financial statements.

U.S. Central also owns a 39.4 percent interest in Core Network Processing, LLC (CNP), an unconsolidated affiliate (accounted for under the equity method). CNP provides core account system processing to U.S. Central and certain of its member corporate credit unions. Prior to October 1, 2009, U.S. Central owned a majority interest in CNP and, as a result, consolidated the accounts of CNP.

Effective March 20, 2009, in accordance with the Federal Credit Union Act, the National Credit Union Administration (NCUA) Board placed U.S. Central into conservatorship and appointed itself as conservator (Conservator). Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of U.S. Central, and of any member, shareholder, officer or director of U.S. Central with respect to U.S. Central and its books, records and assets.

Under the Federal Credit Union Act, the Conservator has the power to take over U.S. Central's assets and operate U.S. Central's business with all the powers of

U.S. Central's members, shareholders, directors and officers, and to conduct all business of U.S. Central. As Conservator, the NCUA Board has appointed a Principal Agent for the Conservator, and several Sub-Agents. In addition, the Principal Agent has appointed an Advisory Board of Directors, comprised of five current senior NCUA employees (the Advisory Board), and has appointed a President and Chief Executive Officer (CEO) of U.S. Central.

The NCUA Board, in its role as Conservator, has overall management authority over U.S. Central's business. The Conservator has delegated management authority over U.S. Central's business to the Principal Agent, who has, in turn, delegated authority to the CEO and management to conduct day-to-day operations so that U.S. Central can continue to operate in the ordinary course of business. The Conservator and, in turn, the Principal Agent, each retains the authority to withdraw its respective delegations at any time.

In addition, the Conservator has directed the CEO and management to consult with the Advisory Board and to obtain the consent of the Principal Agent before taking action in, among others, the following areas: payment of bonus dividends; increases in risk limits; material changes in accounting policies; reasonably foreseeable material increases in operational risk; any substantial non-ordinary course transactions with any subsidiary or affiliate; matters that relate to conservatorship; and actions involving hiring, compensation and termination benefits of senior executive officers and other specified officers. The members of the Advisory Board serve on behalf of the Conservator and provide advice and counsel to the Principal Agent, who exercises his authority as directed by and with the approval, where required, of the Conservator.

Upon placing U.S. Central into conservatorship, the Conservator obtained, under the Federal Credit Union Act, the power (subject to certain limitations for qualified financial contracts) to disaffirm or repudiate contracts entered into by U.S. Central prior to the appointment of the NCUA Board as Conservator if the NCUA determined, in its sole discretion, that performance of the contract was burdensome and that disaffirmance or repudiation of the contract promoted the orderly administration of U.S. Central's affairs.

As of December 31, 2009, the Conservator has advised U.S. Central that it has disaffirmed or repudiated several contracts that U.S. Central entered into prior to the appointment of the Conservator. The Federal Credit Union Act requires the Conservator to exercise its right to disaffirm or repudiate contracts within a reasonable period of time after commencement of the conservatorship. As of December 31, 2009, the Conservator has determined that a reasonable period of time has passed for purposes of the applicable provisions of the Federal Credit Union Act and, therefore, the Conservator no longer possesses this right.

The Conservator also has the power to transfer or sell any asset or liability of U.S. Central (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts) without any approval, assignment of rights or consent of any party.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, or what U.S. Central's business structure will be during or following the conservatorship.

U.S. Central receives, directly and indirectly, substantial support from the NCUA Board, as Conservator, insurer, guarantor, and regulator. U.S. Central is dependent on the NCUA in order to avoid being placed into liquidation and continue to access the debt markets. Based on consideration of all the relevant conditions and events affecting U.S. Central's operations, including U.S. Central's dependence on and continued support from the NCUA, U.S. Central continues to operate as a going concern and in accordance with U.S. Central's charter and bylaws.

Management of U.S. Central has received assurances from the Conservator that maintaining continued normal operations of all core services is a paramount objective of the conservatorship and that no actions will be taken that will disrupt core services and operations. Specifically, the Conservator has the full ability and intent to provide appropriate financial resources and assistance to ensure that the core operations of U.S. Central will continue as a going concern and the Conservator does not have any plans that would negatively affect U.S. Central's ability to continue business as usual (normal operations) or to continue as a going concern for a minimum period of one year. It is the intent of the Conservator not to sell, and it is "more likely than not" that U.S. Central will not be required to sell its debt securities before it has recovered the amortized cost basis of such securities, as adjusted for the other-than-temporary impairment credit losses that have been recorded. In addition, the Conservator does not have any plans for the sale of other material non-debt security investments. Although there are no formalized plans to do so, if an opportunity to sell one or more of U.S. Central's investments arises, it would be evaluated and considered. Accordingly, based on consideration of all the relevant conditions and events affecting U.S. Central's operations, including U.S. Central's dependence on the NCUA and the representations received from the Conservator, U.S. Central is expected to continue to operate as a going concern for the foreseeable future, which is at least a minimum period of one year from April 14, 2010, and in accordance with U.S. Central's charter and bylaws.

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 majority owned CUSOs: ISI, Charlie Mac, NFS and eCom. 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, (3) principal and interest cash flows when evaluating investment securities for other-than-temporary impairment (see 2(e) below), (4) the determination of loan loss reserves on loans held for investment (see 2(f) below), and (5) the accretion of income on securities for which other-than-temporary impairment charges have been recorded in earnings. Actual results could differ materially from the recorded estimates.

- (c) **Cash and Federal Funds Sold** - Cash includes demand deposits at financial institutions. Federal funds sold are short-term investments with financial institutions in the United States. All federal funds sold as of December 31, 2009 matured on the next business day.
- (d) **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 collateral is obtained for these transactions if the fair values of the securities decline.
- (e) **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 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 (loss) income.

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 dependent upon management's judgment. As a result, there exists a much wider range of estimates of fair value among market participants than would exist under more normal market conditions.

The primary assumptions used to determine fair value are estimates of possible credit losses, the amount and timing of principal prepayments and credit spreads used to determine discount rates. Discount rates are determined using a matrix approach, whereby securities with similar characteristics, such as credit rating, collateral type and vintage, are grouped together. The levels of the discount rates are based on market data from external pricing vendors and other relevant market information.

When the fair value of an investment security classified as AFS or HTM declines below amortized cost, U.S. Central evaluates the security for possible other-than-temporary impairment (OTTI) under the guidance provided in Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities* (see Note 2(p), New

Accounting and Regulatory Pronouncements), which U.S. Central adopted effective January 1, 2009. In this evaluation, U.S. Central first determines whether or not it intends to sell the security, and whether it is more likely than not that sale of the security will be required. If either condition exists, an OTTI charge, equal to the difference between amortized cost and fair value, is recorded in earnings.

If U.S. Central does not intend to sell the security, and it is not more likely than not that sale will be required, U.S. Central determines if a “credit loss” exists. In order to make this determination, 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. For floating-rate securities, the discount rate is determined based on the current market projection of future changes in the applicable index, plus an effective spread to the index, if applicable. To the extent that the current amortized cost basis of the security exceeds the calculated present value, a credit loss exists. The credit loss portion of an OTTI charge is recorded in earnings while all other declines in fair value below amortized cost (“non-credit losses”) are recorded in accumulated other comprehensive loss. Further discussion of U.S. Central’s 2009 other-than-temporary impairment charges is provided in Note 3, Investment Securities.

In projecting principal and interest cash flows on securities to determine if a credit loss exists, management uses several assumptions about the collateral underlying the securities, including default rates, loss severities on defaulted loans, voluntary prepayments and other borrower behaviors. Management utilizes the work of an independent industry expert to aid in the determination of appropriate assumptions. Management also uses assumptions about the performance of monoline insurers in situations where investment securities are insured and reliance on the insurance is projected. Additional discussion of U.S. Central’s exposure to monoline insurers is provided in Note 3, Investment Securities.

For securities where OTTI charges have not been recorded in earnings, interest income is recorded on the accrual basis and includes amortization and accretion of premiums and discounts using methods approximating level yield.

For securities where OTTI charges have been recorded in earnings, 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) plus the acquisition margin to determine a security’s yield, and updates the yield as the factor changes.

Gains and losses on securities transactions are recognized using the specific identification method for determining the amortized cost of securities sold.

The Company engaged an independent professional valuation firm to provide cash flow and fair value information as of December 31, 2009, with respect to its portfolio of non-agency residential mortgage backed securities. The Company utilized the fair value information as a data point in arriving at their own determination of fair value of these securities as of December 31, 2009. Further, the

Company relied substantially on the projected cash flows provided by the independent professional valuation firm in its determination of the OTTI charges related to such securities for the year ended December 31, 2009.

- (f) **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 automobiles, 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 for automobile and member loans HFI. A loan loss allowance is recorded for mortgage loans HFI when, as a result of individual loan reviews, U.S. Central does not expect to collect all contractual principal and interest. 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.

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. U.S. Central follows ASC 825 *Financial Instruments* (formerly known as Statement of Financial Accounting Standards No. 159). ASC 825 allows entities to elect fair value accounting for financial assets or liabilities, with changes in fair value reported in earnings. U.S. Central has elected to carry mortgage loans classified as HFS at fair value under ASC 825. Upon adoption of this guidance on January 1, 2008, U.S. Central recorded an unrealized gain of \$609,000 as an adjustment of the opening balance of retained earnings. Fair values for mortgage 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.

- (g) **Stock of the Central Liquidity Facility** - The Central Liquidity Facility (CLF) is a mixed-ownership government corporation that exists within the 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. Management has reviewed U.S. Central's investment in CLF stock for possible impairment as of December 31, 2009 and has concluded that it is not impaired. Dividend income is recorded on the accrual basis.

- (h) **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, in part, 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 of \$1,149,000 and \$270,760,000 as of December 31, 2009 and 2008, respectively, is included in other assets at cost. Management has reviewed FHLB stock for possible impairment as of December 31, 2009 and has concluded that it is not impaired. Dividend income on FHLB stock is recorded on the accrual basis.
- (i) **Derivative Instruments** - All derivative instruments are carried at fair value. Fair values for derivatives are determined by discounting 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.

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 (losses) gains on financial instruments on the consolidated statements of 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 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, members' accounts and borrowings to fixed cash flows. Derivative instruments are also used to manage basis risk that exists between variable rate assets and variable rate members' accounts and borrowings. 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 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 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 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.

- (j) ***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.
- (k) ***Members' Share and Certificate Accounts*** – Members' share and certificate accounts are issued to members at par. These accounts are carried at par on the balance sheet, unless designated in a fair value hedging relationship. Dividend expense on members' share and certificate accounts is recorded on the accrual basis. U.S. Central reports members' share and certificate accounts as equity, consistent with Federal credit union law. However, these accounts are considered liabilities under accounting principles generally accepted in the United States of America.
- (l) ***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. If the counterparty may further repledge or sell the assets, the assets are presented separately on U.S. Central's consolidated balance sheets. However, as of December 31, 2009 and 2008, no assets pledged as collateral were able to be repledged or sold by the counterparty.

In addition to repurchase agreements using securities in U.S. Central's portfolio, U.S. Central enters into similar transactions involving securities owned by its 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.

- (m) ***Borrowings*** – Borrowings are carried on the balance sheet at amortized cost, unless designated in a fair value hedging relationship. Interest expense is recorded on the accrual basis. Interest expense on borrowings includes the amortization and accretion of premiums and discounts using methods approximating level yield.

- (n) **Income Taxes** - U.S. Central is exempt from federal income taxes under Section 501(c)(1) of the Internal Revenue Code of 1986.
- (o) **Risks and Uncertainties** - U.S. Central is subject to certain risks and uncertainties in its normal operations, including, but not limited to, credit risk, interest rate risk, market risk, prepayment risk, and regulatory risk.

Credit Risk – Credit risk is the risk that assets owned by U.S. Central, including investment securities, loans and short-term investments, may not pay all principal and interest according to the contractual terms. Projected losses associated with investment securities, particularly non-agency RMBS, are discussed in Note 3, Investment Securities. A loan loss allowance has been established for certain of U.S. Central’s jumbo mortgage loans and is discussed in Note 4, Loans.

Liquidity Risk – Liquidity risk is the risk that U.S. Central’s sources of funding, members’ share and certificate accounts and borrowings, mature more quickly than its asset portfolio repays principal, and U.S. Central is not able to obtain necessary funding from its members, market participants or its Conservator. Such an event, although not currently foreseeable, could cause U.S. Central to sell investment securities, which, under current market conditions, could have a material, negative effect on U.S. Central.

Interest-rate Risk - Net interest income represents the difference between interest and dividends earned on interest-earning assets less interest and dividends paid on interest-bearing liabilities and member accounts. Net interest income can be significantly affected by the level of market interest rates and the interest and dividend rates associated with U.S. Central’s assets, liabilities, member accounts and derivative instruments.

Market Risk - U.S. Central’s assets, liabilities, member accounts and derivatives are, to varying degrees, interest-rate and credit sensitive. As such, changes in market interest rates and market credit spreads may affect their fair value. Material changes in market credit spreads caused significant declines in the fair value of U.S. Central’s investment securities portfolio in 2007 and 2008, followed by a moderate increase in 2009. Further information regarding the fair value of U.S. Central’s investment portfolio, liabilities and member accounts is provided in Note 12, Fair Value of Financial Instruments.

Prepayment Risk - During periods of falling interest rates, loans underlying some securities in U.S. Central’s portfolio are more likely to prepay. U.S. Central may not be able to reinvest the principal prepayments received at similar yields.

Regulatory Risk - Effective March 20, 2009, U.S. Central is under the control of its conservator and regulator, the NCUA. As a result, U.S. Central is dependent on the continued financial support and regulatory forbearance of the NCUA in order to maintain day-to-day operations. Further discussion of the conservatorship is provided in Note 1, Organization and Conservatorship. Additional discussion of regulatory forbearance is provided in Note 3,

Investment Securities and Note 7, Regulatory Capital and Net Economic Value Requirements. In addition, a discussion of new proposed regulation affecting U.S. Central is provided in Note 2(p), New Accounting and Regulatory Pronouncements.

- (p) ***New Accounting and Regulatory Pronouncements*** – In April 2009, the Financial Accounting Standards Board (FASB) issued additional guidance under ASC 320, *Investments – Debt and Equity Securities* (formerly known as FASB Staff Position 115-2 / 124-2). The new guidance is effective for annual and interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. ASC 320 modified previous requirements for determining when an other-than-temporary impairment (OTTI) exists, as well as how OTTI charges are recorded. ASC 320 requires an entity to determine for each security in an unrealized loss position if 1) the entity intends to sell the security, and 2) if it is more likely than not that the entity will be required to sell the security. If an entity determines that it intends to sell the security, or that it is more likely than not that it will be required to sell the security prior to recovery of fair value up to amortized cost, then the decline in fair value is deemed to represent an other-than-temporary impairment, and a charge equal to the difference between amortized cost and fair value must be recorded in earnings.

If an entity determines that it does not intend to sell a security that is in an unrealized loss position, and that it is not more likely than not that it will be required to sell the security, ASC 320 requires an entity to compare the present value of expected future cash flows for the security to its amortized cost basis. If the present value is less than the amortized cost basis, an OTTI charge must be recorded. When such an other-than-temporary impairment is determined to exist, ASC 320 requires that the projected “credit loss” on the asset must be recorded in earnings, while all other declines in fair value below amortized cost are recorded in other comprehensive income. The credit loss is determined by subtracting the amortized cost basis of the asset from the calculated present value of the asset, as described in the preceding paragraph. In addition, for previously recorded OTTI charges, ASC 320 requires a reclassification of non-credit losses from retained earnings to accumulated other comprehensive loss (AOCL). As a result of adopting ASC 320 effective January 1, 2009, U.S. Central reclassified \$3,688,865,000 of non-credit losses included in previous OTTI charges from retained earnings to AOCL.

While ASC 320 does not mandate a specific method for determining the present value of a security, discounting projected future cash flows at the effective interest rate at the date the security was acquired is specifically allowed. Additional discussion related to U.S. Central’s OTTI policies and 2009 OTTI charges are provided in Note 2(e), Summary of Significant Accounting Policies, and Note 3, Investment Securities, respectively.

In April 2009, the FASB issued additional guidance under ASC 820 *Fair Value Measurements and Disclosures* (formerly known as SFAS No. 157) related to fair value considerations where markets are inactive and transactions are not orderly. The guidance acknowledges that in those circumstances quoted prices may not be determinative of fair value. Under the guidance, price quotes for assets or liabilities

in inactive markets may require adjustment due to uncertainty as to whether the underlying transactions are orderly. The adoption of this accounting guidance had no effect on U.S. Central's financial condition, results of operations or cash flows.

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly known as SFAS No. 165) which established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This guidance requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. This guidance was effective for interim and annual financial periods ending after June 15, 2009. The adoption of this guidance did not affect U.S. Central's financial condition, results of operations or cash flows.

In July 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles (GAAP)* (formerly known as SFAS No. 168). This new guidance approved FASB's ASC as the single source of authoritative nongovernmental GAAP. The Securities and Exchange Commission (SEC) rules and interpretive releases are also sources of authoritative GAAP for SEC registrants. The guidance contained in the ASC supersedes all existing non-SEC accounting and reporting standards. In addition, all other accounting literature not included in the ASC will be considered nonauthoritative. The ASC is effective for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not affect U.S. Central's financial condition, results of operations or cash flows.

In December 2009, the NCUA issued a new Proposed Rule for corporate credit unions. The major revisions would establish a new capital scheme, including risk-based capital requirements; impose new prompt corrective action requirements; place various new limits on corporate investments; impose new asset-liability management controls; amend some corporate governance provisions; and limit a corporate CUSO to categories of services preapproved by the NCUA. In addition, the Proposed Rule would require a corporate credit union to reduce its own capital for any investments in the capital of other corporate credit unions when determining compliance with minimum levels. If the Proposed Rule is adopted, it would likely result in significant operational and structural changes for U.S. Central and the current two-tier Corporate Network. The deadline for comments to be received by the NCUA was March 9, 2010. It is not yet known when a final rule will be issued.

- (q) Certain reclassifications have been made to the prior years' presentations to conform with the 2009 presentation.

3. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities as of December 31, 2009 and 2008, are presented below (dollars in thousands). Amortized cost amounts presented have been adjusted downward, where applicable, to reflect the effects of OTTI charges recorded in earnings.

December 31, 2009						
	Average Rate		Amortized Cost	Unrealized		Estimated Fair Value
				Gains	Losses	
Available-for-sale securities						
Government-sponsored enterprises	4.48 %	\$	53,037	\$ 48	\$ -	\$ 53,085
Bonds, notes and commercial paper	1.10		1,358,926	470	(112,325)	1,247,071
Residential mortgage-backed securities:						
Agency	1.08		1,271,525	9,622	(39,137)	1,242,010
Non-agency	1.30		13,924,920	44,836	(6,586,634)	7,383,122
Asset-backed securities	0.65		10,371,351	28,450	(383,089)	10,016,712
Common stock	n/a		16,278	368	-	16,646
			<u>\$ 26,996,037</u>	<u>\$ 83,794</u>	<u>\$ (7,121,185)</u>	<u>\$ 19,958,646</u>
Number of securities			<u>754</u>	<u>97</u>	<u>640</u>	

December 31, 2008						
	Average Rate		Amortized Cost	Unrealized		Estimated Fair Value
				Gains	Losses	
Available-for-sale securities						
Government-sponsored enterprises	4.48 %	\$	72,083	\$ 644	\$ -	\$ 72,727
Bonds, notes and commercial paper	2.43		1,461,298	-	(158,757)	1,302,541
Residential mortgage-backed securities:						
Agency	1.56		1,600,826	2,653	(74,984)	1,528,495
Non-agency	1.64		14,444,022	1	(5,722,389)	8,721,634
Asset-backed securities	2.12		11,875,148	3	(1,844,741)	10,030,410
			<u>\$ 29,453,377</u>	<u>\$ 3,301</u>	<u>\$ (7,800,871)</u>	<u>\$ 21,655,807</u>
Number of securities			<u>952</u>	<u>20</u>	<u>700</u>	

Included in asset-backed securities in the above tables are commercial mortgage-backed securities (CMBS) with par values of \$396,502,000 and \$419,753,000 as of December 31, 2009 and 2008, 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 ASC 815, *Derivatives and Hedging*. Cumulative net unrealized gains of \$1,440,000 and \$8,442,200 were included in retained earnings as of December 31, 2009 and 2008, respectively.

The following tables present available-for-sale securities in unrealized loss positions as of December 31, 2009 and 2008 (in thousands). Unrealized losses are separated into two categories – those existing for more than twelve months and those existing for less than twelve months. Amortized cost amounts presented have been adjusted downward, where applicable, to reflect the effects of OTTI charges recorded in earnings.

	December 31, 2009			
	Amortized	Unrealized Losses	Unrealized Losses	Estimated
	Cost	< 12 months	> 12 months	Fair Value
Available-for-sale securities				
Bonds, notes and commercial paper	\$ 1,316,518	\$ 131	\$ 112,194	\$ 1,204,193
Residential mortgage-backed securities:				
Agency	911,143	474	38,663	872,006
Non-agency	13,814,820	9,087	6,577,547	7,228,186
Asset-backed securities	9,387,936	-	383,089	9,004,847
	<u>\$ 25,430,417</u>	<u>\$ 9,692</u>	<u>\$ 7,111,493</u>	<u>\$ 18,309,232</u>

	December 31, 2008			
	Amortized	Unrealized Losses	Unrealized Losses	Estimated
	Cost	< 12 months	> 12 months	Fair Value
Available-for-sale securities				
Bonds, notes and commercial paper	\$ 1,462,764	\$ 11,862	\$ 146,895	\$ 1,304,007
Residential mortgage-backed securities:				
Agency	1,432,889	10,168	64,816	1,357,905
Non-agency	12,176,336	524,104	5,198,285	6,453,947
Asset-backed securities	11,874,859	102,686	1,742,055	10,030,118
	<u>\$ 26,946,848</u>	<u>\$ 648,820</u>	<u>\$ 7,152,051</u>	<u>\$ 19,145,977</u>

Many of U.S. Central's investment securities are in significant unrealized loss positions as of December 31, 2009, particularly non-agency RMBS. Management believes that the unrealized losses, and the severity thereof, are the result of 1) historically high defaults and delinquencies on mortgages underlying non-agency RMBS, and 2) a severe imbalance in the current, illiquid market between supply and demand for these same securities.

In such an instance, when a security's amortized cost basis exceeds its fair value, U.S. Central evaluates the security for a possible OTTI charge under the guidance provided in ASC 320 (see Note 2(e), Investment Securities, for discussion of U.S. Central's OTTI evaluation and recognition policies) which U.S. Central adopted effective January 1, 2009. Additional discussion of U.S. Central's adoption of ASC 320 is provided in Note 2(p), New Accounting and Regulatory Pronouncements. In 2009, credit losses of \$2,098,767,000 were recorded in earnings, while non-credit losses of \$2,206,163,000 were recorded in other comprehensive loss. The following table provides a rollforward of U.S. Central's credit losses for 2009 (in thousands):

Cumulative credit losses - December 31, 2008	\$ 1,362,386
2009 credit losses related to securities for which OTTI charges were not previously recorded	695,581
2009 credit losses related to securities for which OTTI charges were previously recorded	<u>1,403,186</u>
Cumulative credit losses - December 31, 2009	<u>\$ 3,461,153</u>

U.S. Central owns a number of 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 credit losses for Ambac-insured securities as of December 31, 2009, U.S. Central has taken into account actions taken by Ambac in March 2010, which management believes represent recognized subsequent events. Additional discussion of the actions taken by Ambac in March 2010 is provided in Note 14, Subsequent Events. Specifically, management has assumed that claims payments will resume in October 2010, and that 25 percent of claims payments due in March 2010 or after will be received. As of December 31, 2009, U.S. Central held \$1,244,404,000 par value of securities insured by Ambac, and had recorded cumulative OTTI charges in earnings of \$416,068,000. As of December 31, 2009 and 2008, management has placed no reliance on FGIC in determining OTTI charges for securities backed by that insurer. As of December 31, 2009, U.S. Central held \$1,026,651,000 par value of securities insured by FGIC, and had recorded cumulative OTTI charges in earnings of \$278,536,000.

Management has reviewed the financial condition of all other monoline insurers to which U.S. Central has exposure and determined that they possess sufficient claims paying ability to cover all projected claims as of December 31, 2009. Collectively, bonds in U.S. Central's portfolio insured by insurers other than FGIC and Ambac have a par value of \$2,530,624,000 as of December 31, 2009. No OTTI charges have been recorded related to these securities as of December 31, 2009 and 2008.

Historically, under regulation, U.S. Central was allowed to purchase securities with long-term credit ratings of BBB or higher. Under conservatorship, U.S. Central is allowed to purchase securities with long-term ratings of AA- or higher. This more restrictive purchase requirement does not affect U.S. Central's ability to hold securities purchased prior to conservatorship. U.S. Central's authority to continue holding securities purchased prior to conservatorship that subsequently were downgraded below BBB 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, a downgrade by that rating agency below BBB would mean U.S. Central could not continue holding the security without permission from the 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 the 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 the NCUA to do so. U.S. Central requests such approval by periodically submitting to NCUA an Investment Action Plan (IAP) covering securities recently downgraded. NCUA generally approves IAPs on a quarterly basis.

As of December 31, 2009, 342 securities with a total par value of \$12,088,837,000 had been downgraded below U.S. Central's regulatory limit. U.S. Central requested and received permission from the NCUA to continue to hold all but five of these securities with a combined par value of \$117,676,000. These five securities were included in an IAP submitted in early 2010. Subsequent to December 31, 2009, twelve additional securities with a total par value of \$350,469,000 experienced such downgrades. As of April 14, 2010, U.S. Central had requested permission from the NCUA to continue to hold all of these additional securities. In total, as of April 14, 2010, U.S. Central holds 16 securities with an aggregate par value of \$438,438,000 where NCUA's approval to continue to hold has not been received. Management expects to receive permission from NCUA to continue to hold all of these remaining securities when NCUA next issues approval of pending IAPs.

The investment portfolio as of December 31, 2009, 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, 2009, mortgage-related and asset-backed securities have weighted-average expected lives of approximately 6.7 years and 2.9 years, respectively.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ -	\$ -
Due after one year through five years	921,941	882,877
Due after five years through 10 years	490,022	417,279
	<u>1,411,963</u>	<u>1,300,156</u>
Residential mortgage-backed securities:		
Agency	1,271,525	1,242,010
Non-agency	13,924,920	7,383,122
Asset-backed securities	10,371,351	10,016,712
Common stock	16,278	16,646
	<u>\$ 26,996,037</u>	<u>\$ 19,958,646</u>

As of December 31, 2009 and 2008, U.S. Central had pledged to market counterparties investment securities with a total par value of \$6,581,957,000 and \$26,887,429,000, respectively. The market counterparties did not have the right to re-pledge, sell or otherwise transfer the securities.

4. LOANS

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

	December 31,					
	2009			2008		
	Average Rate	Amortized Cost	Carrying Value	Average Rate	Amortized Cost	Carrying Value
Loans Held for Investment						
Member loans						
Overnight	- %	\$ -	\$ -	2.35 %	\$ 185,428	\$ 185,428
Term	4.46	399,375	402,354	3.69	1,286,916	1,292,360
CLF pass-through	-	-	-	0.96	1,510,478	1,510,478
Automobile	7.40	11,459	11,459	7.50	56,341	56,341
Mortgage	4.75	31,855	31,855	5.16	54,465	54,465
Total Loans Held for Investment		<u>442,689</u>	<u>445,668</u>		<u>3,093,628</u>	<u>3,099,072</u>
Loans Held for Sale						
Mortgage	6.43	<u>61,356</u>	<u>45,237</u>	6.47	<u>92,770</u>	<u>72,238</u>
		<u>\$ 504,045</u>	<u>\$ 490,905</u>		<u>\$ 3,186,398</u>	<u>\$ 3,171,310</u>

Term loans to members, as of December 31, 2009, had weighted-average remaining maturities of approximately 2.3 years. As of December 31, 2009, automobile loans and mortgage loans classified as held for investment had weighted-average expected lives of approximately 1.0 and 5.9 years, respectively. Mortgage loans classified as held for sale had weighted-average expected lives of 7.0 years as of December 31, 2009. Actual lives of automobile and mortgage loans may differ from contractual maturities due to prepayment features.

As of December 31, 2009, the principal balance of loans delinquent more than 90 days was \$1,947,000. Loan loss reserves totaling \$667,000 were calculated as of December 31, 2009 related to a specifically identified group of delinquent mortgage loans expected to incur losses. Charge-offs of \$559,000 were taken in 2009. In June 2008, U.S. Central ceased purchasing mortgage loans.

5. BORROWINGS AND LIQUIDITY

Borrowings outstanding as of December 31, 2009 and 2008 are as follows (dollars in thousands):

	December 31,							
	2009				2008			
	Average Rate	Average Days to Maturity	Par Value	Carrying Value	Average Rate	Average Days to Maturity	Par Value	Carrying Value
Guaranteed borrowings								
CU SIP borrowings	0.87 %	23	\$ 5,768,451	\$ 5,770,373	- %	-	\$ -	\$ -
CU HARP borrowings	0.50	365	164,016	164,366	-	-	-	-
Notes payable	1.45	840	4,000,000	3,986,395	-	-	-	-
Total guaranteed borrowings			<u>9,932,467</u>	<u>9,921,134</u>			<u>-</u>	<u>-</u>
NCUSIF borrowings	0.53	355	5,000,000	5,000,000	-	-	-	-
Member federal funds purchased	-	-	-	-	0.70	1	3,313,820	3,313,820
Short-term borrowings								
Federal Home Loan Bank borrowings	-	-	-	-	0.65	2	5,370,000	5,370,000
Federal Reserve borrowings	-	-	-	-	0.50	2	4,500,000	4,500,000
Federal funds purchased	-	-	-	-	0.38	2	2,425,000	2,425,000
CLF pass-through borrowings	-	-	-	-	0.96	102	1,510,478	1,510,478
Notes payable due within 12 months	-	-	-	-	2.70	182	36,364	35,318
Other borrowings	0.27	25	<u>30,398</u>	<u>30,398</u>	1.00	121	<u>24,021</u>	<u>24,021</u>
Total short-term borrowings			<u>30,398</u>	<u>30,398</u>			<u>13,865,863</u>	<u>13,864,817</u>
Total borrowings			<u>\$ 14,962,865</u>	<u>\$ 14,951,532</u>			<u>\$ 17,179,683</u>	<u>\$ 17,178,637</u>

The following table presents U.S. Central's borrowings by legal maturity (in thousands).

	Par Value
Due in one year or less	\$ 10,961,997
Due after one year through two years	2,000,668
Due after two years through three years	2,000,200
	<u>\$ 14,962,865</u>

In May 2009, the NCUA Board approved changes to the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP), which was originally approved by the NCUA Board in October 2008. The TCCULGP allowed certain corporate credit unions, including U.S. Central, to issue debt guaranteed by the National Credit Union Share Insurance Fund (NCUSIF). In June 2009, the NCUA Board further revised the TCCULGP to legally obligate the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) to pay all claims under the TCCULGP. Following the revisions, the deadline for issuance of guaranteed debt is June 30, 2010, while the maximum maturity date is June 30, 2017. The TCCUSF receives fees in exchange for the guarantee, ranging from 10 basis points per annum for two-year debt to 35 basis points per annum for seven-year debt. Debt issuances under the TCCULGP are ultimately backed by the full faith and credit of the United States government. U.S. Central can have outstanding up to \$10,000,000,000 of debt under the TCCULGP at any one time.

As of December 31, 2009, U.S. Central had outstanding borrowings under the TCCULGP with a total par value of \$9,932,467,000. Of this amount, fixed-rate borrowings with a par value of \$5,768,451,000 were originated under the Credit Union System Investment Program (CU SIP), a program announced by the NCUA in December 2008 to ensure adequate liquidity at certain corporate credit unions, including U.S. Central. Additional fixed-rate borrowings with a par value of \$164,016,000 were originated under the

NCUA's Credit Union Homeowners Affordability Relief Program (CU HARP). All CU SIP borrowings mature in the first quarter of 2010, while all CU HARP borrowings mature in December 2010.

In October 2009, U.S. Central issued \$4,000,000,000 par value of medium-term notes guaranteed by the NCUSIF under the TCCULGP. The notes bear both fixed and LIBOR-based floating interest rates and mature in October 2011 (\$2,000,000,000) and October 2012 (\$2,000,000,000).

In addition to the TCCULGP borrowings discussed above, the NCUA extended a \$5,000,000,000, fixed-rate direct loan to U.S. Central from the NCUSIF in December 2009. The loan matures in December 2010.

In 2008, U.S. Central converted certain of its short-term member share accounts to member federal funds purchased bearing both fixed and floating interest rates. These member federal funds transactions are senior to all member share and certificate accounts of U.S. Central in the event of liquidation, and are presented separately in the liabilities section of the balance sheet. As of December 31, 2009 and 2008, outstanding member federal funds purchased totaled \$0 and \$3,313,820,000, respectively.

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 a defined percentage of the fair value of collateral pledged at the FHLB. As of December 31, 2009, U.S. Central's borrowing capacity at the FHLB totaled \$1,720,000,000 with no advances outstanding. As of December 31, 2008, U.S. Central had overnight borrowings of \$5,370,000,000 outstanding with the FHLB. The FHLB does not have the unrestricted right to acquire or re-pledge investment securities pledged by U.S. Central.

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 was eligible to borrow from the Federal Reserve discount window on a secured basis. As of December 31, 2008, U.S. Central had overnight advances outstanding from the Federal Reserve of \$4,500,000,000. As of March 2009, U.S. Central is no longer eligible to borrow from the Federal Reserve.

U.S. Central borrows on a short-term basis as federal funds purchased. These borrowings typically mature overnight, but occasionally have maturities up to 30 days. As of December 31, 2009 and 2008, U.S. Central had outstanding federal funds purchased of \$0 and \$2,425,000,000, respectively.

As Agent Group Representative to the CLF for corporate credit unions (see Note 2(g)), U.S. Central has historically borrowed funds from the CLF when a loan request was initiated by a natural person credit union, and then lent the proceeds to the applicable corporate credit union. The corporate credit union then, in turn, lent the funds to the natural person credit union. As a result, U.S. Central carried on its balance sheet both the borrowing from the CLF and the loan asset due from the corporate credit union. However, in 2009, U.S. Central assigned all of its rights under all existing CLF loans to corporate credit unions to the CLF and received legal release from its obligations to repay its borrowings from the CLF. As a result, there were no CLF borrowings

outstanding as of December 31, 2009. As of December 31, 2008, fixed-rate CLF borrowings totaled \$1,510,478,000.

U.S. Central has a regulatory borrowing limit equal to the greater of 1) 50 percent of members shares and regulatory capital, or 2) 10 times regulatory capital. As of December 31, 2009, U.S. Central's regulatory borrowing limit was \$26,814,170,000, based on November 30, 2008 regulatory capital balances (see Note 7, Regulatory Capital and Net Economic Value Requirements). Total borrowings outstanding as of December 31, 2009, at par value, totaled \$14,962,865,000.

6. MEMBERS' ACCOUNTS AND CAPITAL

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

	December 31,			
	2009		2008	
	Average Rate	Carrying Value	Average Rate	Carrying Value
Members' share and certificate accounts				
Overnight accounts	0.26 %	\$ 10,770,239	0.98 %	\$ 189,383
Term floating-rate certificates	0.37	4,337,642	0.96	5,567,457
Term fixed-rate certificates	1.66	10,338,760	3.43	9,542,383
Structured certificates	1.99	1,092,518	3.84	2,708,881
Other shares	0.11	1,383	0.09	1,453
CLF shares	-	-	2.86	1,712,441
Total members' share and certificate accounts		<u>\$ 26,540,542</u>		<u>\$ 19,721,998</u>
Membership Capital Shares	-	<u>\$ -</u>	1.41	<u>\$ 1,243,092</u>
Paid-in capital	-	<u>\$ -</u>	1.52	<u>\$ 195,638</u>
NCUSIF capital note	1.24	<u>\$ 395,032</u>	-	<u>\$ -</u>

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

	For the Years Ended December 31,		
	2009	2008	2007
Dividend expense			
Members' share accounts	\$ 35,564	\$ 158,930	\$ 556,680
Members' certificate accounts	328,395	885,360	1,400,451
	<u>\$ 363,959</u>	<u>\$ 1,044,290</u>	<u>\$ 1,957,131</u>

The following table presents members' certificate accounts by contractual maturity as of December 31, 2009 (in thousands):

	Carrying Value
One month or less	\$ 1,726,882
One month through one year	8,552,855
One year through two years	3,590,344
Two years through three years	890,207
Three years through four years	552,741
Four years through five years	284,410
After five years	194,026
	<u>\$ 15,791,464</u>

As of December 31, 2008, members were 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. MCS are subordinate to members' share and certificate accounts in the event of liquidation of U.S. Central and are available to absorb losses in excess of the total of retained earnings and paid-in capital (see next paragraph). Effective March 20, 2009, the Advisory Board waived the section of U.S. Central's Membership Policy that requires members to maintain a minimum level of MCS. As a result, members are no longer required to maintain a minimum amount of MCS in order to remain eligible for membership in U.S. Central. Effective April 23, 2009, the Advisory Board voted to extend a moratorium on any and all redemptions of MCS by U.S. Central's members until further notice. Dividends on MCS are discretionary and declared quarterly by the board of directors.

U.S. Central's paid-in capital (PIC) is comprised of two classes, PIC I and PIC II. Both classes have no stated maturity and qualify as equity under generally accepted accounting principles. A total of \$300,000,000 of PIC I was issued in May 1999. PIC I is subordinate to all other shares, except PIC II, in the event of liquidation of U.S. Central. In December 2008, member corporate credit unions converted \$450,000,000 of MCS to PIC II. PIC II is subordinate to all other shares of U.S. Central, and is first to absorb losses in excess of retained earnings. Dividends on PIC I and PIC II are discretionary and declared quarterly by the board of directors.

On January 28, 2009, U.S. Central received a \$1,000,000,000 capital note from the NCUSIF. That capital note is to be treated as paid-in capital for all regulatory purposes. This capital note has no stated maturity, but can be repaid by U.S. Central at any time after two years. In addition, the note has a LIBOR-based variable, non-cumulative dividend rate to be paid quarterly from available earnings and has priority over any other capital accounts at U.S. Central, including MCS and PIC. As U.S. Central did not have available earnings in 2009, no dividends on the capital note were accrued or paid.

Under the definitions of membership capital and paid-in capital in Part 704.2 of the Rules and Regulations of the 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 OTTI charges recorded in 2008 and 2009, U.S. Central's retained earnings have been fully exhausted, and all PIC and MCS balances have been fully depleted. In addition, the NCUSIF capital note has been depleted by \$604,968,000.

In March 2009, the NCUA Board authorized up to \$3,000,000,000 of cash or non-cash special assistance to U.S. Central from the NCUSIF, including, but not limited to, a guaranteed prior undivided earnings deficit (*i.e.* negative retained earnings) and/or a capital note(s) in addition to the \$1,000,000,000 capital note provided to U.S. Central in January 2009. If assistance greater than \$3,000,000,000 is needed, NCUA board approval is required.

Claims by creditors, both secured and unsecured, have priority in the event of liquidation over accounts of members. Eligible accounts of members are typically insured by the National Credit Union Share Insurance Fund (NCUSIF) up to \$250,000 per member. On January 28, 2009, the NCUA Board approved the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), under which the NCUSIF guaranteed U.S. Central's member deposits in excess of the \$250,000 share insurance already provided. Pursuant to Congressional amendment of the Federal Credit Union Act that established the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) – a separate fund under the control of the NCUA – in June 2009, the NCUA legally transferred the obligation to pay claims under the TCCUSGP to the TCCUSF. In August 2009, the TCCUSGP was extended by the NCUA to December 31, 2011. The maximum maturity for shares subject to the guarantee is two years. As of December 31, 2009, substantially all of U.S. Central's member deposits met the requirements to be covered by the TCCUSGP and, as a result, were fully insured as of that date.

7. 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). In April 2009, the NCUA issued an order, under its authority in Part 704.1(b), permitting an alternative capital level for purposes of regulatory compliance outlined in Part 704. The order will remain in effect until modified or rescinded by the NCUA Board or until the effective date of the final rulemaking for Part 704 that is currently in the pre-rule stage. As a result of the order, U.S. Central is allowed to use capital levels reported in its November 2008 call report, for purposes of determining regulatory compliance with its capital ratio requirement and earnings retention requirement (see next paragraph). At November 30, 2008, regulatory capital totaled \$2,681,417,000 which, when divided by 12-month DANA as of December 31, 2009 and 2008, resulted in a capital ratio of 6.8 percent and 6.6 percent, respectively. Using actual capital balances as of December 31, 2009 and 2008, U.S. Central's capital ratio was 1.0 percent and negative 5.5 percent, respectively.

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 as of November 30, 2008 were \$697,261,000, which, when divided by 12-month DANA as of December 31, 2009 and 2008, resulted in a retained earnings ratio of 1.8 percent and 1.7 percent, respectively. Using the actual retained earnings/accumulated deficit as of December 31, 2009 and 2008, U.S. Central's retained earnings ratio was 0.0 percent and negative 10.4 percent, respectively.

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 and remained negative throughout 2009. 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.

8. 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 applicable accounting guidance. In some instances, while management believes that derivatives represent 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 earnings.

The following tables provide information on U.S. Central's derivative portfolio by type of hedge as of December 31, 2009 and 2008 (in thousands):

	December 31, 2009			
	Notional	Gross Unrealized		Estimated
		Gains	Losses	Fair Value
Cash-flow hedges				
Interest-rate swaps				
Pay floating, receive fixed	\$ 650,000	\$ 6,739	\$ -	\$ 6,739
Receive floating, pay fixed	595,000	-	(29,934)	(29,934)
Basis swaps	598,094	436	(808)	(372)
Interest-rate caps/floor	1,459,110	13,540	-	13,540
	<u>3,302,204</u>	<u>20,715</u>	<u>(30,742)</u>	<u>(10,027)</u>
Fair-value hedges				
Interest-rate swaps				
Receive fixed, pay floating	9,897,666	5,428	(13,872)	(8,444)
Pay fixed, receive floating	75,000	-	(2,943)	(2,943)
	<u>9,972,666</u>	<u>5,428</u>	<u>(16,815)</u>	<u>(11,387)</u>
Undesignated positions				
Interest-rate swaps	482,663	766	(25,170)	(24,404)
Interest-rate cap	600,000	10	-	10
Other	57,000	392	-	392
	<u>1,139,663</u>	<u>1,168</u>	<u>(25,170)</u>	<u>(24,002)</u>
	<u>\$ 14,414,533</u>	<u>\$ 27,311</u>	<u>\$ (72,727)</u>	<u>\$ (45,416)</u>

	December 31, 2008			
	Notional	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Cash-flow hedges				
Interest-rate swaps				
Pay floating, receive fixed	\$ 1,425,000	\$ 16,570	\$ -	\$ 16,570
Receive floating, pay fixed	1,367,095	-	(131,037)	(131,037)
Basis swaps	1,870,389	660	(46)	614
Interest-rate caps/floor	2,046,509	17,688	-	17,688
	<u>6,708,993</u>	<u>34,918</u>	<u>(131,083)</u>	<u>(96,165)</u>
Fair-value hedges				
Interest-rate swaps				
Receive fixed, pay floating	1,184,826	12,042	(2,035)	10,007
Pay fixed, receive floating	367,000	-	(11,320)	(11,320)
	<u>1,551,826</u>	<u>12,042</u>	<u>(13,355)</u>	<u>(1,313)</u>
Undesignated positions				
Interest-rate swaps	125,000	1,154	(3,875)	(2,721)
Other	75,000	-	(948)	(948)
	<u>200,000</u>	<u>1,154</u>	<u>(4,823)</u>	<u>(3,669)</u>
	<u>\$ 8,460,819</u>	<u>\$ 48,114</u>	<u>\$ (149,261)</u>	<u>\$ (101,147)</u>

As of December 31, 2009 and 2008, gross unrealized gains on derivatives of \$27,312,000 and \$48,114,000, respectively, are included in other assets. Gross unrealized losses on derivatives of \$72,728,000 and \$149,261,000 are included in other liabilities as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, cumulative net losses of \$18,000 and \$13,608,000 have been excluded from the assessment of hedge effectiveness for fair value hedges.

Net unrealized losses of \$11,007,000 and \$97,538,000 on cash-flow hedges were included in accumulated other comprehensive loss (AOCL) as of December 31, 2009 and 2008, respectively. In addition, net deferred gains (losses) on terminated cash-flow hedges of (\$20,857,238) and \$6,258,000 were included in AOCL at December 31, 2009 and 2008, respectively. Management estimates that of the net unrealized losses on cash-flow hedges included in AOCL as of December 31, 2009, losses of \$6,638,000 will be reclassified into earnings during 2010.

Other derivative instruments included \$57,000,000 and \$78,000,000 of open short-sale agreements of to-be-announced mortgage securities as of December 31, 2009 and 2008, 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 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, 2009, the net credit exposure associated with

derivative instruments totaled \$26,117,000. As of December 31, 2008, the net credit exposure associated with derivative instruments totaled \$11,723,000.

9. NET LOSSES ON FINANCIAL INSTRUMENTS

The following table provides a summary of the net losses on financial instruments:

	For the Years Ended December 31,		
	2009	2008	2007
Net gains on available-for-sale securities and loans held-for-sale	\$ 12,629	\$ 1,814	\$ 1,832
Net other-than-temporary impairment charges recorded in earnings	(2,098,767)	(4,926,639)	(124,612)
Fair-value hedge ineffectiveness	(298)	77	74
Realized gains on termination of derivatives	(7,477)	44,744	5,416
Realized gains (losses) on early certificate redemptions	1,650	(5,321)	(2,440)
Changes in fair value of:			
Trading securities	-	(99,556)	954
Undesignated derivative instruments	4,987	25,507	(36,198)
Loans held for sale	4,413	(22,030)	316
	<u>\$ (2,082,863)</u>	<u>\$ (4,981,404)</u>	<u>\$ (154,658)</u>

For the years ended December 31, 2009, 2008 and 2007, U.S. Central recorded gross realized gains on sales of investment securities of \$12,707,000, \$4,355,000 and \$12,145,000, respectively. Gross realized losses on sales of investment securities for the years ended December 31, 2009, 2008 and 2007, totaled \$18,000, \$57,721,000, and \$9,153,000, respectively.

During 2009, 2008 and 2007, U.S. Central determined OTTI charges were required for certain of its investment securities in unrealized loss positions. Additional discussion of U.S. Central's policy regarding OTTI charges can be found in Note 2(e), Summary of Significant Accounting Policies – Investment Securities. Additional discussion of U.S. Central's 2009 OTTI charges can be found in Note 3, Investment Securities.

In 2009, 2008 and 2007, 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 gains of \$1,650,000 during 2009 and net realized losses of \$5,321,000 and \$2,440,000 during 2008 and 2007, 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, 2009, 2008 and 2007.

10. 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, 2009, U.S. Central had outstanding letters of credit of \$1,150,000.

As of December 31, 2009, U.S. Central had not extended any committed lines of credit to its members.

11. RETIREMENT PLAN

Under the terms of the defined contribution 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.

Prior to July 1, 2009, U.S. Central also contributed 5 percent of participants' salaries up to limitations as defined by the Internal Revenue Service. U.S. Central began making these contributions after the employee completed one year of service. These amounts are fully vested after four years of service. Effective July 1, 2009, U.S. Central discontinued the 5 percent employer-fixed contribution but the vesting period remained unchanged.

U.S. Central contributed \$880,000, \$1,445,000 and \$1,387,000, to the plan for the years ended December 31, 2009, 2008 and 2007, respectively.

12. FAIR VALUE 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.

Borrowings - 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.

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, 2009 and 2008 (in thousands):

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Cash	\$ 12,489,517	\$ 12,489,517	\$ 74,965	\$ 74,965
Federal funds sold	138,722	138,722	134,470	134,469
Investment securities	19,958,646	19,958,646	21,655,807	21,655,807
Loans	490,905	494,131	3,171,310	3,184,845
Lines and letters of credit	-	-	-	-
Stock of the CLF	1,750,551	1,750,551	1,643,347	1,643,347
Liabilities:				
Borrowings:				
CU SIP/CU HARP borrowings	5,934,739	5,933,270	-	-
NCUSIF borrowings	5,000,000	4,994,640	-	-
Short-term borrowings	30,398	30,421	13,864,817	13,861,629
Notes payable	3,986,395	3,998,890	-	-
Member federal funds purchased	-	-	3,313,820	3,313,840
Members' share and certificate accounts	26,540,542	26,623,332	19,721,998	19,832,238

The fair-value estimates presented above are based on market conditions and other information available to management as of December 31, 2009 and 2008. Subsequent changes in available information could cause fair-value estimates to vary significantly from those presented.

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 December 31, 2009 (in thousands).

	Fair Value Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities	\$ 16,646	\$ 12,177,512	\$ 7,764,488	\$ 19,958,646
Mortgage loans held-for-sale	-	-	45,237	45,237
Derivative assets	-	27,312	-	27,312
Total assets	\$ 16,646	\$ 12,204,824	\$ 7,809,725	\$ 20,031,195
Liabilities				
Derivative liabilities	\$ -	\$ 72,728	\$ -	\$ 72,728
Total liabilities	\$ -	\$ 72,728	\$ -	\$ 72,728

Assets, liabilities and derivatives measured at fair value on a recurring basis are summarized below as of December 31, 2008 (in thousands).

	Fair Value Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities	\$ -	\$ 12,603,544	\$ 9,052,263	\$ 21,655,807
Mortgage loans held-for-sale	-	-	72,238	72,238
Derivative assets	-	48,114	-	48,114
Total assets	\$ -	\$ 12,651,658	\$ 9,124,501	\$ 21,776,159
Liabilities				
Derivative liabilities	\$ -	\$ 149,261	\$ -	\$ 149,261
Total liabilities	\$ -	\$ 149,261	\$ -	\$ 149,261

Below is a reconciliation of all assets measured at fair value on a recurring basis using Level 3 inputs during 2009 (in thousands). Changes in fair value of assets in the table that are included in earnings are a component of net losses on financial instruments in the Consolidated Statement of Loss. All of these assets continue to be held by U.S. Central as of December 31, 2009.

	Total Fair Value		
	Available-For-Sale	Mortgage Loans	Total
	Securities	Held-For-Sale	
Balance, January 1, 2009	\$ 9,052,263	\$ 72,238	\$ 9,124,501
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)	(2,046,127)	4,734	(2,041,393)
Included in other comprehensive income	3,014,701	-	3,014,701
Purchases, sales, issuances, and settlements	(2,256,349)	(31,735)	(2,288,084)
Balance, December 31, 2009	\$ 7,764,488	\$ 45,237	\$ 7,809,725

13. PENDING LITIGATION

As of December 31, 2009, U.S. Central was a party to a lawsuit. As of that date, certain of U.S. Central's current and former officers and directors were parties to a separate lawsuit. Both of those lawsuits are discussed below.

Corporate Central Credit Union v. U.S. Central Federal Credit Union, et al., pending in the United States District Court for the Eastern District of Wisconsin, Case No. 2:09-cv-00986-LA.

On October 16, 2009, plaintiff Corporate Central Credit Union ("Corporate Central") filed suit against U.S. Central and the NCUA, in its capacity as Conservator of U.S. Central. Corporate Central is challenging the December 2008 decision by U.S. Central's former board of directors, and the subsequent decision by the NCUA, as Conservator, to enforce a temporary hold on the distribution of a certain amount of Membership Capital Shares (MCS). Corporate Central alleges that this temporary hold denied it certain distributions of MCS to which it alleges it was entitled, in an amount not less than \$6,021,000, plus interest. Specifically, Corporate Central is attempting to assert claims against U.S. Central and the NCUA for conversion, breach of contract, violations of U.S. Central's bylaws and the Equal Protection Clause, and a declaration of the parties' respective rights and obligations. U.S. Central and the NCUA have filed a motion to dismiss the lawsuit. That motion has been fully briefed by the parties, and is under consideration by the court. As of April 14, 2010, at this early juncture in the litigation, U.S. Central and its litigation counsel have not determined the likelihood of an unfavorable outcome to U.S. Central. As a result, no amount has been accrued in the financial statements related to this case.

Corporate America Credit Union v. Herbst, et al., pending in the United States District Court for the Northern District of Alabama, Case No. 2:09-cv-02126-IPJ.

On October 20, 2009, plaintiff Corporate America Credit Union ("Corporate America") filed suit against one current officer and eleven former officers or directors of U.S. Central, alleging that the defendants violated state and federal securities laws, and breached fiduciary duties, in connection with U.S. Central's exchange of MCS for paid in capital II shares in December 2008. U.S. Central has not been named a defendant in the suit, but may be obligated under certain circumstances to indemnify the officer and director defendants for amounts that may be recovered by the plaintiff through judgment or settlement, attorneys' fees, and other costs incurred in connection with their defense of the plaintiff's claims. U.S. Central has a directors and officers liability insurance policy that covers the obligation by U.S. Central to indemnify the individual

defendants up to the limits of the policy. Under the terms and provisions of that policy, U.S. Central has an obligation to pay the first \$250,000 of covered fees and costs incurred by the individual officers and directors in defense of plaintiff's claims. As of April 14, 2010, at this early juncture in the litigation, U.S. Central has not determined the likelihood of an unfavorable outcome. As a result, no amount has been accrued in the financial statements related to this case.

14. SUBSEQUENT EVENTS

In accordance with FASB ASC 855, *Subsequent Events*, U.S. Central has evaluated subsequent events through April 14, 2010, the date the financial statements were available for issuance. All subsequent events requiring recognition as of December 31, 2009, have been incorporated into the consolidated financial statements herein.

In January and February 2010, CU SIP borrowings totaling \$5,768,451,000 matured. U.S. Central used cash held in its account at the Federal Reserve Bank of Kansas City to fund the maturities.

As discussed in Note 3, Investment Securities, a portion of U.S. Central's investment securities portfolio is insured by several monoline insurers. In March 2010, one of those monoline insurers, Ambac, announced actions that had been taken at the direction of its regulator, the Office of the Commissioner of Insurance of the State of Wisconsin (the Commissioner), to address Ambac's weakened financial position. Specifically, Ambac announced the following actions:

- The establishment of a segregated account (the Segregated Account) for certain of Ambac's liabilities, including certain policies insuring or related to credit default swaps, all of its residential mortgage-backed securities (RMBS) obligations, certain student loan policies, certain contingent liabilities, and other policies insuring troubled credits.
- Ambac's issuance of a \$2,000,000,000 secured note and an aggregate excess-of-loss reinsurance agreement to support the Segregated Account.
- The Commissioner's commencement of rehabilitation proceedings with respect to the Segregated Account in order to facilitate an orderly run-off and/or settlement of those liabilities.
- The suspension of claims payments related to liabilities in the Segregated Account pending approval of Ambac's rehabilitation plan, estimated to take approximately six months.
- The successful commutation of substantially all collateralized debt obligations of asset-backed securities at a substantial discount to the expected present value of projected claims.

Separate from Ambac's press release, the Commissioner has stated that, once a rehabilitation plan is approved, claims payments with regard to the Segregated Account are anticipated to resume, as follows:

- Policyholders would receive 25 percent of required claims in cash, and 75 percent in Surplus Notes, which are essentially residual interests in the assets of the Segregated Account and any proceeds of the reinsurance policy.
- The Surplus Notes would mature 10 years from the approval of the rehabilitation plan, and bear a 5.1 percent fixed annual interest rate.

Management believes that these announced actions represent a recognized subsequent event and, accordingly, has incorporated them into estimates of future claims projected to be received from Ambac as of December 31, 2009. These estimates were made for the purpose of determining credit losses on the affected securities as of December 31, 2009. Additional discussion of OTTI charges related to Ambac-insured securities is provided in Note 3, Investment Securities.