

U.S. CENTRAL FEDERAL CREDIT UNION

QUARTERLY FINANCIAL REPORT

THIRD QUARTER ENDED SEPTEMBER 30, 2009

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QUARTERLY FINANCIAL REPORT  
INDEX

	<b>PAGE</b>
<b>Management's Discussion and Analysis</b>	2-6
<b>Financial Statements</b>	
Consolidated Balance Sheets as of Sept. 30, 2009, Sept. 30, 2008, and Dec. 31, 2008	7
Consolidated Statements of Income for the Three and Nine Months Ended Sept. 30, 2009, and Sept. 30, 2008	8
Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended Sept. 30, 2009, and Sept., 30, 2008	9
Consolidated Statements of Members' Equity for the Nine Months Ended Sept. 30, 2009, and Sept. 30, 2008	9
Notes to the Consolidated Financial Statements	10-11
<b>Supplemental Information</b>	
Quarterly Spread Analysis for the Four Quarters Ended Sept. 30, 2009	12
Cash Flow Gap Analysis	13
Analysis of Net Interest Income for the Three Months Ended Sept. 30, 2009, and Sept. 30, 2008	14
Consolidated Fair Value Balance Sheet as of Sept. 30, 2009	15

## Management's Discussion and Analysis

As the U.S. unemployment picture continued to worsen during the third quarter of 2009, delinquencies for consumer loans, especially mortgages, continued to mount. The market for non-agency residential mortgage-backed securities remained illiquid, although the prospect of the Public-Private Investment Program brought some renewed interest to this sector. This further deterioration caused loss projections for some of U.S. Central's non-agency residential mortgage-backed securities (RMBS) to increase, resulting in additional other-than-temporary impairment (OTTI) charges for the quarter.

Although consumer loan loss projections continued to rise, there were some signs of stabilization in the third quarter. Consumers continued to de-lever, and personal savings rates increased. Asset-backed securities markets functioned fairly well, and government-provided financing became less important to overall market viability. In general, market prices for both asset-backed and mortgage-backed securities stabilized and increased somewhat. The possibility of economic recovery caused some market participants to anticipate higher short-term rates in 2010. The gap between LIBOR and fed funds narrowed to pre-crisis levels during the quarter – an indication of a healthier inter-bank lending market.

A discussion of U.S. Central's third quarter results is provided below.

### ***Results of Operations***

U.S. Central recorded a \$308.5 million net loss for the third quarter of 2009, compared with net income of \$16.3 million for the same period in 2008. Year-to-date through September, net losses totaled \$1.3 billion in 2009, compared with net income of \$45.9 million during the same period in 2008. The losses in 2009 are the result of OTTI charges, which totaled \$1.3 billion through the first nine months.

Net interest income totaled \$17.1 million in the third quarter of 2009, compared with \$42.5 million during the same period in 2008, a decrease of \$25.4 million (59.7 percent). U.S. Central maintains an asset-sensitive interest rate risk exposure. As a result, when the average 1-month LIBOR rate decreased from 2.62 percent in the third quarter of 2008 to 0.27 percent in third quarter of 2009, net interest income also decreased significantly. In addition, U.S. Central paid fees on borrowings guaranteed by the National Credit Union Share Insurance Fund (NCUSIF) totaling \$1.5 million in the third quarter of 2009. U.S. Central had no such borrowings during the same period of 2008 and consequently paid no such fees, a component of interest expense, in 2008. Finally, because interest income on impaired (OTTI) securities is recorded based on the reduced cost basis of the assets (see Note B to the consolidated financial statements), interest income was reduced by \$7.2 million in the third quarter of 2009.

In its Quarterly Financial Report for the second quarter of 2009, U.S. Central's net interest income reflected a positive adjustment of \$46.8 million related to impaired securities upon adoption of FASB

Staff Position 115-2/124-2 (FSP 115-2). This adjustment represented the first and second quarter effects of applying a “static yield” method of income recognition for impaired, floating-rate securities. Upon further evaluation, U.S. Central has changed the method it uses to record interest on these assets. Yields are instead determined each period based on the actual current factors (index spot rates), and change over time as the factors change. As a result, the \$46.8 million adjustment referenced above has been reversed, and first and second quarter results have been restated. The revised income recognition method has been applied to third quarter results.

OTTI charges for the third quarter of 2009 totaled \$320.1 million, and were caused by further deterioration in many of U.S. Central’s consumer-based investment securities, particularly non-agency residential mortgage-backed securities (RMBS). U.S. Central did not record any OTTI charges during the same period of 2008. Excluding OTTI charges, U.S. Central recorded net gains on financial instruments of \$0.5 million in the third quarter of 2009, compared with losses of \$3.9 million for the same period in 2008. U.S. Central uses derivatives, primarily interest rate swaps, to hedge interest rate risk associated with fixed rate assets and liabilities. In some instances, the derivatives are not completely effective in hedging the changes in fair value of the matched asset or liability. This mismatch (or hedge “ineffectiveness”) resulted in a net unrealized gain of \$0.6 million for the third quarter of 2009. U.S. Central also holds a portfolio of jumbo mortgage loans (total book value of \$103 million at quarter end) purchased from the originating credit unions through U.S. Central’s wholly-owned subsidiary, Charlie Mac, L.L.C. (Charlie Mac). The portion of these loans classified as held-for-sale is carried at fair value on the balance sheet with changes in fair value recorded in earnings. Net of related hedging activities, unrealized gains of \$0.3 million were recorded in the third quarter of 2009 related to these loans. Finally, \$0.4 million was added to the jumbo mortgage loan loss reserve during the third quarter 2009, with total reserves reaching \$1.4 million as of Sept. 30, 2009.

Fee income totaled \$5.2 million in the third quarter of 2009, compared with \$4.6 million for the same period in 2008, an increase of \$0.6 million (13.0 percent). U.S. Central earns fee income from payment products, such as Automated Settlement and APEX-ACH. Fee income also includes income from services provided by wholly- or partially-owned subsidiaries, such as electronic bill payment services offered by Corporate Network eCom, L.L.C., and broker-dealer services offered by CU Investment Solutions, Inc. (ISI). Increased trade activity related to ISI’s Corporate Agent program was the primary reason for the increase.

Operating expenses were \$11.3 million for the third quarter of 2009, a decrease of \$4.4 million (27.9 percent) as compared with the same period in 2008. Expenses for salaries and benefits decreased from \$7.3 million to \$5.4 million (or, \$1.9 million), primarily as a result of fewer staff, the elimination of incentive compensation and reductions in other employee benefits. U.S. Central placed restrictions on marketing, public relations, travel and incidental spending, which resulted in a reduction of operating expenses of nearly \$0.7 million. Finally, decreases in data processing (\$0.7 million), professional and outside services (\$1.0 million), and other miscellaneous reductions (\$0.1 million) comprised the remainder of the change.

## Balance Sheet

U.S. Central's assets as of Sept. 30, 2009 totaled \$28.0 billion, an increase of \$0.9 billion, or 3.2 percent, from \$27.1 billion as of Dec. 31, 2008. The increase in total assets primarily reflects an increase of \$5.9 billion in cash, offset by a \$2.3 billion decline in the fair value of U.S. Central's investment securities and a \$2.5 billion decrease in loans.

Total funding, excluding capital accounts, was \$36.2 billion as of Sept. 30, 2009, compared with \$36.9 billion as of Dec. 31, 2008, a decrease of \$0.7 billion (1.8 percent). Within this category, borrowed funds decreased by \$6.2 billion and members' share and certificate accounts increased by \$5.5 billion. Member accounts remain U.S. Central's primary source of funding, averaging \$28.9 billion for the third quarter of 2009, and equaling \$25.2 billion at Sept. 30, 2009.

## Portfolio Overview

A table presenting U.S. Central's portfolio of investment securities by category is provided below. The amortized cost (book value) amounts presented in this table, and the tables that follow, have been adjusted to reflect cumulative OTTI charges recorded in earnings as of the date presented. Accounting rules in effect as of Dec. 31, 2008, required that OTTI charges reflect a full mark-to-market charge through earnings. As such, Dec. 31, 2008, amortized cost amounts reflect a reduction for the full \$4.9 billion of 2008 OTTI charges. Based on changes in accounting rules effective after Dec. 31, 2008, the Sept. 30, 2009, amortized cost amounts have been a) increased for the reversal of non-credit OTTI charges of \$3.7 billion on Jan. 1, 2009; and b) decreased for the effects of OTTI charges recorded in the first nine months of 2009, consistent with subsequent accounting guidance. The combination of these two changes resulted in a net increase in amortized cost from Dec. 31, 2008, to Sept. 30, 2009, for the non-agency RMBS category.

Category	September 30, 2009			December 31, 2008		
	Fair Value	Amortized Cost	% of Amortized Cost	Fair Value	Amortized Cost	% of Amortized Cost
Gov't Securities	\$ 104,999	\$ 104,998	0.4%	\$ -	\$ -	0.0%
Agency Debt	56,060	55,869	0.2%	72,727	72,083	0.2%
Govt & Agency RMBS	1,310,572	1,349,043	4.7%	1,528,495	1,600,826	5.4%
Non-Agency RMBS	6,288,574	15,259,050	52.7%	8,721,634	14,444,022	49.1%
ABS						
Credit Cards	5,531,749	5,684,627	19.7%	5,190,458	6,147,613	20.9%
Student Loans	2,390,395	2,621,923	9.1%	2,252,810	2,678,525	9.1%
Autos	1,597,042	1,647,998	5.7%	1,862,777	2,173,499	7.4%
CMBS	368,093	372,087	1.3%	315,007	391,399	1.3%
Other	437,774	464,734	1.5%	409,358	484,112	1.6%
Subtotal	10,325,053	10,791,369	37.3%	10,030,410	11,875,148	40.3%
Corporate Bonds & Notes	1,251,868	1,364,192	4.7%	1,302,541	1,461,298	5.0%
Total Investment Securities	\$ 19,337,126	\$ 28,924,521	100.0%	\$ 21,655,807	\$ 29,453,377	100.0%

The primary risk currently facing U.S. Central's investment portfolio is credit risk, which is the risk that assets owned by U.S. Central, including investment securities, loans and short-term investments, may not pay all principal and interest according to their contractual terms. Credit ratings assigned by the national rating agencies represent an independent view of credit risk in a securities portfolio. As conditions in the credit markets deteriorated further in the first nine months of 2009, particularly in the RMBS market, the rating agencies responded with additional downgrades of previously assigned credit ratings.

The following table presents an overview of U.S. Central's investment securities based on lowest rating by Standard & Poor's (S&P) or Moody's Investor Service (Moody's). (If specific securities are not rated by S&P or Moody's, U.S. Central uses ratings of Fitch Ratings.)

Lowest Rating	September 30, 2009		December 31, 2008	
	Amortized Cost	% of Amortized Cost	Amortized Cost	% of Amortized Cost
AAA	\$ 11,643,551	40.3%	\$ 19,691,729	66.9%
AA	2,849,410	9.9%	2,853,754	9.7%
A	1,607,563	5.6%	1,810,139	6.1%
BBB	2,000,218	6.9%	2,908,456	9.9%
< BBB	10,823,779	37.3%	2,189,299	7.4%
	<u>\$ 28,924,521</u>	<u>100.0%</u>	<u>\$ 29,453,377</u>	<u>100.0%</u>

U.S. Central owns certain investment securities guaranteed by monoline insurers. In these cases, the insurance is a secondary form of protection, in addition to normal credit enhancements embedded in the security. Financial Guaranty Insurance Company (FGIC), a monoline insurer that has experienced severe declines in its credit ratings, has insured several of the investment securities in U.S. Central's investment portfolio. Because management does not believe that FGIC has the ability to pay all projected claims, management believes it is probable that U.S. Central will incur losses on FGIC-insured securities. Therefore, OTTI charges have been recorded on securities insured by FGIC if, without the support of insurance, those securities were projected to experience a loss of principal or interest. No OTTI charges have been recorded on any other insured securities as of Sept. 30, 2009.

### **Capital**

U.S. Central's regulatory capital consists of retained earnings, Membership Capital Shares (MCS), Paid-in Capital (PIC I), and Paid-in Capital II (PIC II). Under the definitions of membership capital and paid-in capital in Part 704.2 of Rules and Regulations of the NCUA (Part 704.2), capital is available to cover losses that exceed retained earnings. In May 2009, the NCUA published Letter to Credit Unions 09-CU-10, reinforcing the regulatory requirement in Part 704.2 that PIC and MCS are available to cover losses that exceed retained earnings and stating that when there is an accumulated deficit

(retained earnings deficit) at a corporate credit union, PIC and MCS must be depleted to the extent necessary to eliminate the accumulated deficit. As a result of OTTI charges recorded in 2008 and the first nine months of 2009, U.S. Central's retained earnings were fully exhausted, PIC I and PIC II were fully depleted, and MCS was depleted by \$1.1 billion (88.7 percent) as of Sept. 30, 2009.

In April 2009, the NCUA issued an order authorizing corporate credit unions, including U.S. Central, to use capital levels as reported in their 5310 regulatory call reports from November 2008 for determining compliance with regulatory capital ratio and retained earnings ratio requirements. Under NCUA regulations, U.S. Central's minimum required capital ratio is 5.0 percent, while its minimum required retained earnings ratio is 1.0 percent. In accordance with this order, U.S. Central's regulatory capital ratio and retained earnings ratio as of Sept. 30, 2009, equaled 7.0 percent and 1.8 percent, respectively. Using actual capital balances as of Sept. 30, 2009, U.S. Central's capital ratio and retained earnings ratio were 3.0 percent and 0.0 percent, respectively. As of Sept. 30, 2008, U.S. Central's regulatory capital ratio and regulatory retained earnings ratio were 6.1 percent and 1.5 percent, respectively.

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

	September 30,		December 31,
	2009 (Unaudited)	2008 (Unaudited)	2008 (Audited)
<b>Assets</b>			
Cash	\$ 5,980,975	\$ 200,539	\$ 74,965
Time deposits	-	1,904	-
Federal funds sold	101,312	60,870	134,470
Securities purchased under agreements to resell	-	-	-
Investment securities	19,337,126	31,558,744	21,655,807
Loans	667,368	3,960,247	3,171,310
Stock of the Central Liquidity Facility	1,750,551	1,642,301	1,643,347
Other assets	137,615	534,148	437,031
<b>Total assets</b>	<b>\$ 27,974,947</b>	<b>\$ 37,958,753</b>	<b>\$ 27,116,930</b>
<b>Liabilities and Members' Equity</b>			
Liabilities:			
Member federal funds purchased	\$ -	\$ 3,753,985	\$ 3,313,820
SIP/HARP borrowings	5,941,889	-	-
NCUSIF borrowings	5,000,000	-	-
Short-term borrowings	39,910	14,359,650	13,864,817
Notes payable	-	34,962	-
Other liabilities	242,275	359,584	363,643
<b>Total liabilities</b>	<b>11,224,074</b>	<b>18,508,181</b>	<b>17,542,280</b>
Members' Equity:			
Members' share and certificate accounts	25,241,711	20,620,710	19,721,998
NCUSIF capital	1,000,000	-	-
Membership capital shares	139,960	1,684,155	1,243,092
Paid-in capital	-	300,000	195,638
Retained earnings	-	635,740	(3,688,865)
<b>Total capital</b>	<b>1,139,960</b>	<b>2,619,895</b>	<b>(2,250,135)</b>
Accumulated other comprehensive income (loss)	(9,630,798)	(3,790,033)	(7,897,213)
<b>Total members' equity</b>	<b>16,750,873</b>	<b>19,450,572</b>	<b>9,574,650</b>
<b>Total liabilities and members' equity</b>	<b>\$ 27,974,947</b>	<b>\$ 37,958,753</b>	<b>\$ 27,116,930</b>

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Interest and dividend income:</b>				
Time deposits	\$ 4,756	\$ 1,645	\$ 14,322	\$ 6,154
Federal funds sold	28	4,491	109	22,200
Securities purchased under agreements to resell	869	9,410	2,373	44,656
Investment securities	98,595	297,871	354,632	1,049,555
Loans	7,134	23,562	31,710	73,685
Stock of the Central Liquidity Facility	2,294	11,687	16,439	43,227
Total interest and dividend income	113,676	348,666	419,585	1,239,477
<b>Interest and dividend expense:</b>				
Members' share and certificate accounts	81,096	200,842	294,979	869,306
Short-term borrowings and notes	15,472	105,322	68,273	227,039
Total interest and dividend expense	96,568	306,164	363,252	1,096,345
Net interest income, excluding dividends on membership capital shares	17,108	42,502	56,333	143,132
<b>Net gains (losses) on financial instruments:</b>				
Other-than-temporary impairment charges	(320,053)	-	(1,326,920)	-
Other net gains (losses) on financial instruments	473	(3,949)	(266)	(27,620)
Total net losses on financial instruments	(319,580)	(3,949)	(1,327,186)	(27,620)
<b>Fee income</b>	5,205	4,605	15,931	15,474
<b>Operating expenses:</b>				
Salaries and benefits	5,358	7,256	17,107	22,015
Data processing	2,659	3,364	8,490	9,723
Professional and outside services	2,206	3,184	7,218	8,861
Office occupancy and administration	658	777	2,028	2,284
Marketing and public relations	50	245	190	1,061
Travel and incidentals	1	501	267	1,504
Other	377	351	1,273	1,373
Total operating expenses	11,309	15,678	36,573	46,821
<b>Net (loss) income before dividends on membership capital shares and noncontrolling interests</b>	(308,576)	27,480	(1,291,495)	84,165
Dividends on membership capital shares	-	11,267	-	38,433
<b>Net (loss) income before noncontrolling interests</b>	(308,576)	16,213	(1,291,495)	45,732
Noncontrolling interests	70	98	340	138
<b>Net (loss) income</b>	\$ (308,506)	\$ 16,311	\$ (1,291,155)	\$ 45,870

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Net (loss) income</b>	\$ (308,506)	\$ 16,311	\$ (1,291,155)	\$ 45,870
<b>Other comprehensive gain (loss):</b>				
Reversal of non-credit other-than-temporary impairment charges	-	-	(3,688,865)	-
Net change in unrealized gains (losses) on available-for-sale investment securities	1,180,903	(1,258,667)	572,048	(2,401,819)
Net (amortization) accretion of basis adjustments in held-to-maturity securities	-	82,985	-	147,500
Net change in unrealized gains (losses) on cash-flow hedges	(13,213)	(37,790)	51,615	(27,610)
Net unrealized (gains) losses on investment securities reclassified to earnings on fair-value hedging relationships	2,710	3,746	6,779	3,819
Reclassification for net (gains) losses on cash-flow hedges included in net income	(665)	3,106	(2,082)	(11,508)
Reclassification for net realized (gains) losses on investment securities included in net income	-	(1,495)	-	(1,817)
Reclassification for other-than-temporary impairment charges included in net income	320,053	-	1,326,920	-
<b>Other comprehensive gain (loss)</b>	<u>1,489,788</u>	<u>(1,208,115)</u>	<u>(1,733,585)</u>	<u>(2,291,435)</u>
<b>Total comprehensive gain (loss)</b>	<u>\$ 1,181,282</u>	<u>\$ (1,191,804)</u>	<u>\$ (3,024,740)</u>	<u>\$ (2,245,565)</u>

Consolidated Statements of Members' Equity (unaudited, in thousands)

	Members' Shares & Certificates	Membership Capital Shares	NCUSIF Capital	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)
<b>Balances as of January 1, 2008</b>	\$ 36,994,406	\$ 1,434,061	\$ -	\$ 300,000	\$ 598,260	\$ (1,498,598)
Net gain upon adoption of Statement of Financial Standards No. 159, <i>The Fair Value Option for Financial Assets and Financials Liabilities</i>					609	
Net change in members' accounts	(16,373,696)	250,094				
Other comprehensive loss					(8,999)	(2,291,435)
Dividends on paid-in capital					45,870	
Net income						
<b>Balances as of September 30, 2008</b>	<u>\$ 20,620,710</u>	<u>\$ 1,684,155</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 635,740</u>	<u>\$ (3,790,033)</u>
<b>Balances as of January 1, 2009</b>	\$ 19,721,998	\$ 1,243,092	\$ -	\$ 195,638	\$ (3,688,865)	\$ (7,897,213)
Reversal of Non-Credit OTTI charges					3,688,865	
NCUSIF capital contribution			1,000,000			
Net change in members' accounts	5,519,713	(1,612)				
Other comprehensive loss						(1,733,585)
Dividends on NCUSIF capital					(6,003)	
Net loss					(1,291,155)	
Depletion of membership capital shares		(1,101,520)			1,101,520	
Depletion of member paid-in capital				(195,638)	195,638	
<b>Balances as of September 30, 2009</b>	<u>\$ 25,241,711</u>	<u>\$ 139,960</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,630,798)</u>

## Notes to Consolidated Financial Statements

### A. Consolidated Financial Statements

The consolidated financial statements for the period ended Sept. 30, 2009, included herein have not been audited. Information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. Such adjustments are normal and recurring in nature.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, management has made assumptions in estimating the fair value of financial instruments and in the amortization/accretion of premiums/discounts on investments subject to prepayment risk. Actual results could differ from estimates made based on management assumptions.

These interim statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended Dec. 31, 2008.

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

Prior to the April 2009 issuance of FASB Staff Position 115-2/124-2 (FSP 115-2), OTTI charges were required to be based on the fair value of the assets determined to be impaired. FSP 115-2 changed the presentation and amount of OTTI charges recorded in earnings. Under these changes, impairment is to be separated into that related to "credit losses" (the difference between the present value of cash flows expected to be collected and the amortized cost basis) and that related to all other factors, such as market conditions ("non-credit" losses). Only credit losses are to be recorded in earnings, provided that the entity has no intent to sell the securities and it is more likely than not that the entity will not be required to sell the securities. Upon adoption of FSP 115-2 for first quarter 2009, U.S. Central reclassified the non-credit portion of previously recorded OTTI charges from retained earnings to accumulated other comprehensive income (AOCI), resulting in the elimination of U.S. Central's Dec. 31, 2008 accumulated deficit.

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

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

### C. Fair Value Measurement

Effective Jan. 1, 2008, U.S. Central adopted Statement of Financial Accounting Standards No. 157 – *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a hierarchy for determining the fair value of a financial instrument. The hierarchy consists of three levels of valuations based on the evidence used to determine the valuation. SFAS No. 157 requires that the highest level of valuation available be used. A "Level 1" valuation is a quoted market price for a particular (or identical) asset in a market that is actively trading. A valuation is considered to be "Level 2" when a quoted market price (in an active market) is not available, but all necessary inputs into the calculation of fair value represent data observable in an active market. A valuation is considered "Level 3" when any significant component of the fair value calculation is based on data that are not observable in an active market, but rather is based on estimates by management or outside parties.

Assets, liabilities and derivatives measured at fair value on a recurring basis are summarized below as of Sept. 30, 2009 (in thousands).

	Fair Value Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available-for-sale securities	\$ -	\$ 12,671,983	\$ 6,665,143	\$ 19,337,126
Mortgage loans held-for-sale	-	-	51,773	51,773
Derivative assets	-	43,098	-	43,098
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 12,715,081</b>	<b>\$ 6,716,916</b>	<b>\$ 19,431,997</b>
<b>Liabilities</b>				
Derivative liabilities	\$ -	\$ 82,346	\$ -	\$ 82,346
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 82,346</b>	<b>\$ -</b>	<b>\$ 82,346</b>

The table below presents reconciliation for all assets measured at fair value on a recurring basis using Level 3 inputs in 2009 (in thousands).

	Total Fair Value		
	Available-For-Sale Securities	Mortgage Loans Held-For-Sale	Total
<b>Balance, January 1, 2009</b>	\$ 9,052,263	\$ 72,238	\$ 9,124,501
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)	(1,274,280)	3,797	(1,270,483)
Included in other comprehensive income	543,117	-	543,117
Purchases, sales, issuances, and settlements	(1,655,957)	(24,262)	(1,680,219)
<b>Balance, September 30, 2009</b>	<b>\$ 6,665,143</b>	<b>\$ 51,773</b>	<b>\$ 6,716,916</b>

## Supplemental Information

The spread analysis below presents U.S. Central's quarterly operating results as a percentage of daily average net assets (DANA) for the four most recent quarters. This spread analysis precedes a cash flow gap analysis, an analysis of net interest income and a fair value balance sheet as of Sept. 30, 2009. All items are presented on a consolidated basis.

### Quarterly Spread Analysis - as a % of DANA

(dollars in thousands)

	Third Quarter 2009	Second Quarter 2009	First Quarter 2009	Fourth Quarter 2008
Interest and dividend income	1.185%	1.339%	1.802%	3.695%
Interest and dividend expense	-1.006%	-1.199%	-1.534%	-2.651%
Net interest income	0.179%	0.140%	0.268%	1.044%
Net losses on financial instruments	-3.330%	-4.535%	-5.786%	-46.290%
Fee income	0.054%	0.050%	0.060%	0.052%
Operating expenses	-0.117%	-0.115%	-0.141%	-0.190%
Net (loss) income before dividends on membership capital shares	-3.214%	-4.460%	-5.599%	-45.384%
Dividends on membership capital shares	0.000%	0.000%	0.000%	-0.065%
Net (loss) income transferred to retained earnings	-3.214%	-4.460%	-5.599%	-45.449%
Dividends on paid-in capital shares	0.000%	0.000%	0.000%	-0.019%
Dividends on NCUSIF capital shares	0.000%	-0.033%	-0.027%	0.000%
Reversal of prior non-credit OTTI charges	0.000%	0.000%	40.718%	0.000%
Net change in retained earnings/member capital	-3.214%	-4.493%	35.092%	-45.468%

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

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

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

	Oct.09	Nov.09	Dec.09	Jan.10	Feb.10	Mar.10	Apr.10	May.10	Jun.10	Jul.10	Aug.10	Sep.10	> 1 Year	Total
<b>Assets</b>														
Money Market Investment	\$ 6,069,502	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,069,502
Investment Securities	518,089	473,037	306,826	383,793	398,542	603,651	286,223	341,642	484,681	299,730	360,704	362,948	24,385,772	29,205,638
Loans to Members	111,630	20,495	23,590	50,623	18,072	22,554	2,389	2,500	11,699	2,566	14,598	10,094	271,280	562,090
Purchased Mtg/Auto Loans	3,393	2,298	1,284	2,224	3,058	2,082	2,030	1,188	1,964	1,916	1,854	1,810	95,673	120,774
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,751,698	1,751,698
<b>Total Cash Inflows</b>	<b>\$ 6,702,614</b>	<b>\$ 495,830</b>	<b>\$ 331,700</b>	<b>\$ 436,640</b>	<b>\$ 419,672</b>	<b>\$ 628,287</b>	<b>\$ 290,642</b>	<b>\$ 345,330</b>	<b>\$ 498,344</b>	<b>\$ 304,212</b>	<b>\$ 377,156</b>	<b>\$ 374,852</b>	<b>\$ 26,504,423</b>	<b>\$ 37,709,702</b>
<b>Liabilities &amp; Member Deposits</b>														
Short Term Borrowings	\$ 38,884	\$ 87	\$ -	\$ 84	\$ 157	\$ 73	\$ 70	\$ -	\$ 66	\$ 62	\$ 59	\$ 55	\$ 313	\$ 39,910
CU SIP/HARP/NCUA Borrowings	-	-	5,000,000	3,353,389	2,415,062	-	-	-	-	-	-	-	164,016	10,932,467
Mbr Shares and Certificates	10,248,997	964,468	1,011,393	1,139,519	1,808,888	1,225,041	910,037	612,372	435,640	474,068	561,395	431,305	5,429,476	25,252,599
<b>Total Cash Outflows</b>	<b>\$ 10,287,881</b>	<b>\$ 964,555</b>	<b>\$ 6,011,393</b>	<b>\$ 4,492,992</b>	<b>\$ 4,224,107</b>	<b>\$ 1,225,114</b>	<b>\$ 910,107</b>	<b>\$ 612,372</b>	<b>\$ 435,706</b>	<b>\$ 474,130</b>	<b>\$ 561,454</b>	<b>\$ 431,360</b>	<b>\$ 5,593,805</b>	<b>\$ 36,224,976</b>
<b>Cash Flow Mismatch</b>	<b>\$ (3,585,267)</b>	<b>\$ (468,725)</b>	<b>\$ (5,679,693)</b>	<b>\$ (4,056,352)</b>	<b>\$ (3,804,435)</b>	<b>\$ (596,827)</b>	<b>\$ (619,465)</b>	<b>\$ (267,042)</b>	<b>\$ 62,638</b>	<b>\$ (169,918)</b>	<b>\$ (184,298)</b>	<b>\$ (56,508)</b>	<b>\$ 20,910,618</b>	
<b>Cumulative Mismatch</b>	<b>\$ (3,585,267)</b>	<b>\$ (4,053,992)</b>	<b>\$ (9,733,685)</b>	<b>\$ (13,790,037)</b>	<b>\$ (17,594,472)</b>	<b>\$ (18,191,299)</b>	<b>\$ (18,810,764)</b>	<b>\$ (19,077,806)</b>	<b>\$ (19,015,168)</b>	<b>\$ (19,185,086)</b>	<b>\$ (19,369,384)</b>	<b>\$ (19,425,892)</b>	<b>\$ 1,484,726</b>	

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

## Analysis of Net Interest Income

(dollars in thousands)

	For the Three Months Ended September 30, 2009			For the Three Months Ended September 30, 2008		
	Average Balance	Interest or Dividends	Average Rate	Average Balance	Interest or Dividends	Average Rate
<b>Interest-earning assets:</b>						
Cash	\$ 6,661,851	\$ 4,756	0.28%	\$ -	\$ -	
Time deposits	-	-	-	282,793	1,645	2.31%
Federal funds sold	98,262	28	0.11%	928,060	4,491	1.93%
Securities purchased under agreements to resell	1,285,260	869	0.27%	1,538,201	9,410	2.43%
Investment securities	29,777,637	98,595	1.31%	35,875,649	297,871	3.30%
Loans	816,248	7,134	3.47%	2,623,356	23,562	3.57%
Stock of the Central Liquidity Facility	1,750,551	2,294	0.52%	1,642,301	11,687	2.83%
<b>Total interest-earning assets</b>	<b>\$ 40,389,809</b>	<b>113,676</b>	<b>1.12%</b>	<b>\$ 42,890,360</b>	<b>348,666</b>	<b>3.23%</b>
<b>Interest and dividend bearing liabilities and members' accounts</b>						
Liabilities:						
Member federal funds purchased	\$ -	\$ -	-	\$ 5,459,021	\$ 28,069	2.05%
SIP/HARP borrowings	5,932,903	8,955	0.60%	-	-	
Short-term borrowings	5,145,314	6,040	0.47%	12,288,497	76,545	2.48%
Notes payable	18,748	477	10.09%	53,704	708	5.24%
Total liabilities	11,096,965	15,472	0.55%	17,801,222	105,322	2.35%
Members' accounts:						
Members' share and certificate accounts	28,928,275	81,096	1.11%	23,487,268	200,842	3.40%
<b>Total interest and dividend bearing liabilities and members' accounts</b>	<b>\$ 40,025,240</b>	<b>96,568</b>	<b>0.96%</b>	<b>\$ 41,288,490</b>	<b>306,164</b>	<b>2.95%</b>
<b>Net interest income</b>		<b>\$ 17,108</b>			<b>\$ 42,502</b>	
<b>Average interest rate spread</b>			<b>0.16%</b>			<b>0.28%</b>
<b>Net interest margin</b>			<b>0.17%</b>			<b>0.39%</b>

**Consolidated Fair Value Balance Sheet - September 30, 2009**  
(dollars in thousands)

	Carrying Value	Fair Value	Wtd. Avg. Life (in years)	Effective Duration
<b>Assets</b>				
Cash	\$ 5,980,975	\$ 5,980,975	-	-
Federal funds sold	101,312	101,312	0.003	0.001
Investment securities				
Government securities	104,999	104,999	0.022	0.011
Agency debt	56,060	56,060	2.225	1.197
Agency RMBS	1,310,572	1,310,572	2.966	0.988
Non-agency RMBS	6,288,574	6,288,574	6.399	0.856
Asset-backed securities	10,325,053	10,325,053	3.005	0.042
Corporate bonds and notes	1,251,868	1,251,868	3.509	0.054
	<u>19,337,126</u>	<u>19,337,126</u>	<u>4.120</u>	<u>0.375</u>
Loans	667,368	675,227	2.291	0.844
Stock of the Central Liquidity Facility (CLF) *	1,750,551	1,750,551	5.480	-
Other assets	137,615	137,615	-	-
<b>Total assets</b>	<u>\$ 27,974,947</u>	<u>\$ 27,982,806</u>	<u>3.076</u>	<u>0.305</u>
<b>Liabilities and Members' Accounts</b>				
Liabilities:				
SIP/HARP borrowings	\$ 5,941,889	\$ 5,935,011	0.337	0.168
NCUSIF borrowings	5,000,000	5,002,000	0.225	0.114
Short-term borrowings				
Borrowings under the U.S. Department of Treasury Tax and Loan Program	33	33	0.003	0.001
Other borrowings	39,877	39,905	0.022	0.011
	<u>39,910</u>	<u>39,938</u>	<u>0.022</u>	<u>0.011</u>
Other liabilities	242,275	242,275	-	-
<b>Total liabilities</b>	<u>11,224,074</u>	<u>11,219,224</u>	<u>0.279</u>	<u>0.139</u>
Members' share and certificate accounts				
Overnight accounts	9,039,158	9,039,157	0.003	0.001
Term floating-rate certificates	4,497,900	4,502,245	1.655	0.010
Term fixed-rate certificates	10,417,315	10,517,674	0.738	0.365
Structured certificates	1,285,955	1,283,607	0.719	0.634
Other shares	1,383	1,383	0.423	0.001
<b>Total members' share and certificate accounts</b>	<u>25,241,711</u>	<u>25,344,066</u>	<u>0.637</u>	<u>0.185</u>
<b>Total liabilities and members' share and certificate accounts</b>	<u>\$ 36,465,785</u>	<u>\$ 36,563,290</u>	<u>0.350</u>	<u>0.183</u>
<b>Net Economic Value</b>		<u>\$ (8,580,484)</u>		