



CREDIT WORTHINESS REPORT



SOUTHEAST CORPORATE FCU



SECOND QUARTER 2010

EXECUTIVE SUMMARY

After two years during which Southeast Corporate was significantly impacted by the continuing recession and dislocation in the credit markets and suffered losses that severely depleted its capital position, 2010 performance reflects a marked improvement in credit losses and management believes the worst of this economic storm is behind us. Although Southeast incurred net investment losses of \$318 thousand year-to-date, this compares to net investment losses of \$124.8 million in 2008 and \$46.2 million during 2009. Importantly, despite the impairment taken in 2010, Southeast has built \$767 thousand in retained earnings during the first six months of the year. As detailed further in the narrative, the performance of some of Southeast's private mortgage backed securities, while improving, remains weak by historic standards and further charges, while manageable, will likely occur.

During the second quarter of 2010, Southeast's total assets averaged \$3.13 billion compared with \$3.46 billion during the same period in 2009. Net

income during the second quarter of 2010 was \$370 thousand, resulting in a return on average assets (ROAA) of 4.7 basis points. This compares with a loss of \$331 thousand and a ROAA of -3.8 basis points during the second quarter of 2009. Year-to-date net income was \$767 thousand with a ROAA of 4.8 basis points compared with a loss of \$6.87 million and ROAA of -41.8 basis points in the comparable period in 2009.

As the primary liquidity provider to our member credit unions, Southeast Corporate continues to maintain a liquid balance sheet and, if needed, has the ability to borrow from other sources to meet liquidity needs.

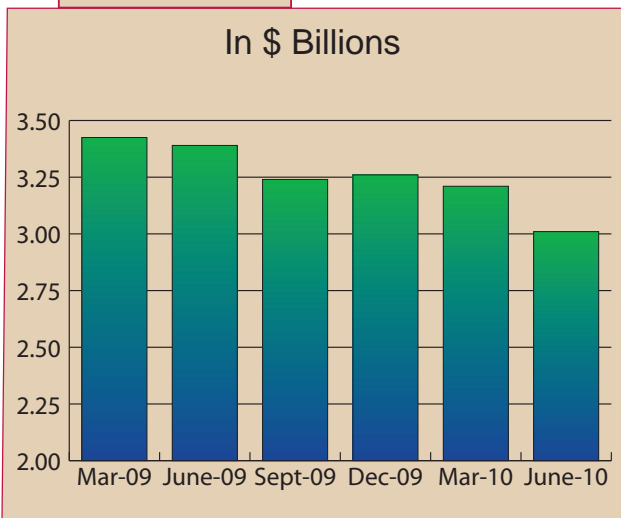
DEPOSIT GUARANTEE PROGRAM

Through the Corporate Stabilization Program instituted by the National Credit Union Administration (NCUA), all deposits (with the exception of membership capital and those with original maturities greater than two years purchased after May 31, 2009) at Southeast Corporate are fully guaranteed by the National Credit Union Share Insurance Fund.

Year over year Southeast's total capital ratio decreased to 1.87% as of June 30, 2010 from 3.16% at the end of the second quarter of 2009. The ratios use a rolling daily net average asset figure as mandated by the NCUA and result in the Corporate having a capital ratio below the minimum 5.00% amount required by regulation for corporates approved for Part I expanded investment authorities. Southeast has submitted a plan, to build capital and improve NEV, to the NCUA for approval.

As indicated above, Southeast's balance sheet decreased in size during the second quarter as average total assets fell from \$3.29 billion in the first quarter of 2010 to \$3.13 billion in the second quarter, a 5.1% decrease. The size of Southeast's balance sheet is generally contingent upon the excess liquidity of its member credit unions. In addition to seasonal factors, the decrease in deposits during the second quarter can be attributed to a decrease in demand for term certificates as interest rates have declined to historically low levels over the past several quarters.

ASSETS



CAPITAL

At the end of the second quarter of 2010 retained earnings stood at \$767 thousand. Combined with \$59.9 million in qualifying membership capital shares (MCS) Southeast's total regulatory capital stood at \$60.67 million. Total regulatory capital is defined as reserves and undivided earnings (RUDE), paid in capital (PIC) and MCS.

CREDIT QUALITY

Since recording an initial impairment in mid-2008, Southeast has recorded \$41.9 million of OTTI on twenty-one mortgage related securities and 100% depletion (\$130.2 million) of its capital shares held at U.S. Central Federal Credit Union (U.S. Central), a wholesale depository institution.

As of June 30, 2010, 98.5% of Southeast Corporate's assets were comprised of investments. As shown in the chart, 67.2% of total investments were invested at U.S. Central. The share guarantee program through

the NCUSIF provides a high level of safety to Southeast Corporate on deposits it holds at U.S. Central.

The remaining 32.8% of the investment portfolio is held in U.S. Government agency debt issues, asset-backed securities, collateralized mortgage obligations, residential mortgage backed securities, and corporate bonds. Only 2.7% of the Corporate's investment portfolio was comprised of subprime mortgage related securities. Southeast has no exposure to collateralized debt obligations (CDOs), commercial mortgage backed securities (CMBS) extendable commercial paper or structured investment vehicles (SIVs)

Southeast Corporate OTTI Process and Results

Southeast uses a series of investment watch lists in order to report potential credit issues to the Credit Risk Committee and Asset Liability Committee (ALCO). Investments reported on the ALCO watch list present an increased probability of loss. Investments included on the ALCO watch list, (and other investments selected at the discretion of the credit risk department) are periodically analyzed by two third party bond analytics firms. Using macro economic assumptions as well as the performance trends and characteristics of the underlying assets, the firms provide projected cash flows and losses, if applicable, for the remaining life of those investments.

The most recent analysis performed as of May 31, 2010 was the tenth analysis obtained by Southeast from third party analytics firms since 2007. Over this time Southeast has learned that future loss projections are heavily influenced by the level of current delinquencies at the time the analysis is performed. As delinquency rates escalated from 2006 until late 2009, projected losses continued to increase. As delinquencies generally improved this year some investments have shown a marked improvement in projected losses. During the most recent third-party analysis, the combined results show an over-impairment of \$186 thousand for the entire portfolio. (GAAP requires that OTTI be assessed on a bond-by-bond basis rather than a portfolio basis and does not provide for the immediate recapture of over-impairments.)

Ambac Securities

Southeast holds three investments that are insured by Ambac Assurance that project \$2.5 million in losses. The \$2.5 million in projected losses assumes investors receive no further claims payments from the insurer. Management does not deem that scenario probable at this time. Southeast continues to receive principal and interest on the Ambac insured investments and no investment impairments have been recorded on the Ambac insured investments.

EARNINGS

For the first half of 2010, Southeast Corporate's net income was \$767 thousand, compared with a loss of \$6.87 million sustained during the same period in 2009 due to a loss within its securities portfolio. The average net interest margin (net interest income divided by average earning assets) for the first six months of 2010 was 25 basis points, compared to 30 basis points during the first half of 2009. The net interest margin has

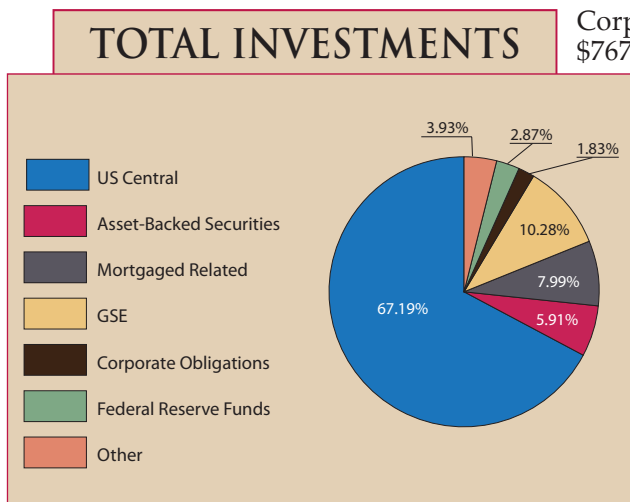
been negatively impacted by the continued narrow differential between one-month LIBOR and the Fed funds rate as well as management's strategy to retain liquidity at a higher level than normal due, in part, to the uncertain economic environment.

Management has responded to the challenges of the current economic environment by engaging in substantial cost cutting efforts. Through June 2010, the Corporate's non-interest expense fell by \$2.82 million, or 27%, compared to the same period of 2009.

During the past several years, Southeast Corporate has added new products and services to diversify its sources of revenue and become less reliant on spread income. Much of the investment in these projects is now adding either directly or indirectly to increase revenues or lower costs. Three of the major projects Southeast Corporate has been involved in are Member Business Solutions LLC, Corporate Synergies LLC and Accolade Investment Advisory LLC, all CUSO's of the Corporate. Further expense reductions will continue to be made as appropriate and with a commitment to maintain both a high level of member service and effective risk management.

LIQUIDITY

One of the missions of Southeast Corporate is to provide liquidity to its members if and when the need arises. To this end management actively monitors members' needs and develops strategies to act, if necessary. These strategies place a high degree of importance on having sufficient balances in readily available overnight deposits. Southeast also places much of its assets in investments that will mature in a short time period as the nature of members' deposits at Southeast Corporate is more seasonal than those of most retail financial institutions. As of June 30, 2010, 34.4% of Southeast's investments matured overnight, and overall, 78.1% were expected to mature in one year or less. As a contingency, Southeast has



access to a total of \$2.08 billion in external credit facilities. Included in this amount is an \$80 million line of credit with the Federal Home Loan Bank of Atlanta. In addition, the investments that Southeast purchases can be used as collateral for short-term borrowing purposes. Management regularly models liquidity adequacy under stressed scenarios to ensure existing lines and availability are more than adequate.

RISK MANAGEMENT

Southeast Corporate is governed by the NCUA Rules and Regulations Part 704. Part of that regulation requires Southeast to calculate a fair market value of capital defined as Net Economic Value (NEV). NEV is calculated on an absolute dollar basis and then divided by the fair market value of its assets to derive an NEV ratio. Southeast has been granted Part 1 investment authority by the NCUA and is required to calculate its NEV and NEV ratio monthly.

As of June 30, 2010, Southeast's NEV was negative \$11.33 million, and its NEV ratio was negative 0.37%, below the regulatory minimum of two percent. This compares to an NEV of negative \$33.34 million and an NEV ratio of negative 0.98% as of June 30, 2009.

Part 704 also requires corporates to measure interest rate risk by measuring the NEV volatility, measured as dollar decline of NEV as a percent of base NEV in an up 300 basis point rate shock scenario. While the measure has been effective historically, management believes the stressed capital positions present throughout the

corporate network have made the measurement ineffective and potentially misleading. The measurement is reliable only when the base NEV is positive and substantial. As the base dollar NEV approaches zero or goes negative the interest rate shock calculation no longer is meaningful.

The chart below illustrates the above concept. As the corporate's base NEV declined, the NEV volatility (the regulatory measure) rose accordingly. At the same time, the chart shows that NEV dollars at risk were also declining, meaning less capital was being placed at risk if interest rates were to rise suddenly. Through the first half of the year Southeast's NEV

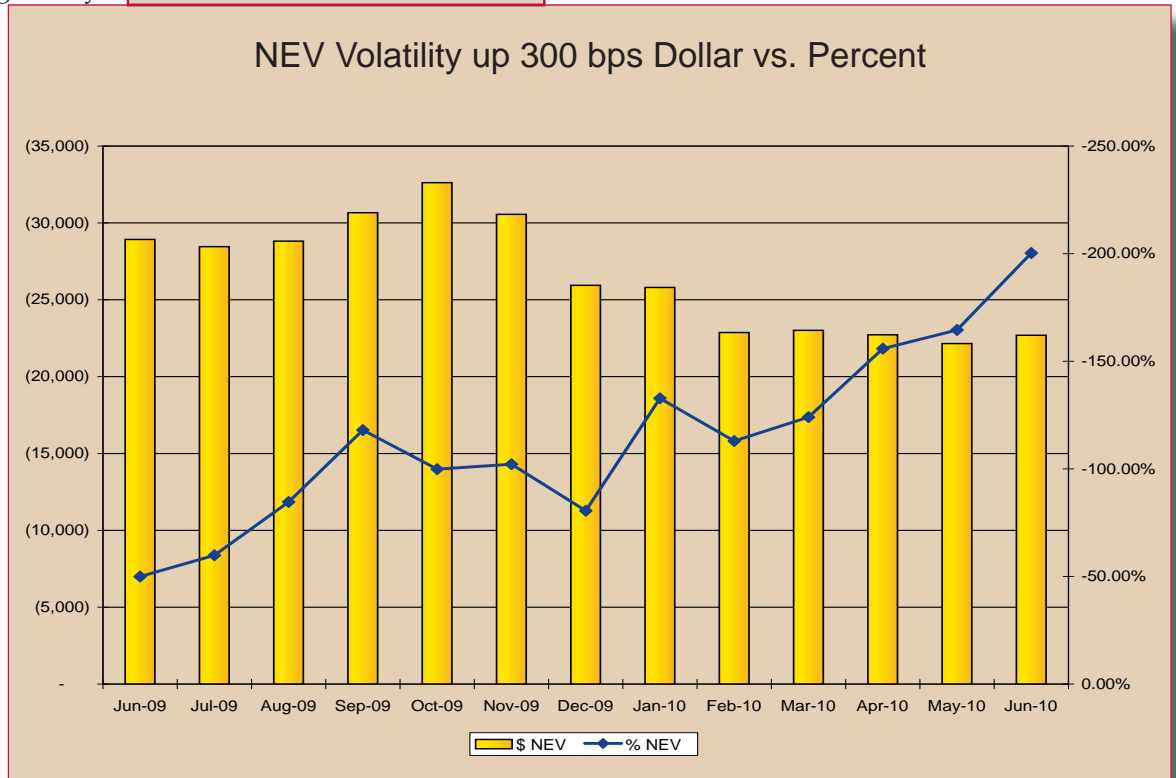
volatility (i.e. interest rate risk) has declined \$3.25 million. At the same time, the base case dollar NEV has also become less negative, also a positive factor. Although the traditional measure, NEV volatility ratio, suggests Southeast has increased its risk profile, performance through the first half of the year has been positive as base NEV has improved and as the chart shows, dollars at risk have declined.

A Consolidated Statement of Financial condition follows on the next page.

NET ECONOMIC VALUE

	June 30, 2010						
	-300bp	-200bp	-100bp	Base	+100bp	+200bp	+300bp
NEV (\$) Millions	N/A	N/A	-\$3.8	-\$11.3	-\$19.4	-\$27.4	-\$34.0
% Change	N/A	N/A	66.79%	0.00%	-71.25%	-141.67%	-200.29%
NEV Ratio	N/A	N/A	-0.12%	-0.37%	-0.65%	-0.92%	-1.14%

NEV VOLATILITY





Brad L. Miller
President/CEO

Rob Schleiter
Executive Vice President

Doug Sexton
Chief Investment Officer

Michael Alexandre
Financial Strategist

Tanya DeVliieger
Financial Strategist

William (Bill) McCoy
Portfolio Manager

For information call the Investment
Department at 800-342-0203, Option 2

Regulation 703.6 Requirements:

Required Credit Analysis Under Regulation 703.6

"A Federal credit union must conduct and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation. A Federal credit union must update this analysis at least annually for as long as it holds the investment."



S O U T H E A S T
C O R P O R A T E

3692 COOLIDGE COURT
TALLAHASSEE, FL 32311
800-342-0203

STATEMENT OF FINANCIAL CONDITION

(unaudited, \$ in 000's)

	<u>June 30 2010</u>	<u>June 30, 2009</u>
ASSETS		
Total Cash	\$ 5,657	\$ 7,483
Loans to Members	25,271	29,489
Investments:		
Securities & Repos	771,996	855,191
Shares in US Central FCU	830,532	452,866
Certificates	1,169,741	1,846,919
FHLB Member Stock	10,227	5,123
Federal Reserve Bank Funds	85,108	147,190
Other Financial Institution Deposits	100,107	-
Investment in CUSOs	1,425	861
EARNINGS ASSETS	<u>2,994,407</u>	<u>3,337,640</u>
Accrued Income	3,763	8,453
Prepaid Expenses & Other Assets	1,877	7,285
Fixed Assets	7,734	8,729
NCUSIF Investment	846	409
TOTAL ASSETS	<u>\$ 3,014,284</u>	<u>\$ 3,369,999</u>
LIABILITIES & MEMBER'S EQUITY LIABILITIES		
Notes & Commercial Paper	\$ -	\$ 25,000
Interest & Dividends Payable	3,412	10,180
Other Liabilities	6,983	6,230
TOTAL LIABILITIES	<u>\$ 10,395</u>	<u>\$ 41,411</u>
MEMBER'S EQUITY		
Shares and Certificates	3,018,034	3,386,126
Member Capital Shares	59,905	91,026
Member Paid in Capital	-	13,839
Statutory Reserves & Undivided Earnings	767	96
TOTAL REGULATORY CAPITAL	<u>60,672</u>	<u>104,961</u>
Accumulated Other Comprehensive Loss	(77,752)	(164,263)
Amortized Member Capital on Notice	2,935	1,763
TOTAL LIABILITIES & MEMBER'S EQUITY	<u>\$ 3,014,284</u>	<u>\$ 3,369,999</u>

STATEMENT OF INCOME

(unaudited, \$ in 000's)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Interest on Loans	\$ 487	\$ 758
Investment Income	14,526	27,240
Total Interest Income	<u>15,013</u>	<u>27,998</u>
Interest Expense	37	816
Dividends Expense	11,066	22,355
Total Interest Expense	<u>11,103</u>	<u>23,171</u>
Net Interest Income	3,910	4,827
Non-Interest Income	4,852	4,860
Total Income	<u>8,762</u>	<u>9,687</u>
Non-Interest Expense	7,694	10,556
Gains & (Losses)	(301)	(6,000)
Net Income	<u>\$ 767</u>	<u>\$ (6,870)</u>

Note: Totals may not add exactly due to rounding.