



# Consolidated Financial Statements

*Unaudited*

June 30, 2008



Contact Information:

**Todd Adams**

*Chief Financial Officer*

630-276-2770

[todd.adams@membersunited.org](mailto:todd.adams@membersunited.org)

July 24, 2008

To our members,

Members United's net income of \$11.3 million through June 30, 2008 compares favorably to the \$5.2 million earned during the first six months of 2007. Members United continues to enjoy a good margin environment as the spread between LIBOR (the rate earned on investments) and Fed Funds (the rate paid on member share accounts) continues to be higher than historical results.

Assets totaled \$12.1 billion as of June 30, 2008, compared to \$12.8 billion one year earlier. The current market has stressed the market value of our investments; however, we continue to receive all scheduled principal and interest payments. Members United currently has a few investments rated BBB- that continue to perform even though they have been downgraded.

The effects of the market stress are visible on the financial statements in the form of unrealized losses on the balance sheet. All of Members United's marketable securities are classified as "available for sale" which requires each position to be priced to market with the offsetting entry recorded as a component of equity. In practice, Members United generally holds its marketable securities until maturity, and believes that the market value of these investments will recover over time.

Unrealized losses totaled \$951.2 million as of June 30, 2008, compared to \$885.4 million one month earlier. We continue to believe that these current market values do not represent the true economic value of these investments as a significant liquidity discount is being built into the pricing of the positions.

Future net income could suffer if investment principal losses were **clearly** expected. This would require us to record, through the income statement, permanent impairment charges (for example, losses would be recorded if Members United purchased a bond at \$100 and now clearly expects to receive only \$90 in principal over the life of the investment). As of the date of this report, Members United does not believe permanent impairment is warranted, however, continued deterioration in the market fundamentals could change this view in the future.

In addition to these financial statements, additional information has been posted on the website such as the *Portfolio Update* and recordings of the monthly member webinars. Most recently, the webinar on July 15 summarized the results of an external portfolio review regarding the credit worthiness of our investments. In summary, Members United's strong capital base is sufficient to weather this historic market cycle.

Respectfully submitted,

Todd M. Adams  
Chief Financial Officer

**MEMBERS UNITED CORPORATE FEDERAL CREDIT UNION**  
**CONSOLIDATED BALANCE SHEETS - (REGULATORY CAPITAL FORMAT)**  
**JUNE 30, 2008**  
*(in thousands)*

	June 30,		December	Notes
	2008	2007	2007	
<b>Assets</b>				
Cash and cash equivalents	\$ 128,844	\$ 119,361	\$ 102,935	
Overnight deposits at U.S. Central	2,673,948	2,503,272	2,164,024	
Investment securities, at fair value	5,650,387	6,289,453	6,718,171	A
Interest earning deposits at U.S. Central	2,489,327	3,235,114	4,195,292	
Loans to members and affiliates	907,494	469,579	671,151	
Participation loans, net	95,380	50,836	55,338	
Fixed assets, net	10,116	12,040	11,544	
Accrued income and other assets	137,629	98,555	129,238	
<b>Total assets</b>	<b>\$ 12,093,125</b>	<b>\$ 12,778,210</b>	<b>\$ 14,047,693</b>	
<b>Liabilities and Members' Equity</b>				
Borrowings and other liabilities				
U.S. Central borrowings	\$ 304,253	\$ 40,549	\$ 1,637,876	
Commercial paper	154,620	96,064	146,076	
Securities sold under agreements to repurchase	645,540	-	949,507	
Other borrowings and liabilities	636,854	360,108	679,233	
Total borrowings and other liabilities	1,741,267	496,721	3,412,692	
Members' equity				
Shares and certificates	10,407,191	11,412,033	10,113,991	
Membership capital shares	484,607	486,545	485,255	
Paid-in capital shares	79,440	79,440	79,440	
Statutory reserves and undivided earnings	331,848	309,721	319,962	
Total regulatory capital	895,895	875,706	884,657	B
Accumulated other comprehensive loss	(951,228)	(6,250)	(363,647)	C
Total members' equity	10,351,858	12,281,489	10,635,001	
<b>Total liabilities and members' equity</b>	<b>\$ 12,093,125</b>	<b>\$ 12,778,210</b>	<b>\$ 14,047,693</b>	

**Notes:**

- A** Members United classifies 100% of its marketable securities as "Available for Sale" under FAS 115 and is required to value each security and record the adjustment as "Accumulated other comprehensive loss". See note **C** below.
- B** The balance sheet has been reformatted to better highlight regulatory capital. Please note that membership capital shares have a 3-year notice of withdrawal and paid-in capital shares have a maturity in excess of 10 years. Due to the longer term maturity features of these accounts, they do not qualify as equity under generally accepted accounting principals but do qualify as regulatory capital and would be positioned to absorb realized losses in excess of reserves and undivided earnings.
- C** This account primarily represents the unrealized loss associated with Members United's marketable securities. Unrealized losses have not been recognized into income because the securities are of high credit quality (investment grade with a majority rated at the highest AAA or AA levels), Members United has the intent and ability to hold these securities until the anticipated recovery, and the decline in fair value is largely due to unique market events that have reduced demand for these type of securities. The fair value is expected to recover as the securities approach maturity date or as market volatility stabilizes and returns to more historic levels.

**MEMBERS UNITED CORPORATE FEDERAL CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**AS OF JUNE 30, 2008**  
*(in thousands)*

	Month Ended		Year-to-Date		Notes
	June 30,		June 30,		
	2008	2007	2008	2007	
<b>Interest income</b>					
Investments	\$ 29,918	\$ 51,090	\$ 246,848	\$ 289,640	
Loans	3,473	1,870	18,971	11,208	
Total interest income	<u>33,391</u>	<u>52,960</u>	<u>265,819</u>	<u>300,848</u>	
<b>Interest expense</b>					
Members' accounts	25,616	47,453	200,689	269,956	
Borrowings	3,115	1,571	34,406	9,247	
Total interest expense	<u>28,731</u>	<u>49,024</u>	<u>235,095</u>	<u>279,203</u>	
Net interest income	4,660	3,936	30,724	21,645	
<b>Noninterest income</b>					
Service fee income, net	1,592	1,862	10,244	10,202	
Other income	40	15	92	94	
Net realized gains (losses)	1	(1,005)	(904)	(1,900)	A
Total noninterest income	<u>1,633</u>	<u>872</u>	<u>9,432</u>	<u>8,396</u>	
<b>Noninterest expense</b>					
Salaries and employee benefits	2,641	2,256	16,086	14,813	
Training, travel and communications	439	437	2,687	2,846	
Office operations	350	383	2,127	2,309	
Professional and outside services	458	422	2,559	2,490	
Office occupancy	241	274	1,527	1,670	
Other	77	114	829	751	
Total noninterest expense	<u>4,206</u>	<u>3,886</u>	<u>25,815</u>	<u>24,879</u>	
<b>Net income before fair value adjustments</b>	<u>2,087</u>	<u>922</u>	<u>14,341</u>	<u>5,162</u>	
<b>Fair value adjustments</b>	<u>(819)</u>	<u>-</u>	<u>(3,044)</u>	<u>-</u>	B
<b>Net income</b>	<u>\$ 1,268</u>	<u>\$ 922</u>	<u>\$ 11,297</u>	<u>\$ 5,162</u>	

**Notes**

- A** Gains and losses that have been realized (ie, the security has been sold and a cash gain or loss has been realized) will be reported in this line item. Fair value, impairment or other accounting adjustments that do not represent gains or losses on cash sales will be reported separately. See note **B** below.
- B** Accounting rules such as SFAS 115, SFAS 133 and SFAS 159 are increasingly requiring financial institutions to record at fair value assets, liabilities and derivatives and charge changes in unrealized gains or losses to the income statement. This account will report those fair value adjustments. In the event a position is sold at a cash gain or loss, the amount will be reclassified to the account described in Note **A** above.

**MEMBERS UNITED CORPORATE FEDERAL CREDIT UNION**  
**KEY FINANCIAL INFORMATION**  
**JUNE 30, 2008**  
*(in thousands)*

**Capital Ratios**

	June 30,		December 31,	Regulatory Limits or Thresholds
	2008	2007	2007	
Qualifying membership capital shares	\$ 484,607	\$ 486,545	\$ 485,255	
Paid-in capital shares	79,440	79,440	79,440	
Statutory reserves and undivided earnings	331,848	309,721	319,962	
Total regulatory capital	<u>\$ 895,895</u>	<u>\$ 875,706</u>	<u>\$ 884,657</u>	
12-month daily average net assets	\$ 12,978,234	\$ 10,322,505	\$ 11,926,799	
Capital ratio	6.90%	8.48%	7.42%	5.00%
Core capital ratio	3.17%	3.77%	3.35%	3.00%
Retained earnings ratio	2.56%	3.00%	2.68%	2.00%

**Net Economic Value**  
**June 30, 2008**

	Net Economic Value	Dollar Change	Actual Percentage Change	Policy
300 basis point rise in rates	\$ (392,942)	\$ (330,074)	A	(28%)
Base net economic value	(62,868)			
100 basis point decline in rates	(16,838)	46,030	A	

A Unrealized losses associated with marketable securities decrease the base net economic value which has resulted in percentage change calculations exceeding the policy limit. It is likely that this will continue to occur until the market stabilizes. Members United has notified the NCUA of the policy violation and believes that investment positioning is not required at this time as the event was triggered by an overall increase in the volatility and pricing assumptions embedded in the calculation. Please refer to the Portfolio Update for more information regarding market events.

**Issuer Ratings**

	Rating Type	Rating	
Moody's	Short term	P-1	
Standard and Poor's	Short term	A-1+	
Fitch	Short term	F1+	negative watch
	Long term	AA-	negative watch
	Individual	A/B	negative watch

**Supplemental Valuation Information**

	Balance
Non-agency mortgages	\$ (837,893)
Asset-backed securities	(27,791)
Commercial mortgage-backed securities	(45,865)
Corporates	(29,530)
Agencies	(896)
Derivative instruments	(9,253)
Accumulated other comprehensive loss	<u>\$ (951,228)</u>