VOLUNTEER CORPORATE CREDIT UNION

Financial Statements

December 31, 2012 and 2011

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Table of Contents

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Volunteer Corporate Credit Union (VolCorp), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified 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 $6,489,000 and $7,396,000 as of December 31, 2012 and 2011, respectively.

Qualified Opinion

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, 2012 and 2011, 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.

May 13, 2013
Brentwood, Tennessee

Rayburn, Bates & Fitzgerald, P.C.

Volunteer Corporate Credit Union

Balance Sheets

December 31, 2012 and 2011

(In Thousands)

Assets		2012	2011
Cash	$	15,788	15,052
Uncollected cash items		67,169	60,440
Cash and cash equivalents		82,957	75,492
Certificates of deposit and balances with other financial institutions (note 2)		253,023	251,760
Federal Home Loan Bank stock		9,819	5,829
Securities available for sale, at fair value (note 3)		821,020	871,563
Investment in Credit Union Service Organizations (note 4)		1,204	475
Loans to members and member affiliates		4,656	433
Accrued interest receivable and other assets		1,343	1,463
Premises and equipment, net (note 6)		3,690	3,923
National Credit Union Share Insurance Fund deposit		646	448
Annuity contract (note 12)		1,567	1,468
Total assets	$	1,179,925	1,212,854
Liabilities and Members' Equity			
Liabilities:			
Members' depository accounts (note 8)	$	1,034,513	1,089,937
Deposits in collection		67,353	60,150
Accrued expenses and other liabilities (note 12)		1,654	1,087
Total liabilities		1,103,520	1,151,174
Members' equity (note 10):			
Perpetual contributed capital		60,780	48,647
Members' share accounts		6,489	7,396
Retained earnings		9,319	7,787
Accumulated other comprehensive loss		(183)	(2,150)
Total members' equity		76,405	61,680
Total liabilities and members' equity	$	1,179,925	1,212,854

See notes to financial statements.

Volunteer Corporate Credit Union

Statements of Income

For the Years Ended 2012 and 2011

(In Thousands)

	2012	2011
Interest and dividend income:		
Certificates of deposit and balances with other financial institutions	$ 1,701	2,889
Securities	5,311	4,747
Loans to members and member affiliates	17	14
Total interest income	7,029	7,650
Interest expense:		
Members' depository and share accounts	1,839	3,144
Borrowings	119	4
Total interest expense	1,958	3,148
Net interest income	5,071	4,502
Non-interest income:		
Item processing	3,057	3,216
Gain on sale of securities (note 3)	183	114
Bargain purchase on acquisition (note 18)	359	-
Income from investment in Credit Union Service Organizations	276	312
Currency services	1,192	1,122
Other	1,947	1,407
Total non-interest income	7,014	6,171
Non-interest expense:		
Salaries and benefits (note 12)	4,802	4,086
Office operations and occupancy	3,331	3,051
Professional and outside services	464	358
Travel and conferences	139	75
Data service bureau contract termination charge	787	-
Other	432	459
Total non-interest expense	9,955	8,029
Net income	$ 2,130	2,644

See notes to financial statements.

Volunteer Corporate Credit Union

Statements of Comprehensive Income

For the Years Ended 2012 and 2011

(In Thousands)

		2012	2011
Net income	$	2,130	2,644
Other comprehensive income - unrealized gain (loss) on securities		2,150	(1,718)
Reclassification adjustment for realized gains included in net income		(183)	(114)
Comprehensive income	$	4,097	812

See notes to financial statements.

Volunteer Corporate Credit Union

Statements of Changes in Members' Equity

For the Years Ended 2012 and 2011

(In Thousands)

	Perpetual Contributed Capital	Members' Share Accounts	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	$ -	53,794	5,379	(318)	58,855
Net change in members' share accounts	-	34	-	-	34
Issuance of perpetual contributed capital	48,647	(46,432)	-	-	2,215
Perpetual contributed capital dividends	-	-	(236)	-	(236)
Net income	-	-	2,644	-	2,644
Unrealized losses on securities available for sale	-	-	-	(1,832)	(1,832)
Balance, December 31, 2011	48,647	7,396	7,787	(2,150)	61,680
Net change in members' share accounts	-	117	-	-	117
Issuance of perpetual contributed capital	12,133	(1,024)	-	-	11,109
Perpetual contributed capital dividends	-	-	(598)	-	(598)
Net income	-	-	2,130	-	2,130
Unrealized gains on securities available for sale	-	-	-	1,967	1,967
Balance, December 31, 2012	$ 60,780	6,489	9,319	(183)	76,405

See notes to financial statements.

Volunteer Corporate Credit Union

Statements of Cash Flows

For the Years Ended 2012 and 2011

(In Thousands)

		2012	2011
Cash flows from operating activities:			
Net income	$	2,130	2,644
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization		544	565
Gain on sale of securities		(183)	(114)
Gain on investment in Credit Union Service Organizations		(204)	(312)
Gain on pension asset		(19)	-
Bargain purchase on acquisition		(359)	-
(Increase) decrease in annuity contract		(99)	20
Decrease in accrued interest receivable and other assets		488	613
Increase (decrease) in accrued expenses and other liabilities		439	(155)
Net cash provided by operating activities		2,737	3,261
Cash flows from investing activities:			
Decrease in certificates of deposit and balances with other financial institutions		152,374	443,518
Purchase of Federal Home Loan Bank stock		(3,990)	-
Purchase of Credit Union Service Organization stock		-	(100)
Proceeds from sale of Credit Union Service Organization stock		51	-
Decrease (increase) in loans to members and member affiliates		(3,677)	2,116
Decrease in National Credit Union Share Insurance Fund deposit		6	28
Purchases of securities		(361,260)	(568,408)
Maturities, prepayments, and calls of securities		393,213	249,774
Proceeds from sale of securities		48,740	46,886
Purchases of premises and equipment		(302)	(399)
Proceeds of termination of pension asset		1,071	-
Cash from acquisition of West Virginia Federal Corporate Credit Union		88	-
Net cash provided by investing activities		226,314	173,415
Cash flows from financing activities:			
Decrease in members' depository accounts		(226,092)	(169,233)
Increase (decrease) in members' share accounts		(2,011)	34
Proceeds from perpetual contributed capital		-	2,215
Increase in deposits in collection		7,115	27,663
Payments on Federal Home Loan Bank advances		(23,915,622)	(2,031,742)
Proceeds from Federal Home Loan Bank advances		23,915,622	2,031,742
Payment of perpetual contributed capital dividends		(598)	(236)
Net cash used by financing activities		(221,586)	(139,557)
Increase in cash and cash equivalents		7,465	37,119
Cash and cash equivalents at beginning of year		75,492	38,373
Cash and cash equivalents at end of year	$	82,957	75,492

See notes to financial statements.

(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).

Effective February 1, 2012, VolCorp acquired 100% of West Virginia Corporate Federal Credit Union. The merger has been accounted for using the acquisition method of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805 *Business Combinations.* A net economic value analysis was performed to determine the fair value of assets and liabilities of West Virginia Corporate Federal Credit Union. There were no material adjustments to record at merger.

(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) share and certificate accounts. VolCorp does not have any financial instruments with U.S. Central Bridge as of December 31, 2012. 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. Beginning January 1, 2013, NCUA share insurance coverage on deposits in corporate credit unions will be limited to the standard maximum share insurance amount of $250,000.

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(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.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash 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 (Federal Reserve). 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, 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 items are certificates of deposit and other interest bearing balances in various institutions including the Federal Reserve, Federal Home Loan Bank (FHLB) and U.S. Central Bridge. U.S. Central Bridge was closed by the NCUA on October 26, 2012.

(g) Securities

VolCorp has adopted FASB ASC 320 *Debt and Equity Securities* which 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.

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(g) Securities, (Continued)

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.

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 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) Investment in Credit Union Service Organizations

Investments in Credit Union Service Organizations (CUSOs) are recorded at fair value under the equity method. The equity method is considered appropriate due to VolCorp's percentage of ownership or the ability to exert influence over the CUSOs.

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(j) 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.

(k) 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.

(l) 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.

(m) 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 little guidance in the IRS code on what activities should be subject to UBIT. The IRS issued 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. 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 tax years from December 31, 2009 and forward remain open to tax audits.

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(n) National Credit Union Share Insurance Fund Deposit and Insurance Premiums

The deposit in the National Credit Union Share Insurance Fund (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. NCUA Regulation 741.4 requires insured credit unions to 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.

Effective September 1, 2011, VolCorp was assessed an additional .25% of insured shares as of June 30, 2011. On October 9, 2012 VolCorp received a refund based on the insured shares as of June 30, 2012, due to a decline in insured shares from the previous period. VolCorp paid an assessment equal to .095% of June 30, 2012 insured shares on October 9, 2012.

(o) Members' Share Accounts

Members' share accounts are subordinated to all other liabilities of VolCorp upon liquidation. All members' share accounts not converted to perpetual contributed capital or already on notice were placed on a three year notice for withdrawal on October 20, 2011 as required by Regulation Part 704. 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. 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. Membership shares are subordinate to perpetual contributed capital in the event of liquidation.

(p) Perpetual Contributed Capital

Perpetual contributed capital is a permanent non-voting, non-cumulative equity investment. Payment of dividends is based on available earnings and is not guaranteed. Perpetual contributed capital is senior to membership shares in the event of liquidation and subordinate to all other liabilities of VolCorp. Dividends declared on perpetual contributed capital will be determined by management and approved by the Board of Directors based on an evaluation of current and future market conditions.

(q) Comprehensive Income

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

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(r) 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.

(s) Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve of $25,000 was required to meet regulatory reserve and clearing requirements at December 31, 2011. There was no required balance at December 31, 2012. All balances bear interest.

(t) 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. A financial instrument'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.

(Table Amounts in Thousands)

(1) Nature of Business and Summary of Significant Accounting Policies, (Continued)

(t) Fair Value of Financial Instruments, (Continued)

- 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.

(u) Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the 2012 financial statements.

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

At December 31, 2012 and 2011, certificates of deposit and balances with other financial institutions are comprised as follows:

	2012					
		U.S. Central Bridge	Federal Reserve	FHLB	Other	Total
Daily and overnight share accounts	$	-	250,632	56	3	250,691
Fixed-term certificates		-	-	-	2,332	2,332
	$	-	250,632	56	2,335	253,023

	2011					
		U.S. Central Bridge	Federal Reserve	FHLB	Other	Total
Daily and overnight share accounts	$	31,061	87,397	25	2	118,485
Fixed-term certificates		33,275	-	-	-	33,275
Other floating rate certificates		100,000	-	-	-	100,000
	$	164,336	87,397	25	2	251,760

(Table Amounts in Thousands)

(2) Certificates of Deposit and Balances with Other Financial Institutions, (Continued)

At December 31, 2012, fixed-term and floating rate certificates of deposit mature as follows:

Years Ending December 31,	
2013	$ 1,240
2014	1,092
	$ 2,332

(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, 2012 and 2011 were as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 539,073	474	(410)	539,137
Asset-backed securities	282,130	182	(429)	281,883
	$ 821,203	656	(839)	821,020

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 562,729	277	(1,939)	561,067
Asset-backed securities	300,991	423	(663)	300,751
Corporate bonds	9,993	10	(258)	9,745
	$ 873,713	710	(2,860)	871,563

(Table Amounts in Thousands)

(3) Securities Available-For-Sale, (Continued)

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 securities 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. domestic corporation bonds.

Securities with an amortized cost of $511,776,000 and fair value of $513,030,000 at December 31, 2012 were pledged to secure FHLB borrowings. At December 31, 2011, securities with an amortized cost of $559,991,000 and fair value of $559,291,000 were pledged to secure FHLB borrowings.

VolCorp sold $48,740,000 and $46,886,000 securities available-for-sale resulting in gains of $183,000 and $114,000 in 2012 and 2011, respectively.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2012, 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	$ 15,000	15,011
Due after one year through five years	136,998	137,025
Due after five years through ten years	189,279	189,199
Due after ten years	479,926	479,785
	$ 821,203	821,020

(Table Amounts in Thousands)

(3) Securities Available-For-Sale, (Continued)

Securities with unrealized losses at December 31, 2012 and 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency securities	$ 120,648	229	159,695	181	280,343	410
Asset-backed securities	122,053	301	30,880	128	152,933	429
Total temporarily impaired	$ 242,701	530	190,575	309	433,276	839

	2011					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency securities	$ 380,382	901	40,220	1,038	420,602	1,939
Asset-backed securities	55,218	238	8,529	425	63,747	663
Corporate bonds	-	-	4,732	258	4,732	258
Total temporarily impaired	$ 435,600	1,139	53,481	1,721	489,081	2,860

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

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 semi-annually.

(Table Amounts in Thousands)

(3) Securities Available-For-Sale, (Continued)

The following table provides a summary of other-than-temporary impairment charges included in VolCorp's investment securities at December 31, 2012 and 2011 and changes during the years ended December 31, 2012 and 2011 is as follows:

		2012	2011
Credit losses at January 1	$	1,555	1,555
Less realized losses for securities sold		(182)	-
Credit losses at December 31	$	1,373	1,555

(4) Investment in Credit Union Service Organizations

VolCorp's investment in CUSOs at December 31, 2012 and 2011 is as follows:

	2012				
Name	Percentage of Ownership			Cost	Carrying Cost
Credit Union Business Group LLC	4.41	%	$	90	76
Primary Financial Company, Inc.	4.00			531	881
CU Investment Solutions, LLC	10.53			100	232
CNBS, LLC	0.79			15	15
			$	736	1,204

	2011				
Name	Percentage of Ownership			Cost	Carrying Cost
Credit Union Business Group LLC	5.41	%	$	90	98
Primary Financial Company, Inc.	1.22			-	259
CU Investment Solutions, LLC	10.00			100	118
			$	190	475

Investments in CUSOs are accounted for under the equity method. The equity method is considered appropriate for these investments based on VolCorp's percentage of ownership or the ability to exert significant influence over the CUSOs by serving on the board of directors.

(Table Amounts in Thousands)

(5) Fair Value Measurements

The following table presents the assets and liabilities carried at fair value as of December 31, 2012 and 2011, by their nature and by FASB ASC 820, *Fair Value Measurements and Disclosures,* valuation hierarchy and subject to measurement on a recurring basis:

	2012			
	Total Value	Value Level 1	Value Level 2	Value Level 3
U.S. Government and agency securities	$ 539,137	-	539,137	-
Asset-backed securities	281,883	-	281,883	-
Annuity contract	1,567	-	1,567	-
Total assets at fair value	$ 822,587	-	822,587	-
Total liabilities at fair value	$ -	-	-	-

	2011			
	Total Value	Value Level 1	Value Level 2	Value Level 3
U.S. Government and agency securities	$ 561,067	-	561,067	-
Asset-backed securities	300,751	-	300,751	-
Corporate bonds	9,745	-	9,745	-
Annuity contract	1,468	-	1,468	-
Total assets at fair value	$ 873,031	-	873,031	-
Total liabilities at fair value	$ -	-	-	-

(Table Amounts in Thousands)

(5) Fair Value Measurements, (Continued)

The following table presents the assets and liabilities carried at fair value as of December 31, 2012 and 2011, by their nature and by FASB ASC 820 valuation hierarchy and subject to measurement on a non-recurring basis:

	2012			
	Total Value	Value Level 1	Value Level 2	Value Level 3
NCUSIF deposit	$ 646	-	-	646
Total assets at fair value	$ 646	-	-	646
Total liabilities at fair value	$ -	-	-	-

	2011			
	Total Value	Value Level 1	Value Level 2	Value Level 3
NCUSIF deposit	$ 448	-	-	448
Total assets at fair value	$ 448	-	-	448
Total liabilities at fair value	$ -	-	-	-

The following valuation methods are used for assets carried at fair value as of December 31, 2012 and 2011:

- U.S. Government and agency securities, asset-backed securities, corporate bonds, and annuity contract – fair values are estimated using pricing models that use observable inputs or quoted prices of securities with similar characteristics. These securities are classified within Level 2 of the valuation hierarchy.

- NCUSIF deposit – is measured based on a percentage of insured shares. The NCUSIF deposit is classified within Level 3 of the valuation hierarchy.

(Table Amounts in Thousands)

(6) Premises and Equipment

Premises and equipment at December 31, 2012 and 2011, respectively were as follows:

	2012	2011
Land	$ 427	427
Building	2,174	2,174
Furniture, fixtures, and equipment	4,838	5,789
Furniture, fixtures, and equipment in process	103	75
	7,542	8,465
Less accumulated depreciation and amortization	3,852	4,542
	$ 3,690	3,923

Rent expense for a storage facility, a disaster recovery site and operations in West Virginia were $64,000 and $57,000 for 2012 and 2011, respectively.

(7) U.S. Central Bridge Line of Credit

VolCorp had an advised line of credit from U.S. Central Bridge for $135,000,000 at December 31, 2011. No amount was outstanding under this line of credit at December 31, 2011. U.S. Central Bridge was closed on October 26, 2012 and VolCorp no longer has a line of credit.

(8) Members' Depository Accounts

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

	2012	2011
Daily shares	$ 992,927	1,043,349
Share certificates	41,586	46,588
	$ 1,034,513	1,089,937

Scheduled maturities of share certificates at December 31, 2012 were as follows:

Within one year	$ 29,563
One to three years	10,123
Over three years	1,900
	$ 41,586

At December 31, 2012 and 2011, there were no depository accounts exceeding 10% of total members' depository accounts. The aggregate amount of members' depository accounts over $250,000, as of December 31, 2012, was approximately $974,265,000.

(Table Amounts in Thousands)

(8) Members' Depository Accounts, (Continued)

Member deposits with VolCorp were fully covered by NCUA's TCCUSGP program until December 31, 2012, with the exception of new investments made after December 31, 2010 with a maturity date beyond December 31, 2012.

(9) 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 120 securities, with a carrying value of $513,030,000, 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, 2012 and 2011. The interest rate range for the borrowings was .04% to .18% in 2012 and .04% to .20% in 2011. At December 31, 2012, VolCorp had $473,859,000 in borrowing availability with the Federal Home Loan Bank of Cincinnati.

(10) 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.

The NCUA established new regulations for capital that became effective on October 20, 2011. As allowed by the new regulation, all daily average net assets and monthly average net assets have been reset as of October 2011. At December 31, 2012 and 2011, VolCorp's capital ratios were as follows:

	Actual Capital		Required Capitalization under NCUA Regulation 704		
			Under Capitalized	Adequately Capitalized	Well Capitalized
	Amount	Ratio	Ratio	Ratio	Ratio
2012:					
Interim Leverage[1]	$ 70,391	5.33 %	< 3.00 %	4.00 %	5.00 %
Tier 1 Risk Based Capital[2]	68,896	40.19	< 4.00	4.00	6.00
Total Risk Based Capital[2]	70,391	41.06	< 8.00	8.00	10.00
2011:					
Interim Leverage[1]	$ 60,161	4.94 %	< 3.00 %	4.00 %	5.00 %
Tier 1 Risk Based Capital[2]	55,959	26.85	< 4.00	4.00	6.00
Total Risk Based Capital[2]	60,161	28.87	< 8.00	8.00	10.00

[1] *to rolling daily average net assets*

[2] *to moving monthly average net risk-weighted assets*

(10) Regulatory Capital Requirements, (Continued)

Part of the new regulations require VolCorp's retained earnings ratio to be 0.45% by October 2013, 1% by October of 2016, and 2% by October of 2020 and going forward to be considered "adequately capitalized". VolCorp's retained earnings ratio at December 31, 2012 is 0.71%. Beginning in October 2013, VolCorp's permanent leverage ratio must be 4% to be considered "adequately capitalized" or 5% to be considered "well capitalized." VolCorp's permanent leverage ratio at December 31, 2012 is 5.22%

(11) 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 $89,869,000 and $133,432,000 at December 31, 2012 and 2011, respectively.

(12) 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 $308,000 and $272,000 during 2012 and 2011, respectively.

VolCorp had a deferred compensation agreement with one of its key executive officers. The deferred compensation increased in value based on the performance of an annuity contract held by VolCorp, but would not decline. At December 31, 2012 and 2011, VolCorp had accrued benefits under the agreement of $580,000 and $481,000, which were recorded in accrued expenses and other liabilities. During the year ended December 31, 2012 $99,000 of expense was recorded, while in 2011 no deferred compensation expense was recorded. In connection with this agreement, prior to January 1, 2007, VolCorp purchased an annuity contract in the amount of $1,400,000 which was 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, 2012 and 2011, VolCorp recorded income of $99,000 and a loss of $20,000, respectively. The retirement date on the annuity contract was January 1, 2013 and on January 15, 2013 $580,000 was paid to the executive officer.

VolCorp acquired through the merger with West Virginia Federal Corporate Credit Union a defined benefit plan. The plan was previously frozen and terminated on April 13, 2012 with $671,000 being paid through distributions to the participants and VolCorp received the balance of the over funded status which totaled $1,071,000.

(Table Amounts in Thousands)

(13) Commitments, Contingencies and Off Balance Sheet Activities

In the normal course of business, there may be various outstanding legal proceedings or potential claims. In the opinion of management, after consultation with legal counsel, the financial position of VolCorp will not be affected materially by the outcome of any such legal proceedings or potential claims.

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. These instruments contain, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the balance sheets. The credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The market risk relates to the possibility that future changes in market prices may make a financial instrument less valuable or more onerous. 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 $737,268,000 and $633,515,000 at December 31, 2012 and 2011, respectively.

(14) Disclosures about Fair Value of Financial Instruments

The carrying amount and the estimated fair value of financial instruments were as follows at December 31, 2012 and 2011:

	2012		2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 82,957	82,957	75,492	75,492
Certificates of deposit and balances with other financial institutions	253,023	253,018	251,760	251,142
FHLB stock	9,819	9,819	5,829	5,829
Securities available for sale	821,020	821,020	871,563	871,563
Investment in CUSOs	1,204	1,204	475	475
Loans to members and member affiliates	4,656	4,656	433	433
Accrued interest receivable and other assets	1,343	1,343	1,463	1,463
NCUSIF deposit	646	646	448	448
Annuity contract	1,567	1,567	1,468	1,468
Financial liabilities:				
Members' depository accounts	$ 1,034,513	1,034,417	1,089,937	1,090,177
Deposits in collection	67,353	67,353	60,150	60,150
Accrued expenses and other liabilities	1,654	1,654	1,087	1,087
Members' share accounts	6,489	6,489	7,396	7,396

(14) Disclosures about Fair Value of Financial Instruments, (Continued)

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, investment in CUSOs, accrued interest, NCUSIF deposit, members' share deposits, short-term debt, and variable rate loans or deposits that reprice frequently, due to the short-term nature or fixed redemption amounts. 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. 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.

(15) Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)-Fair Value Measurement, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 was effective beginning in 2012 and did not have a material effect on VolCorp's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income, which includes new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and requires presentation of reclassification adjustments on the face of the income statement or statement of comprehensive income. ASU 2011-05 was effective beginning in 2012 and had no impact on VolCorp's financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) that defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. ASU 2012-12 was effective for 2012 and had no impact on VolCorp's financial statements.

(Table Amounts in Thousands)

(16) Compensation

The 2012 compensation paid to the five most highly compensated employees is as follows:

Name and Position		Salary	Bonus	Commissions[1]	401(k) Match[2]	Health Benefit Plans[3]	Pension[4]	Automobile	Total
Rick Veach, President & CEO	$	259,283	24,931	-	24,999	9,252	98,867	9,410	426,742
Phillip Cochran, VP & CIO		74,256	-	129,684	7,426	4,241	-	-	215,607
Jeff Merry, Senior VP & CFO		151,410	14,700	-	15,141	12,099	-	-	193,350
Ben Williams, Senior VP & CTO		136,269	13,230	-	13,627	13,483	-	-	176,609
Sandy Swofford, Senior VP of Marketing		129,932	12,494	-	12,993	9,000	-	-	164,419

[1] Commissions are the contracted amount payable under VolCorp's agreement with CU Investment Solutions, LLC. for sales of securities.
[2] VolCorp's retirement savings plan provides a 10% VolCorp contribution. VolCorp does not have a defined benefit plan.
[3] VolCorp provides medical, dental, life, and disability insurance plans to all employees.
[4] 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.

(17) Supplementary Cash Flow Information

Additional cash flow disclosures for the years ended December 31, 2012 and 2011 are as follows:

		2012	2011
Interest paid	$	2,083	3,406
Non-cash items:			
Unrealized gain (loss) on available-for-sale securities	$	1,967	(1,832)
Conversion of members' share accounts to perpetual contributed capital	$	1,024	46,432

(Table Amounts in Thousands)

(18) Acquisition of West Virginia Corporate Federal Credit Union

On February 1, 2012 VolCorp acquired 100% of West Virginia Corporate Federal Credit Union. The acquisition was made for the purpose of combining operations to create synergies. Assets in excess of liabilities totaled $359,000 and were recognized by VolCorp on the statement of income in 2012. The following assets and liabilities were recognized in the acquisition at fair value:

Assets:		
Uncollected cash items	$	88
Certificates of deposit and balances with other financial institutions		153,637
Securities held to maturity		28,000
Investment in Credit Union Service Organizations		576
Loans to members and member affiliates		546
Accrued interest receivable and other assets		368
Premises and equipment, net		9
National Credit Union Share Insurance Fund deposit		204
Prepaid pension asset		1,052
		184,480
Liabilities:		
Members' depository accounts		170,668
Escrow for perpetual contributed capital		4,125
Members' share accounts		9,112
Deposits in collection		88
Accrued interest payable and other liabilities		128
		184,121
Assets received in excess of liabilities assumed	$	359

(19) Subsequent Events

Management has evaluated subsequent events through May 13, 2013, the date on which the financial statements were available to be issued.