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to be your most valuable resource.*



Empowering our members.®

**VOLUNTEER
CORPORATE
CREDIT UNION®**

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An integral part of a credit union's investment policies, procedures and practices is the analysis of all institutions in which it has invested its surplus funds—including corporate credit unions. Part 703 of the National Credit Union Administration's (NCUA) Rules and Regulations states:

"A Federal credit union must conduct and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation. A Federal credit union must update this analysis at least annually for as long as it holds the investment."

In its preamble to the regulation, the NCUA further clarified its position on the analysis of corporate credit unions:

"NCUA recognizes that a small credit union may be unable to perform a detailed credit analysis. For a small credit union, investing funds in corporate credit unions is an appropriate risk management alternative to investing in securities. NCUA will not take exception to a small credit union investing all of its surplus funds in a corporate credit union."

ASSETS (in thousands)					
December 31,	2010	2009	2008	2007	2006
Cash and Uncollected Cash Items	\$ 112,332	270,661	59,065	53,960	54,464
Certificates of Deposit and balances with other financial institutions	621,058	916,148	741,894	1,063,269	865,444
Government and Agency Obligations, Debentures, CMOs, REMICs, & Pass-thrus	316,092	263,353	134,785	63,919	79,525
Commercial Paper/Term Fed Funds	-	-	-	-	-
Repurchase Agreements	-	-	-	-	19,379
Asset-backed Securities	275,767	84,308	65,041	8,479	6,554
Corporate Bonds	9,997	5,015	-	-	-
Federal Home Loan Bank Stock	6,044	5,285	1,619	-	-
Total Investments	1,228,958	1,274,109	943,339	1,135,667	970,902
Unrealized Gains and Losses on AFS	(318)	(2,164)	(10,928)	(353)	(635)
Net Investments	1,228,640	1,271,945	932,411	1,135,314	970,267
Demand Loans	2,549	954	3,154	660	5,417
Accrued Income	1,152	2,535	3,158	11,160	5,839
Fixed Assets	4,089	3,915	3,123	2,783	2,848
NCUSIF Capitalization Deposit	476	485	69	232	230
All Other Assets	2,457	2,267	2,082	2,245	2,063
TOTAL ASSETS	\$1,351,695	1,552,762	1,003,062	1,206,354	1,041,128

The NCUA expects a larger credit union, however, to perform a credit analysis whenever there is credit risk. The uninsured portion of an investment in a corporate credit union presents such risk.

“A credit union’s membership relationship with its corporate should assist it in evaluating the corporate’s operations and financial condition. A credit union should review the corporate credit union’s earnings performance, capital level, and investment portfolio. A credit union should also be aware of the corporate’s operating level under Part 704 and its exposure to a 300 basis point shift in interest rates.”

Though NCUA’s investment regulation specifically exempts state-chartered credit unions, most are using the regulation as a guideline in their investment policies, procedures, and practices. Recognizing that the analysis of a corporate credit union, as outlined under Part 703.40(d), can be burdensome and that some information may not be readily available, we are providing you with this comprehensive analysis of Volunteer Corporate Credit Union. This analysis addresses the processes outlined in the NCUA’s investment regulation and explains the new regulatory requirements of the corporate regulations.

LIABILITIES & EQUITY (in thousands)					
December 31,	2010	2009	2008	2007	2006
Accounts Payable	\$ 1,183	2,534	3,229	6,055	4,119
Uncollected Funds	32,487	54,401	39,958	34,989	31,372
Repurchase Agreements	-	-	-	-	19,379
Federal Home Loan Bank Notes Payable	-	175,000	-	-	-
Total Liabilities	33,670	231,935	\$43,187	41,044	54,870
Daily Shares	1,130,581	945,696	558,968	671,748	655,081
Term Shares	128,589	321,885	338,198	417,151	258,090
Total Shares	1,259,170	1,267,581	897,166	1,088,899	913,171
Member Capital Shares	53,794	52,746	51,432	48,370	47,053
Reserves and Undivided Earnings	5,379	2,664	22,205	28,394	26,669
Unrealized Gains and Losses on AFS	(318)	(2,164)	(10,928)	(353)	(635)
Total Capital	58,855	53,246	62,709	76,411	73,087
TOTAL LIABILITIES AND EQUITY	\$1,351,695	1,552,762	1,003,062	1,206,354	1,041,128

REGULATORY ISSUES

Under the current regulatory requirements of Part 704 of the NCUA's Rules and Regulations, corporate credit unions' capital is segregated into two categories. These categories are *Retained Earnings* and *Capital*. *Retained Earnings* is defined as:

"Retained Earnings as defined under Generally Accepted Accounting Principles (GAAP)."

Capital is defined as:

"The sum of a corporate credit union's retained earnings, paid-in capital, and membership capital."

There are two ratios that corporate credit unions calculate to determine the adequacy of capital and reserving requirements. These are the Capital Ratio and the Retained Earnings Ratio.

The *Capital Ratio* is calculated as follows:

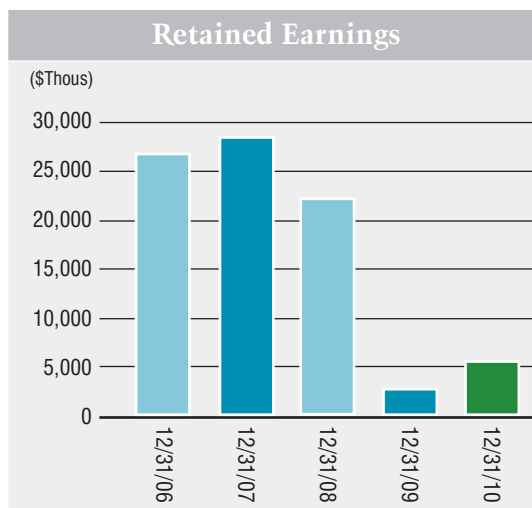
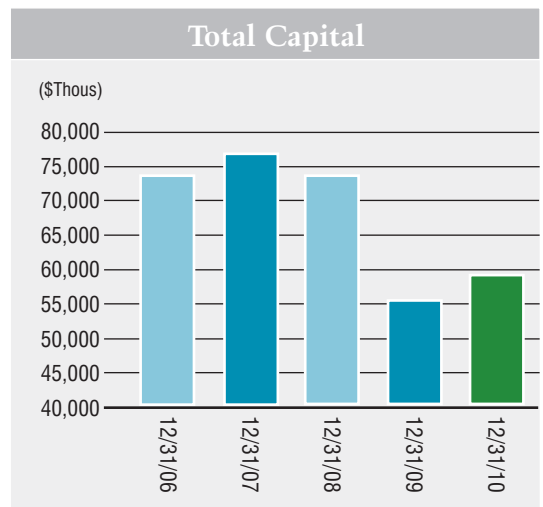
"The corporate credit union's capital divided by its moving daily average net assets,"

and the *Retained Earnings Ratio* is calculated as follows:

"The corporate credit union's retained earnings divided by its moving daily average net assets."

The NCUA's capital requirements for corporates are fairly straightforward and set forth in to Part 704.3 as follows:

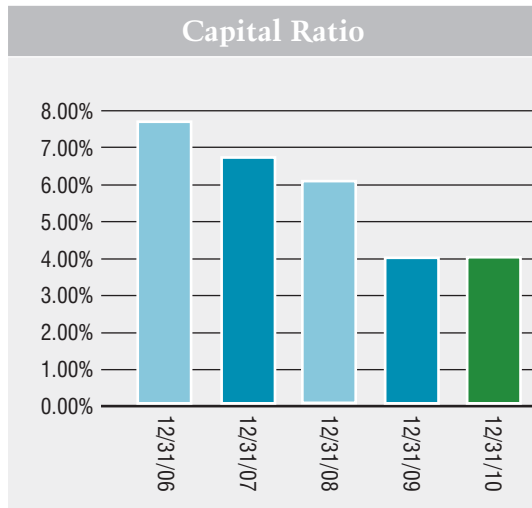
"A corporate credit union will maintain a minimum capital ratio of 4 percent, except as otherwise provided in this Part. A corporate credit union must calculate its capital ratio at least monthly. A corporate credit union must increase retained earnings if the prior month-end retained earnings ratio is less than 2 percent. Its retained earnings must increase during the current month, by an amount equal to or greater than the monthly earnings retention amount; or during the current and prior two months, by an amount equal to or greater than the quarterly earnings retention amount. Earnings retention amounts are calculated as follows: The monthly earnings retention amount is determined by multiplying the earnings retention factor by the prior month-end moving daily average net assets; and, the quarterly earnings retention amount is determined by multiplying the earnings retention factor by moving daily average net assets for each of the prior three month-ends. The earnings retention factor is determined as follows: If the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is less than 3 percent, the earnings retention factor is .15 percent per annum; or, if the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is equal to or greater than 3 percent, the earnings retention factor is .10 percent per annum."



"A corporate credit union will maintain a minimum capital ratio of 4 percent, except as otherwise provided in this Part. A corporate credit union must calculate its capital ratio at least monthly. A corporate credit union must increase retained earnings if the prior month-end retained earnings ratio is less than 2 percent. Its retained earnings must increase during the current month, by an amount equal to or greater than the monthly earnings retention amount; or during the current and prior two months, by an amount equal to or greater than the quarterly earnings retention amount. Earnings retention amounts are calculated as follows: The monthly earnings retention amount is determined by multiplying the earnings retention factor by the prior month-end moving daily average net assets; and, the quarterly earnings retention amount is determined by multiplying the earnings retention factor by moving daily average net assets for each of the prior three month-ends. The earnings retention factor is determined as follows: If the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is less than 3 percent, the earnings retention factor is .15 percent per annum; or, if the prior month-end retained earnings ratio is less than 2 percent and the core capital ratio is equal to or greater than 3 percent, the earnings retention factor is .10 percent per annum."

RETAINED EARNINGS AND TOTAL CAPITAL

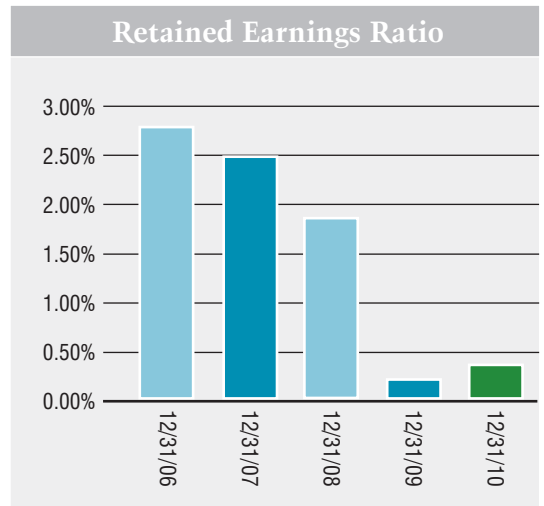
VolCorp sustained significant losses in 2008 and 2009 as a result of U.S. Central capital impairments. However, VolCorp was able to sustain these losses and do so as one of very few corporates who did not cause any losses to their own members. In 2010, with all U.S. Central impairments behind us, VolCorp was able to return to bottom line profitability as the process of rebuilding retained earnings began. Part of this important endeavor is heavily reliant on careful balance sheet management. This includes monitoring the performance of each of VolCorp's securities and making the appropriate strategic decisions as dictated by the then current economic environment. Though very small, VolCorp did experience impairments on one security in its portfolio. In June of 2010, VolCorp wrote off an OTTI charge of \$338 thousand, which was offset by taking gains on securities in the portfolio. The same security



was, again, analyzed at December 31, 2010 by the same third party vendor. The results of the analysis at that time were that VolCorp did not need to book any additional OTTI charges. Similar was the status of the two securities VolCorp impaired in 2009 as subsequent events. Since the OTTI was booked, VolCorp has had three impairment analysis reviews performed and all came back with the opinion that the securities were now performing as expected and there was no longer an impairment opinion on those securities. Accounting guidance does not provide a methodology for reversing the lump sum impairments already booked, but it does provide for a way to recoup the impaired dollar amounts over time. Assuming the securities continue to perform, VolCorp will be able to recoup the impairment amount of \$182,787. After all of these items as well as regular business operations are taken into account, the resulting 2010 year-end retained earnings balance was \$5.38 million. Additionally, all member capital remains 100% intact and unimpaired.

Corporate credit unions' balance sheets reflect the liquidity needs and cash flows of its members. Therefore, it is not unusual for a corporate credit union to experience asset fluctuations of 25 percent or more not only from month-to-month but also within periods of less than 30 days. In addition, corporate credit unions' month-end assets are often significantly inflated due to routine payrolls that flow into their member credit unions. As a result, it can be misleading to analyze a corporate credit union's retained earnings and capital ratios using month-end data. The NCUA recognized the distortion such fluctuations can cause, and, in its corporate credit union regulations, adopted the concept of using the corporates' moving daily average net assets (DANA) when calculating the retained earnings and capital ratios.

For the twelve-month period ending December 31, 2010, Volunteer Corporate's moving DANA equaled \$1.44 billion compared with \$1.35 billion for 2009. This reflects a 6.7 percent growth rate during 2010, a year in which VolCorp recognized record asset levels once again. The growth in assets in 2010 was partly attributable to plentiful liquidity in the system and partly due to VolCorp's use of an arbitrage strategy periodically in 2010 that added income, but also inflated the balance sheet temporarily. Assets remained high throughout the year and into 2011 as a result of high balances at member credit unions and the continued confidence those member credit unions have in VolCorp. Credit unions saw the steady earnings, competitive rates, excellent performance of VolCorp's securities portfolio, and ample liquidity position and felt comfortable leaving their deposits with VolCorp. These realities led to the record asset levels and increase in DANA. Retained earnings grew during every month of 2010. VolCorp's strong 2010 resulted in a retained earnings ratio of .37 percent at December 31, 2010, as compared to .20 percent in 2009 and an increase in the capital ratio to 4.01 percent at December 31, 2010 from 4.00 percent in 2009.



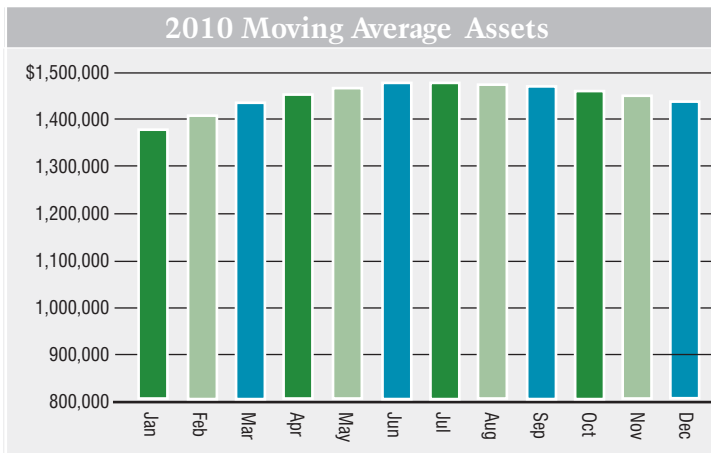
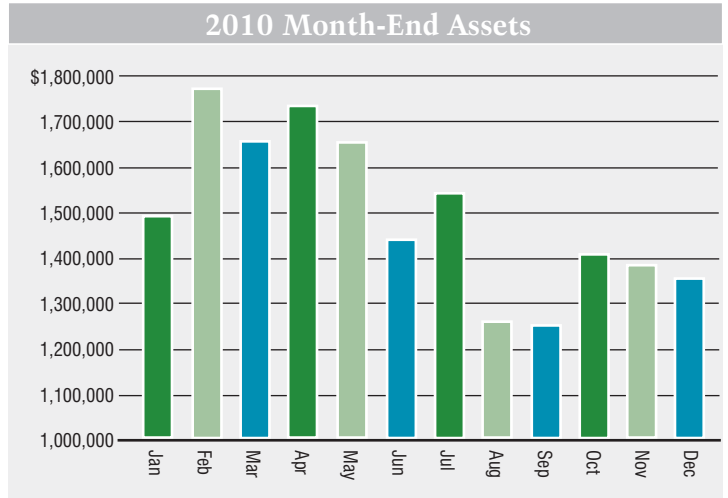
NET ECONOMIC VALUE (NEV) ANALYSIS

NEV is the net present value of a corporate's assets and the value of the assets' embedded options, minus the net present value of the corporate's shares and liabilities and the value of the shares' and liabilities' embedded options. A corporate's NEV Ratio is computed by dividing the NEV by the mark-to-market value of assets. NEV and the NEV Ratio are used to measure the inherent risk in a financial institution's balance sheet and as a proxy assessment of the liquidation value of the financial institution under certain interest rate environments.

Under part 704.8(d)(ii) of its Rules and Regulations, the NCUA Board set a minimum base NEV Ratio of 2 percent for all corporate credit unions. In addition, the Board set a minimum NEV Ratio and maximum permissible downward NEV shifts under industry standard +/- 100, 200, and 300 basis point rate shocks. Shocking a corporate's balance sheet means determining the impact on the NEV and the NEV Ratio of an immediate, parallel, and sustained upward and downward shift in market interest rates. The NEV shift is the percent increase and percent decrease of current capital. Current capital is the difference between the mark-to-market value of assets and liabilities at current interest rates. The permissible, downward NEV shift is dependent, in part, upon the level of authority granted each corporate by the NCUA Board.

As a starting point, all corporate credit unions have the authority to operate at Base level. At this level, the permissible negative shift in the corporates' NEV Ratio is 15 percent under +/- 100, 200, and 300 basis point rate shocks. Each corporate credit union may petition the NCUA Board to operate under expanded authority. To obtain such authority, the corporate credit union must meet

all the requirements of Part 704 of the NCUA's Rules and Regulations and fulfill additional capital, management, infrastructure, and asset liability requirements.

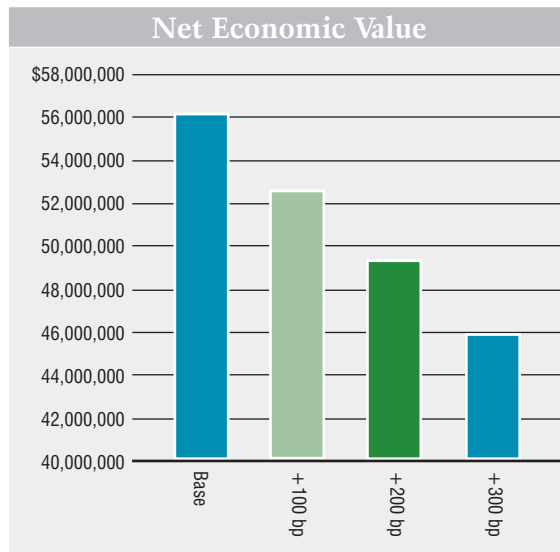
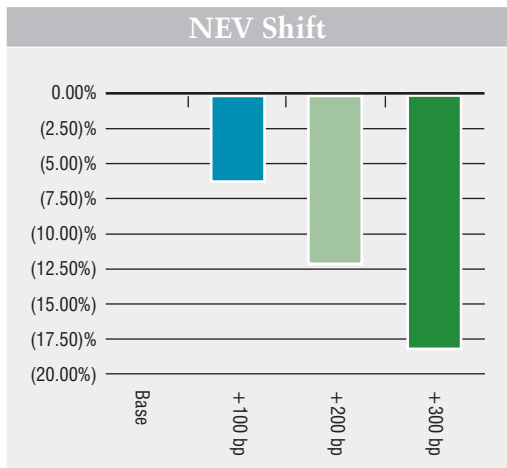


NET ECONOMIC VALUE (NEV) ANALYSIS (CONTINUED)

In September 1997, Volunteer Corporate’s Board of Directors requested authority to operate at the expanded level termed *Base Plus*. In November 1997, Volunteer Corporate became the first corporate credit union to receive authority by the NCUA Board to operate above Base level. At Base Plus, the Corporate’s permissible negative NEV shift increased from 15 percent to 20 percent. As of December 31, 2010, the cumulative change in Volunteer Corporate’s NEV is a decrease of \$10.27 million in an immediate up 300-basis point scenario. This equates to a negative NEV shift of 18.28 percent – below the maximum 20 percent negative shift permitted by Federal law. Given the December 31, 2010 level of interest rates with the Fed Funds Target rate set at 0-25 basis points, a downward shock scenario is non-applicable.

The following table shows the impact on Volunteer Corporate’s Net Economic Value of the various interest rate scenarios:

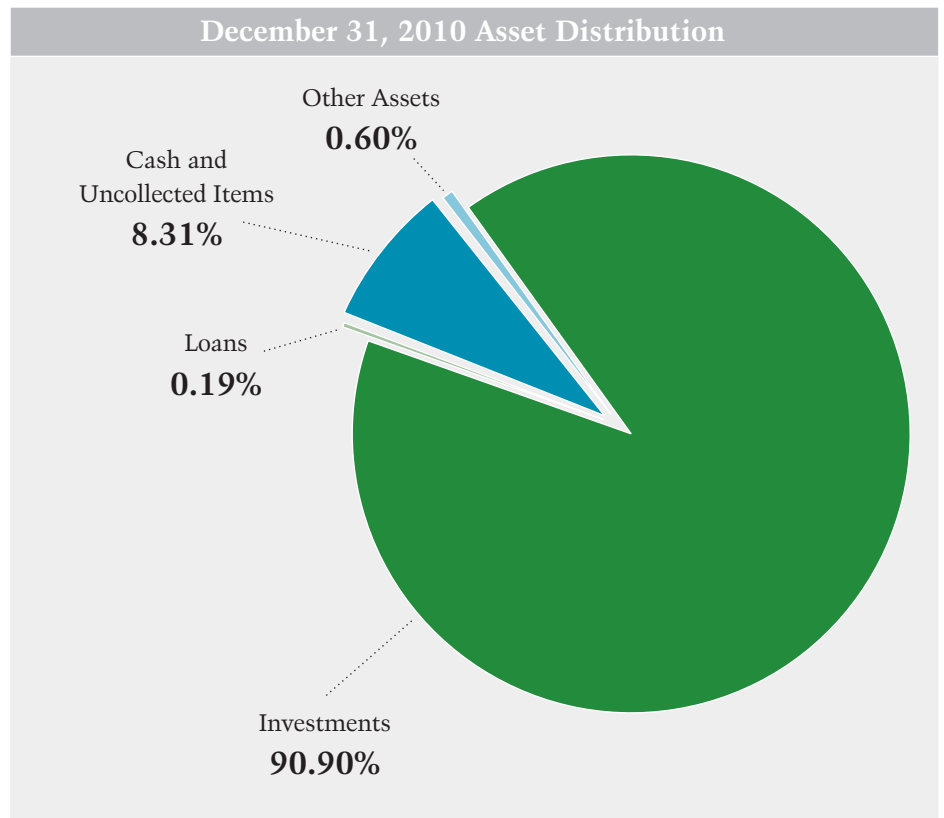
	Base	100 bp	200 bp	300 bp
NEV (thous.)	\$56,168	52,638	49,322	45,900
ΔNEV (from Base, thous.)	\$ 0	(3,531)	(6,847)	(10,269)
% ΔNEV (from Base)	0.00%	(6.29)%	(12.19)%	(18.28)%



The quality of a financial institution's assets is one of the most important factors contributing to its financial soundness. In its 1997 study of the credit union movement, the Treasury addressed the quality of the corporate credit unions' assets in general when it stated, "Corporate credit unions invest in high-quality assets and thus have limited exposure to credit risk. In general, corporate credit unions' investment portfolios are of very high credit quality." VolCorp can still be proudly described as such, despite the recent collapse of the mortgage market and the resulting turmoil in both the securities markets and the securities portfolios of many financial institutions. As of December 31, 2010, 99.4 percent of VolCorp's assets consisted of cash and uncollected cash items, loans to member credit unions, and high-quality, low credit-risk investments. Furthermore, as of December 31, 2010, 99% of VolCorp's marketable security holdings were rated AAA and 58% were issued or guaranteed by U.S. Government Agencies. Also, 100% of VolCorp's holdings in U.S. Central Bridge fall under the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) guaranteeing them through December 31, 2012. Volunteer Corporate monitors the quality of its assets through extensive monthly credit analyses and portfolio modeling and has a qualified third party perform impairment analysis on non-agency securities as needed. As of February 28, 2011, the continued quality of VolCorp's investments was illustrated in that VolCorp had a marketable securities portfolio totaling \$653.7 million with a total net unrealized gain of \$102 thousand.

MEMBER LOANS

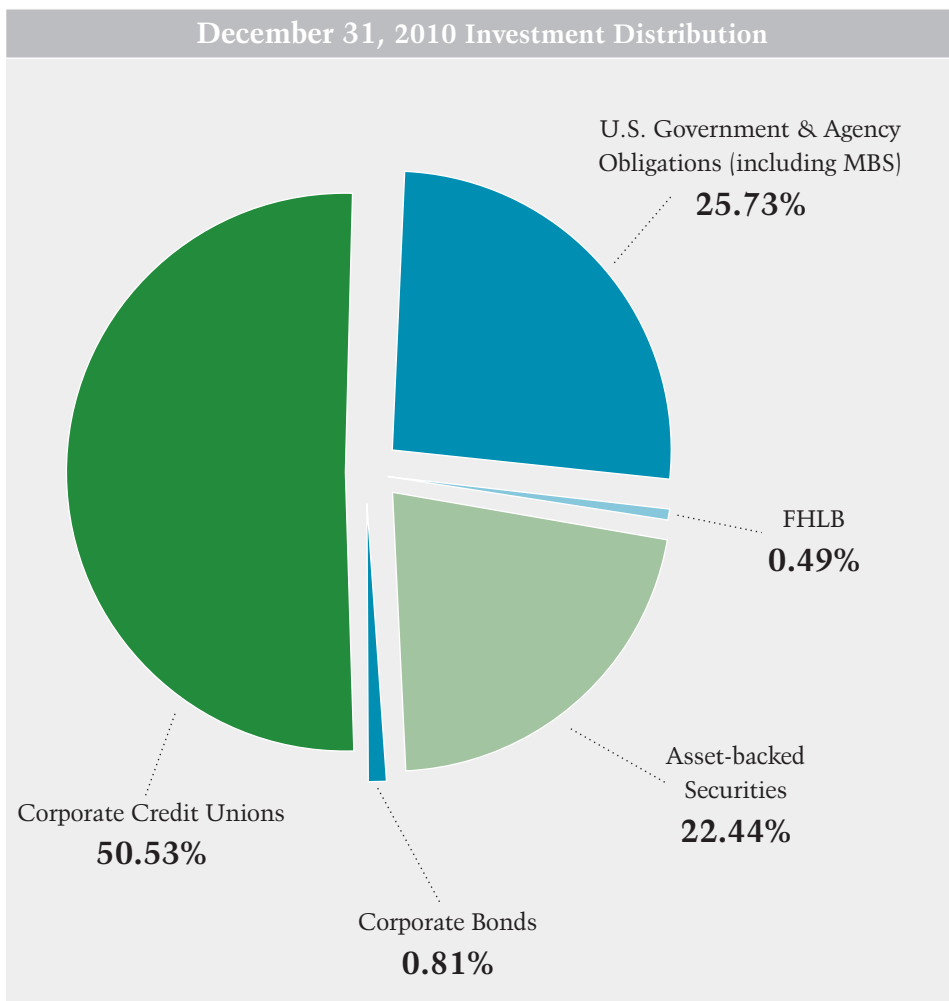
The Corporate has a responsibility to meet the liquidity needs of its membership, while protecting the deposits of its member credit unions. As of December 31, 2010, the Corporate's total outstanding loans and lines of credit to its members equaled only \$2.5 million, well below one percent of total assets. However, member credit unions had 189 approved lines established with Volunteer Corporate totaling \$590.5 million. The quality of the loan portfolio is governed by the loan policies established by the Board of Directors and by the procedures followed by management in implementing these policies. All lines are reviewed on a semi-annual basis and detailed financial analyses are performed. From this review, it is determined which credit unions will be monitored on a more frequent basis and which credit unions may need additional attention. Moreover, each line of credit is secured by a general pledge of the borrowing credit union's assets. No loans at Volunteer Corporate are currently delinquent and delinquency is extremely rare. Since its charter, Volunteer Corporate has never charged off a loan to a member credit union.



INVESTMENTS

When making investment decisions, Volunteer Corporate has always kept a close eye on safety, liquidity, and yield. In order to minimize credit risk, Volunteer Corporate’s policies allow funds to be placed only in U.S. Central Bridge (deposits guaranteed by the NCUA), Federal Home Loan Bank of Cincinnati, Federal Reserve Bank of Atlanta, and other Corporate Credit Unions (which are also currently guaranteed by the NCUA), U.S. Government securities, federal agency securities or in other highly rated securities and top-rated banks and domestically chartered corporations. These policies further limit investments in banks, corporations and securities individually and in aggregate, and require extensive analysis and monitoring. The Corporate’s approved-institution analysis considers size, capital adequacy, asset quality, management, earnings performance, and liquidity.

As the market turmoil and dislocation that began in 2007 leveled off and, to some degree, stabilized in 2010, VolCorp continued its pursuit of portfolio diversification. At the beginning of 2010, VolCorp held 27.5% of its investments in marketable securities, while 72.5% were invested in U.S. Central, WesCorp and other financial institutions. By the end of 2010, 48.69% of VolCorp’s investment holdings were high quality marketable securities. Of those securities, 99% were rated AAA and 58% were issued or guaranteed by U.S. Government Agencies.



Like all other credit unions, Volunteer Corporate is a not-for-profit financial cooperative, existing solely for the benefit of its members. The Corporate's policy is to help its members increase their net income by providing cost-effective services and attractive investment yields. Since any profit would come at the expense of its member owners, it is not the policy of Volunteer Corporate to earn the maximum net income possible. Even so, the corporate must maintain a stable earnings position in order to pay dividends, cover budgeted expenses, provide service excellence, develop new services, maintain capital adequacy, and meet statutory reserve requirements. The events of the last couple of years and the resulting loss of capital at U.S. Central have caused earnings to become all the more paramount for VolCorp as we work to increase our retained earnings and continue to provide services at competitive prices and investments at competitive yields. It is the policy of the corporate's Board of Directors to not increase earnings by sacrificing the safety of the members' shares through high risk investments or investment practices. As a result, Volunteer Corporate operates on an extremely thin operating margin and can do so only if efficiencies are maximized and expenses are controlled. Net income for 2010 equaled \$2.7 million for a 19 basis point return on assets as efficiencies were maintained and our position of strength continued to garner the confidence of our member owners.

Comparative Income and Expenses (in thousands)

December 31,	2010	2009	2008	2007	2006
Interest Income					
Certificates of Deposit and balances with other financial institutions	\$6,803	10,827	33,303	51,330	35,181
Investment Securities	3,588	4,067	4,910	4,310	6,125
Loans	9	9	42	322	872
Total Interest Income	<u>10,400</u>	<u>14,903</u>	<u>38,255</u>	<u>55,962</u>	<u>42,178</u>
Interest Expense					
Dividends on Shares	5,257	9,090	30,391	51,955	38,543
Interest on Borrowed Funds	316	260	654	276	1,138
Total Interest Expense	<u>5,573</u>	<u>9,350</u>	<u>31,045</u>	<u>52,231</u>	<u>39,681</u>
Net Interest Income	<u>4,827</u>	<u>5,553</u>	<u>7,210</u>	<u>3,731</u>	<u>2,497</u>
Non-Interest Income					
Item Processing	3,507	3,576	3,309	3,249	3,017
Gain on Securities	250	771	-	-	-
Other	2,534	2,593	1,764	2,312	2,253
Total Non-Interest Income	<u>6,291</u>	<u>6,940</u>	<u>5,073</u>	<u>5,561</u>	<u>5,270</u>
Non-Interest Expenses					
Salaries and Benefits	3,940	4,188	3,914	3,771	3,260
Other	4,463	27,846	14,558	3,796	3,635
Total Non-Interest Expenses	<u>8,403</u>	<u>32,034</u>	<u>18,472</u>	<u>7,567</u>	<u>6,895</u>
Net Contribution to (Reduction in) Reserves	<u>\$2,715</u>	<u>(19,541)</u>	<u>(6,189)</u>	<u>1,725</u>	<u>872</u>

Volunteer Corporate is the primary depository institution and source of liquidity for the majority of its member credit unions. As such, the Corporate has the responsibility of protecting the safety of its members' deposits while providing sufficient liquidity to meet their cash flow needs. To meet this responsibility, Volunteer Corporate maintains sufficient cash and overnight investments to provide for reasonable cash flow demands. The Corporate's liquidity position is monitored daily and adjusted, as necessary, for seasonal and anticipated fluctuations in members' liquidity needs. By virtue of their membership in Volunteer Corporate, our member credit unions have access to the Central Liquidity Facility (CLF) without having to purchase CLF stock. Acting as an agent member of the CLF, the Corporate can assist its members in meeting their liquidity needs through access to this Federal liquidity center chartered exclusively for credit unions.

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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.



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www.volcorp.org

www.volcorpdesign.org



Savings Federally Insured to at least \$250,000.
NCUA, a U.S. Government Agency.