



*Our goal will never change—  
to be your most valuable resource.*



*Empowering our members.®*

**VOLUNTEER  
CORPORATE**  
CREDIT UNION®



benefits – costs = *the volcorp value*

The word value has many different meanings, but most would agree the concept of “value” is subjective rather than objective. It means something different to each person considering it, and that meaning can change based on the time, place, or specific situation.

As you will see in the Chairman and President’s Report, 2010 was a year of many changes for VolCorp. As a result, your corporate is now much leaner and more agile than it has been in the past. But the one thing that will never change is our goal – *to be your most valuable resource*. As stated in the Treasurer’s Report, VolCorp reported profitability every month in 2010, improved efficiencies

across the board, and worked diligently to provide exceptional member service. VolCorp is YOUR corporate, and we constantly strive to ensure that the benefits to your credit union always outweigh the costs. With that said, the theme of this year’s Annual Report is *The VolCorp Value*.

We sincerely thank you, our member/owners, for your continued loyalty to and support of VolCorp during these challenging times. The following pages will not only explain some of the necessary adjustments VolCorp has made to operate in the new regulatory environment, but will also show that we are well positioned to continue providing value for many years to come.





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*reports*

chairman/president's report

2010 was an encouraging year for your corporate credit union as we resumed building our capital position with positive earnings. The losses associated with U.S. Central Corporate Credit Union are now well behind us and, in close partnership with our credit union member/owners, we look confidently to our future.

VolCorp has withstood the recent test and come through the economic crises intact. Out of the original twenty eight corporate credit unions, five lost all of their capital and were taken into conservatorship, eighteen others depleted all of their retained earnings as well as a percentage of their member contributed capital, and only five did not deplete any member capital. We are very happy to report that VolCorp was one of the latter five.

As a direct result of the losses suffered by the failed corporates, their members, and all credit unions through the share insurance fund, the National Credit Union Administration has rewritten the regulations governing corporate credit unions to assure us that "these catastrophic losses do not happen again."

The new regulations should not have any major impacts on VolCorp's future operations, as we have always run our corporate conservatively. There is a requirement, however, that corporate credit union members will have to "step-up" and convert their three-year notice capital into perpetual contributed capital (PCC) if they want to continue their cooperative ownership of their corporate. As of the date of the writing of this report, VolCorp's capital conversion campaign was closing in on its stated goal. We are very grateful to VolCorp's member/owners who have affirmed their support and committed to the continuance of their corporate.

Currently, VolCorp is in a unique position compared to other corporate credit unions. Since VolCorp did not deplete any member capital and has maintained a significant amount of retained earnings, we will most likely not have to shrink our balance sheet in order to comply with the capital requirements of the new regulations.



Hank Flury  
Chairman

Also, since VolCorp was already managing its investment portfolio conservatively, the more stringent investment regulations should have only minimal effects. The result is that VolCorp should be able to maintain the net interest income levels that we have in the past. We will, therefore, be in the unusual position of not having to drastically cut expenses, eliminate services, or raise prices in order to achieve the new capital requirements. Good news for VolCorp members.

Word of the relatively strong performance of VolCorp has spread to other areas of the country and attracted potential new members. Adding new members will help us achieve more economies of scale and keep prices low for current members. We are, of course, requiring all new members to contribute the appropriate amount of PCC so as to not dilute our capital position.

2010 was a year of many changes for VolCorp. Not only did we receive a whole new



Rick Veach  
President/CEO

set of regulations under which we will operate in the future, we also began the process of disconnecting from U.S. Central and the many services they had provided us in the past. As of the end of last year, we had successfully transitioned several of those services and we anticipate moving the remainder during 2011.

Expense control was another major objective for 2010. Despite bringing many services in-house

from U.S. Central and significant investments in new technology, we were able to reduce total operating expenses by over 3%.

This was accomplished by taking full advantage of the benefits of the investments we made in technology and reducing expenses, primarily with staff reductions. Your corporate is now much leaner and more agile than it has been in the past.

In closing, we want to express our gratitude to you, our member/owners, for your continued loyalty to VolCorp during these difficult times that we are all experiencing. In partnership together we can continue to achieve the economies and service excellence that only an effective cooperative effort can provide.

treasurer's report

It's hard to think of 2010 as having been a year of strength or stability, but as compared to the two years prior, it was. Both in regards to the market place and in regards to VolCorp's financials, strength and stability shone through to some degree. Uncertainty still plagued the economy, but the ripple effect caused by the mortgage market meltdown subsided and VolCorp reported a year that was more representative of their long-term history than it was of the prior two years. VolCorp reported profitability every month in 2010, improved efficiencies across the board, and worked diligently to provide service excellence to their member/owners.

At the end of 2009, VolCorp wrote off the remaining balance of its U.S. Central capital position leaving itself with no further exposure to U.S. Central capital depletions like those experienced in 2008 and 2009. VolCorp did, however, have to continue monitoring its own securities with inherent credit risk. In June 2010, VolCorp, once again, hired RiskSpan, Inc. to perform impairment analysis on some of its non-agency securities. One security showed an additional impairment at mid-year and an entry of \$338 thousand was booked versus income. The majority of the loss was offset by selling securities from the portfolio at a gain. The same analysis was performed on this and other securities at year-end and RiskSpan



John Jacoway  
Treasurer

indicated that no additional impairment needed to be booked.

Though rates remained very low, spreads narrow, and investment opportunities presented themselves very inconsistently, VolCorp was still able to find ways to increase its portfolio size with safe, quality investments and to take advantage of other opportunities in the markets. This combined with improved operational efficiencies and expense reductions resulted in an ROA of 19 basis points for the year, or \$2.7

million in net income.

The retained earnings ratio at December 31, 2010 was 0.37%.

This is well below the regulatory requirement of 2.00%. However, for regulatory purposes, NCUA is using capital levels as reported on November 30, 2008 until the capital section of the new corporate regulations becomes effective, which alleviates concerns of regulatory action.

More importantly, as all Corporates work diligently to adhere to the new regulatory capital requirements, VolCorp is well positioned and ahead of the proposed NCUA schedule to meet all retained earnings targets and requirements. At year-end, VolCorp's capital ratio was 4.01%, in line with the 4% NCUA threshold.

(continued)



treasurer's report (continued)

VolCorp continues to diversify its balance sheet into high quality, sound investments. The focus remains on government/agency securities and asset-backed securities with sufficient collateral and/or credit support to help limit credit risk exposure. VolCorp also continues to use an independent expert to evaluate the investment portfolio for impairments.

A review of the audited financial statements indicates that internal operations are sound. VolCorp is well positioned to serve members as they have become accustomed and has made the necessary adjustments to operate in the new regulatory environment. As such, we look forward to providing value to your credit union in 2011 and for many years to come.

supervisory committee's report

The responsibility of the Committee is to inspect or cause to be inspected the securities, cash and accounts of VolCorp, to establish audits, to opine on the financial statements at the end of the fiscal year and to cause a full report to be made of the results of these audits to the Board. In accordance with these responsibilities, the independent accounting firm of Rayburn, Bates & Fitzgerald, P.C. was engaged to perform the annual audit of VolCorp. Their letter, reproduced in this annual report, renders a qualified opinion on the financial statements of Volunteer Corporate Credit Union as of December 31, 2010, and for the year then ended.

During the year VolCorp was also examined by the Tennessee Department of Financial Institutions in consult with the National Credit Union Administration. Also during 2010, the



Mike Haggard  
Chairman

Supervisory Committee engaged Ms. Marla Mackie, CPA, to perform the internal audit function at VolCorp. This was done on an ongoing basis throughout the year with appropriate reports and recommendations given to the Supervisory Committee. The Committee also reviewed monthly security reports provided by Bart Hopper, Security Analyst. Based on the results of the internal audits, the security reports, external audit, and the examinations of the regulatory agencies conducted during the past year, the Supervisory

Committee believes that it has properly represented the membership and its responsibilities to VolCorp.

The Committee would like to commend the board of directors, management and staff for their continued support and commitment to the audit and review process and for their continuing dedication of service to member credit unions.



*corporate*

volcorp's *management*



Standing (left to right):

Rick Veach, *President/CEO*; Sandy Swofford, *Senior VP, Marketing & Business Development*; Susan Wilkerson, *AVP, Compliance*; Michelle Palmer, *VP, Business Development & Consulting*; Phillip Cochran, *Chief Investment Officer*; Karla Knisley, *Senior VP/COO*

Sitting (left to right):

Susan Stack, *AVP, Controller*; Jeffrey W. Merry, *Senior VP/CFO*; Lisa Wright, *VP, Administration*; Ben Williams, *Senior VP/CTO*

volcorp's *board of directors*

officers



**Hank Flury**  
Comerstone Financial CU  
*Chairman*



**Ken Swann**  
City of Memphis CU  
*Vice Chairman*



**John Jacoway**  
Southeast Financial CU  
*Treasurer*



**Karen Jordan**  
P&G Jackson Employees FCU  
*Secretary*

directors



**Rose Melton**  
Altra FCU



**Mike Haggard**  
HealthNet FCU



**Wade Stapleton**  
LifeWay CU

directors



**Gary Land**  
Chattanooga Area Schools FCU



**Bonnie Sensing**  
Nashville Firemen's CU

**ADDRESS:**

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Nashville, Tennessee 37214

**WEBSITES:**

www.volcorp.org  
www.volcorpdesign.org

**NUMBERS:**

(615) 232-7900  
(800) 470-3444  
After Hours: (615) 232-7977  
Main Fax: (615) 232-7999  
Operations Fax: (615) 232-7979

**DIRECT-DIAL EXTENSIONS:**

Member Services/Operations/  
Item Processing/ACH . . . 1  
Investments and Finance . . . 2  
Marketing and Business Development . . . 3  
Administration and President's Office . . . 4  
Product Support . . . 5  
Operator . . . 0

**OFFICE HOURS:**

VolCorp is open Monday, Tuesday, Wednesday and Friday from 7:30 a.m. to 4:30 p.m. (Central time). On Thursdays, hours are from 8:30 a.m. to 4:30 p.m. (Central time). Our Member Services Department closes at 4:15 p.m. (Central time) each day. Office closings are coordinated with the Federal Reserve Bank holiday schedule.

office information



**ACH:**

ACH Settlement  
ACH Receipt  
ACH Origination  
ACH Return (Exception) Handling  
ACH Contingency

**ALM:**

ALM Modeling  
ALM Validation Service  
Investment Portfolio Consultation  
ALM & Investment Policy Design  
and Review  
ALM & Investment Seminars  
ALM & Investment Training

**CONSULTING:**

ACH Audits  
ACH Risk Assessments  
BSA Audits  
Family Disaster Planning  
Strategic Planning  
Charter Expansion and Conversion  
Corporate Statement Reconciliation  
Business Writing  
Education/Training  
Policy & Procedure Development  
and Review  
Operational Efficiency Reviews  
Special Projects  
Fixed Asset Waivers

**CONVENIENCE:**

Interactive Website  
VolCorp Online  
Home Banking Images  
Access Image-NET  
NET-Statement  
e-Alerts

**CORRESPONDENT:**

Automated Settlement  
Federal Reserve Check Collection  
Federal Reserve Coin and Currency  
Cash Vault Program  
Savings Bond Settlement  
Treasury, Tax & Loan Depository  
Reserve Requirement Settlement

**ELECTRONIC FUNDS TRANSFER:**

Wire Transfers  
Ezwire (Domestic Wires)  
EPD (Foreign Wires)  
Tele-Transfer  
Electronic Debit Transfer (EDT)

**INVESTMENT:**

Brokerage Service  
Investment Consultation  
Transaction Account  
Premier Account  
Member Managed Fund Account  
Certificates of Deposit  
SimpliCD  
Notice 90 Account  
Christmas Club Accelerator  
Securities Settlement and Safekeeping  
Reverse Repurchase Agreements  
Member Capital Shares

**ITEM PROCESSING:**

Member Share Drafts  
Corporate Share Drafts  
Money Orders  
Cashiers Drafts  
Check Collection (ezcapture)  
Branch Capture  
Merchant Capture  
Image Delivery of Deposit Return Items

**LIQUIDITY:**

Lines of Credit  
Term Loans  
Secured Loans  
Unsecured Short-Term Loans  
Letters of Credit  
SimpliCD Issuance  
Central Liquidity Facility (CLF)

**STRATEGIC PARTNERSHIPS:**

Business Services (CU Business  
Group)  
Smart Option Private Student Loan  
Referral Program (Sallie Mae)  
Bill Pay (My CU Services)  
Outsource Solution for Check  
Collection (VSoft)

**VOLCORP DESIGN:**

Logo Creation  
Newsletter Design  
Promotional Items  
Web Graphics  
Flash Movies  
Web Design and Redesign  
Web Maintenance  
Web Hosting

member services



*financials*

Volunteer Corporate Credit Union  
Nashville, Tennessee

Financial Statements  
December 31, 2010 and 2009

financial  
*statements*

RAYBURN, BATES & FITZGERALD, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

SUITE 300  
5200 MARYLAND WAY  
BRENTWOOD, TENNESSEE 37027  
www.rbfcpa.com

independent auditors' report

To the Board of Directors  
and Supervisory Committee of  
Volunteer Corporate Credit Union

We have audited the accompanying balance sheets of Volunteer Corporate Credit Union (VolCorp) as of December 31, 2010 and 2009, and the related statements of income (loss), comprehensive income (loss), changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of VolCorp's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

VolCorp has reported members' share accounts as members' equity in the balance sheets and statements of members' equity, in our opinion, these accounts should be reported as liabilities, in order to conform with accounting principles generally accepted in the United States of America. If the share accounts were reported in conformity with accounting principles generally accepted in the United States of America, liabilities would increase and members' equity would decrease by \$53,794,000 and \$52,746,000 as of December 31, 2010 and 2009, respectively.

In our opinion, except for the effect of the classification of members' share accounts as described above, such financial statements present fairly, in all material respects, the financial position of VolCorp as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Rayburn, Bates & Fitzgerald, P.C.*

April 4, 2011

Volunteer Corporate Credit Union  
Balance Sheets  
December 31, 2010 and 2009  
(In Thousands)

|   | 2010                      | 2009                    |
|---|---------------------------|-------------------------|
| <b>ASSETS</b>   |                           |                         |
| Cash and due from banks   | \$ 82,608                 | 218,156                 |
| Uncollected cash items  | 29,724                    | 52,505                  |
| Cash and cash equivalents   | <u>112,332</u>            | <u>270,661</u>          |
| Certificates of deposit and balances with other financial institutions (note 2) | 621,058                   | 916,148                 |
| Federal Home Loan Bank stock  | 6,044                     | 5,285                   |
| Securities available for sale, at fair value (note 3)                           | 601,538                   | 350,512                 |
| Loans to members and member affiliates  | 2,549                     | 954                     |
| Accrued interest receivable   | 1,152                     | 2,535                   |
| Premises and equipment, net (note 5)  | 4,089                     | 3,915                   |
| National Credit Union Share Insurance Fund (NCUSIF) deposit                     | 476                       | 485                     |
| Annuity contract (note 11)  | 1,488                     | 1,364                   |
| Other assets  | <u>969</u>                | <u>903</u>              |
| <b>Total assets</b>   | <b><u>\$1,351,695</u></b> | <b><u>1,552,762</u></b> |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>  |                           |                         |
| Liabilities:  |                           |                         |
| Members' depository accounts (note 7)   | \$1,259,170               | 1,267,581               |
| Deposits in collection  | 32,487                    | 54,401                  |
| Accrued interest payable  | 474                       | 2,057                   |
| Accrued expenses and other liabilities (note 11)                                | 709                       | 477                     |
| Federal Home Loan Bank note payable (note 8)                                    | -                         | 175,000                 |
| Total liabilities   | <u>1,292,840</u>          | <u>1,499,516</u>        |
| Members' equity (note 9):   |                           |                         |
| Members' share accounts   | 53,794                    | 52,746                  |
| Undivided earnings  | 5,379                     | 2,664                   |
| Accumulated other comprehensive loss  | (318)                     | (2,164)                 |
| Total members' equity   | <u>58,855</u>             | <u>53,246</u>           |
| <b>Total liabilities and members' equity</b>                                    | <b><u>\$1,351,695</u></b> | <b><u>1,552,762</u></b> |

See notes to financial statements.

Volunteer Corporate Credit Union  
 Statements of Income (Loss)  
 For the Years Ended December 31, 2010 and 2009  
 (In Thousands)

|  | 2010                   | 2009                   |
|--|------------------------|------------------------|
| Interest and dividend income:  |                        |                        |
| Certificates of deposit and balances with other financial institutions | \$ 6,803               | 10,827                 |
| Securities   | 3,588                  | 4,067                  |
| Loans to members and member affiliates                                 | 9                      | 9                      |
| Total interest income  | <u>10,400</u>          | <u>14,903</u>          |
| Interest expense:  |                        |                        |
| Members' share accounts  | 5,257                  | 9,090                  |
| Borrowings   | 316                    | 260                    |
| Total interest expense   | <u>5,573</u>           | <u>9,350</u>           |
| <b>Net interest income</b>   | <u><b>4,827</b></u>    | <u><b>5,553</b></u>    |
| Non-interest income:   |                        |                        |
| Item processing  | 3,507                  | 3,576                  |
| Gain on sale of securities (note 3)                                    | 250                    | 771                    |
| Other (notes 11 and 15)  | 2,534                  | 2,593                  |
| Total non-interest income  | <u>6,291</u>           | <u>6,940</u>           |
| Non-interest expense:  |                        |                        |
| Salaries and benefits (note 11)  | 3,940                  | 4,188                  |
| Office operations and occupancy  | 3,264                  | 3,195                  |
| Professional and outside services                                      | 332                    | 380                    |
| Travel and conferences   | 68                     | 84                     |
| Investment impairment charges (note 3)                                 | 338                    | 1,217                  |
| U.S. Central impairment loss (note 15)                                 | -                      | 22,573                 |
| Other  | 461                    | 397                    |
| Total non-interest expense   | <u>8,403</u>           | <u>32,034</u>          |
| <b>Net income (loss)</b>   | <u><b>\$ 2,715</b></u> | <u><b>(19,541)</b></u> |

See notes to financial statements.

Volunteer Corporate Credit Union  
 Statements of Comprehensive Income (Loss)  
 For the Years Ended December 31, 2010 and 2009  
 (In Thousands)

|  | 2010                   | 2009                   |
|--|------------------------|------------------------|
| Net income (loss)  | \$ 2,715               | (19,541)               |
| Other comprehensive income - unrealized gain on securities                                 | 1,333                  | 5,858                  |
| Reclassification adjustment for realized gains included in net income (loss)               | 175                    | 1,689                  |
| Reclassification for other-than-temporary impairment charges included in net income (loss) | <u>338</u>             | <u>1,217</u>           |
| <b>Comprehensive income (loss)</b>   | <b><u>\$ 4,561</u></b> | <b><u>(10,777)</u></b> |

*See notes to financial statements.*

Volunteer Corporate Credit Union  
 Statements of Changes in Members' Equity  
 For the Years Ended December 31, 2010 and 2009  
 (In Thousands)

|   | Members' Share Accounts | Statutory Corporate Reserve | Appropriated Undivided Earnings | Undivided Earnings | Accumulated Other Comprehensive Income (Loss) | Total         |
|---|-------------------------|-----------------------------|---------------------------------|--------------------|---|---------------|
| Balance, December 31, 2008                        | \$51,432                | 6,790                       | 8,302                           | 7,113              | (10,928)                                      | 62,709        |
| Net change in members' share accounts             | 1,314                   | -                           | -                               | -                  | -   | 1,314         |
| Net loss  | -                       | -                           | -                               | (19,541)           | -   | (19,541)      |
| Transfers   | -                       | (6,790)                     | (8,302)                         | 15,092             | -   | -             |
| Unrealized gains on securities available for sale | -                       | -                           | -                               | -                  | 8,764   | 8,764         |
| Balance, December 31, 2009                        | 52,746                  | -                           | -                               | 2,664              | (2,164)                                       | 53,246        |
| Net change in members' share accounts             | 1,048                   | -                           | -                               | -                  | -   | 1,048         |
| Net income  | -                       | -                           | -                               | 2,715              | -   | 2,715         |
| Unrealized gains on securities available for sale | -                       | -                           | -                               | -                  | 1,846   | 1,846         |
| <b>Balance, December 31, 2010</b>                 | <b>\$53,794</b>         | <b>-</b>                    | <b>-</b>                        | <b>5,379</b>       | <b>(318)</b>                                  | <b>58,855</b> |

See notes to financial statements.

Volunteer Corporate Credit Union  
 Statements of Cash Flows  
 For the Years Ended December 31, 2010 and 2009  
 (In Thousands)

|   | 2010              | 2009             |
|---|-------------------|------------------|
| Cash flows from operating activities:   |                   |                  |
| Net income (loss)   | \$ 2,715          | (19,541)         |
| Adjustments to reconcile net income (loss) to net cash from operating activities              |                   |                  |
| Depreciation and amortization   | 593               | 420              |
| Net accretion on securities   | (620)             | (1,390)          |
| Gain on sale of premises and equipment  | -                 | (5)              |
| Gain on sale of securities  | (250)             | (771)            |
| U.S. Central impairment loss  | -                 | 22,573           |
| Investment impairment charges   | 338               | 1,217            |
| Decrease in accrued interest receivable   | 1,383             | 623              |
| Increase in annuity contract  | (124)             | (166)            |
| Increase in other assets  | (66)              | (19)             |
| Decrease in accrued interest payable  | (1,583)           | (752)            |
| Increase in accrued expenses and other liabilities  | 232               | 57               |
| Net cash provided by operating activities   | <u>2,618</u>      | <u>2,246</u>     |
| Cash flows from investing activities:   |                   |                  |
| Decrease (increase) in certificates of deposit and balances with other financial institutions | 295,090           | (196,827)        |
| Purchase of Federal Home Loan Bank stock  | (759)             | (3,666)          |
| Decrease (increase) in loans to members and member affiliates                                 | (1,595)           | 2,200            |
| Decrease (increase) in NCUSIF deposit   | 9                 | (416)            |
| Purchases of securities   | (465,386)         | (337,808)        |
| Maturities, prepayments, and calls of securities  | 195,834           | 92,708           |
| Proceeds from sale of securities  | 20,904            | 93,194           |
| Purchases of premises and equipment   | (767)             | (1,212)          |
| Proceeds from sale of premises and equipment  | -                 | 5                |
| Net cash provided (used) by investing activities  | <u>43,330</u>     | <u>(351,822)</u> |
| Cash flows from financing activities:   |                   |                  |
| Increase (decrease) in members' depository accounts   | (8,411)           | 370,415          |
| Increase in members' share accounts   | 1,048             | 1,314            |
| Increase (decrease) in deposits in collection   | (21,914)          | 14,443           |
| Payments on Federal Home Loan Bank advances   | (405,000)         | (1)              |
| Proceeds from Federal Home Loan Bank advances   | 230,000           | 175,001          |
| Net cash provided (used) by financing activities  | <u>(204,277)</u>  | <u>561,172</u>   |
| Increase (decrease) in cash and cash equivalents  | <u>(158,329)</u>  | <u>211,596</u>   |
| Cash and cash equivalents at beginning of year  | 270,661           | 59,065           |
| Cash and cash equivalents at end of year  | <u>\$ 112,332</u> | <u>270,661</u>   |

See notes to financial statements.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Volunteer Corporate Credit Union (VolCorp) conform to accounting principles generally accepted in the United States of America and to general practices within the credit union industry except for the classification of members' share accounts as members' equity in the balance sheets. The following represent the more significant of those policies and practices:

(a) Nature of Business

VolCorp was created in April 1981 by the general assembly of the State of Tennessee to function as a credit union support system to credit unions in Tennessee to facilitate mergers, joint ventures, and cooperative efforts and to provide credit unions with investment, liquidity, and payment system services. VolCorp is regulated by the Tennessee Department of Financial Institution's Credit Union Division and the National Credit Union Administration (NCUA).

(b) Financial Instruments and Concentrations of Credit Risk

Financial instruments that potentially subject VolCorp to concentrations of credit risk consist of U.S. Central Bridge Corporate Federal Credit Union (U.S. Central Bridge) and Western Bridge Corporate Federal Credit Union (WesCorp Bridge) share and certificate accounts. In the normal course of business, VolCorp invests in highly rated domestic corporations and uses nationally recognized broker/dealers in the execution of trades for financial instruments. Exposure to individual counterparties may be significant. In providing financial services solely to the credit union industry, VolCorp is dependent upon the viability of that industry.

On January 28, 2009, the NCUA announced the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) which guaranteed share accounts (excluding capital accounts) in corporate credit unions through December 31, 2010. On April 21, 2009, the NCUA modified the terms of the TCCUSGP to extend the coverage until September 30, 2011. On August 7, 2009 the NCUA approved a quarterly extension until December 31, 2011. An additional extension was approved on November 23, 2009 to March 31, 2012. Subsequently, on March 4, 2010 an extension was approved to June 30, 2012 and on June 2, 2010 to September 30, 2012. On August 31, 2010 the NCUA extended the coverage guarantee until December 31, 2012. Quarterly extensions of the guarantee may be approved by the Executive Director of the NCUA upon recommendation by the Office of Corporate Credit Unions and with concurrence of the Director of Examination through December 31, 2014. Accordingly, all of VolCorp's certificate accounts with U.S. Central Bridge and WesCorp Bridge are presently guaranteed coverage until December 31, 2012.

(c) Estimates

The preparation of the 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period based on available information. Specifically, management has made assumptions in estimating the fair value of financial instruments and the status of contingencies. Actual results could differ from estimates made based on management assumptions.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash, demand accounts with other financial institutions, and uncollected cash items.

(e) Uncollected Cash Items and Deposits in Collection

These accounts represent deposits made by VolCorp's members that have not cleared the Federal Reserve Bank. Such amounts generally become available for investment or withdrawal by members within one to three days. The uncollected cash items represent the amounts due from the Federal Reserve Bank, and the deposits in collection represent the amount due to the members when they become available. These amounts are not interest bearing.

(f) Certificates of Deposit and Balances with Other Financial Institutions

These investments represent certificates of deposit and other balances in various institutions which primarily include U.S. Central Bridge and WesCorp Bridge. U.S. Central Bridge is the central credit union in which corporate credit unions are members. Under the corporate credit union structure, U.S. Central Bridge acts as a liquidity facility and source of investments for corporate credit unions. Share accounts of corporate credit unions are presently guaranteed through December 31, 2012.

(g) Securities

VolCorp has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320 *Debt and Equity Securities*. FASB ASC 320 requires all investments in debt securities and all investments in equity securities that have readily determinable fair values to be classified into three categories as follows:

Trading Securities

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value with unrealized gains and losses included in earnings. No securities have been classified as trading securities.

Securities Held-to-Maturity

Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost using a method that does not differ materially from the level interest yield method. No securities have been classified as securities held-to-maturity.

Securities Available-for-Sale

Securities not classified as either held-to-maturity debt securities or trading securities are classified as available-for-sale securities and reported at fair value with unrealized gains and losses excluded from earnings and reported as other comprehensive income (loss) within members' equity.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g) Securities, (Continued)

If quoted market prices are not available, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Declines in the fair value of securities below their cost that are related to credit losses and are other-than-temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, the financial condition and near-term prospects of the underlying collateral with loan level due diligence performed by an outside third party and (3) whether VolCorp does not have the intent to sell the security and it is more likely than not that it will be able to retain the security until recovery of the cost basis. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporarily impaired are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income.

Premiums and discounts are recognized in interest income using the interest method over the period until maturity or the expected maturity date based on prepayments. Gains and losses on investment dispositions are recognized using the specific identification method for determining the cost of securities sold.

(h) Restricted Stock

Restricted stock, such as Federal Home Loan Bank (FHLB) capital stock, can only be sold at par or a value as determined by the issuing institution and only to the respective institution or to another member institution. These securities are recorded at cost and evaluated semi-annually for possible impairment.

(i) Loans to Members and Member Affiliates

Loans are stated at unpaid principal balances. Management believes that no allowance for loan losses is necessary due to the loans being generally short term in nature and secured by members' deposits and other assets. Interest income is accrued on the unpaid principal balance.

(j) Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, net of accumulated depreciation. Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

(k) Long-Term Assets

Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

(l) Income Taxes

VolCorp is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the accompanying statements of income.

The Internal Revenue Service (IRS) and certain state taxing authorities are currently revisiting what, if any, products and services provided by state chartered credit unions are subject to unrelated business income tax (UBIT). There is currently very little guidance in the IRS code on what activities should be subject to UBIT. The IRS recently issued additional guidance in the form of technical advice memorandums. As a result, at this time there is uncertainty regarding whether state chartered credit unions should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which VolCorp was granted non-taxable status.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(l) Income Taxes, (Continued)

In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed unrelated to VolCorp's non-taxable status is not expected to have a material effect on VolCorp's financial position or results of operations.

VolCorp has adopted FASB ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management evaluates the tax positions taken on tax filings and consults with outside professionals in evaluating the likelihood of unfavorable results from any such tax positions. The adoption had no material effect on the financial statements due to the minimal nature of the present level of unrelated business income.

(m) National Credit Union Share Insurance Fund (NCUSIF) Deposit and Insurance Premiums

The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit will be refunded to VolCorp 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. Per NCUA Regulation 741.4, each insured credit union will pay to the NCUSIF, on dates the NCUA Board determines, but not more than twice in any calendar year, an insurance premium in an amount stated as a percentage of insured shares, which will be the same for all insured credit unions. In 2009 the NCUA assessed a premium of .15% of insured shares, at the \$250,000 level, to replenish the NCUSIF. VolCorp's assessment was based on June 30, 2009 insured shares and .1027% of the premium was to return the NCUSIF's equity to 0.30%. The remaining 0.0473% was assessed to repay a portion of the Temporary Corporate Credit Union Stabilization Fund. A premium of .1242% based on June 30, 2010 insured shares was assessed for 2010. September 30, 2010 was established as the deadline date for NCUA to repay \$1.5 billion borrowed from the U.S. Department of Treasury and an additional 0.134% of insured shares as of March 31, 2010 was assessed to repay the Stabilization Fund.

(n) Members' Share Accounts

Members' share accounts are subordinated to all other liabilities of VolCorp upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed. Interest rates on members' share accounts are set by management and approved by the Board of Directors, based on an evaluation of current and future market conditions. VolCorp reports members' share accounts as equity, consistent with Federal credit union regulation. However, these accounts are considered liabilities under accounting principles generally accepted in the United States of America.

(o) Statutory Corporate Reserve

VolCorp is required by regulation to maintain a statutory corporate reserve. This reserve, which represents a regulatory restriction of members' equity, is not available for the payment of interest to members. Due to the impairment of U.S. Central Federal Credit Union (U.S. Central) membership capital shares, paid-in capital and paid-in capital II, the statutory corporate reserve was depleted in 2009.

(p) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, which are also recognized as a separate component of members' equity.

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(q) Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are currently such matters that will have a material effect on the financial statements.

(r) Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank of \$25,000 was required to meet regulatory reserve and clearing requirements at December 31, 2010 and 2009. All balances bear interest.

(s) Fair Value of Financial Instruments

VolCorp has an established process for determining fair values. Fair value is based upon quoted market prices, when available. If listed prices or quotes are not available, fair value is based upon pricing by an independent outsourced firm which uses proprietary models including market data, interest rate yield curves, option volatilities and other third party information. Management reviews the methodology and results of the pricing by the independent outsourced firm. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while VolCorp believes its valuation methods 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 estimate of fair value at the reporting date.

Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever possible.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for valuations in situations in which there is little, if any, market activity for the asset or liability at the measurement.

Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
 December 31, 2010 and 2009  
 (Table Amounts in Thousands)

**NOTE 2 - CERTIFICATES OF DEPOSIT AND BALANCES WITH OTHER FINANCIAL INSTITUTIONS**

At December 31, 2010 and 2009, certificates of deposit and balances with other financial institutions are comprised as follows:

|                                    | U.S. Central Bridge | WesCorp Bridge | Other        | Total          |
|------------------------------------|---------------------|----------------|--------------|----------------|
| <b>2010</b>                        |                     |                |              |                |
| Daily and overnight share accounts | \$146,609           | -              | 1            | 146,610        |
| Fixed-term certificates            | 324,648             | 9,600          | 200          | 334,448        |
| Other floating rate certificates   | 140,000             | -              | -            | 140,000        |
|                                    | <u>\$611,257</u>    | <u>9,600</u>   | <u>201</u>   | <u>621,058</u> |
|                                    |                     |                |              |                |
|                                    | U.S. Central        | WesCorp        | Other        | Total          |
| <b>2009</b>                        |                     |                |              |                |
| Daily and overnight share accounts | \$227,273           | 110            | 1            | 227,384        |
| Fixed-term certificates            | 510,670             | 23,430         | 4,664        | 538,764        |
| Other floating rate certificates   | 150,000             | -              | -            | 150,000        |
|                                    | <u>\$887,943</u>    | <u>23,540</u>  | <u>4,665</u> | <u>916,148</u> |

At December 31, 2010, fixed-term and floating rate certificates of deposit mature as follows:

| <u>December 31,</u> |                  |
|---------------------|------------------|
| 2011                | \$330,125        |
| 2012                | 66,830           |
| 2013                | 37,493           |
| 2014                | 40,000           |
|                     | <u>\$474,448</u> |

As of December 31, 2009, \$18,980,000 or 100% of U.S. Central membership capital shares and \$3,593,000 or 100% of U.S. Central paid-in capital were deemed impaired. Share and certificate accounts of corporate credit unions, including those deposited at U.S. Central Bridge and WesCorp Bridge by VolCorp, have been guaranteed by the NCUA until December 31, 2012.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
 December 31, 2010 and 2009  
 (Table Amounts in Thousands)

**NOTE 3 - SECURITIES AVAILABLE-FOR-SALE**

The amortized cost and approximate estimated fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31, 2010 and 2009 were as follows:

|  | Amortized Cost   | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|------------------|------------------------|-------------------------|----------------------|
| <b>2010</b>                            |                  |                        |                         |                      |
| U.S. Government and agency obligations | \$316,092        | 823                    | (882)                   | 316,033              |
| Asset-backed securities                | 275,767          | 345                    | (610)                   | 275,502              |
| Corporate bonds                        | 9,997            | 25                     | (19)                    | 10,003               |
|  | <u>\$601,856</u> | <u>1,193</u>           | <u>(1,511)</u>          | <u>601,538</u>       |
| <b>2009</b>                            |                  |                        |                         |                      |
| U.S. Government and agency obligations | \$263,353        | 413                    | (1,744)                 | 262,022              |
| Asset-backed securities                | 84,308           | 181                    | (1,039)                 | 83,450               |
| Corporate bonds                        | 5,015            | 25                     | -                       | 5,040                |
|  | <u>\$352,676</u> | <u>619</u>             | <u>(2,783)</u>          | <u>350,512</u>       |

Amortized cost amounts presented have been adjusted downward, where applicable, to reflect the effects of other-than-temporary impairment (OTTI) charges.

U.S. government and agency obligations consist of mortgage-backed securities and debentures issued primarily by government-sponsored agencies. Asset-backed securities consist primarily of securitized credit card, home equity, mortgage, and automobile receivables. Corporate bonds consist of U.S. corporation bonds.

Securities with an amortized cost of \$239,514,000 and fair value of \$239,901,000 at December 31, 2010 were pledged to secure FHLB borrowings. At December 31, 2009 securities with an amortized cost of \$246,294,000 and fair value of \$245,121,000 were pledged to secure FHLB borrowings.

VolCorp sold \$20,904,000 and \$93,194,000 securities available-for-sale resulting in gains of \$250,000 and \$771,000 in 2010 and 2009, respectively.

Volunteer Corporate Credit Union  
Notes to Financial Statements (Continued)  
December 31, 2010 and 2009  
(Table Amounts in Thousands)

**NOTE 3 - SECURITIES AVAILABLE-FOR-SALE (CONTINUED)**

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Amortized Cost   | Estimated Fair Value |
|--|------------------|----------------------|
| Due in less than one year              | \$ 18,005        | 18,010               |
| Due after one year through five years  | 277,070          | 277,443              |
| Due after five years through ten years | 101,963          | 102,102              |
| Due after ten years                    | 204,818          | 203,983              |
|  | <u>\$601,856</u> | <u>601,538</u>       |

Securities with unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

|  | Less Than 12 Months |                 | 12 Months or More |                 | Total          |                 |
|--|---------------------|-----------------|-------------------|-----------------|----------------|-----------------|
|  | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value     | Unrealized Loss |
| <b>2010</b>                            |                     |                 |                   |                 |                |                 |
| U.S. Government and agency obligations | \$ 55,241           | 89              | 8,002             | 793             | 63,243         | 882             |
| Asset-backed securities                | 119,631             | 210             | 1,056             | 400             | 120,687        | 610             |
| Corporate Bonds                        | 4,970               | 19              | -                 | -               | 4,970          | 19              |
| Total temporarily impaired             | <u>\$179,842</u>    | <u>318</u>      | <u>9,058</u>      | <u>1,193</u>    | <u>188,900</u> | <u>1,511</u>    |
| <b>2009</b>                            |                     |                 |                   |                 |                |                 |
| U.S. Government and agency obligations | \$109,779           | 361             | 54,177            | 1,383           | 163,956        | 1,744           |
| Asset-backed securities                | 26,560              | 66              | 19,887            | 973             | 46,447         | 1,039           |
| Total temporarily impaired             | <u>\$136,339</u>    | <u>427</u>      | <u>74,064</u>     | <u>2,356</u>    | <u>210,403</u> | <u>2,783</u>    |

Amortized cost amounts presented have been adjusted downward, where applicable, to reflect the effects of OTTI charges.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
 December 31, 2010 and 2009  
 (Table Amounts in Thousands)

**NOTE 3 - SECURITIES AVAILABLE-FOR-SALE (CONTINUED)**

VolCorp evaluates securities for other-than-temporary impairment when economic or market conditions warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the financial condition and near-term prospects of the underlying collateral with loan level due diligence performed by an outside third party and the intent of VolCorp not to sell the security and it is more likely than not that it will be able to retain the security until recovery of the cost basis. In analyzing an issuer's financial condition, VolCorp considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. VolCorp also consults with an independent third party valuation vendor to evaluate for possible other-than-temporarily impaired securities.

In 2010, VolCorp recorded an other-than-temporary impairment charge of \$338,000 on one collateralized mortgage obligation security. This security was previously deemed partially impaired and had an amortized cost before the 2010 impairment charge of \$4,726,000. In 2009, VolCorp determined that one collateralized mortgage obligation security and two asset-backed securities were other-than-temporarily impaired as the credit worthiness of the security had deteriorated. An other-than-temporary impairment charge of \$1,217,000 was recorded in 2009. Before the 2009 other-than-temporary impairments, the securities had amortized costs in total of \$6,537,000.

The amount of credit losses on VolCorp's investment security recognized in earnings for the year ended December 31, 2010 and 2009 in a tabular format is as follows:

|   | 2010           | 2009         |
|---|----------------|--------------|
| Credit losses at January 1                      | \$1,217        | -            |
| Other-than-temporary impairment credit losses   | 338            | 1,217        |
| Cumulative credit losses recognized in earnings | <u>\$1,555</u> | <u>1,217</u> |

Volunteer Corporate Credit Union  
Notes to Financial Statements (Continued)  
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**NOTE 4 - FAIR VALUE MEASUREMENTS**

The following table presents the assets and liabilities carried at fair value as of December 31, 2010 and 2009, by caption on the balance sheets and by FASB ASC 820, *Fair Value Measurements and Disclosures*, valuation hierarchy (see note 1) and subject to measurement on a recurring basis:

|  | Valuation Description | Total Carrying Value | Value Using Level 1 | Value Using Level 2 | Value Using Level 3 |
|--|-----------------------|----------------------|---------------------|---------------------|---------------------|
| <b>2010</b>                            |                       |                      |                     |                     |                     |
| U.S. Government and agency obligations | See Note 1            | \$316,033            | -                   | 316,033             | -                   |
| Asset-backed securities                | See Note 1            | 275,502              | -                   | 275,502             | -                   |
| Corporate bonds                        | See Note 1            | 10,003               | -                   | 10,003              | -                   |
| Annuity contract                       | See Notes 1 and 11    | 1,488                | -                   | 1,488               | -                   |
| Total assets at fair value             |                       | <u>\$603,026</u>     | <u>-</u>            | <u>603,026</u>      | <u>-</u>            |
| Total liabilities at fair value        |                       | <u>\$ -</u>          | <u>-</u>            | <u>-</u>            | <u>-</u>            |
| <b>2009</b>                            |                       |                      |                     |                     |                     |
| U.S. Government and agency obligations | See Note 1            | \$262,022            | -                   | 256,986             | 5,036               |
| Asset-backed securities                | See Note 1            | 83,450               | -                   | 12,906              | 70,544              |
| Corporate bonds                        | See Note 1            | 5,040                | -                   | 5,040               | -                   |
| Annuity contract                       | See Notes 1 and 11    | 1,364                | -                   | 1,364               | -                   |
| Total assets at fair value             |                       | <u>\$351,876</u>     | <u>-</u>            | <u>276,296</u>      | <u>75,580</u>       |
| Total liabilities at fair value        |                       | <u>\$ -</u>          | <u>-</u>            | <u>-</u>            | <u>-</u>            |

The following table presents the assets and liabilities carried at fair value as of December 31, 2010 and 2009, by caption on the balance sheets and by FASB ASC 820 valuation hierarchy (see note 1) and subject to measurement on a non-recurring basis:

|                                 | Valuation Description | Total Carrying Value | Value Using Level 1 | Value Using Level 2 | Value Using Level 3 |
|---------------------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| <b>2010</b>                     |                       |                      |                     |                     |                     |
| NCUSIF deposit                  | See Note 1            | \$476                | -                   | -                   | 476                 |
| Total assets at fair value      |                       | <u>\$476</u>         | <u>-</u>            | <u>-</u>            | <u>476</u>          |
| Total liabilities at fair value |                       | <u>\$ -</u>          | <u>-</u>            | <u>-</u>            | <u>-</u>            |
| <b>2009</b>                     |                       |                      |                     |                     |                     |
| NCUSIF deposit                  | See Note 1            | \$485                | -                   | -                   | 485                 |
| Total assets at fair value      |                       | <u>\$485</u>         | <u>-</u>            | <u>-</u>            | <u>485</u>          |
| Total liabilities at fair value |                       | <u>\$ -</u>          | <u>-</u>            | <u>-</u>            | <u>-</u>            |

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
 December 31, 2010 and 2009  
 (Table Amounts in Thousands)

**NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table details the activity for the year ended December 31, 2010 and 2009 for assets and liabilities valued by VolCorp using level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify an asset or liability as level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since level 3 assets or liabilities typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses include changes in fair value due in part to observable factors that are part of the valuation methodology. All assets were transferred out of level 3 during 2010 and valued using level 2, as management determined that the markets for such assets which were securities had stabilized such that the use of the level 2 valuation was more appropriate.

|   | 2010        |             | 2009          |             |
|---|-------------|-------------|---------------|-------------|
|   | Assets      | Liabilities | Assets        | Liabilities |
| Fair value at January 1   | \$ 75,580   | -           | 65,050        | -           |
| Total realized and unrealized losses included in other comprehensive income | -           | -           | 3,562         | -           |
| Other-than-temporary impairment charges included in net loss                | -           | -           | (1,217)       | -           |
| Purchases, issuances and settlements, net                                   | -           | -           | 8,185         | -           |
| Transfers in or out of level 3  | (75,580)    | -           | -             | -           |
| Fair value at December 31   | <u>\$ -</u> | <u>-</u>    | <u>75,580</u> | <u>-</u>    |

**NOTE 5 - PREMISES AND EQUIPMENT**

Premises and equipment at December 31, 2010 and 2009, respectively were as follows:

|  | 2010           | 2009         |
|--|----------------|--------------|
| Land   | \$ 427         | 427          |
| Building                                       | 2,174          | 2,174        |
| Furniture, fixtures, and equipment             | 5,549          | 4,166        |
| Core conversion in process                     | -              | 606          |
| Furniture, fixtures, and equipment in process  | 104            | 144          |
|  | <u>8,254</u>   | <u>7,517</u> |
| Less accumulated depreciation and amortization | <u>4,165</u>   | <u>3,602</u> |
|  | <u>\$4,089</u> | <u>3,915</u> |

Rent expense for a storage facility and a disaster recovery site was \$54,000 and \$52,000 for 2010 and 2009, respectively.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
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**NOTE 6 - LINE OF CREDIT**

VolCorp has an advised line of credit from U.S. Central Bridge for \$250,000,000 at December 31, 2010 and 2009. No amount was outstanding under this line of credit at December 31, 2010 and 2009. Any advances on the line of credit are secured by VolCorp's assets and at December 31, 2010, \$611,328,000 of assets were available as collateral for borrowings. The line of credit expired on January 14, 2011 and was extended to January 14, 2012, however, U.S. Central Bridge has no obligation to make advances under the advised line of credit, and the advised line of credit may be canceled at any time by U.S. Central Bridge or VolCorp. VolCorp had six overnight borrowings during 2010 which averaged \$44,688,000 per night with an average interest rate of .75%. There were 5 overnight borrowings during 2009 which averaged \$143,021,000 per night with an average interest rate of 1.25%.

**NOTE 7 - MEMBERS' DEPOSITORY ACCOUNTS**

At year end, the balances of the various types of members' depository accounts are as follows:

|                    | 2010                      | 2009                    |
|--------------------|---------------------------|-------------------------|
| Daily shares       | \$1,130,581               | 945,696                 |
| Share certificates | <u>128,589</u>            | <u>321,885</u>          |
|                    | <u><b>\$1,259,170</b></u> | <u><b>1,267,581</b></u> |

Scheduled maturities of share certificates at December 31, 2010 were as follows:

|                    |                         |
|--------------------|-------------------------|
| Within one year    | \$ 98,820               |
| One to three years | 28,269                  |
| Over three years   | <u>1,500</u>            |
|                    | <u><b>\$128,589</b></u> |

At December 31, 2010 one member had depository accounts exceeding 10% of total members' depository accounts with a total of \$140,007,000. At December 31, 2009, there were no depository accounts exceeding 10% of total members' depository accounts. Presently, of the amounts on deposit with VolCorp, the NCUA agrees to fully insure depository accounts of corporate credit unions such as VolCorp through December 31, 2012.

The aggregate amount of members' depository accounts over \$250,000 as of December 31, 2010 was approximately \$1,213,351,000.

**NOTE 8 - FEDERAL HOME LOAN BANK OF CINCINNATI**

VolCorp, as a member of the Federal Home Loan Bank of Cincinnati, is eligible for advances from this bank pursuant to the terms of various borrowing agreements. VolCorp has pledged 79 securities, with a carrying value of \$239,901,000, as collateral under the borrowing agreement with the Federal Home Loan Bank of Cincinnati.

No amount was outstanding under this line of credit at December 31, 2010. At December 31, 2009 \$175,000,000 was outstanding from this line of credit. The interest rate range for the borrowings was .11% to .51% in 2010 and 2009. At December 31, 2010, VolCorp had \$223,197,000 in borrowing availability with the Federal Home Loan Bank of Cincinnati.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
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 (Table Amounts in Thousands)

**NOTE 9 - REGULATORY CAPITAL REQUIREMENTS**

VolCorp is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain additional actions by regulators that, if undertaken, could have a direct material effect on VolCorp's financial statements.

NCUA Regulation 704 establishes a minimum capital ratio of 4%. Under the regulation, an earnings retention requirement has also been established. If a corporate credit union has a retained earnings ratio below 2% and the core capital ratio is less than 3%, an earnings retention factor of 0.15% per annum is required. If the retained earnings ratio is less than 2% but the core capital ratio is equal to or greater than 3%, the earnings retention factor is 0.10% per annum.

At December 31, 2010 and 2009, VolCorp's capital ratios were as follows:

|                     | Actual   |        | Required for Base Plus Level Authority |        |
|---------------------|----------|--------|--|--------|
|                     | Amount   | Ratio  | Amount                                 | Ratio  |
| <b>2010</b>         |          |        |  |        |
| Retained earnings * | \$ 5,379 | 0.37 % | \$28,789                               | 2.00 % |
| Core capital *      | 5,379    | 0.37   | 28,789                                 | N/A    |
| Capital *           | 57,662   | 4.01   | 57,577                                 | 4.00   |
| <b>2009</b>         |          |        |  |        |
| Retained earnings * | \$ 2,665 | 0.20 % | \$26,933                               | 2.00 % |
| Core capital *      | 2,665    | 0.20   | N/A                                    | N/A    |
| Capital *           | 53,915   | 4.00   | 53,867                                 | 4.00   |

\* to 12-month rolling daily average net assets

VolCorp does not meet the retained earnings ratio percentage; however, on April 21, 2009, the NCUA Board approved a blanket waiver to Part 704, which allows November 30, 2008 capital to be used for capital requirements. Based on this waiver, VolCorp was not subject to the earnings retention requirements for 2010 and 2009. As of November 30, 2008, VolCorp's retained earnings ratio was 2.72% and capital ratio was 6.91%, meeting all capital requirements.

Members' share accounts are not subject to share insurance coverage by the NCUSIF, and they are subordinated to all other liabilities of VolCorp upon liquidation. These accounts require a minimum notice of three years prior to withdrawal.

The NCUA established new regulations for capital that are effective on October 20, 2011. From the effective date, there are tiered benchmarks that corporate credit unions are expected to achieve in order to attain either "adequately capitalized" or "well capitalized" status. In regards to retained earnings, "adequately capitalized" status is reached by having a retained earnings ratio of 0.45% by October 2013, 1% by October of 2016, and 2% by October of 2020 and going forward. In order to obtain "well capitalized" status in regards to retained earnings, corporate credit unions must reach a retained earnings ratio of 1.5% by 2016 and 3% by 2020 and going forward. For capital, "adequately capitalized" status is reached by having a leverage ratio of 4%, a tier one risk-based capital ratio of 4% and a total risk-based capital ratio of 8% by October 20, 2011 and going forward. Corporate credit unions having a leverage ratio of 5%, a tier one risk-based capital ratio of 6% and a total risk-based capital ratio of 10% by October 20, 2011 and forward will be considered "well capitalized."

**NOTE 10 - RELATED PARTY TRANSACTIONS**

Each of the directors of VolCorp is affiliated with credit unions that, in the ordinary course of business, may engage in financial transactions with VolCorp. Outstanding balances of members' share accounts with these related parties were \$100,802,000 and \$228,510,000 at December 31, 2010 and 2009, respectively.

**NOTE 11 - EMPLOYEE BENEFIT PLANS**

VolCorp maintains two defined contribution plans. Under the 401(k) employee savings plan, all full-time employees who have been employed at least one year are required to contribute 5% of their gross annual salary to the plan. Contributions are fully vested when made. VolCorp makes no contributions to the employee savings plan. Under the retirement savings plan, VolCorp contributes an amount equal to 10% of each participant's salary to the plan. Employees who have been employed at least one year become participants in the plan. Benefits are fully vested after five years. VolCorp made contributions to the retirement savings plan of \$262,000 and \$264,000 during 2010 and 2009, respectively.

VolCorp has a deferred compensation agreement with one of its key executive officers. The deferred compensation may increase in value based on the performance of an annuity contract held by VolCorp, but will not decline. At December 31, 2010 and 2009, VolCorp had accrued benefits under the agreement of \$481,000 and \$357,000, which were recorded in accrued expenses and other liabilities. During the year ended December 31, 2010 and 2009 VolCorp recorded \$124,000 and \$166,000 in deferred compensation expense. In connection with this agreement, prior to January 1, 2007, VolCorp purchased an annuity contract in the amount of \$1,400,000 which is carried at the estimated fair market value. Due to the change in the estimated fair market value of the annuity contract, during the years ended December 31, 2010 and 2009, VolCorp recorded income of \$124,000 and \$166,000, respectively.

**NOTE 12 - COMMITMENTS AND OFF BALANCE SHEET ACTIVITIES**

Some financial instruments, such as loan commitments and lines of credit, are issued to meet member-financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral upon exercise of the commitment. The contractual amount of financial instruments with off balance sheet risk was \$590,480,000 and \$637,322,000 at December 31, 2010 and 2009, respectively.

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Notes to Financial Statements (Continued)  
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**NOTE 13 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount and the estimated fair value of financial instruments were as follows at December 31, 2010 and 2009:

|  | 2010           |                      | 2009           |                      |
|--|----------------|----------------------|----------------|----------------------|
|  | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial assets:  |                |                      |                |                      |
| Cash and cash equivalents  | \$ 112,332     | 112,332              | 270,661        | 270,661              |
| Certificates of deposit and balances with other financial institutions | 621,058        | 623,038              | 916,148        | 920,478              |
| FHLB stock   | 6,044          | 6,044                | 5,285          | 5,285                |
| Securities available for sale  | 601,538        | 601,538              | 350,512        | 350,512              |
| Loans to members and member affiliates                                 | 2,549          | 2,550                | 954            | 955                  |
| Accrued interest receivable  | 1,152          | 1,152                | 2,535          | 2,535                |
| NCUSIF deposit   | 476            | 476                  | 485            | 485                  |
| Annuity contract   | 1,488          | 1,488                | 1,364          | 1,364                |
| Financial liabilities:   |                |                      |                |                      |
| Members' depository accounts   | \$1,259,170    | 1,260,333            | 1,267,581      | 1,269,532            |
| Deposits in collection   | 32,487         | 32,487               | 54,401         | 54,401               |
| Accrued interest payable   | 474            | 474                  | 2,057          | 2,057                |
| FHLB note payable  | -              | -                    | 175,000        | 175,043              |
| Members' share accounts  | 53,794         | 53,794               | 52,746         | 52,746               |

The methods and assumptions used to estimate fair value are described in the following paragraph.

Carrying amount is the estimated fair value for cash and cash equivalents, FHLB stock, accrued interest, NCUSIF deposit, members' share deposits, short-term debt, and variable rate loans or deposits that reprice frequently. Security fair values are based on market prices or dealer quotes and, if no such information is available, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Certificates of deposit and balances with other financial institutions are based on discounted cash flows using current market rates. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. For the FHLB note payable, the estimated fair value is computed using the discount rate that equaled the interest rates offered at the valuation date for such borrowings from the FHLB with similar terms. The carrying amount of the annuity contract is equal to the net realizable value of the contract, which is also fair value. Loan commitments are not included in the preceding table as their estimated fair value is immaterial.

**NOTE 14 - ACCOUNTING PRONOUNCEMENTS**

In 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This update requires reporting entities to make new disclosures about recurring or non-recurring fair value measurements including significant transfers into and out of level 1 and level 2 fair value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of level 3 fair value measurements. The ASU also clarified existing fair value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. This guidance related to transfers between level 1 and level 2 fair value measurements was effective for interim and annual reporting periods beginning after December 15, 2009. The guidance related to level 3 fair value measurements is effective for periods beginning after December 15, 2010. The adoption of the level 1 and level 2 guidance did not have a material effect on the financial statements. VolCorp does not expect the adoption of level 3 guidance to have a material effect on its financial statements.

Volunteer Corporate Credit Union  
 Notes to Financial Statements (Continued)  
 December 31, 2010 and 2009  
 (Table Amounts in Thousands)

**NOTE 15 - IMPAIRMENT**

On March 20, 2009, the NCUA placed U.S. Central and Western Corporate Federal Credit Union (WesCorp) into conservatorship. Due to these actions and information related to the financial position of U.S. Central, VolCorp's management determined that its paid-in capital and membership capital shares with U.S. Central were fully impaired. This impairment resulted in an impairment charge of \$22,573,000 in 2009 comprised of \$18,980,000 of membership capital shares and \$3,593,000 of paid-in capital. As the NCUA was liquidating U.S. Central and WesCorp, the, the NCUA created U.S. Central Bridge Corporate Federal Credit Union and Western Bridge Corporate Federal Credit Union on October 5, 2010 to assume operations previously performed by U.S. Central and WesCorp, respectively.

In connection with the conservatorship of U.S. Central and WesCorp, the NCUA advised member credit unions that an impairment of the NCUSIF deposit exists. The amount of impairment was estimated to be 69% or \$153,000 of the deposit balance at December 31, 2008. As directed by the NCUA, this impairment loss was reflected as a component of insurance expense and included in other non-interest expense. On May 20 2009, Congress enacted the *Helping Families Save Their Homes Act of 2009 (Helping Families Act)*. The legislation amended the Federal Credit Union Act and created a Temporary Corporate Credit Unions Stabilization Fund (Stabilization Fund). In connection with the Stabilization Fund, the Board of the NCUA has fully restored the NCUSIF capitalization deposit. This recapitalization of the previously impaired NCUSIF deposit resulted in an increase of \$153,000 as included in other non-interest income in the year ended December 31, 2009.

**NOTE 16 - SUPPLEMENTARY CASH FLOW INFORMATION**

The following are additional cash flow disclosures for the years ending December 31, 2010 and 2009:

|  | 2010           | 2009          |
|--|----------------|---------------|
| Interest paid  | <u>\$7,156</u> | <u>10,102</u> |
| Non-cash item - unrealized gain on available-for-sale securities | <u>\$1,333</u> | <u>5,858</u>  |

Volunteer Corporate Credit Union  
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**NOTE 17 - COMPENSATION**

The 2010 compensation paid to the five most highly compensated employees is as follows:

| Name and Position                           | Salary <sup>(1)</sup> | Bonus <sup>(2)</sup> | Commissions <sup>(3)</sup> | 401(k) Match <sup>(4)</sup> | Health Benefit Plans <sup>(5)</sup> | Pension <sup>(6)</sup> | Automobile | Total   |
|---|-----------------------|----------------------|----------------------------|-----------------------------|-------------------------------------|------------------------|------------|---------|
| Rick Veach<br>President & CEO               | \$237,440             | -                    | -                          | 23,744                      | 10,001                              | 124,185                | 9,410      | 404,780 |
| Jeff Merry<br>Senior VP & CFO               | \$140,400             | -                    | 562                        | 14,040                      | 12,815                              | -                      | -          | 167,817 |
| Phillip Cochran<br>Chief Investment Officer | \$70,000              | -                    | 82,037                     | 7,000                       | 5,486                               | -                      | -          | 164,523 |
| Ben Williams<br>Senior VP & CTO             | \$126,000             | -                    | -                          | 12,600                      | 13,324                              | -                      | -          | 151,924 |
| Sandy Swofford<br>Senior VP of Marketing    | \$118,976             | -                    | -                          | 11,898                      | 9,834                               | -                      | -          | 140,708 |

(1) No raises were granted for these employees during 2010 and for the CEO during 2009 or 2010.

(2) No bonus was paid to any VolCorp employee in 2009 or 2010.

(3) Commissions are the contracted amount payable under VolCorp's agreement with CU Investment Solutions, Inc. for sales of securities.

(4) VolCorp's 401(k) plan provides a 10% VolCorp match to a required 5% employee contribution. VolCorp does not have a defined benefit plan.

(5) VolCorp provides Medical, Dental, Life, and Disability insurance plans to all employees.

(6) Represents the annual gain on the 457(f) annuity investment established for the CEO only.

VolCorp pays salaries and benefits to attract and retain talented executives. The level of compensation it pays depends mostly on each executive's experience, duties, and scope of responsibility. Compensation is targeted to peer group median and the local market to be competitive.

**NOTE 18 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 4, 2011, the date on which the financial statements were available to be issued.



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