



September 2006

# Credit Union Structure and Credit Analysis

## Credit Union Structure

The credit union structure in the United States is a three-tiered system. U.S. Central is the nation's only wholesale corporate credit union, and supports corporate credit unions in serving their members through innovative and premier financial services. Corporate credit unions occupy the middle tier and offer investments, loans and a range of correspondent products and services to approximately 8,800 natural-person credit unions. Corporates own U.S. Central and together, U.S. Central and the corporates comprise the Corporate Network.

All three tiers of the credit union system – natural-person credit unions, corporate credit unions and U.S. Central – are governed by boards of directors. Member accounts are insured up to \$100,000 by the National Credit Union Share Insurance Fund (NCUSIF) and up to \$250,000 for retirement accounts. NCUSIF is a unique protector in the financial services world. Credit unions participate by investing 1 percent of insured savings, then NCUSIF invests those funds and uses the earnings to pay operating expenses and, if necessary, absorb losses from failed credit unions.

Trade associations such as the Credit Union National Association (CUNA), Association of Corporate Credit Unions (ACCU), National Association of Federal Credit Unions (NAFCU), and the National Association of State Credit Union Supervisors (NASCUS) provide legislative and regulatory advocacy, as well as educational programs for credit unions.

**SunCorp** ([www.suncorp.coop](http://www.suncorp.coop))

Since 1978, SunCorp Corporate Credit Union (SunCorp) has strived to build a foundation of loyalty, dependability and trust for the credit union members that we serve. The interests of SunCorp lie in the financial well being of our

member/owners and in helping them to successfully and thoroughly serve their own members.

SunCorp initially began operations under the purpose of forming a liquidity house for the credit unions in Colorado and Wyoming. Because of demographic changes and the changing role of credit unions, SunCorp has evolved to become not only a provider of liquidity, but an investment vehicle for credit unions as well as a provider of correspondent and technological services. In 2001, SunCorp merged with Rocky Mountain Corporate Credit Union and now operates as a full-service organization serving credit unions nationwide. As it stands today, SunCorp's combined strength serves approximately 500 credit unions, primarily in the Great Plains and Rocky Mountain regions.

As a participant of the Corporate Credit Union Network, with U.S. Central Credit Union as the chief correspondent, SunCorp has access to many valuable financial services. An organization owned by member credit unions and governed by a volunteer Board of Directors, SunCorp is examined annually and regulated by both the state of Colorado and the National Credit Union Administration (NCUA).

It is the aim of SunCorp to provide our members with a full range of personalized, professional products and services at competitive prices while maintaining safety and soundness. Through the ideals of service, speed and success, we are proud to say that we are achieving this mission and are building strong, long-lasting relationships. As the business world and technology continue to evolve, so too does SunCorp. We aspire to exceed our members' needs and provide them with the high level of value-added service and products that they've come to expect. We continually look toward the future and support our members with superior products and service as we remember that our members' success is our success.

## **U.S. Central** ([www.uscentral.coop](http://www.uscentral.coop))

U.S. Central is the wholesale financial center for the nation's corporate credit unions. Founded in 1974, U.S. Central is owned and directed by its member corporate credit unions, in the tradition of the cooperative credit union spirit. As the "credit union for corporate credit unions," U.S. Central exists solely to assist them in serving 8,800 credit unions across the country. Currently, U.S. Central's assets total approximately \$45 billion.

### **Products and services**

U.S. Central provides members with extensive investment, liquidity, and cash-management products and services; risk-management and analytic capabilities; settlement, funds transfer and payment services; and safekeeping and custody services.

### **Subsidiaries**

U.S. Central has three wholly owned subsidiaries and one majority-owned subsidiary.

**Network Financial Services, LLC (NFS)**, a wholly owned subsidiary of U.S. Central, provides various types of electronic data transfer services, and access to electronic forms, operational reports and other information to and for credit unions. It also provides advice and assistance to the trustee of the Government Securities Program (a bank-operated common trust fund) concerning credit union participation, routine operations and regulations.

**Charlie Mac, LLC** provides credit unions increased secondary-market outlet options while helping them retain member relationships. Charlie Mac, which is derived from the acronym CLMC (Credit Union Lending Member Connection), is a corporate credit union service organization created by the Corporate Network in 1998. As a secondary market investor, Charlie Mac purchases jumbo mortgage loans and auto loans originated by credit unions. For more information on Charlie Mac, contact your corporate credit union, visit [www.charliemac.org](http://www.charliemac.org), or contact Brian Miller, managing director, at (888) 872-0440, ext. 6055.

**CU Investment Solutions, Inc. (ISI)**, a wholly owned subsidiary of U.S. Central, is a registered broker-dealer, that offers investment advisory services and customized investment products to corporate credit unions.

**Corporate Network eCom, LLC (eCom)™**, is a majority-owned subsidiary of U.S. Central. Working in partnership with corporate credit unions that are members of U.S. Central, eCom provides Internet-based electronic bill payment and other technology services to credit unions. To learn more about eCom's programs, visit the Web site at [www.memberstreet.com](http://www.memberstreet.com) or call Darren Christman, at (888) 656-4050, ext. 6141.

### **Ratings**

As testament to U.S. Central's credit quality, it holds long-term debt ratings from Fitch, Inc. ("AAA"), Moody's Investors Service ("Aa1"), and Standard & Poor's Ratings Services ("AAA"). Along with these ratings, U.S. Central holds short-term ratings from Fitch, Moody's, and Standard & Poor's of "F1+," "P1" and "A1+," respectively.

### **CU Investment Solutions, Inc. (ISI)** ([www.suncorp.coop](http://www.suncorp.coop))

CU Investment Solutions, Inc. (ISI)\* a wholly owned subsidiary of U.S. Central Credit Union is offering broker dealer services through a newly opened branch office at SunCorp.

The new brokerage services provided through the Corporate Agent Program of ISI will be able to offer permissible credit union investments including:

- New Issue Agencies
- Secondary Bullet & Callable Agencies
- Collateralized Mortgage Obligations
- Corporate Bonds

Through the Corporate Agent Program, SunCorp members will have the ability to purchase ISI's brokered marketable securities within the credit union system. This empowers credit unions by providing a one stop, competitive alternative to brokerage transactions outside the credit union system.

\*ISI is a member NASD and SIPC whose home office is located at 9701 Renner Blvd, Suite 350, Lenexa, KS 66219. ISI's brokered marketable securities are not insured by the NCUSIF, are not guaranteed by the corporate credit union; and are subject to market risk.

## **SimpliCD Program** ([www.suncorp.coop](http://www.suncorp.coop))

SunCorp's SimpliCD program, brought to you by our service partner, Primary Financial Co. LLC, provides members with a hassle-free and direct source for bank or credit union certificates of deposits. SimpliCD saves members the time of searching for the best rates by handling the rate search for you.

## **Primary Financial** ([www.epfc.com](http://www.epfc.com))

Primary Financial is a credit union service organization (CUSO) owned jointly by 27 corporate credit unions nationwide and U.S. Central Credit Union. Primary Financial manages SimpliCD (pronounced "simplicity"), a turnkey certificate of deposit program established in 1996. SimpliCD allows credit union investors to easily invest substantial funds in federally insured CDs without the hassle, time and expense of investigating potential issuers and purchasing the CDs themselves. SimpliCD also gives financial institutions a convenient and effective means of generating liquidity by issuing federally insured CDs without having to spend the time and money to market their deposits nationally, analyze the market, or manage multiple CDs and deposit relationships.

## **Credit Analysis**

### **Introduction**

SunCorp Corporate Credit Union headquartered in Denver, CO was organized in 1978 as a corporate credit union to provide lending, investments and payment system services to natural person credit unions in its field of membership. With \$2.7 billion in assets as of July 31, 2006, SunCorp is currently one of the top ten corporate credit unions in the nation. SunCorp has a national field of membership charter and currently serves the investment and correspondent financial services needs of approximately 500 members in 20 states with its primary region being the five states of Colorado, Wyoming, Utah, Nebraska and Idaho. SunCorp is a state-chartered, federally insured corporate credit union and as such is examined by both the National Credit Union Administration (NCUA) and Colorado's Division of Financial Services.

### **Capital**

SunCorp's capitalization policy aims to provide the corporate with the capital needed to fund operations and guard against unexpected losses. We recognize

that a strong capital position is required to maintain our creditworthiness and increase our business capacities. SunCorp's capital structure consists of Membership Capital Shares (MCS), Paid-in-Capital (PIC), and reserves and undivided earnings (RUDE). Total capital at July 31, 2006 was \$167.3 million and our capital ratio was 7.22%.

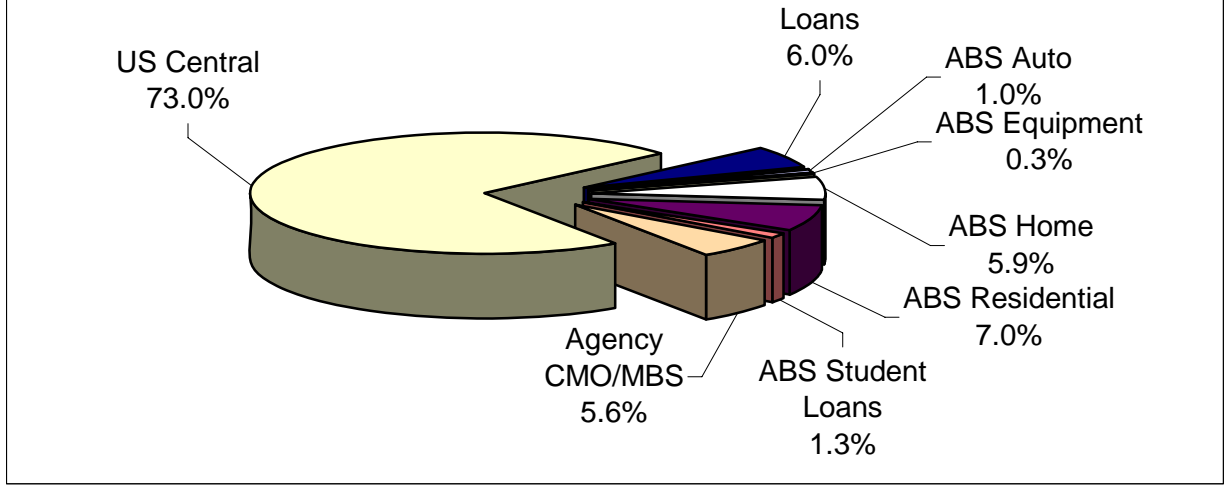
### **Investment and Asset-Liability Management (ALM)**

SunCorp's operating policies are approved by the ALCO and Board of Directors. These policies outline the overall strategies for the management of the credit union's investment portfolios ("books of business") along with the permissible investment types, limits, and concentrations for executing these strategies. All of SunCorp's policies are fully compliant with NCUA Reg. 704 which regulates the management of corporate credit union investment activities and ALM.

While adhering to the guiding principals of safety, liquidity and yield, SunCorp applies a highly methodical investment process that brings together the critical elements of market analysis, credit evaluation and asset selection in order to systematically execute our Investment and ALM strategies. The largest percentage of SunCorp's investments are with AAA-rated U.S. Central Credit Union but we have also diversified our portfolio holdings, primarily in AAA-rated asset-backed securities and mortgage backed securities, in order to provide competitive yields and increased liquidity to members. SunCorp's policies further limit our potential credit exposures by issuer/obligor, sector, maturity term, rate type (fixed versus floating) and other parameters depending on the specific investment portfolio. All investments are subject to approval by SunCorp's Risk Management Department prior to purchase.

Furthermore, portfolio investments are analyzed on an ongoing basis for changes in credit, interest rate, and liquidity risk. The separation between the Capital Markets Group and the Risk Management Department provides checks and balances to ensure that all investments continue to meet SunCorp's standards for safety and liquidity, as well as continued compliance with all investment procedures. All counterparties and broker/dealers that we transact business with are also subjected to initial and ongoing credit analysis to minimize any potential for losses.

**SunCorp Corporate Credit Union  
Investment Portfolio = \$2.41 Billion  
August 31, 2006**



SunCorp monitors the risks inherent in its asset-liability mix on a monthly basis utilizing sophisticated, state-of-the-art risk management modeling tools provided by ZM Financial Systems. This model allows us to perform numerous interest rate shock scenarios to measure the potential earnings volatility or capital impairment of SunCorp’s balance sheet due to our investment choices. In all rate shock scenarios, our board-approved policy limits the maximum decline in NEV (Net Economic Value) to 20% with a lower internal trigger level set at 15%. This is within the maximum decline of 20% set by NCUA Reg. 704 for a corporate credit union with Base-Plus authority such as SunCorp.

**Changes in Net Economic Value (NEV)  
July 31, 2006**

	<b>-100 bps</b>	<b>Base</b>	<b>+300 bps</b>
NEV (\$ in millions)	\$163.53	\$163.49	\$155.21
NEV (% of change)	+0.02%	0.00%	-5.06%

**Liquidity, Credit and Lending**

SunCorp’s large percentage of daily maturing investments provides the initial source of liquidity for members. Additionally the “laddering” investment portfolio strategies employed by SunCorp provide periodic maturities to support increased liquidity needs. SunCorp has in excess of \$500 million in lines of credit available at U.S. Central Credit Union if needed and has in place a \$150 million Commercial Paper Program that is rated A-1+/P-1 by Standard & Poor’s and Moody’s respectively allowing it to attract low cost funds in the capital markets. SunCorp

has the option of selling instruments from its portfolio that are “Available for Sale” securities or borrow against those securities holdings in order to raise additional funds. SunCorp manages its cash position on a daily basis with a cash forecast model that projects cash needs in the future. This model is based on historical cash flow experience at SunCorp which helps maximize SunCorp’s returns by remaining fully invested.

### Financial Statement and Ratio Trends

<b>(\$000s)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>YTD 2006*</b>
Assets	1,954,306	2,523,314	2,631,822	2,694,303	2,491,211	2,698,826
Core Capital	57,287	75,524	86,306	88,961	91,150	91,949
Total Capital	105,880	139,266	153,310	162,567	167,054	167,333
Net Income	2,199	4,820	12	2,655	2,189	800
ROA (%)	0.11	0.19	0	.10	.09	.06
Total Capital /Assets (%)	5.42	5.52	5.83	6.03	6.71	7.22

*NOTE: 2001 figures reflect merger with Rocky Mountain Corporate Credit Union; 2002 figures reflect merger with Nebraska Corporate Central Credit Union.*

*\*Figures are unaudited and as of July 2006.*