



SOUTHEAST  CORPORATE

2009 Annual Report

The
STRENGTH
to **SURVIVE**

THE STRENGTH TO SURVIVE

Strong deep roots

Anchored for 30+ years

Strong roots supported by

Solid relationships

An earned trust

Tempered by adversity & challenge

Lessons learned

Weathering the storm

Evolving

Tested and Strong

POISED TO THRIVE!



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Last year, I opened my remarks with a Dickens' quote about the best of times and the worst of times. When looking forward from the close of 2009, I think about that old saying relating to facing challenges builds character. Ralph Waldo Emerson said it more succinctly, "Fractures well cured make us more strong." Based on that quote, all those involved in the credit union movement today must be building strength to new heights.

Clearly, we have all faced unprecedented difficulties boldly. I don't know about you, but part of me is also rather angry. I've spent most of my life working for credit unions and now it seems like the difficulties and challenges keep springing up like dandelions in a new lawn. When will it end?! Challenges are coming from all directions -- some from places far from our span of control.

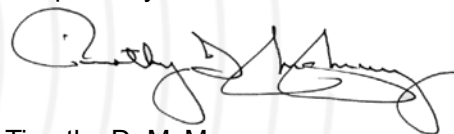
I've been on Southeast's Board for more than 23 years and know well how much time and effort countless members have voluntarily invested in their respective credit unions and OUR Corporate. I've been around long enough to recall what it was like before we credit unions enjoyed the benefits of corporates. Credit unions had no option but to go to the banks for most correspondent services. However, it was not a comfortable situation because credit unions were just another customer with no influence or ownership. Banks obviously had no loyalty to serving credit unions and many were literally here one day and gone the next. For competitive and profitability reasons, others just abandoned their credit union customers. To help credit unions compete, we credit unions created corporates to help us be competitive with banks. Our corporates had to invest in the infrastructure to develop and gain the expertise to provide critical back-office support for us. If you think it is difficult now, imagine going back to being dependent on banks like we were thirty years ago.

The "Strength to Survive" describes the challenge we face and the outcome of our efforts. Our vision for Southeast is not just to survive, but to move forward for a better tomorrow. It is time for leadership. Again quoting Emerson, "Do not go where the path may lead; go instead where there is no path and leave a trail." As I shared with those that attended Bill Birdwell's retirement send-off in February, we are positioning our leadership style to that of "lead, follow, or get out of the way" . . . words attributed to Thomas Paine in revolutionary times. We have too much at stake in the movement we have built not to persevere. Southeast Corporate, in particular, has a sound infrastructure and a good mix of products and services that have helped us all compete with the banks. At the close of 2009, the Board concluded our search for a new CEO. Shortly after the first of the year, we announced our appointment of Brad Miller as our new President/CEO. We are confident that he can lead us to better times. We are fortunate that his background and experience as head of the Association of Corporate Credit Unions, as former CEO of a corporate, and over a decade of experience with payment systems and settlement, are all part of the depth of understanding our new CEO brings to Southeast Corporate -- strong, technical leadership that can take us forward.

I believe the obstacles of the past can become the gateways that lead to new beginnings. We're seeing that already as Southeast begins to lay out plans for a new business model. Management will be challenged to remain agile as circumstances change quickly and unexpectedly. Maintaining member trust -- through consistent, open communication -- will be paramount as will be your support by standing strong as members of Southeast Corporate and using the services of your Corporate.

I want to thank the Board of Directors, Supervisory Committee and staff for their commitment, dedication, and tireless effort this past year for continuing to operate in overdrive. It has certainly been a challenging year! Most importantly, I thank you, our loyal member owners, for your support and understanding during the most difficult time in our history. I know we can move through this and that with you on our side we have what it takes to once again thrive in your service.

Respectfully submitted,



Timothy D. McMurry
Chairman, Board of Directors
President/CEO
PowerNet CU



BOARD CHAIRMAN'S Report

For more than 30 years, Southeast Corporate has steadfastly met the needs of our members. Our roots run deep. From our beginnings in the mid 1970s we grew stronger into the 80s and 90s. In 1990, we had \$1 billion in assets; by 2005, we had grown to assets of \$4.42 billion. With member support, we grew still stronger and broadened our product and service offerings. There were the usual market ups and downs, and some years presented bigger challenges, but continuously across that 30+ year time horizon, we grew our retained earnings. When 2009 dawned, we entered the year with retained earnings of \$120 million.

Then, the economic storm that had gained strength in 2008 hit with full force. In March, the unthinkable happened. The National Credit Union Administration (NCUA) conserved U.S. Central Federal Credit Union, the credit union that served all the corporate credit unions, including Southeast Corporate. The events were unprecedented. Despite a conservative investment risk posture, Southeast suffered impairments on its securities portfolio of \$41 million, which our retained earnings of \$120 million were adequate to cover. But when we were forced to write off our entire capital investment in U.S. Central, totaling \$130.2 million, our retained earnings were not enough. NCUA required us to replenish the deficit in retained earnings from member paid-in capital (PIC) and membership capital shares (MCS). Thus, we were required to fully deplete member PIC of approximately \$20 million and 27% of MCS totaling just over \$25 million.

Like all corporates, Southeast focused on survival. Weak spread income and Other Than Temporary Impairment (OTTI) charges required significant expense reductions. So, we cut expenses and we cut again. At the close of the year we had pared budgets back to 2005 levels. By moving to least-cost routing for image exchange, we got on track to save up to \$450 thousand annually. Then, we converted most member communications to email and transitioned 80% of member statements from paper to

electronic delivery. In addition, we moved to all electronic item processing, allowing significant staff reductions.

With staffing reductions, employees at all levels of the Corporate were asked to do more. At the same time, our employees felt the impact of our decision to suspend

the Corporate's discretionary contribution to the Employee 401(k), we eliminated our employee's post retirement health plan, and reduced our use of outside services, contractors and consultants by almost a million dollars.

Southeast could do little about the impact of credit losses; however, we were successful in working cooperatively to ensure adequate liquidity remained in the credit union network. We participated in the share guarantee program and sacrificed income to provide U.S. Central with much needed liquidity. We joined the Federal Home Loan Bank to ensure additional outside sources of liquidity and participated in NCUA's Credit Union System Investment Program (CUSIP) and marketed Central Liquid Facility (CLF) loans.

With adversity often comes the opportunity to discover our abilities; it forces us to dig deeper and pull together even more . . . and we did. Amidst the storm that surrounded us we successfully completed the conversion of Virginia Corporate onto our core processing system and Member\$MART user interface. The sun shined on our Accolade Investment Advisory CUSO, which became profitable in only its second year.

We're weathering the storm. Southeast Corporate has been tempered by adversity and challenge and is stronger as a result. Learning from our past, we're now looking forward. Obstacles can be great incentives for change, and change is taking place at Southeast and across the entire credit union network.

I am very proud to have had the opportunity to work with and know so many of you. Southeast Corporate has not only survived, as we look forward your Corporate is poised to thrive. Our future is in good hands - the hands of you, our members and the leaders you have chosen to serve on your Corporate's board and committees.

I am grateful to the Board of Directors and the Supervisory Committee for their dedication and guidance particularly during such a tumultuous year. I want to recognize and thank the Southeast Corporate staff for the way they approach their jobs every day, doing whatever it takes, in large ways and in small, to focus on the needs of our members. Most of all, a special thank you goes to our members whose loyalty to the Corporate they own has been tested as never before.

Respectfully Submitted,



William B. Birdwell
President/CEO
(retired February 28, 2010)



PRESIDENT/CEO'S Report

The year 2009 proved to be another challenging one for the U.S. economy, the financial services sector and Southeast Corporate. Persistent weakness in the housing market and automotive industry continued to plague the economy and consumers were either unable or unwilling to take on additional debt. In response, the Federal Reserve held the fed funds rate to the unprecedented level of between 0% and .25% throughout 2009 to provide stability for the U.S. financial system and stimulate consumer and business lending. The U.S. economy finally began to show signs of recovery with positive Gross Domestic Product (GDP) growth in the second half of the year.

Southeast Corporate was directly affected by these challenges. The market value of Southeast's investment portfolio continued to decline during the first half of the year. For the second year in a row, Other Than Temporary Impairments (OTTI) recognized by the Corporate caused sizable losses. Over the past two years, Southeast recorded losses related to its investment in U.S. Central of \$130.2 million and recognized impairments on its own securities of \$41 million. (At the close of 2009 the Corporate's capital investment in U.S. Central was completely depleted and no further losses related to U.S. Central will be recognized.) As a result of the combined magnitude of these losses, Southeast wrote off over \$120 million in retained earnings, and was required to deplete 100% of member paid-in capital totaling approximately \$20 million and 27% of membership capital shares of just over \$25 million.

Results for 2009 were further impacted as income from operations dropped from 2008 as tight spreads between the one-month LIBOR rates and the fed funds rate squeezed net interest income. As a result of these events, Southeast's net interest margin for 2009 shrunk 33 basis points from the previous year's record high of 63 basis points.

Southeast's management responded to the challenging environment by aggressively reducing costs. For the entire year, non-interest expenses were lowered by \$ 2.5 million (or 12% from 2008 spending levels); and by the fourth quarter 2009, operating expenses were running at a rate that approximately doubled these savings. While these expense reductions were necessary given the changed environment and anticipated regulatory landscape, care was taken to retain the level of support and service for our members. Net income for 2009 improved from a loss of \$111.7 million in 2008 to a loss of \$45.8 million in 2009, primarily as a result of lower OTTI taken in 2009.

As 2009 came to a close, the economy began to show signs of stabilizing. Southeast's executive management team is cautiously optimistic that the worst of the "recession" has passed. The market value of Southeast's investment portfolio stabilized and began to improve during the second half of the year. Member capital has been impaired; however, nearly \$68 million in membership capital shares remain. While net interest spreads remain squeezed, aggressive cost cutting and increasing profitability from Southeast's CUSO investments have helped offset revenue losses elsewhere and Southeast's operations remain profitable. As we look to 2010 and the uncertainty remaining with the U.S. economy, the disposition of corporate legacy assets and the finalization of the new corporate rule, Southeast will modify its business model to ensure we continue to provide value-added services to our members.

Respectfully submitted,



Raffael Crockett
Financial Officer
President/CEO
BrightStar CU



FINANCIAL Officer's Report

The Supervisory Committee is responsible for ensuring that the Board and management meet required financial reporting objectives and establish practices and procedures sufficient to safeguard members' assets. It ensures that Southeast Corporate maintains a system of strong internal controls, complies with established state and federal laws and regulations, and that its records provide a true reflection of its financial condition.

In accordance with these responsibilities, the Committee hired the independent accounting firm of Orth, Chakler, Murnane & Company, CPAs, to perform a comprehensive annual audit for the year ended December 31, 2009. The results of the audit are contained within the 2009 Annual Report. The Committee also relied on the work of the Internal Audit and Compliance Department, which conducted various internal operational, compliance, and information technology audits throughout the year.

We continue to monitor internal controls which are changing in response to this turbulent business environment. In addition, the Corporate has continued to work diligently, implementing enterprise-wide compliance and risk management processes.

Based on the results of internal audits, the external audit and the regulatory examination conducted during the past year, the Supervisory Committee believes that Southeast Corporate has met its financial reporting objectives and has established practices and procedures sufficient to safeguard members' assets.

The Committee would like to thank the Board of Directors, management team and staff for their support and commitment to excellence. My appreciation is extended to fellow committee members Jerry Maughon, President/CEO Okaloosa County Teachers FCU, and Richard H. Simonton, former President/CEO Insight Financial CU.

Respectfully submitted,



Robert Fertitta
Chairman, Supervisory Committee
Chief Financial Officer
Navigator CU



SUPERVISORY Committee Report

BOARD OF DIRECTORS and

SUPERVISORY COMMITTEE



Timothy D. McMurry
Board Chairman
President/CEO
PowerNet CU



Jim Mitchell
Vice Chairman
President/CEO
Army Aviation Center FCU



Raffael Crockett
Financial Officer
President/CEO
BrightStar CU



Debbie Jones
Secretary
President/CEO
UT FCU



Robert Fertitta
Director
Supervisory Committee Chairman
Chief Financial Officer
Navigator CU



William F. Marquardt
Director
President/CEO
City County CU



Richard Tolar
Director
Senior Vice President
Chief Financial Officer
Keesler FCU



Robert Fertitta
Supervisory Committee Chairman
Chief Financial Officer
Navigator CU



Jerry Maughon
Supervisory Committee
President/CEO
Okaloosa County Teachers FCU



Richard H. Simonton
Supervisory Committee
President/CEO
Insight Financial CU

STRENGTH =
Strong Leadership

Front Row:

William Birdwell
President/CEO

Middle Row (left to right):

Sandy Baker
Senior Vice President
Sales & Marketing

Rob Schleiter
Executive Vice President

Kay Moon
Senior Vice President
Chief Operations Officer

Back Row (left to right):

Greg Wirthmann
Senior Vice President
Chief Investment Officer

Jim Horlacher
Senior Vice President
Chief Technology Officer

Jim Gallagher
Senior Vice President
Business Services



STRENGTH =
Sound Management

Independent Auditors' Report

June 2, 2010

To the Supervisory Committee and Management of
Southeast Corporate Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Southeast Corporate Federal Credit Union (the Credit Union) as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive operations, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeast Corporate Federal Credit Union as of December 31, 2009 and 2008, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 14, the Credit Union has suffered substantial losses due to the impairment of specific investment securities and paid-in capital and membership capital share investments in U.S. Central Federal Credit Union which has resulted in a deficit in retained earnings. This deficit has been absorbed by the depletion of member paid-in capital and membership capital shares which has caused the Credit Union's capital to fall below regulatory requirements. Accordingly, the Credit Union reported this shortfall in capital to the NCUA and received regulatory forbearance. Additionally, the Credit Union has initiated a capital restoration plan intended to increase earnings and capital which has been accepted by the NCUA. However, the NCUA has issued a new proposed regulation for corporate credit unions which will require the Credit Union to meet new capital requirements and establish new risk tolerance criteria for balance sheet management. Once the new regulation is finalized, management intends to review and amend, if necessary, the capital restoration plan to comply with the requirements of the new regulation.

Orth, Chakler, Murnane & Co

Orth, Chakler, Murnane & Company
Certified Public Accountants

Consolidated Statements of Financial Condition

ASSETS

	As of December 31,	
	2009	2008
Cash	\$3,307,842	\$787,663
Other receivables	605,831	623,078
Investments:		
Available-for-sale	709,372,063	1,039,385,823
Other	2,563,257,552	1,559,506,721
Loans to members, net of allowance for loan losses	34,244,296	117,171,135
Accrued interest receivable:		
Investments	7,181,872	10,672,811
Loans	116,332	220,504
Prepaid and other assets	6,822,419	5,893,771
Property and equipment	8,211,978	9,115,964
NCUSIF deposit	910,837	418,321
Total assets	<u>\$3,334,031,022</u>	<u>\$2,743,795,791</u>

LIABILITIES AND MEMBERS' EQUITY

	As of December 31,	
	2009	2008
LIABILITIES:		
Members' share and savings accounts	\$3,338,613,655	\$2,538,222,024
Membership capital share deposits	67,724,818	86,995,598
Member paid-in capital	—	20,192,948
Borrowed funds	—	235,051,387
Interest payable	7,217,415	14,010,554
Accounts payable	17,092,278	550,157
Other accrued liabilities	4,676,963	4,698,616
Total liabilities	<u>3,435,325,129</u>	<u>2,899,721,284</u>
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Corporate reserve	—	—
Undivided earnings	—	612,078
Accumulated other comprehensive loss	(101,772,841)	(156,895,176)
Minority interest	478,734	357,605
Total members' equity	<u>(101,294,107)</u>	<u>(155,925,493)</u>
Total liabilities & members' equity	<u>\$3,334,031,022</u>	<u>\$2,743,795,791</u>

Consolidated Statements of Operations

	For the years ended December 31,	
	2009	2008
INTEREST INCOME:		
Loans to members	\$1,412,316	\$3,813,421
Investments	48,162,468	132,911,190
Total interest income	49,574,784	136,724,611
INTEREST EXPENSE:		
Members' share and savings accounts	38,998,748	104,016,534
Borrowed funds	825,018	9,363,639
Total interest expense	39,823,766	113,380,173
Net interest income	9,751,018	23,344,438
PROVISION FOR LOAN LOSSES:	35,000	—
Net interest income after provision for loan losses	9,716,018	23,344,438
NON-INTEREST INCOME:		
Fees and service charges	9,475,026	8,974,166
Investments	574,371	230,233
Total non-interest income	10,049,397	9,204,399
	19,765,415	32,548,837
NON-INTEREST EXPENSE:		
Impairment of investments at U.S. Central FCU	21,709,418	108,484,281
Loss on investments, net	24,500,694	13,777,922
Compensation and employee benefits	11,257,991	12,117,833
Office operating costs	4,963,489	5,229,518
Professional and outside services	2,100,716	2,922,467
Other	994,841	1,568,218
Total non-interest expense	65,527,149	144,100,239
Net loss before minority interest	(45,761,734)	(111,551,402)
Minority interest	(55,254)	(111,003)
Net loss	(\$45,816,988)	(\$111,662,405)

Consolidated Statements of Comprehensive Operations

	For the years ended December 31,	
	2009	2008
NET LOSS:	(\$45,816,988)	(\$111,662,405)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Net unrealized holding gains/(losses) on investments classified as available-for-sale	29,735,967	(145,799,005)
Net unrealized holding gains/(losses) on 457 plan investment classified as available-for-sale	634,169	(1,771,825)
Reclassification adjustment for net losses included in net loss	24,732,199	16,326,825
Other comprehensive income/(loss)	55,102,335	(131,244,005)
Comprehensive income/(loss)	\$9,285,347	(\$242,906,410)

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

Consolidated Statements of Members' Equity

For the years ended December 31, 2009 and 2008

	Corporate Reserve	Undivided Earnings	Accumulated Other Comprehensive (Loss)/Income	Total
Balance, December 31, 2007	\$23,033,120	\$89,241,363	(\$25,651,171)	\$86,623,312
Net loss	—	(111,662,405)	—	(111,662,405)
Transfer	(23,033,120)	23,033,120	—	—
Other comprehensive loss	—	—	(131,244,005)	(131,244,005)
Balance, December 31, 2008	—	612,078	(156,895,176)	(156,283,098)
Net loss	—	(45,816,988)	—	(45,816,988)
Depletion of member capital accounts (See Note 6)	—	45,204,910	—	45,204,910
Other comprehensive income	—	—	55,122,335	55,122,335
Balance, December 31, 2009	\$—	\$—	(\$101,772,841)	(\$101,772,841)

Consolidated Statements of Cash Flows

	For the years ended December 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	(\$45,816,988)	(\$111,662,405)
Adjustments:		
Provision for loan losses	35,000	—
Depreciation	1,190,870	1,397,061
Impairment of investments at U.S. Central FCU	21,709,418	108,484,281
Amortization of investment premiums/discounts	(1,007,019)	(1,174,198)
Changes in operating assets and liabilities:		
Other receivables	17,247	(118,964)
Accrued interest receivable	3,595,111	13,029,829
Prepaid and other assets	(294,479)	(505,869)
Interest payable	(6,793,139)	(10,324,605)
Accounts payable	16,542,121	(8,089,265)
Other accrued liabilities	(21,653)	1,043,150
Minority interest	121,129	111,003
Net cash used in operating activities	<u>(10,722,382)</u>	<u>(7,809,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales and repayments of available-for-sale securities	667,410,904	842,472,622
Purchase of available-for-sale securities	(281,901,959)	(534,598,620)
Net change in other investments	(1,025,460,249)	647,139,103
Net change in loans to members	82,891,839	(27,235,807)
Expenditures for property and equipment	(286,884)	(947,422)
Change in NCUSIF deposit	(492,516)	48
Net cash (used in)/provided by investing activities	<u>(557,838,865)</u>	<u>926,829,924</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	800,391,631	(948,542,500)
Net change in membership capital share deposits	5,741,182	5,192,306
Net change in short-term borrowing	(235,051,387)	15,205,024
Net cash provided by/(used in) financing activities	<u>571,081,426</u>	<u>(928,145,170)</u>
Net change in cash	2,520,179	(9,125,228)
Cash at beginning of year	787,663	9,912,891
Cash at end of year	<u>\$3,307,842</u>	<u>\$787,663</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	<u>\$46,616,905</u>	<u>\$123,704,778</u>
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive income/(loss)	<u>\$55,122,335</u>	<u>(\$131,244,005)</u>
Depletion of member capital accounts	<u>\$45,204,910</u>	<u>\$—</u>

Notes to the Consolidated Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION-Southeast Corporate Federal Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of providing correspondent banking services as well as investment products and a source of credit for its member credit unions. The Credit Union also owns a majority interest in three credit union service organizations (CUSOs) which are described below:

Member Business Solutions, LLC - The Credit Union owns the majority of this company. The remainder of the company is owned by Georgia Central Credit Union. The primary sources of income for this CUSO are provided through fees earned for the underwriting and documenting of business loans for member credit unions and interest income on loans. During the years ended December 31, 2009 and 2008, the revenues from this CUSO represented a nominal percentage of total revenues. This company services loans for other credit unions which are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of loans serviced approximated \$43,698,000 and \$19,445,000 as of December 31, 2009 and 2008, respectively.

Corporate Synergies, LLC - The Credit Union owns the majority of this company. The remainder of the company is owned by Georgia Central Credit Union and VACORP Federal Credit Union. This company was started to provide a core data processing system to corporate credit unions. During the years ended December 31, 2009 and 2008, the revenues from this CUSO represented a nominal percentage of total revenues.

Accolade Investment Advisory, LLC - The Credit Union owns 100% of this company. This company was started in 2008 to provide investment advisory services to credit unions. During the years ended December 31, 2009 and 2008, the revenues from this CUSO represented a nominal percentage of total revenues.

CONSOLIDATED FINANCIAL STATEMENTS - The preparation of consolidated 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 consolidated 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 determination of the allowance for loan losses and fair value of financial instruments. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Credit Union and the three CUSOs described above. All significant intercompany accounts and transactions have been eliminated.

CASH - Cash includes amounts due from banks and corporate credit unions as well as deposits in transit. Amounts due from banks and corporate 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 market value as of the consolidated statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity. 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 Statement of Cash Flows Topic of the FASB Accounting Standards Codification. 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.

LOANS TO MEMBERS - Loans are stated at the amount of unpaid principal, net of an allowance for loan losses. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance for loan losses is maintained at an amount that represents management's estimate of incurred losses in the outstanding loan portfolio. Management's periodic evaluation of the adequacy of the allowance account is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when management believes that collection of interest is doubtful.

PROPERTY AND EQUIPMENT - Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Buildings, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. 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)

NCUSIF INSURANCE PREMIUMS - Credit unions are required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2008 insurance premium. (See Note 14)

MEMBERS' SHARE AND SAVINGS ACCOUNTS - Members' shares are subordinated to all other liabilities of the Credit Union other than membership capital share deposits 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 are not guaranteed by the Credit Union.

MEMBERSHIP CAPITAL SHARE DEPOSITS - Membership capital share deposits 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 share deposits 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. The weighted-average rate paid on these deposits was 0.05% and 4.83% as of December 31, 2009 and 2008, respectively. (See Notes 6 and 14)

MEMBER PAID-IN CAPITAL - In the event of the Credit Union's liquidation, paid-in capital is payable only after satisfaction of all liabilities of the Credit Union, including uninsured share obligations to members, the NCUSIF, and membership capital share deposits. Member paid-in capital is subject to withdrawal after 20 years from the original date of deposit. The weighted-average rate paid on these deposits was 5.33% as of December 31, 2008. (See Notes 6 and 14)

MEMBERS' EQUITY - The Credit Union is required to maintain a statutory reserve (corporate reserve) in accordance with the Federal Credit Union Act and NCUA's Rules and Regulations. This statutory reserve represents a regulatory restriction and is not available for the payment of interest. (See Note 12)

FEDERAL AND STATE TAX EXEMPTION - The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Federal Credit Union Act, Internal Revenue code, and state tax laws.

RECLASSIFICATIONS - Certain 2008 consolidated financial statement amounts have been reclassified to conform with classifications adopted in 2009.

Notes to the Consolidated Financial Statements Continued...

NOTE 2: INVESTMENTS

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

	As of December 31, 2009			Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
Asset-backed securities	\$260,575,485	\$188,273	(\$58,827,328)	\$201,936,430
Private issue mortgage-backed securities	144,319,887	31,103	(43,469,478)	100,881,512
Fed agency mortgage-backed securities	160,150,750	377,371	(1,435,566)	159,092,555
Notes receivable	17,007,321	51,272	—	17,058,593
Fed agency securities	229,580,076	892,666	(69,769)	230,402,973
	<u>\$811,633,519</u>	<u>\$1,540,685</u>	<u>(\$103,802,141)</u>	<u>\$709,372,063</u>

	As of December 31, 2008			Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
Asset-backed securities	\$614,482,042	\$17,965	(\$90,250,052)	\$524,249,955
Private issue mortgage-backed securities	220,635,842	—	(61,594,511)	159,041,331
Fed agency mortgage-backed securities	210,332,265	208,333	(4,433,498)	206,107,100
Notes receivable	36,975,753	—	(505,279)	36,470,474
Fed agency securities	113,709,543	305,960	(498,540)	113,516,963
	<u>\$1,196,135,445</u>	<u>\$532,258</u>	<u>(\$157,281,880)</u>	<u>\$1,039,385,823</u>

Proceeds from the sales of investments classified as available-for-sale approximated \$20,000,000 and \$55,508,000 for the years ended December 31, 2009 and 2008, respectively. Gross gains of approximately \$8,000 were realized in connection with the sale of these investments for the year ended December 31, 2008. No gains or losses were realized in connection with the sale of these investments for the year ended December 31, 2009. No losses were realized in connection with the sale of these investments for the year ended December 31, 2008.

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

	As of December 31, 2009					
	Available-for-sale					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Asset-backed securities	\$3,462,350	(\$3,007,626)	\$181,597,822	(\$55,819,702)	\$185,060,172	(\$58,827,328)
Private issue mortgage-backed securities	6,273,985	(5,133,272)	92,798,338	(38,336,206)	99,072,323	(43,469,478)
Fed agency mortgage-backed securities	3,804,647	(30,384)	127,246,134	(1,405,182)	131,050,781	(1,435,566)
Fed agency securities	69,735,143	(69,769)	—	—	69,735,143	(69,769)
	<u>\$83,276,125</u>	<u>(\$8,241,051)</u>	<u>\$401,642,294</u>	<u>(\$95,561,090)</u>	<u>\$484,918,419</u>	<u>(\$103,802,141)</u>

Notes to the Consolidated Financial Statements Continued...

NOTE 2: (continued)

	As of December 31, 2008					
	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 securities	\$276,151,510	(\$11,833,310)	\$240,547,124	(\$78,416,742)	\$516,698,634	(\$90,250,052)
Private issue mortgage-backed securities	15,781,646	(7,705,165)	143,259,685	(53,889,346)	159,041,331	(61,594,511)
Fed agency mortgage-backed securities	140,969,213	(3,267,097)	50,524,617	(1,166,401)	191,493,830	(4,433,498)
Notes receivable	4,952,175	(43,903)	31,518,299	(461,376)	36,470,474	(505,279)
Fed agency securities	94,505,309	(494,691)	2,544,992	(3,849)	97,050,301	(498,540)
	<u>\$532,359,853</u>	<u>(\$23,344,166)</u>	<u>\$468,394,717</u>	<u>(\$133,937,714)</u>	<u>\$1,000,754,570</u>	<u>(\$157,281,880)</u>

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. The decline in the fair values of the U.S. Government and Agency securities is largely due to inactive markets for these securities and 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 for the foreseeable future, however, this assessment is predicated on the continuance of the excess deposit guarantee provided by the NCUSIF to members of Southeast Corporate Federal Credit Union. (See Note 14)

The principal balances of the asset-backed securities, private issue mortgage-backed securities, and notes receivable are not guaranteed; however, the decline in the fair values of these securities is primarily due to the inactive market conditions, and the fair values of the securities are expected to be recovered as the market conditions return to normal levels, and therefore have not been recognized into income. Management has the ability to hold these securities for the foreseeable future, however, this assessment is predicated on the continuance of the excess deposit guarantee provided by the NCUSIF to members of Southeast Corporate Federal Credit Union. (See Note 14)

Management determined that the unrealized market losses on several individual securities was other-than-temporary. As a result, impairment charges were recorded equal to the difference between the amortized cost of these securities and their fair value totaling approximately \$24,732,000 and \$16,335,000 for 2009 and 2008, respectively, and are included on the consolidated statements of operations.

<u>Other investments:</u>	As of December 31,	
	2009	2008
U.S. Central Federal Credit Union:		
Daily shares	\$738,384,271	\$151,360,651
Membership shares	—	21,709,417
Certificates of deposit	1,625,405,539	1,323,911,356
Community investment fund	10,640,000	10,640,000
Fed funds sold	—	10,485,531
Certificates of deposit	10,963,000	22,585,000
FHLB:		
Member stock	5,102,100	13,888,700
Money market account	27,080	4,789
Federal Reserve Bank - Jacksonville, FL	171,555,491	4,315,576
Credit Union Service Organizations	1,180,071	605,701
	<u>\$2,563,257,552</u>	<u>\$1,559,506,721</u>

Included in the investments at U.S. Central Federal Credit Union are membership shares. On December 31, 2008, U.S. Central Federal Credit Union required member corporate credit unions to transfer a portion of membership shares to paid-in capital II to improve their equity position in an attempt to improve their overall credit rating. Membership shares and paid-in capital (I and II) are not insured by the NCUA. Due to substantial losses reported by U.S. Central Federal Credit Union, management determined that these deposits were impaired as of December 31, 2008. Accordingly, the Credit Union reported an impairment loss of approximately \$108,484,000 for the year ended December 31, 2008. This consisted of all of the paid-in capital investments in U.S. Central Federal Credit Union and 64% of the membership shares. During 2009, the remaining membership capital was determined to be impaired. Accordingly, the Credit Union reported an impairment loss of approximately \$21,709,000 for the year ended December 31, 2009.

Notes to the Consolidated Financial Statements Continued...

NOTE 2: (continued)

The amortized cost and estimated market 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.

	As of December 31, 2009	
	Amortized Cost	Market Value
<i>Available-for-sale:</i>		
Within one year	\$176,188,341	\$176,389,857
1 to 5 years	59,850,117	60,017,460
10 years and over	10,548,939	11,054,249
	246,587,397	247,461,566
Asset-backed securities	260,575,485	201,936,430
Fed agency mortgage-backed securities	160,150,750	159,092,555
Private issue mortgage-backed securities	144,319,887	100,881,512
	\$811,633,519	\$709,372,063

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31,	
	2009	2008
Loans outstanding:		
Demand	\$9,330,700	\$52,499,481
Collateralized loans	4,000,000	7,249,999
Settlement	1,874,198	18,326,890
Real estate	13,544,398	12,073,765
Term secured	4,780,000	26,271,000
Share Secured	750,000	750,000
	34,279,296	\$117,171,135
Less: allowance for loan losses	(35,000)	—
	\$34,244,296	\$117,171,135

A summary of the activity in the allowance for loan losses is as follows:

	As of December 31,	
	2009	2008
Balance, beginning of year	\$—	\$—
Provision for loan losses	35,000	—
Recoveries	—	—
Loans charged off	—	—
Balance, end of year	\$35,000	\$—

NOTE 4: PROPERTY AND EQUIPMENT

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

	As of December 31,	
	2009	2008
Land	1,752,393	\$1,752,393
Buildings	5,146,924	5,146,924
Furniture and equipment	1,815,034	1,909,011
Data processing equipment	7,070,697	6,846,173
Leasehold improvements	227,168	224,407
	16,012,216	15,878,908
Less accumulated depreciation and amortization	(7,800,238)	(6,762,944)
	\$8,211,978	\$9,115,964

Notes to the Consolidated Financial Statements Continued...

NOTE 5: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	As of December 31,	
	2009	2008
Transaction accounts	\$275,728,679	\$210,191,994
Funds plus	1,733,630,845	745,589,338
CIF variable rate shares	5,640,000	5,640,000
Managed investment accounts	85,617,146	125,080,930
Collateral share accounts	2,287,029	2,735,585
Certificates	1,235,709,956	1,448,984,177
	<u>\$3,338,613,655</u>	<u>\$2,538,222,024</u>

The aggregate amount of members' time deposit accounts in denominations of \$100,000 or more was approximately \$1,235,563,000 and \$1,448,367,000 as of December 31, 2009 and 2008, respectively.

Scheduled maturities of certificates are as follows:

	As of December 31, 2009
Within 1 year	\$924,026,006
1 to 2 years	235,858,950
2 to 3 years	47,225,000
3 to 4 years	14,700,000
4 to 5 years	13,900,000
	<u>\$1,235,709,956</u>

SHARE INSURANCE

Members' shares are generally insured by the NCUSIF to a maximum of \$250,000 for each member. (See Note 14)

NOTE 6: Depletion of Member Capital Accounts

Section 704.2 of the NCUA Rules and Regulations requires that paid-in-capital and membership capital shares be available to cover losses that exceed retained earnings (corporate reserves and undivided earnings). Southeast Corporate Federal Credit Union was instructed by the NCUA that they were expected to deplete paid-in capital and membership capital shares issued to natural person credit union members in order to restore any deficit in retained earnings. Therefore, during the year ended December 31, 2009, the Credit Union depleted member paid-in capital and membership capital shares by approximately \$45,205,000.

NOTE 7: BORROWED FUNDS

Borrowed funds are summarized as follows:

	As of December 31,			
	2009		2008	
	Weighted Average Rate	Balance	Weighted Average Rate	Balance
FHLB Advances	—	\$—	0.46%	\$140,571,400
Loans from U.S. Central CU:				
Commercial paper (due January 2009)	—	—	0.99%	\$51,979,987
Central Liquidity Facility				
Term (due January 2009)	—	—	1.75%	6,000,000
Term (due January 2009)	—	—	1.75%	6,500,000
Term (February 2009)	—	—	1.25%	5,000,000
Repurchase note (due August 2009)	—	—	3.89%	25,000,000
		<u>\$—</u>		<u>\$235,051,387</u>

Notes to the Consolidated Financial Statements Continued...

NOTE 8: EMPLOYEE BENEFITS

401(K) PLAN

All full-time employees of the Credit Union are eligible to participate in a 401(k) pension plan upon attaining one hour of service and 18 years of age. The Credit Union matches employee contributions at the rate of 100% up to 4% of their salary. During 2008, the Credit Union contributed an additional 7% of each eligible employees' salary to the plan. The profit sharing benefits become 100% vested after an employee completes six years of service. The employer matching contributions become 100% vested after an employee completes four years of service. The Credit Union's contributions to the 401(k) plan approximated \$323,000 and \$680,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE 9: POST RETIREMENT BENEFITS

The Credit Union has a post retirement benefit plan which pays for 100% of the employees' health care and life insurance premiums subsequent to retirement. Employees attaining at least age 55 and 20 years of service are eligible for a pro rata share of full benefits. Employees of the Credit Union are eligible for full benefits under this plan upon attaining age 65 and 20 years of service. The Credit Union has accrued a liability for this obligation; however, the Credit Union is not required to, and does not make cash contributions to the plan. During 2009, the Board of Directors elected to limit benefits under this plan to those participants already eligible for benefits. The result of the curtailment was a one-time reduction to the accumulated benefit obligation of approximately \$691,000. The following table sets forth the plan's status and amounts recognized in the Credit Union's consolidated statements of financial condition:

	As of December 31,	
	2009	2008
Accumulated post retirement benefit obligation	\$434,134	\$1,124,946
Plan assets at fair value	—	—
Funded status	434,134	1,124,946
Unrecognized net actuarial loss	—	—
Accrued pension benefit cost	<u>\$434,134</u>	<u>\$1,124,946</u>

The net periodic benefit cost related to this plan was approximately \$213,000 and \$179,000 for the years ended December 31, 2009 and 2008, respectively. Employer contributions and benefits paid during the year ended December 31, 2009 approximated \$20,000. Expected contributions for the plan year beginning January 1, 2010 is approximately \$16,000.

Assumptions used to develop the net periodic post-retirement benefits cost were as follows:

	For the years ended	
	December 31,	
	2009	2008
Discount rate	5.75%	6.00%
Expected long-term return on plan assets	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%

The following benefit payments are expected to be paid:

Year beginning	Amount
January 1,	
2010	\$16,000
2011	19,000
2012	21,000
2013	24,000
2014	23,000
2015-2019	<u>130,000</u>
	<u>\$233,000</u>

Notes to the Consolidated Financial Statements Continued...

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES

LINES OF CREDIT:

As of December 31, 2009, the Credit Union had an unused Advised Line-of-Credit Agreement with U.S. Central Federal Credit Union. The terms of the agreement require the pledging of all share accounts, share certificate accounts, or other accounts maintained with U.S. Central Federal Credit Union as security for obligations under this line-of-credit agreement. The Credit Union is also required to pledge any securities held in safekeeping by U.S. Central Federal Credit Union. The line of credit was \$1,250,000,000 as of December 31, 2009. (See Note 14)

As of December 31, 2009, the Credit Union maintained an unused line-of-credit with the FHLB Atlanta of \$80,000,000. Advances under this agreement are required to be fully secured by qualifying collateral.

LEASE COMMITMENT:

The Credit Union leases certain office locations. The minimum noncancellable lease obligations approximate the following as of December 31, 2009.

Year ending December 31,	Amount
2010	\$247,000
2011	256,000
2012	219,000
Thereafter	—
	<u>\$722,000</u>

The rental expense under operating leases was approximately \$248,000 and \$227,000 for the years ended December 31, 2009, and 2008, respectively.

MISCELLANEOUS LITIGATION:

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the Credit Union's consolidated financial statements.

NOTE 11: 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 members 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 consolidated 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 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, 2009, the Credit Union's unused lines of credit approximated \$1,983,811,000. 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.

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 southeastern United States. In addition, as a normal course of business operation, the Credit Union maintains a significant amount of its investments with U.S. Central Federal Credit Union. These funds exceed the federal deposit insured limits; however management does not anticipate any loss as a result of this activity, as these investments are fully guaranteed by the NCUA through June 30, 2012.

Notes to the Consolidated Financial Statements Continued...

NOTE 12: REGULATORY CAPITAL AND MANAGEMENT'S PLANS

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 consolidated 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. 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 its daily average net assets must meet certain minimum earnings requirements as established by the NCUA. The Credit Union's actual and required capital ratios were as follows:

	As of December 31, 2009		As of December 31, 2008	
	Amount	Ratio	Amount	Ratio
Capital ratio:				
Actual capital:				
Retained earnings	\$—		\$612,078	
Membership capital	67,724,818		86,995,598	
Paid-in capital	—		20,192,948	
S-40 Notice	(2,535,844)		(1,534,014)	
	<u>\$65,188,974</u>	1.98%	<u>\$106,266,610</u>	2.82%
Required capital	<u>\$131,625,541</u>	4.00%	<u>\$150,615,072</u>	4.00%

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

Retained earnings ratio:				
Actual retained earnings	<u>\$—</u>	0.00%	<u>\$612,078</u>	0.02%
Required retained earnings	<u>\$65,812,770</u>	2.00%	<u>\$75,307,536</u>	2.00%

The Credit Union was not compliant with the NCUA's capital requirements as of December 31, 2009 and 2008. However, on April 21, 2009, the NCUA Board approved an 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. This exception is expected to remain in place until NCUA issues the new corporate credit union regulation in 2010.

The Credit Union has sustained substantial losses due to the impairment of paid-in capital and membership capital share investments in U.S. Central Federal Credit Union and specific securities maintained within the Credit Union's available-for-sale investment portfolio which has depleted retained earnings and has resulted in non-compliance with critical regulatory capital requirements as indicated in the preceding table. The Credit Union has informed its regulator, the NCUA, and has received regulatory forbearance. Additionally, the Credit Union has submitted a capital restoration plan, including expense reductions and operational efficiencies, designed to improve profitability which have been accepted by the NCUA. However, the NCUA may impose future requirements upon the Credit Union as a result of the new corporate credit union regulations expected to be issued in 2010.

NOTE 13: FAIR VALUES OF FINANCIAL INSTRUMENTS

The Credit Union adopted the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards of Codification, which provides a framework for measuring fair value and 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 on the following page:

Notes to the Consolidated Financial Statements Continued...

NOTE 13: (continued)

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 at the reporting date.

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

	As of December 31, 2009			Total
	Quoted Prices Active Markets Identical Assets	Significant Other Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
<u>Available-for-sale:</u>				
Asset-backed securities	\$—	\$168,528,586	\$33,407,844	\$201,936,430
Private issue mortgage-backed securities	—	68,073,487	32,808,025	100,881,512
Fed agency mortgage-backed securities	159,092,555	—	—	159,092,555
Notes receivable	—	—	17,058,593	17,058,593
Fed agency securities	230,402,973	—	—	230,402,973
	\$389,495,528	\$236,602,073	\$83,274,462	\$709,372,063

	As of December 31, 2008			Total
	Quoted Prices Active Markets Identical Assets	Significant Other Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
<u>Available-for-sale:</u>				
Asset-backed securities	\$—	\$513,805,802	\$10,444,153	\$524,249,955
Private issue mortgage-backed securities	—	133,142,476	25,898,855	159,041,331
Fed agency mortgage-backed securities	206,107,100	—	—	206,107,100
Notes receivable	—	—	36,470,474	36,470,474
Fed agency securities	113,516,963	—	—	113,516,963
	\$319,624,063	\$646,948,278	\$72,813,482	\$1,039,385,823

Notes to the Consolidated Financial Statements Continued...

NOTE 13: (continued)

The following tables reconcile financial instruments measured using Level 3 inputs:

	Total Fair Value			Total
	Asset-backed securities	Private issue mortgage-backed securities	Notes receivable	
Balance December 31, 2008	\$10,444,153	\$25,898,855	\$36,470,474	\$72,813,482
Transfers into Level 3	46,150,825	37,058,453	—	83,209,278
Total gains/(losses) - realized and unrealized:				
Included in earnings	(14,052,362)	(10,679,837)	—	(24,732,199)
Included in other comprehensive operations	3,703,342	2,024,198	556,551	6,284,091
Purchase and principal repayments, net	(12,838,114)	(21,493,644)	(19,968,432)	(54,300,190)
Balance December 31, 2009	\$33,407,844	\$32,808,025	\$17,058,593	\$83,274,462

	Total Fair Value			Total
	Asset-backed securities	Private issue mortgage-backed securities	Notes receivable	
Balance January 1, 2008	\$13,114,691	\$42,967,945	\$77,063,895	\$133,146,531
Total gains/(losses) - realized and unrealized:				
Included in earnings	(7,033,159)	(9,301,666)	—	(16,334,825)
Included in other comprehensive operations	5,920,918	1,399,637	(107,707)	7,212,848
Purchase and principal repayments, net	(1,558,297)	(9,167,061)	(40,485,714)	(51,211,072)
Balance December 31, 2008	\$10,444,153	\$25,898,855	\$36,470,474	\$72,813,482

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.

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.

ACCRUED INTEREST RECEIVABLE - The carrying amount is a reasonable estimation of fair value.

MEMBERS' SHARE AND SAVINGS ACCOUNTS AND MEMBER CAPITAL ACCOUNTS - 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.

Notes to the Consolidated Financial Statements Continued...

NOTE 13: (continued)

BORROWED FUNDS - The carrying amount is a reasonable estimation of fair value

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:

	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash	\$3,307,842	\$3,307,842	\$787,663	\$787,663
<i>Investments:</i>				
Available-for-sale	\$709,372,063	\$709,372,063	\$1,039,385,823	\$1,039,385,823
Other	\$2,563,257,552	\$2,572,710,965	\$1,559,506,721	\$1,572,499,890
Loans to members, net	\$34,244,296	\$34,244,296	\$117,171,135	\$117,171,135
Accrued interest receivable	\$7,298,204	\$7,298,204	\$10,893,315	\$10,893,315
<i>Financial liabilities:</i>				
Members' share & savings accounts	\$3,338,613,655	\$3,349,885,483	\$2,538,222,024	\$2,571,963,563
Membership capital share deposits	\$67,724,818	\$67,724,818	\$86,995,598	\$86,995,598
Member paid-in capital	\$—	\$—	\$20,192,948	\$20,192,948
Borrowed funds	\$—	\$—	\$235,051,387	\$235,051,387
Interest payable	\$7,217,415	\$7,217,415	\$14,010,554	\$14,010,554
<i>Unrecognized financial instruments:</i>				
Commitments to extend credit	\$—	\$1,983,811,000	\$—	\$2,011,632,000

NOTE 14: NCUA CORPORATE STABILIZATION PROGRAM

On January 28, 2009, all federally-insured credit unions were informed that actions taken by the NCUA to enhance and support the corporate credit union system would result in a partial writedown of the Credit Union's 1 percent NCUSIF deposit. It was also determined that an insurance premium would be assessed sufficient to return the NCUSIF's equity ratio to 1.30 percent. The Credit Union recognized the 69% impairment NCUSIF deposit of approximately \$288,000 and the 30 basis point insurance premium assessment during the year ended December 31, 2009. However, as a result of the establishment of the Temporary Corporate Credit Union Stabilization Fund by the NCUA, the NCUSIF deposit balance was subsequently restored and income of approximately \$288,000 was recognized during the year ended December 31, 2009 and the 30 basis point insurance premium was reduced to 15 basis points.

Another action taken by the NCUA on January 28, 2009, was to provide a temporary guarantee on all deposits in excess of insurable limits maintained at U.S. Central Federal Credit Union, other than membership capital shares and paid-in capital, through February 28, 2009. Corporate credit unions, including U.S. Central Federal Credit Union, were given the ability to voluntarily extend this guarantee on condition that the Board of Directors of the corporate credit union sign a Supervisory Agreement with the NCUA. As a result of signing this agreement, the Credit Union's deposits in excess of insurable limits at U.S. Central Federal Credit Union, other than membership capital shares and paid-in-capital are fully guaranteed by the NCUSIF through June 30, 2012.

An additional action taken by the National Credit Union Administration on January 28, 2009, was an infusion of capital from the National Credit Union Share Insurance Fund of \$1 billion into U.S. Central Federal Credit Union.

Notes to the Consolidated Financial Statements Continued...

NOTE 14: (continued)

On March 20, 2009, the NCUA placed U.S. Central Federal Credit Union into conservatorship. In connection with this action, the NCUA announced that uninsured deposits maintained by corporate credit unions in membership capital shares and paid-in capital at U.S. Central Federal Credit Union were impaired. The NCUA delayed the issuance of the December 31, 2008, financial statements of U.S. Central Federal Credit Union until a further evaluation of the investment securities maintained by the Credit Union could be performed.

On September 8, 2009, the audited financial statements of U.S. Central Federal Credit Union were issued for the period ended December 31, 2008. These financial statements indicated substantial losses at U.S. Central Federal Credit Union due to impairment charges related to the Credit Union's investment securities. These financial statements also indicated significant further deterioration in the values of the investment securities. As a result, Southeast Corporate Federal Credit Union has recognized an impairment loss of approximately \$108,484,000 for the year ended December 31, 2008, which represents 100% of the Credit Union's paid-in capital I and II as well as 64% of the Credit Union's membership capital shares at U.S. Central Federal Credit Union.

On March 2, 2010, the fourth-quarter financial statements (unaudited) of U.S. Central Federal Credit Union were issued for the period ended December 31, 2009. The financial statements indicated further losses at U.S. Central Federal Credit Union due to additional impairment charges related to the Credit Union's investment securities and full depletion of all membership capital shares. As a result, Southeast Corporate Federal Credit Union has recognized an impairment loss of approximately \$21,709,000 during the year ended December 31, 2009. Additionally, U.S. Central Federal Credit Union has depleted approximately \$331 million of the \$1 billion infusion of capital noted above.

NOTE 15: NEW LEGISLATION

On May 20, 2009, President Obama signed into law S.896, the Helping Families Save Their Home Act of 2009. This legislation created the Corporate Credit Union Stabilization Fund and includes the following provisions with respect to mitigating the costs incurred by credit unions as a result of the NCUA's corporate stabilization program:

- ⇒ Enables credit unions to spread the cost of the 69 percent NCUSIF deposit impairment over seven years;
- ⇒ Extends to eight years the restoration period when the NCUSIF equity ratio falls below 1.20 percent. This provision applies to the 30 basis point premium assessment that would return the NCUSIF to an equity ratio of 1.30 percent.

On June 18, 2009, the NCUA Board met and approved the following action with respect to implementing the Helping Families Save Their Homes Act of 2009:

- ⇒ Approved the legal transfer of assets and liabilities associated with the Corporate Stabilization Program to the Corporate Credit Union Stabilization Fund;
- ⇒ Fully restored the Credit Union's NCUSIF deposit;
- ⇒ Reduce the 2009 premium assessment from 30 basis points to 15 basis points.

The financial impact of these actions was to increase the Credit Union's non-interest income by approximately \$288,000 (the same amount as the impairment of the NCUSIF deposit) and to decrease the NCUSIF premium assessment from 30 basis points to 15 basis points during the year ended December 31, 2009.



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