



CREDIT WORTHINESS REPORT



SOUTHEAST CORPORATE FCU



FOURTH QUARTER 2009

EXECUTIVE SUMMARY

Due to the Corporate Stabilization Program instituted by the National Credit Union Administration, (NCUA) with the exception of membership capital, all deposits (with the exception of those with original maturities greater than two years purchased after May 31, 2009) at Southeast Corporate (Southeast) are fully guaranteed by the National Credit Union Share Insurance Fund. During the last year, Southeast has been significantly impacted by the continuing recession and dislocation in the credit markets. Southeast incurred charge-offs of \$124.82 million in 2008 and \$46.44 million during 2009. Southeast will likely incur further charges in the future as performance of Southeast's private mortgage backed securities remains weak.

As of December 31, 2009, Southeast's total assets stood at \$3.33 billion, a 21.5% increase relative to the \$2.74 billion in assets as of year end 2008. Southeast experienced a \$45.82 million loss during 2009, as compared to the \$111.66 million loss incurred during 2008. Southeast maintains Fitch ratings of A+ long-term and F1+ short-term. Southeast is also

rated BBB- long-term and A-3 short-term by Standard and Poors. These ratings are assigned through an independent review of Southeast's financial and operational activities.

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.

CAPITAL

Southeast Corporate's capital position has been significantly impacted by the asset impairments it has incurred during the past two years. During 2009 these losses resulted in the depletion of its \$20.2 million in member Paid in Capital (PIC) while retained earnings declined from \$612,078 to zero and Member Capital Shares were reduced from \$87.00 million to \$67.73 million. Total regulatory capital is defined as RUDE, PIC and MCS and declined from \$107.80 million to \$67.73 million during 2009.

Due to the decline in Southeast's absolute capital levels, its total capital ratio decreased to 1.98% as of December 31, 2009, down from 2.82% as of year end 2008. The ratios use a rolling daily net average asset figure as mandated by the NCUA, resulting in its having a capital ratio below the minimum 5.00% amount required by regulation. As a corporate which has been approved for Part 1 expanded investment authorities, Southeast must adhere to a 5.00% minimum capital ratio as opposed to 4.00% for base level corporates.

As indicated above, Southeast's balance sheet increased in size during the year as total assets rose from \$2.74 billion to \$3.33 billion, a 21.5% increase. 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 increase in deposits during 2009 appears to have been attributable to a decrease in loan demand on the part of credit union members as well as the guaranty of deposits in corporate credit unions via the NCUA Corporate Stabilization Program.

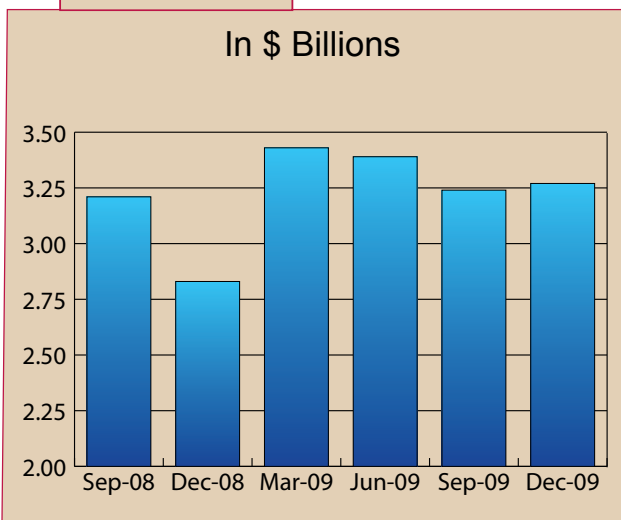
CREDIT QUALITY

Approximately 98.2% of Southeast Corporate's assets as of December 31, 2009, were comprised of investments. The remainder of the assets were loans, cash related items, fixed assets and accrued interest receivable.

Total investments increased \$599.6 million, or 22.3% from December 31, 2008 to December 31, 2009. Southeast Corporate invests only in those investment vehicles that meet the highest credit quality standards. As shown in the chart below, approximately 76.2% of total investments are invested at U.S. Central Credit Union (U.S. Central), a wholesale depository institution. Southeast Corporate achieves a high level of safety and yield with its deposits at U.S. Central, because of the share guarantee program through NCUSIF.

The share guarantee provided under the Corporate Stabilization Program does not apply to Southeast's capital at U.S. Central. During 2009, Southeast impaired the remaining \$21.71 million of its member capital at U.S. Central and no longer has any capital exposure to this institution.

ASSETS



The remaining 23.8% of the investment portfolio is held in highly rated instruments that are thoroughly analyzed prior to purchase and carefully monitored for as long as Southeast owns the investment. These instruments include asset-backed securities, collateralized mortgage obligations, and corporate bonds. These investments are fully analyzed by Southeast Corporate's staff and must meet stringent criteria before being added to the investment portfolio.

As of December 31, 2009, only 2.65% of the Corporate's investment portfolio was comprised of subprime mortgage related securities. As of that date, Southeast had no exposure to Collateralized Debt Obligations (CDOs), Commercial Mortgage Backed Securities (CMBS) Extendable Commercial Paper or Structured Investment Vehicles (SIVs).

As an added level of scrutiny, Southeast has a risk assessment department in place which is segregated from the investment department in order to objectively review the portfolio and any additions to it.

EARNINGS

Southeast Corporate sustained a loss of \$45.82 million during 2009 due to a number of one-time charges. These included a \$24.73 million loss within its securities portfolio and a \$21.71 million loss related to its capital posi-

tion at U.S. Central. The average net interest margin (net interest income divided by average earning assets) for 2009 was 29.7 basis points, compared to 62.5 basis points during the same period in 2008. The decrease in net interest margin is largely attributable to the decline in the differential between one-month LIBOR and the Fed funds rate as well as a strategy to retain liquidity at a higher level than normal.

Southeast's return on average assets (ROAA) in 2009 was a negative 139 basis points as compared to a negative 295 basis points in 2008. The increase in Southeast's ROAA was attributable to lower charges incurred during 2009 as compared to 2008 countered by reduced net interest margin. Due to the current difficult operating environment for corporate credit unions, Southeast's management has engaged in substantial cost cutting efforts. The corporate's non-interest expense fell during 2009 by \$2,541,747, or 11.6%, a compared to 2008. The Corporate's staff has declined from a peak of 135 people in September 2008 to 107 as of year end 2009. During the past several years, Southeast Corporate has added new products and services as it strives to be the leading financial services provider in its primary field of membership. Much of the investment in the infrastructures of these projects was incurred in the past and now is beginning to add either directly or indirectly to income or lower costs. Three of the major projects Southeast Corporate has been involved in were the formation of Member Business Solutions

LLC, Corporate Synergies LLC and Accolade Investment Advisory LLC, all CUSO's of the Corporate. Although Southeast intends to reduce expenses going forward, it will do so selectively in order to maintain its high level of member service and its breadth of product offerings.

LIQUIDITY

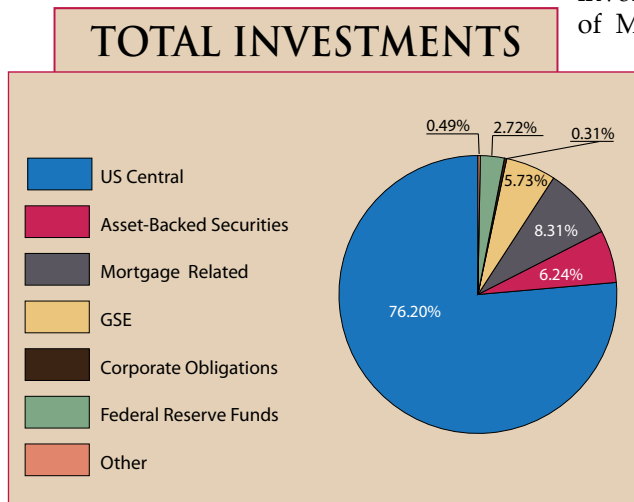
One of the missions of Southeast Corporate is to provide liquidity to its members if and when the need arises, and to this end management actively monitors members' needs and develops strategies to act, if necessary. These strategies place a high degree of importance on having sufficient balances in readily available overnight deposits. Southeast also places much of its assets in investments that will mature in a short time period. This is significant since the nature of members' deposits at Southeast Corporate tends to be more volatile than those of other financial institutions. As of December 31, 2009, approximately 31.5% of Southeast's investments matured overnight, and, overall, 86.5% was expected to mature in one year or less. As a contingency, Southeast has access to a total of \$2.4 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 are highly rated and could be used as collateral for short-term borrowing purposes.

CONSOLIDATED STATEMENT OF CONDITION

A Consolidated Statement of Condition as of December 31, 2009, and December 31, 2008, as well as a Statement of Income for the periods ending December 31, 2009, and December 31, 2008, are presented on the following page.

INDEPENDENT REVIEW

Annually, Southeast Corporate requests a credit review from S&P and Fitch Ratings. Both companies review the financial statements and engage in discussions with senior management of Southeast before assigning a counterparty rating. These ratings



assess Southeast's ability to meet its financial obligations, as well as its ability to serve its members in times of adverse market conditions.

On April 6, 2009, Standard and Poor's moved Southeast's long-term rating from A+ to BBB- and its short-term rating from A-1 to A-3. S&P cited the NCUA's announcement that all corporate credit unions would likely face a large write-down of their capital at U.S. Central. This was prompted by the conservatorship of U.S. Central. S&P also stated that all rated corporates would remain on credit watch negative. On March 24, 2009, Fitch Ratings reaffirmed its long-term rating of Southeast at A+ and reaffirmed its short-term rating of F-1+. The outlook for Southeast's ratings was stable according to Fitch.

REGULATORY

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 called Net Economic Value (NEV). Additionally, the NEV must be compared to the fair market value of its assets, which is called the 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 December 31, 2009, Southeast's NEV was negative \$32.2 million, and its NEV ratio was negative 0.96%, below the regulatory minimum of two percent. This compares to an NEV of negative \$71.39 million and an NEV ratio of negative 2.61% as of December 31, 2008.

RISK MANAGEMENT

Southeast Corporate is aware of its responsibility to offer its members the highest rates possible that are consistent with maintaining a safe and sound investment portfolio. Southeast is guided by policies, an asset-liability committee and a board

STATEMENT OF FINANCIAL CONDITION

(unaudited, \$ in 000's)

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2009</u>
ASSETS		
Total Cash	\$ 788	\$ 3,308
Accrued Income	10,893	7,298
Prepaid Expenses & Other Assets	6,517	7,428
Loans to Members	117,171	34,244
Investments:		
Securities & Repos	1,039,386	709,372
Shares in US Central FCU	183,710	749,848
Federal Reserve Funds	4,316	171,555
FHLB Member Stock	13,893	5,129
Certificates	1,356,982	1,636,369
Investment in CUSOs	606	356
Fixed Assets	9,116	8,212
NCUSIF Investment	418	911
TOTAL ASSETS	\$ 2,743,796	\$ 3,334,031
LIABILITIES		
Shares/Deposits	\$ 2,538,222	\$ 3,338,614
Member Capital Shares	86,996	67,725
Notes & Commercial Paper	94,480	-
Interest & Dividends Payable	14,011	7,217
Other Liabilities	146,178	22,248
TOTAL LIABILITIES	\$ 2,879,886	\$ 3,435,804
MEMBER'S EQUITY		
Member Paid in Capital	\$ 20,193	\$ -
Corporate Reserve	-	-
Undivided Earnings	612	-
Unrealized Security Gains (Losses)	(156,895)	(101,773)
TOTAL MEMBER'S EQUITY	\$ (136,090)	\$ (101,773)
TOTAL LIABILITIES & MEMBER'S EQUITY	\$ 2,743,796	\$ 3,334,031

YTD STATEMENT OF INCOME

(unaudited, \$ in 000s)

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2009</u>
Interest on Loans	\$ 3,813	\$ 1,412
Investment Income	132,911	48,162
Total Interest Income	136,725	49,575
Interest Expense	9,364	825
Dividends Expense	104,017	38,999
Total Interest Expense	113,380	39,824
Net Interest Income	23,344	9,751
Non-Interest Income	9,204	10,049
Total Income	\$ 32,549	\$ 19,800
Non-Interest Expense	21,949	19,407
Gains & (Losses)	(122,262)	(46,210)
Net Income	\$ (111,662)	\$ (45,817)

Note: Totals may not add exactly due to rounding.



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

As of 3/1/2010

Brad L. Miller
President/CEO

Gregory Wirthmann, CFA
CIO/SR. V.P.-Investments

Michael Alexandre
Financial Strategist

Tanya DeVliieger
Financial Strategist

William (Bill) McCoy
Portfolio Manager

Doug Sexton
Portfolio Manager

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

of directors committed to balancing risk and return.

Applying for and obtaining Part 1 investment authority from the NCUA reflects that Southeast Corporate has the expertise and systems in place to assume a moderately higher de-

gree of risk in the portfolio. While Southeast may diversify its investments through the institutions it invests in and the types of investments it utilizes, it will always balance anticipated investment returns against a thorough review of safety and soundness.

NET ECONOMIC VALUE

	December 31, 2009						
	-300bp	-200bp	-100bp	Base	+100bp	+200bp	+300bp
NEV (\$) Millions	N/A	N/A	-\$18.9	-\$32.2	-\$42.5	-\$51.3	-\$58.2
% Change	N/A	N/A	41.38%	0.00%	-31.92%	-59.13%	-80.52%
NEV Ratio	N/A	N/A	-0.56%	-0.96%	-1.28%	-1.55%	-1.77%

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
32311-7890