



2010
SUNCORP
ANNUAL
REPORT

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Chairman & President's Report

Mark Lau, Chairman of the Board of Directors

Thomas R. Graham, President and Chief Executive Officer

SunCorp is planning for a renewed commitment—from our members and from the leaders of the organization, the Board and management. In the wake of the financial crisis of 2008, the NCUA made significant changes this year in the regulation that governs corporate credit unions. SunCorp crafted a plan to meet the requirements of this new regulation and is moving toward full compliance by each milestone deadline. The reforms will improve the safety and soundness of SunCorp for the benefit of members. The business model that has successfully served our members for 33 years remains in place, though the gearbox is dramatically different as we embrace the latest technology.

We've made significant changes to our operating expense structure over the last three years, applying a steady "behind the scenes" approach. Since the introduction of our key branch capture item processing service in 2007, our operating efficiency has improved dramatically. Our staff count is down more than 50% since 2007 without sacrificing the high service level our members expect. Operating expense is down 22% in the last two years, with a 15% reduction in 2010 alone. The 2011 budget calls for another 11% reduction. These changes allow for the successful continuation of our long-term business model—providing a range of key payment, liquidity and investment services to our members in a cooperatively priced manner.

Unfortunately, we booked another \$7.5 million in investment impairment charges in early 2010, but the pace of losses appears to be waning and we are rebuilding capital reserves through earnings to protect members from potential additional losses. For SunCorp to be successful in the future, and for us to help you be successful, we will need your commitment in the form of additional capital. We are working hard every day to earn that new investment in order to protect the franchise for our member owners. We continue to be active participants in striving to shape our

future and it is important to SunCorp and our members' interests to have frequent conversations about the best course for providing vital services to our owners. We are humbled and grateful for our members' backing and their willingness to support us and the cooperative system as their partner and solution provider. Clearly, there is no SunCorp without members' strong commitment and participation in our services.

The Board and management of SunCorp remain committed to providing honest, transparent communication as we navigate this historically difficult period. During 2010, we hosted monthly financial review webinars, detailing SunCorp's financial position. We provided members with detailed member updates informing them about our investment exposures and losses, the proposed and final revisions to regulation 704, regulatory actions affecting membership capital, significant accounting standard changes, expense cuts, and the new business plan that paves the path toward a more safe institution. The Board of Directors and senior management spent countless hours discussing the expected impact of all these critical items. Many of our members responded with public comments in support of SunCorp's positions on the revised regulation. Thankfully, their voices were heard and many of the negative aspects of the proposed regulation were not adopted.

Despite the massive changes in the regulatory and operating environment, SunCorp continued to execute and improve operations. In the third quarter, we upgraded our core computer system almost seamlessly and improved information security. These items are critical to adding value for our members. We conducted another member survey in 2010 and learned that members remained justifiably upset and disappointed about investment losses, but they also acknowledged that we had significantly improved our member service profile. Our members reported very high satisfaction with our payment systems business line and that

SunCorp's strength and value generation comes from the ease of conducting business on a daily basis. Our business development officers also received higher marks. They follow a strict contact plan with members in order for us to maintain strong two-way communication.

In order to minimize the cost of raising new capital, management initiated a strategy to shrink the balance sheet in late 2010. As a result, SunCorp's member deposits and assets both fell by 15%. The new business plan calls for further reductions in the balance sheet in order to achieve compliance with the new regulation. In 2006, SunCorp initiated a controlled leverage strategy in the form of longer term borrowing. This was completely eliminated in 2010 through the final repayment of \$42.5 million in loans. As consumer loan demand remains weak, loans to members decreased again this year, by \$40 million to a year-end balance of just \$5 million.

Despite the cut backs in expense, we remained committed to partnering with the regional Credit Union Leagues and Associations again in 2010, sponsoring many of their events for our members' benefit, participating in their annual meetings and providing speakers. We believe it is important to maintain strong, close partnerships with the leagues/associations and we enjoy working with them throughout the year.

Looking ahead to 2011, our plans are focused on continued efforts to improve operating

efficiencies for greater value return to our members and adapting to a new landscape for corporate credit unions. We will continue to help our members save time and money and provide members seamless service during this important transition period.

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

Thank you to our valued members and business partners. We appreciate your continued support and look forward to a more positive 2011.

Sincerely,



Mark Lau, Chairman



Thomas R. Graham, President and CEO

Treasurer's Report

Steve E. Kelly, Treasurer

The membership support of SunCorp was deeply appreciated as 2010 was a very difficult year due to the capital losses from impairment charges on our once highly rated securities.

SunCorp ended 2010 with \$2.09 billion in assets. This is a \$375 million decrease from year-end 2009 and is due primarily to decreased deposits from member credit unions. Total deposits from members decreased by \$369 million to \$2.08 billion as management executed strategies to shrink the balance sheet in an effort to minimize the amount of new capital required to be compliant with the revised regulation 704. Liquidity in the credit union system was quite strong in 2010 due to the lack of retail loan demand. As a result, loans outstanding to members at December 31, 2010 decreased to \$5.1 million from \$45.3 million at year-end 2009. The results were worse overall for net interest income for 2010 versus 2009, falling from \$13.1 million to \$9.2 million due to a smaller balance sheet, maturities of higher yielding investments, and the continuation of a low interest rate environment. Fee and other income fell by \$1.7 million compared to 2009, but was more than offset by gains on sale of investments of \$904,839 and a \$2.2 million decrease in non-interest expense.

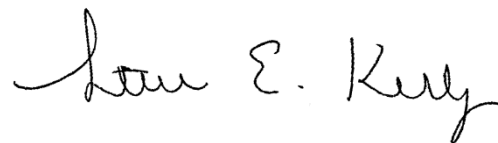
Retained earnings for 2010 increased by \$11.5 million after membership capital shares were depleted by \$14.5 million. Impairment charges on mortgage-backed securities of \$7.5 million in 2010 left SunCorp with a retained deficit at the end of the first quarter. Member capital shares were depleted to bring the retained deficit back to a zero balance in April. Total capital decreased to \$49.3 million, including membership capital shares. As of December 31, 2010, SunCorp's total capital ratio was 1.97%. SunCorp continued to reduce leverage by paying down all outstanding debt in 2010 in order to improve its capital position.

The U.S. capital markets recovered nicely in 2010, as evidenced by tighter credit spreads

and improving equity markets. The combination of unrealized losses and impairment charges on marketable securities held by SunCorp fell from \$128 million at the end of 2009 to \$95 million at the end of 2010. The unrealized losses reflected in other comprehensive income were \$50.6 million, a dramatic improvement from the \$169 million peak in the first quarter of 2009. The unrealized losses are a reflection of current market conditions and pricing, the strength of credit support on individual security holdings, and expectations of repayment from these investments.

It is a pleasure to serve on the Board of Directors, and as the Secretary and Treasurer for SunCorp. On behalf of the Board of Directors, I would like to thank SunCorp members, management and staff for their efforts during this year of recovery. The Board looks forward to continued improvement in 2011 and renewed member support of SunCorp.

Respectfully submitted,



Steve E. Kelly, Treasurer

Board Asset Liability Committee (ALCO) Report

Steve E. Kelly, Chairman

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

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

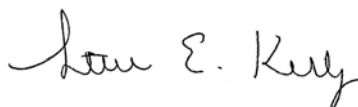
SunCorp experienced a decline in member deposits in 2010. Deposits fell 15% (\$369 million) as management executed a strategy to shrink the balance sheet in anticipation of raising capital for compliance with the revised NCUA regulation 704. The decline in deposits was funded by a decrease in investments at U.S. Central (-\$630 million). Investments in marketable securities rose by \$266 million, an increase of 43% compared to December 2009. Term debt was completely eliminated from a 2009 closing balance of \$42.5 million. As deposit balances fell, higher yielding investments matured, and the low interest rate environment continued, net interest income fell by \$3.9 million, a 30% decrease from 2009. 46% of the balance sheet is invested in NCUSIF-guaranteed investments at U.S. Central and WesCorp, while securities holdings make up 42%. Asset quality improved in 2010 despite the U.S. housing market remaining very weak. AAA-rated or GSE securities comprised 74% of the

securities' portfolio, up from 59% at the end of 2009. 34% of assets (\$709 million) are invested in residential mortgage-backed securities (RMBS), with \$446 million of that figure invested in Agency MBS. At year end 2010, SunCorp owned 22 securities that were out of compliance (less than AA- rating) with NCUA rules and regulation. SunCorp applied and received waivers from the NCUA to continue holding these positions as the expected cash flow should greatly exceed currently depressed market values.

In addition, Net Economic Value (NEV) volatility (+162%) exceeded the regulatory limit of -20% in a +300 rate shock environment. This is due to the reduction in capital after the total write-off of U.S. Central capital investments and impairment charges on select non-agency RMBS. SunCorp received a waiver from the NCUA on this limit, subject to investing only in certain short-term, highly rated investments. Since the financial market crisis, which began in the second half of 2008, our investments have been extremely conservative, with a particular emphasis on maintaining ample liquidity.

SunCorp continues to work diligently to provide value in a competitive marketplace. We're implementing changes in policy and capital in order to become compliant with the revised NCUA regulation 704, which governs our asset-liability management and investment activity. The rule changes approved by the NCUA will greatly improve safety and soundness through higher capital requirements.

Respectfully submitted,



Steve E. Kelly, Chairman

Supervisory Committee Report

Gail L. DeBoer, Chairman

The Supervisory Committee has two functions in its charter. First, it must perform an audit of the financial results for SunCorp and, second, it must ensure that SunCorp maintains adequate controls over operations and financial reporting. With these two objectives in mind, SunCorp engaged Orth, Chakler, Murnane and Company, CPAs as its auditing partner for financial audit work and Protiviti for expanded internal control audit work during 2010.

It is our duty to present the 2010 financial results for your review. The Committee provides these financials for your use. In the event this electronic version is not suitable and you desire a hard copy of the annual report or the audited statements, they are available upon request. The Committee retained Protiviti to complete internal control reviews covering all major operating and financial reporting functions within SunCorp. The risk assessment and reviews provide assurance to the Committee, Board of Directors, management and members that SunCorp has sound internal controls over its operations.

The National Credit Union Administration also examined SunCorp in 2010. The Committee is responsible for ensuring that management addresses all examination comments and establishes processes to address their findings. The Committee monitors the corrective actions taken by SunCorp on a quarterly basis to ensure timely correction of all items from the examination and internal audit findings.

Based on the audits and examinations performed and reviewed during 2010, the Committee submits that SunCorp has and maintains sound financial and internal controls. I encourage all members and business partners to download the 2010 Audited Financial Statements or contact SunCorp for a hard copy of the same report.

On behalf of the Supervisory Committee, I would like to thank SunCorp's members, Board of Directors and management for their assistance during 2010 and we look forward to a successful new year.

Respectfully submitted,



Gail L. DeBoer, Chairman

Orth, Chakler, Murnane and Company, CPAs

A Professional Association

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INDEPENDENT AUDITORS' REPORT

April 14, 2011

To the Supervisory Committee of
System United Corporate Federal Credit Union

We have audited the accompanying statements of financial condition of System United Corporate Federal Credit Union as of December 31, 2010 and 2009, and the related statements of operations, comprehensive operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

System United Corporate Federal Credit Union has reported members' share and certificate accounts as equity in the accompanying statements of financial condition that, in our opinion, should be reported as liabilities to conform with accounting principles generally accepted in the United States of America. If members' share and certificate accounts were properly recorded, liabilities would increase and members' equity would decrease by \$2,130,209,142 and \$2,514,131,103 as of December 31, 2010 and 2009, respectively.

In our opinion, except for the classification of members' share and certificate accounts as equity as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of System United Corporate Federal Credit Union as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



The Credit Union suffered substantial operating losses during 2009 and 2008. As a result, the Credit Union's capital ratios do not meet regulatory requirements as of December 31, 2010. On October 20, 2010, the NCUA issued new corporate credit union regulations that require the Credit Union to meet certain capital and operating profit requirements in various stages over the next ten years. Management has analyzed the impact of the new corporate credit union regulations and developed a business plan to meet their requirements. The business plan has been submitted to the NCUA and they have indicated that the Credit Union should proceed with their plan. Management has begun the process to raise the necessary capital to meet the regulation by the interim deadline. There is uncertainty about the Credit Union's ability to raise sufficient capital to meet the requirements of the new regulations. Additionally, the new regulations require the Credit Union to build retained earnings by meeting certain profitability goals. The Credit Union's current operating profit would be sufficient to meet the profitability requirements of the new regulations; however, there is some risk that the profitability objectives may not be met should there be additional impairment charges stemming from credit losses on at-risk securities in the investment portfolio. See notes 7, 11, and 15 for further information on the impact of this matter on the Credit Union's financial statements.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants



SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31,	
	2010	2009
Cash	\$221,481,766	\$114,240,511
Uncollected cash items	309,844	327,718
Interest bearing deposits in financial institutions	963,186,174	1,673,012,695
Available-for-sale investment securities	883,521,545	617,309,732
Investments in credit union service organizations	1,665,136	1,278,244
Loans to members (Note 3)	5,133,488	45,265,859
Accrued interest receivable and fee income	2,163,578	3,385,572
Property and equipment, net	1,733,485	1,226,325
National Credit Union Share Insurance Fund deposit	767,210	809,702
Other assets	11,309,227	9,252,962
Total assets	\$2,091,271,453	\$2,466,109,320

LIABILITIES AND MEMBERS' EQUITY

	As of December 31,	
	2010	2009
Liabilities:		
Borrowed funds (Note 6)	\$0	\$42,500,000
Deposits in collection	309,844	327,718
Accrued interest payable	2,453,565	4,245,261
Accrued expenses and other liabilities	5,213,141	3,095,061
Total borrowings and other liabilities	7,976,550	50,168,040
Members' Equity:		
Members' shares and certificates	2,078,128,918	2,447,570,016
Membership capital shares	52,080,224	66,561,087
Undivided earnings/(deficit) (Note 7)	3,680,335	(7,861,956)
Accumulated other comprehensive loss	(50,594,574)	(90,327,867)
Total members' equity	2,083,294,903	2,415,941,280
Total liabilities and members' equity	\$2,091,271,453	\$2,466,109,320

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION STATEMENTS OF OPERATIONS
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	For the years ended	
	December 31,	
	2010	2009
Interest Income:		
Investments	\$24,493,703	\$41,579,472
Loans	322,797	1,201,420
Total interest income	24,816,500	42,780,892
Interest Expense:		
Members' shares and certificates	14,735,543	25,017,129
Borrowed funds	849,871	4,660,013
Total interest expense	15,585,414	29,677,142
Net interest income	9,231,086	13,103,750
Non-Interest Income/(Loss):		
Fees and other income	6,912,322	8,610,615
Gain on sale of investments	904,839	541,982
Gain on sale of loans	16,133	26,338
Gain on sale of property and equipment	13,267	2,050
Gain from CU investments	1,900	3,057
Income from NCUSIF	-	251,566
Other-than-temporary impairment charges on investments	(7,469,009)	(11,426,720)
Total non-interest income/(loss)	379,452	(1,991,112)
Non-Interest Expense:		
Salaries and benefits	5,456,018	5,907,545
Data processing	2,844,720	3,660,458
Office operations	1,841,497	1,970,261
Outside services	791,774	1,126,677
Occupancy	714,881	742,989
Office property and equipment maintenance	513,964	707,930
Education and promotion	167,338	347,482
Association fees	108,192	134,747
Operating fees	51,465	48,156
Other	-	10,308
Total non-interest expense	12,489,849	14,656,553
Net loss	(\$2,879,311)	(\$3,543,915)

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION STATEMENTS OF COMPREHENSIVE OPERATIONS
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	For the years ended	
	December 31,	
	2010	2009
Net loss	(\$2,879,311)	(\$3,543,915)
Other comprehensive income/(loss):		
Net unrealized holding gains/(losses) on investments classified as available-for-sale	33,169,123	(16,808,277)
Reclassification adjustment for net investment losses included in net loss	6,564,170	10,884,738
Other comprehensive income/(loss)	39,733,293	(5,923,539)
Comprehensive income/(loss)	\$36,853,982	(\$9,467,454)

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY

For the years ended
December 31, 2010 and 2009

	Member Accounts	Membership Capital Shares	Paid-in Capital	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance,						
December 31, 2008	\$1,788,778,972	\$83,797,391	\$32,672,221	(\$117,824,322)	(\$84,404,328)	\$1,703,019,934
Net loss	-	-	-	(3,543,915)	-	(3,543,915)
Change in member accounts	658,791,044	-	-	-	-	658,791,044
Transfer	-	(1,407,187)	-	-	-	(1,407,187)
Depletion of paid-in-capital	-	-	(32,672,221)	32,672,221	-	-
Depletion of membership capital shares	-	(15,829,117)	-	15,829,117	-	-
Reclassify non-credit other-than-temporary impairment loss	-	-	-	65,004,943	-	65,004,943
Other comprehensive loss	-	-	-	-	(5,923,539)	(5,923,539)
Balance,						
December 31, 2009	2,447,570,016	66,561,087	-	(7,861,956)	(90,327,867)	2,415,941,280
Net loss	-	-	-	(2,879,311)	-	(2,879,311)
Change in member accounts	(369,441,097)	-	-	-	-	(369,441,097)
Transfer	-	(59,261)	-	-	-	(59,261)
Depletion of membership capital shares	-	(14,421,602)	-	14,421,602	-	-
Other comprehensive income	-	-	-	-	39,733,293	39,733,293
Balance,						
December 31, 2010	\$2,078,128,919	\$52,080,224	\$0	\$3,680,335	(\$50,594,574)	\$2,083,294,904

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION STATEMENTS OF CASH FLOWS
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	For the years ended	
	December 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	(\$2,879,311)	(\$3,543,915)
Adjustments:		
Depreciation and amortization	528,097	475,762
Gain on sale of property and equipment	(13,267)	(2,050)
Gain on sale of investments	(904,839)	(541,982)
Gain on sale of loans	(16,133)	(26,338)
Other-than-temporary impairment charges on investments	7,469,009	11,426,720
Net amortization and accretion of premiums and discounts on investments	1,382,226	(4,861,572)
Change in operating assets and liabilities:		
Accrued interest and fee income receivable	1,221,994	3,502,817
Accrued expenses and other liabilities	2,118,080	(5,416,990)
Accrued interest payable	(1,791,696)	(4,103,816)
Net cash provided by/(used in) operating activities	7,114,160	(3,091,364)
Cash flows from investing activities:		
Net decrease/(increase) in interest bearing deposits	709,826,521	(1,040,436,952)
Purchases of available-for-sale investments	(698,659,464)	(367,410,729)
Proceeds from maturities of available-for-sale investments	437,619,377	403,764,670
Proceeds from sales of available-for-sale investments	26,631,304	77,049,465
Decrease in federal funds sold	-	412,910,409
Increase in NCUSIF deposit and other assets	(2,013,773)	(1,733,077)
Net (increase)/decrease in CUSO investments	(386,892)	1,135,631
Net decrease in loans to members	40,132,371	31,946,149
Proceeds from sale of property and equipment	15,100	3,000
Purchases of property and equipment	(1,037,090)	(663,644)
Net cash provided by/(used in) investing activities	512,127,454	(483,435,078)

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION STATEMENTS OF CASH FLOWS
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Cash flows: (continued)

	For the years ended	
	December 31,	
	2010	2009
Cash flows from financing activities:		
(Decrease)/increase in deposits in collection	(17,874)	205,250
Repayment of borrowed funds	(42,500,000)	(90,000,000)
Net (decrease)/increase in members' shares and certificates	(369,441,098)	658,791,044
Net decrease in membership capital shares	(59,261)	(1,407,187)
Net cash (used in)/provided by financing activities	(412,018,233)	567,589,107
Net change in cash and uncollected cash items	107,223,381	81,109,227
Cash and uncollected cash items at beginning of year	114,568,229	33,459,002
Cash and uncollected cash items at end of year	\$221,791,610	\$114,568,229
Supplemental Cash Flow Disclosures:		
Interest paid on deposits and borrowed funds	\$17,377,110	\$33,780,957
Schedule of Non-Cash Transactions:		
Other comprehensive income/(loss)	\$39,733,293	(\$5,923,539)
Depletion of paid-in capital	\$0	(\$32,672,221)
Depletion of membership capital shares	(\$14,421,602)	(\$15,829,117)
Reversal of non-credit OTTI losses	\$0	\$65,004,943

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

FINANCIAL STATEMENTS/USE OF ESTIMATES

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

CASH

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

INVESTMENTS

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

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

U.S. Central Bridge Corporate Federal Credit Union is a federally chartered financial services cooperative which operates for the benefit of its members (primarily corporate credit unions) under the Federal Credit Union Act. During 2009, U.S. Central Federal Credit Union (USC) was conserved by the NCUA as part of the corporate credit union stabilization plan. As part of the stabilization plan, the NCUA sold certain toxic assets of USC to NCUA's asset management company. Additionally, the certain non-toxic assets as well as the correspondent banking services were moved to the newly formed U.S. Central Bridge Corporate Federal Credit Union (USC Bridge) on November 1, 2010.

USC Bridge was chartered for two years and must seek a merger partner, reform as a new corporate credit union, or liquidate within the chartered period.

The principal activity of USC and USC Bridge is to provide wholesale investment, liquidity, custody and payment-system services to its members, primarily corporate credit unions. USC and USC Bridge investments are generally interest bearing with various maturity dates. The investments are carried at cost. Based on an action taken by the NCUA in 2009 and 2010, the remaining investments

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Note 1: (continued)

in excess of insurable limits maintained at USC and USC Bridge are temporarily guaranteed through December 31, 2012.

LOANS TO MEMBERS

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

PROPERTY AND EQUIPMENT

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

NCUSIF DEPOSIT

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. **(See Note 14)**

NCUA INSURANCE PREMIUM ASSESSMENTS

During 2009, the NCUA Board assessed a 15.0 basis point insurance premium on insured deposits as of June 30, 2009. During 2010, the NCUA Board assessed a 13.4 basis point insurance premium on insured deposits as of March 31, 2010, and a 12.42 basis point insurance premium on insured deposits as of June 30, 2010. **(See Note 14)**

MEMBERS' SHARES AND CERTIFICATES

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

MEMBERSHIP CAPITAL SHARES

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

MEMBERSHIP PAID-IN CAPITAL

Paid-in capital was a hybrid, non-voting equity instrument which had a 20 year scheduled maturity date but was callable by the Credit Union at the Board's discretion. The paid-in capital was a wholly at-risk investment for the member credit unions that subscribed and neither the dividends nor the repayment of principal were guaranteed by any share or deposit insurance fund. Under section 704.2 of NCUA Rules and Regulations, paid-in capital accounts were extinguished during 2009 to cover a deficit in retained earnings. **(See Notes 7 and 14)**

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Note 1: (continued)

FEDERAL AND STATE TAX EXEMPTION

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

IMPAIRMENT OF INVESTMENT SECURITIES

The Credit Union accounts for its investments in debt and equity securities in accordance with the provisions of the Recognition and Presentation of Other-Than-Temporary Impairments Topic of the FASB Accounting Standards Codification. Investments are reviewed quarterly for indicators of other-than-temporary impairment (OTTI). The determination of OTTI requires judgment and will often depend on numerous factors, including the severity and duration of the decline in a security's value. The credit loss component of a security determined to be OTTI is recognized in earnings based on the present value of cash flows not expected to be received over the remaining term of the security. These cash flow projections are prepared by a third-party investment specialist. The non-credit loss component of a security determined to be OTTI is recognized in Accumulated Other Comprehensive Income/Loss. **(See Note 2)**

SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 14, 2011, the date the financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: INVESTMENTS

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

<u>Available-for-Sale:</u>	<u>As of December 31, 2010</u>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Collateralized-mortgage obligations	\$569,430,548	\$3,501,994	(\$18,824,092)	\$554,108,450
Asset-backed	319,680,273	370,275	(35,520,953)	284,529,595
Government agency	25,000,000	20,500	-	25,020,500
Corporate note	20,005,298	-	(142,298)	19,863,000
	<u>\$934,116,119</u>	<u>\$3,892,769</u>	<u>(\$54,487,343)</u>	<u>\$883,521,545</u>

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

As of December 31, 2010, the Credit Union maintained investment securities with a book value of \$224,371,686 and a market value of \$149,693,893 that would no longer be permissible under the new corporate credit union regulations; however, the Credit Union has obtained permission to retain these specific securities as part of its investment action plan or they can be held under the regulatory grandfathering provision.

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

<u>Available-for-Sale:</u>	<u>As of December 31, 2010</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity within:		
1-5 years	\$45,005,298	\$44,883,500
Mortgage and asset-backed securities	889,110,821	838,638,045
Total	<u>\$934,116,119</u>	<u>\$883,521,545</u>

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 2: (continued)

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

As of December 31, 2010						
Available-for-sale						
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Collateralized-mortgage obligations	\$208,265,908	(\$873,308)	\$100,716,910	(\$17,950,784)	\$308,982,818	(\$18,824,092)
Asset-backed	60,155,554	(67,088)	111,125,263	(35,453,865)	171,280,817	(35,520,953)
Corporate note	-	-	19,863,000	(142,298)	19,863,000	(142,298)
	<u>\$268,421,462</u>	<u>(\$940,396)</u>	<u>\$231,705,173</u>	<u>(\$53,546,947)</u>	<u>\$500,126,635</u>	<u>(\$54,487,343)</u>

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 2: (continued)

OTHER-THAN-TEMPORARY IMPAIRMENT

The following table presents the total other-than-temporary impairments recognized during the years ended December 31, 2010 and 2009:

	<i>Available-for-sale</i>	
	For the years ended	
	December 31,	
	2010	2009
Balance, beginning of year	\$35,359,819	\$90,978,792
Add: Amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	549,529	835,241
Add: Increase to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	6,919,480	10,591,479
Less: Realized gains for securities sold or paid down	(377,583)	-
Less: Securities for which the amount previously recognized in accumulated other comprehensive loss was recognized in earnings because the Credit Union intends to sell the security or, more likely than not, will be required to sell the security before recovery of its amortized cost basis	-	-
Less: Reversal of non-credit OTTI losses	-	(65,004,943)
Less: Increases in cash flows expected to be collected that are recognized over the remaining life of the security	(1,211,383)	(2,040,750)
Balance, end of year	\$41,239,862	\$35,359,819

The total OTTI recognized in the statements of operations was approximately \$7,469,000 and \$11,427,000 during the years ended December 31, 2010 and 2009, respectively.

The remaining loss estimates recorded through accumulated other comprehensive loss represent the interest rate differential between the expected yield on the security and the book yield. The expected yields on the asset-backed securities and the non-agency securities are substantially higher than the current book yields due to the market expectations for these types of securities. Higher expected yields are mainly being driven by inactive markets for these securities, downgrading of insurers, and credit exposures for these types of securities. As a result, the discount rate used to value these securities was substantially higher in most cases than the investment yields. The fair values of the securities are expected to be recovered as the market for these securities improves and/or these securities approach their maturity dates. Management has the ability to hold these securities through the recovery of fair value, which may be maturity.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 2: (continued)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized in income because of the implicit guarantee of the principal balance of these securities by the U.S. Government. The fair value of these securities are expected to be recovered as these securities approach their maturity dates. The Credit Union has the ability and intent to hold these securities to recovery of fair value, which may be maturity.

<u>U.S. Central Bridge Federal Credit Union:</u>	As of December 31, 2010
Daily shares	\$2,483,500
High yield principal	681,641,760
Share certificates	174,302,141
	\$858,427,401

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

<u>Western Bridge Corporate Federal Credit Union:</u>	As of December 31, 2010
Daily shares	\$32,252,128
Money market account	100,000
Certificates of deposit	72,406,645
	\$104,758,773

<u>Western Corporate Federal Credit Union:</u>	As of December 31, 2009
Daily shares	\$58,628,615
Money market account	100,000
Certificates of deposit	126,504,000
	\$185,232,615

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 2: (continued)

A significant portion of the shares and certificate of deposit investments at USC Bridge and Western Bridge Corporate Federal Credit Union exceed the NCUSIF insurance limits of \$250,000. However, based on actions taken by the NCUA, the balances that are in excess of insurable limits maintained at USC Bridge and Western Bridge are guaranteed through December 31, 2012.

<u>CUSOs:</u>	As of December 31,	
	2010	2009
Primary Financial	\$1,665,135	\$1,229,544
Corporate Network Processing	1	48,700
	\$1,665,136	\$1,278,244

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31,	
	2010	2009
Loans outstanding:		
Term	\$1,000,000	\$37,600,000
Overnight, UCC1 secured	4,133,488	7,665,859
	\$5,133,488	\$45,265,859

NOTE 4: PROPERTY AND EQUIPMENT

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

	As of December 31,	
	2010	2009
Furniture and equipment	\$4,909,655	\$5,099,275
Vehicles	41,366	86,146
Leasehold improvements	678,142	678,142
Assets in process	217,504	494,584
	\$5,846,667	\$6,358,147
Less accumulated depreciation	(4,113,182)	(5,131,822)
	\$1,733,485	\$1,226,325

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

**NOTE 5: MEMBERS' SHARES AND
CERTIFICATES**

Members' share and savings accounts are summarized as follows:

	As of December 31,	
	2010	2009
Daily investment shares	\$1,578,500	\$1,333,500
Cash management shares	348,180,568	224,911,032
Money market shares	768,998,534	1,340,420,215
Certificates	959,371,316	880,905,269
	\$2,078,128,918	\$2,447,570,016

The aggregate amount of members' time deposits in denominations of \$100,000 or more was approximately \$928,166,000 and \$878,384,000 as of December 31, 2010 and 2009, respectively.

Scheduled maturities of certificates are as follows:

	As of December 31, 2010
Within 1 year	\$488,224,448
1 to 2 years	468,446,868
2 to 3 years	2,700,000
Thereafter	-
	\$959,371,316

SHARE INSURANCE

Members' shares are insured by the NCUSIF to a maximum of \$250,000 for each member. However, NCUA has provided a guarantee on all deposits over \$250,000 through December 31, 2012.

NOTE 6: BORROWED FUNDS

The Credit Union has available an advised line of credit with USC Bridge secured by certain assets of the Credit Union. Each line of credit advance is subject to approval by the lender. The terms of the agreement provide for aggregate borrowings up to \$500,000,000 with interest payable at a rate determined by the lender. USC Bridge is under no obligation to make advances under the advised line of credit and either party may cancel the agreement at any time. The balance outstanding under this agreement was \$42,500,000 as of December 31, 2009. There was no balance outstanding under this line of credit as of December 31, 2010.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: PAID-IN CAPITAL AND MEMBERSHIP CAPITAL SHARES

Under section 704.2 of the NCUA Rules and Regulations, paid-in capital and membership capital shares are available to cover losses that exceed retained earnings (corporate reserves and undivided earnings). In May 2009, the NCUA published Letter to Credit Unions 09-CU-10, reinforcing the regulatory requirement in section 704.2 of the NCUA Rules and Regulations, stating that paid-in capital and membership capital shares must be depleted to the extent necessary to eliminate any accumulated deficit in undivided earnings. NCUA's letter provided an exception which enabled corporate credit unions to maintain an accumulated deficit in undivided earnings as of December 31, 2008, for the non-credit portion of any impairment in investment securities due to the change in accounting rules which were effective as of January 1, 2009, which required the reversal of the loss related to the non-credit portion of any market devaluation of securities.

NOTE 8: EMPLOYEE BENEFITS

401(k)

The Credit Union maintains a safe harbor 401(k) for its employees. All employees of the Credit Union are eligible for a company match contribution upon the completion of 12 months of service. The Credit Union matches up to 6% each of the participants' contribution. Additionally, employees may contribute up to the Internal Revenue Service limitations. All matching employer contributions are fully vested at the time of contribution. The total 401(k) pension expense approximated \$150,000 and \$155,000 for the years ended December 31, 2010, and 2009, respectively.

457 Plans

The Credit Union has several deferred compensation plans for eligible employees. These plans have been developed to attract and retain key employees. During 2010 and 2009, the Credit Union has recorded expense of \$657,265 and \$818,413, respectively, related to the plans, which has been included as a component of salary and benefits expense in the accompanying consolidated statement of operations. Under the plans, the Credit Union has agreed to pay out various amounts at given dates to the covered employees over time if they remain in continuous employment through those dates. At December 31, 2010 and 2009, the balance of accrued compensation related to the plans was \$3,359,129 and \$2,701,864, respectively, which has been included as a component of the other liabilities on the accompanying consolidated statements of financial condition.

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

LINES OF CREDIT

As of December 31, 2010, the Credit Union maintained a \$500,000,000 line-of-credit agreement with USC Bridge. The terms of the agreement require the pledging of all share accounts, share certificate accounts, or other accounts maintained with USC Bridge as security for obligations under this line-of-credit agreement. The Credit Union also has the ability to pledge any securities held in safekeeping by USC Bridge as collateral for advances on the line of credit. As of December 31, 2010, the unused line of credit was \$500,000,000.

The Credit Union also has available an advised line of credit with Western Bridge Corporate Federal Credit Union secured by certain assets of the Credit Union. Each line of credit advance is subject to approval by the lender. The terms of the agreement provide for aggregate borrowings up to \$200,000,000 with interest payable at a rate determined by the lender. WesCorp is under no obligation to make advances under the advised line of credit and either party may cancel the agreement at any time. There was no balance outstanding as of December 31, 2010.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 9: (continued)

LEASE COMMITMENTS

The Credit Union leases the main office location. The minimum noncancellable lease obligation approximates the following as of December 31, 2010:

Year ending December 31,	Amount
2011	\$612,000
2012	665,000
2013	56,000
	\$1,333,000

Rental expense under operating leases was approximately \$488,000 and \$520,000 for the years ended December 31, 2010 and 2009, respectively.

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

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

Commitments to extend credit are agreements to lend to a member credit union as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2010, the members' total lines of credit approximated \$1,775,510,000, of which the Credit Union had unfunded commitments under such lines of credit of approximately \$1,770,377,000. The Credit Union evaluates each member credit union's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member. Additionally, the Credit Union committed approximately \$234,000 for standby letters of credit for its members.

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its funded and unfunded loans are made primarily to member credit unions in the states of Colorado, Utah, Wyoming and Nebraska. Additionally, a significant portion of the Credit Union's investment portfolio consists of privately issued securities that are subject to credit risk. These securities are evaluated for other-than-temporary impairment on a quarterly basis. The quarterly analysis is subject to numerous economic assumptions in addition to assumptions regarding the defaults and loss severity.

In addition, as a normal course of business operation, the Credit Union maintains a significant amount of its investments with USC Bridge. (See Note 13)

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Failure to meet minimum capital requirements would require the Credit Union to submit a plan of action to correct the shortfall. Additionally, NCUA could require an increase in capital to specific levels, reduction of dividends, and ceasing or limiting the Credit Union's ability to accept deposits.

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

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

	As of		As of	
	December 31, 2010		December 31, 2009	
	Amount	Ratio	Amount	Ratio
<u>Capital ratio:</u>				
Actual capital:				
Undivided earnings/(deficit)	\$3,680,335		(\$7,861,956)	
Membership capital shares	52,080,224		66,561,087	
Amortizing portion of capital under notification	(6,468,789)		(3,051,180)	
	<u>\$49,291,770</u>	1.97%	<u>\$55,647,951</u>	2.49%
Required capital ratio	<u>\$100,060,064</u>	4.00%	<u>\$89,283,414</u>	4.00%
<u>Required earnings ratio:</u>				
Undivided earnings/(deficit)	<u>\$3,680,335</u>	0.15%	<u>(\$7,861,956)</u>	-
Retained earnings target ratio	<u>\$50,030,032</u>	2.00%	<u>\$44,641,707</u>	2.00%

The Credit Union was not compliant with all capital requirements as of December 31, 2010 and 2009; however, the Credit Union was not subjected to supervisory action based on the April 21, 2009, NCUA Board order permitting corporate credit unions to use capital levels as reported on the November 30, 2008, Call Report for regulatory compliance. The Credit Union was in compliance with capital requirements as of November 30, 2008. The NCUA could retract this temporary approval at any time which could result in regulatory noncompliance. This exception is expected to remain in place until the requirements of the new corporate credit union regulation take effect in 2011.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Note 11: (continued)

During 2010, the NCUA issued new regulations for corporate credit unions. The new regulations pertaining to capital will be phased in beginning in October 2011. Corporate credit unions will be required to build retained earnings as well as obtain perpetual contributed capital either through the conversion of existing membership capital shares and/or through new capital contributions. Member credit unions must decide to purchase perpetual contributed capital and non-perpetual capital accounts to meet the future membership requirements at the Credit Union. By regulation, the Credit Union will place all remaining membership capital shares on three-year notice by October 20, 2011. The following is a chart showing the future capital requirements:

Ratio	Capital	Denominator	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage Ratio	RE + PCC	DANA	4.0%	5.0%
Tier-One Risk Based Capital Ratio	RE + PCC	DANRA	4.0%	6.0%
Total Risk Based Capital Ratio	RE + PCC + NCA	DANRA	8.0%	10.0%

RE = Retained earnings
PCC = Perpetual contributed capital
NCA = Non perpetual capital
DANA = Daily average net assets
DANRA = Daily average net risk assets

The Credit Union will be required to meet the interim Leverage, Tier-One Risk Based Capital, and Total Risk Based Capital Ratios by October 2011. As a result, it will be necessary for the Credit Union to solicit member credit unions to purchase additional membership capital to comply with the Leverage Ratio.

NOTE 12: RELATED PARTY TRANSACTIONS

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

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Level 1

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies.

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

The following tables set forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value:

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Note 13: (continued)

Assets at Fair Value as of December 31, 2010

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
Assets:				
Available for sale securities:				
Collateralized-mortgage obligations	\$0	\$554,108,450	\$0	\$554,108,450
Asset-backed	-	284,529,595	-	284,529,595
Government agency	-	25,020,500	-	25,020,500
Corporate note	-	19,863,000	-	19,863,000
	<u>\$0</u>	<u>\$883,521,545</u>	<u>\$0</u>	<u>\$883,521,545</u>

Assets at Fair Value as of December 31, 2009

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
Assets:				
Available for sale securities:				
Asset-backed	\$0	\$356,553,246	\$0	\$356,553,246
Collateralized-mortgage obligations	-	241,481,086	-	241,481,086
Corporate note	-	19,275,400	-	19,275,400
	<u>\$0</u>	<u>\$617,309,732</u>	<u>\$0</u>	<u>\$617,309,732</u>

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

CASH

The carrying amount is a reasonable estimation of fair value.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

Note 13: (continued)

INVESTMENTS

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

LOANS TO MEMBERS

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

ACCRUED INTEREST RECEIVABLE

The carrying amount is a reasonable estimation of fair value.

MEMBERS' SHARES AND CERTIFICATES

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

BORROWED FUNDS

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

ACCRUED INTEREST PAYABLE

The carrying amount is a reasonable estimation of fair value.

COMMITMENTS TO EXTEND CREDIT

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

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

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 13: (continued)

	As of December 31, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash and cash equivalents	\$221,791,610	\$221,792,000	\$114,568,229	\$114,568,000
Interest bearing deposits in financial institutions	\$963,186,174	\$954,625,000	\$1,673,012,695	\$1,672,835,220
AFS investment securities	\$883,521,545	\$883,522,000	\$617,309,732	\$617,310,000
Loans to members	\$5,133,488	\$5,167,000	\$45,265,859	\$45,554,000
Accrued interest and fee income receivable	\$2,163,578	\$2,164,000	\$3,385,572	\$3,386,000
<i>Financial liabilities:</i>				
Members' shares and certificates	\$2,078,128,918	\$2,081,000,751	\$2,447,570,016	\$2,451,723,099
Borrowed funds	\$0	\$0	\$42,500,000	\$43,048,000
Accrued interest payable	\$2,453,565	\$2,454,000	\$4,245,261	\$4,245,000
<i>Unrecognized financial instruments:</i>				
<i>Commitments:</i>				
Advised lines of credit	\$0	\$1,775,510,000	\$0	\$1,846,254,949
Standby letters of credit	\$0	\$234,000	\$0	\$2,208,809

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: INDUSTRY EVENTS

In January 2009, the NCUA informed federally-insured credit unions that it was taking actions to enhance and support the corporate credit union system as well as the NCUSIF. In addition to placing USC into conservatorship, the NCUA established the Temporary Corporate Credit Union Share Guarantee Program, whereby all deposits in excess of insurable limits maintained at corporate credit unions, other than membership capital shares and paid-in capital, will be guaranteed through December 31, 2012.

In connection with the conservatorship of USC, the NCUA depleted all of the paid-in capital and membership capital shares maintained by corporate credit unions in USC. The losses incurred by corporate credit unions on their at-risk investments with USC, along with other in-house investment securities showing other-than-temporary impairment, resulted in significant operating losses throughout the corporate credit union system. These operating losses resulted in a material negative impact on the level of retained earnings and regulatory capital ratios at most corporate credit unions. As a result, many corporate credit unions were forced to deplete some or all of their members' paid-in capital and membership capital shares. This action led to material reductions in the earnings and retained earnings of many natural person credit unions. In some cases, the losses recognized by natural person credit unions from their at-risk investments in corporate credit unions, coupled with high loan losses and other non-corporate investment losses, resulted in regulatory actions by the NCUA, including conservatorship, assisted mergers, and liquidations. All of these factors contributed to significant losses to the NCUSIF and resulted in the assessment of insurance premiums by the NCUA Board during 2009 and 2010 to increase the NCUSIF's equity ratio to above 1.20%.

During May 2009, legislation was created to establish a Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) to absorb the corporate stabilization costs by borrowing money from the U.S. Treasury. During September 2010, the NCUA received approval from the U.S. Treasury to extend the life of the Stabilization Fund to June 2021. The funds borrowed from the U.S. Treasury will be repaid from assessments authorized by the NCUA Board. The NCUA Board has levied assessments during 2009 and 2010 to repay borrowed funds to the U.S. Treasury. It is anticipated that the NCUA Board will be making annual assessments over at least the next five years to cover costs associated with the corporate credit union system.

NOTE 15: CAPITAL RESTORATION PLAN

On October 20, 2010, the NCUA issued new corporate credit union regulations that require the Credit Union to meet certain capital and operating profit requirements in various stages over the next ten years. In addition, the new corporate credit union regulations provide more stringent guidelines for management of the Credit Union's investment portfolio that aim to limit risk in the portfolio, which may also result in a reduction in investment revenue.

Management has analyzed the impact of the new corporate credit union regulation and developed a business model to manage the Credit Union's balance sheet within the constraints of the new regulations. Additionally, management has developed a plan to solicit capital contributions from member credit unions to recapitalize the Credit Union. Management submitted the Credit Union's revised capital restoration plan to the NCUA during 2011.

SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION NOTES TO THE FINANCIAL STATEMENTS

Note 15: (continued)

Management plans to begin the process of raising capital and adjusting the balance sheet to conform with the new corporate credit union regulations during 2011. However, there is uncertainty about management's ability to raise sufficient capital to conform with the new regulations in time for the initial deadline of October 20, 2011. Should the Credit Union be unable to raise sufficient capital to adequately capitalize the Credit Union by the required deadline, the Credit Union would either amend its business model to conform with the balance of capital raised, seek a merger partner with sufficient capital, or liquidate.

The new corporate credit union regulations will also require the Credit Union to produce an operating profit sufficient to build a retained earnings ratio (undivided earnings divided by the daily average net assets) of 45 basis points by October 20, 2013, 100 basis points by October 20, 2016, and 200 basis points by October 20, 2020. During 2010, the Credit Union produced an operating profit of 18 basis points which would be sufficient to build retained earnings to meet the objectives of the new regulations if accomplished over each of the next three years. However, impairment charges during 2010 reduced the Credit Union's profit to a net loss. The Credit Union's ability to meet the retained earnings requirements of the new regulations is largely contingent upon whether there are additional impairment charges due to further credit losses on investment securities over the next three to ten years.

Based on the support by the NCUA for the corporate credit union network, the Credit Union has continued to operate as a going concern and in accordance with its charter and bylaws.

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Volunteers & Senior Management

Volunteers	Credit Union and Position	State	Tenure
Mark Lau Chair, Board of Directors	Denver Fire Department FCU – President and Chief Executive Officer	CO	10 years
Kimberley (Kim) Withers Vice-Chair, Board of Directors Vice-Chair, ALCO	Meridian Trust FCU President and Chief Executive Officer	WY	13 Years
Steve Kelly Secretary/Treasurer, Board of Directors Chair, ALCO	Metrum Community CU President	CO	15 Years
Don Killeen Director	Peoples Choice CU Chair	NE	9 Years
Bradley (Brad) Harvey Director	Horizons North CU President and Chief Executive Officer	CO	10 Years
Greg Hill Director	Community Financial CU President and Chief Executive Officer	CO	2 Years
S. Todd Adamson Director	Cyprus FCU President and Chief Executive Officer	UT	1 year
Gail DeBoer Chair, Supervisory Committee	SAC FCU President and Chief Executive Officer	NE	10 Years
Rainy Thoen Supervisory Committee Member	Community Choice CU President and Chief Executive Officer	CO	2 Years
Mary Jane (MJ) Coon Supervisory Committee Member	Ent FCU Senior Vice President and Chief Financial Officer	CO	12 Years
James (Jim) Hofeling Supervisory Committee Member	Jordan FCU President and Chief Executive Officer	UT	1 Year
William (Bill) Willingham Supervisory Committee Member	WyHy FCU President and Chief Executive Officer	WY	1 Year
Senior Management			
Thomas R. Graham	President and Chief Executive Officer		
Brandt Peterson ALCO Member	Executive Vice President and Chief Financial Officer		
Mark Schieffer ALCO Member	Executive Vice President and Chief Investment Officer		
Ken Hide	Senior Vice President, Risk Management		
Lynn Baalman	Vice President, Human Resources		



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