National Credit Union Administration

2012 Annual Report

National Credit Union Administration

Office of the Chairman

May 14, 2013

To the Members of the Senate Banking and House Financial Services Committees:

On behalf of the National Credit Union Administration (NCUA) and in the spirit of transparency, I am pleased to submit NCUA's 2012 Annual Report for your review.

This report reviews the agency's performance in 2012 and includes the audited financial statements for NCUA's four permanent funds. These funds include the National Credit Union Share Insurance Fund (NCUSIF), the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

NCUA works to foster the safety and soundness of federally insured credit unions. NCUA also works to better enable the credit union community to extend credit for productive and provident purposes to all Americans. Further, NCUA vigorously works to protect the NCUSIF from losses.

In its performance, NCUA strives to ensure that credit unions are empowered to make the necessary business decisions to serve the diverse needs of their existing members and potential members. NCUA achieves this objective by establishing a regulatory environment that encourages innovation, flexibility, and continued focus on attracting new members and improving service to existing members.

NCUA developed the agency's 2012 Annual Report in accordance with the requirements of:

- Section 102(d) of the Federal Credit Union Act;
- the Chief Financial Officers Act of 1990;
- the Government Performance and Results Act of 1993; and
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978.

In accordance with the Reports Consolidation Act of 2000, NCUA also completed an assessment of the reliability of the performance data contained in this report. No material inadequacies were found, and the data are considered to be complete and reliable.

Sincerely,

Debbie Matz

Debbie Matz
Chairman

2012 Annual Report

NCUA
National Credit Union Administration

www.NCUA.gov

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Message from the Board

Message from the Board

The NCUA Board (from left to right): Board Member Michael E. Fryzel and NCUA Chairman Debbie Matz.

A Transformative Year for Credit Unions

For the National Credit Union Administration (NCUA) and federally insured credit unions, 2012 was a transformative year. The industry transitioned from uncertainty caused by a severe recession and benefited from a recovering economy. At the same time, NCUA continued implementing policies to maintain an effective regulatory environment in which credit unions can thrive now and in the future.

NCUA also maintained a strong and independent National Credit Union Share Insurance Fund (NCUSIF). At the same time, we worked to modernize and streamline regulations, engage key stakeholders and position the agency for the future.

Strengthening Industry Performance

Overall, credit unions had a strong year in 2012. For the first time, industry assets exceeded $1 trillion and the aggregate industry net worth ratio grew to a healthy 10.44 percent. Membership expanded to nearly 94 million, increasing almost 50 percent faster than in 2009. The industry also posted record net income of $8.5 billion, yielding a return on average assets ratio of 86 basis points. Significantly, loan charge-offs fell to 0.73 percent, a decline of 18 basis points for the year.

Credit unions with assets above $250 million experienced the most robust growth. This group showed the largest gains in nearly every category, including membership, net worth, market share, loans and assets. Smaller credit unions, however, tended to have higher net worth, but showed slower gains in 2012. Credit unions with assets under $10 million sustained sluggish loan growth compared to credit unions with assets above $250 million. These small credit unions struggled to generate earnings and lost membership overall.

Because we recognize that small credit unions are important to their members and their local communities, NCUA's Office of Small Credit Union Initiatives is working to help viable small credit unions survive into the future.

Ensuring a Safe and Sound System

By the end of 2012, assets in troubled credit unions decreased to $19.0 billion, compared to $29.4 billion at the end of 2011. Improving economic and industry conditions contributed greatly to the financial performance of the NCUSIF as well, which attained the statutory equity ratio of 1.30 percent on an insured share base of $839.4 billion, up from $795.3 billion in 2011.

Despite overall improvements in the financial conditions of credit unions, 22 failed in 2012. These failures collectively cost the NCUSIF $207 million. As a result of prudent NCUSIF management and reserving policies, the NCUA Board determined it was not necessary to charge credit unions an insurance premium in 2012.

To further bolster the safety and soundness of the credit union industry, NCUA took steps in 2012 to strengthen our examination process. The agency implemented the National Supervision Policy Manual, which details the internal operations and examination procedures for staff. This manual was created to ensure greater consistency in the examination process.

Additionally, we authorized the creation of the Office of National Examinations and Supervision. This office assumed supervision of corporate credit unions at the start of 2013 and will enhance oversight of the nation's largest consumer credit unions—those with more than $10 billion in assets—beginning in 2014. The realignment addresses growing concentrations of assets found in larger, more complex credit unions and seeks to guard against the potential exposure to the NCUSIF.

Modernizing Regulations

In 2012, we again advanced NCUA's Regulatory Modernization Initiative. Keeping with the spirit of President Obama's Executive Order 13579, the initiative aims to keep credit unions safe and sound, while responsibly reducing regulatory burdens and synchronizing our rules with the modern marketplace.

Examples of the initiative's results were:

- Establishing the Troubled Debt Restructuring rule to keep more members in their homes and ease credit union reporting burdens;

- Streamlining the application process for eligible low-income designations to remove red tape and encourage more small business lending;
- Revising the threshold definition for "small" credit unions from up to $10 million to up to $50 million to provide regulatory relief from certain regulations for two-thirds of all credit unions;
- Clarifying the definition of video tellers to provide improved service to members at lower costs to credit unions;
- Allowing larger auto fleets for member business loans to reflect the current marketplace; and
- Extending permissible maturities for loan modifications to help struggling borrowers.

Continuing Corporate Resolution Efforts

In 2012, NCUA successfully completed several initiatives created during the financial crisis to stabilize the corporate credit union system. NCUA achieved each of these milestones with no service disruptions to credit unions or their members. These significant accomplishments included:

- Liquidating U.S. Central Bridge Corporate Federal Credit Union and Western Bridge Corporate Federal Credit Union after successfully migrating key services to other marketplace providers;
- Ending the Temporary Corporate Credit Union Share Guarantee Program, as planned, without major deposit outflows or operational disruptions; and
- Paying off the remaining $3.5 billion on the guaranteed Medium Term Notes issued to support the cash flow needs of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund).

With these goals realized, NCUA effectively closed the chapter on stabilizing, resolving and reforming the nation's corporate credit union system. We achieved these results at no cost to taxpayers.

NCUA also continued legal efforts to hold accountable those who caused the corporate crisis. In all, NCUA now has 10 lawsuits, including four cases filed in 2012, against the Wall Street investment firms that sold faulty mortgage-backed securities to the five failed corporates. When purchased, 82 percent of these securities were rated AAA. At the end of 2012, 68 percent of these securities were rated as below investment grade.

Through these efforts, NCUA had recovered more than $170 million by the end of 2012, including a $5.25 million settlement with HSBC in 2012. NCUA is using net proceeds from these settlements to reduce the amount of Stabilization Fund assessments for all federally insured credit unions.

One consequence of the corporate resolution process is significantly reduced borrowing capacity for the credit union system's emergency liquidity needs.

U.S. Central Bridge had served as the leading agent stockholder in the congressionally created Central Liquidity Facility (CLF)—which had the capacity to provide $49.8 billion in emergency liquidity at the end of 2011 to all credit union members of the corporate network. However, U.S. Central Bridge's stock in the CLF was fully redeemed during the orderly dissolution process.

The redemption lowered the CLF's borrowing limit to $2.3 billion at end of 2012 because its borrowing authority is tied to the amount of subscribed capital stock and surplus. As anticipated, this emergency liquidity is no longer available to all credit unions in the corporate network. The CLF is now limited to 124 credit unions that still own CLF stock directly.

To address the system's diminished borrowing capacity, the NCUA Board issued a proposed rule to require large credit unions, which hold most of the industry's assets, to establish access to a government-backed emergency liquidity source. NCUA will consult with Congress on a possible legislative remedy to modernize the CLF.

Engaging Stakeholders

Throughout 2012, NCUA's leadership regularly met with industry representatives to respond to questions, explain policies and listen to the ideas and concerns of credit union officials.

During quarterly webinars and six listening sessions across the country, thousands of credit union officials had opportunities to speak directly to the NCUA Chairman and senior staff, offer ideas for improvements and learn more about the agency's regulatory priorities. The conversations focused largely on ways to minimize the regulatory burden and improve the examination experience for credit unions.

NCUA also continued to expand the use of information technology to communicate and provide information to various stakeholder audiences. For example, we improved the content on our websites, NCUA.gov and MyCreditUnion.gov, made them easier to navigate and expanded our outreach on social media. In addition to the Chairman's quarterly webinars that provided regulatory updates, we hosted online training seminars and produced videos that provided economic updates to credit unions.

Positioning NCUA for the Future

In 2012, we worked to ensure that NCUA is positioned to meet tomorrow's challenges. We continued to hire diverse and talented professionals from outside the agency, as well as promote talent from within. This new talent, at all levels of the organization, including senior leadership, is stimulating innovation and increasing the agency's technical expertise.

To ensure NCUA remains an employer of choice, NCUA continued its successful efforts to communicate with employees and address their concerns. As a result, the Partnership for Public Service ranked NCUA as the most improved mid-sized agency in the federal government after improving our overall ranking from 17th place to sixth place. Employees across all demographics gave the agency high marks for job satisfaction, fairness and employee empowerment.

Looking Ahead

While 2012 was a year filled with many successes, NCUA remains vigilant in protecting against emerging threats. Interest rate risk, liquidity risk, cyber-attacks and an aging membership base outside of its prime borrowing years are among the most pressing.

As we work with credit unions to mitigate these threats, we are confident that NCUA's proactive actions in 2012 have created a framework strong enough and flexible enough to ensure that the industry remains safe and sound for millions of Americans for years to come.

Debbie Matz
Chairman

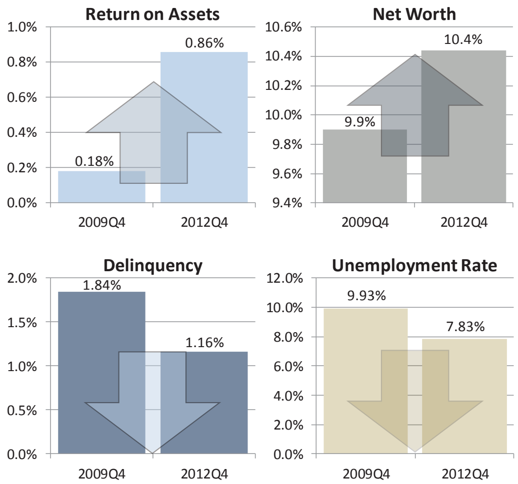
Michael E. Fryzel
Board Member

Credit Union Industry Overview

Credit Union Industry Overview

Overall, federally insured credit unions showed strong financial performance in 2012, generating sizable earnings and membership gains. In addition, credit unions continued to benefit from improving economic trends since the end of the recession in 2009.

Key Industry Indicators
From 2009–2012



Federally insured credit unions continue to recover from the financial crisis. Return on assets reached 86 basis points in 2012, compared to just 18 basis points in 2009. Credit unions have also benefited from improvements in other key industry and economic metrics as well.

Earnings for 2012 were $8.5 billion, a 36.1 percent increase from $6.3 billion in 2011 and a record for the credit union industry. This increase in earnings resulted largely from reductions in loss reserves, a positive sign that credit unions are recovering from the financial crisis and benefiting from a strengthening economy. These strong earnings led to a return on average assets ratio of 86 basis points for the industry overall, a year-over-year increase of 19 basis points. The aggregate net worth ratio rose to 10.44 percent in 2012, up 23 basis points from a year earlier.

Membership in federally insured credit unions also grew to 93.8 million members at the close of 2012, up from 91.8 million at the end of 2011. Total assets increased by $60 billion, helping the industry cross the $1 trillion mark for the first time. The industry's net worth rose to $106.7 billion, up $8.4 billion from 2011. Share and deposit accounts grew nearly 6.1 percent to $877.9 billion at the end of the year.

Federal credit unions reported $597.7 billion in loans outstanding at the end of 2012, a 4.6 percent annual increase. Lending grew in nearly every category:

- First mortgage real estate loans increased 5.7 percent to $246.3 billion;
- Used auto loans rose 7.9 percent to $115.2 billion;
- New auto loans grew 8.7 percent to $63.3 billion; and
- Member business loan balances expanded 6.5 percent to $41.7 billion.

Additionally, improving economic conditions like a declining unemployment rate contributed to the reduction in delinquencies and charge-offs. The industry's delinquency ratio fell 44 basis points to 1.16 percent in 2012. Charge-offs fell to 0.73 percent, a decline of 18 basis points for the year.

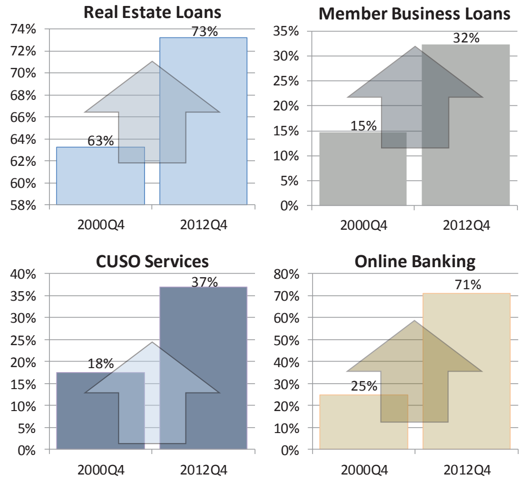
However, individual credit union financial performance varied by asset size in 2012. Credit unions with assets above $250 million showed the largest gains in nearly every category, including membership, net worth, market share, loans and assets. Smaller credit unions tended to have higher net worth, but lagged in performance. Credit unions under $50 million in assets had a return on average assets ratio of 23 basis points, well below the industry average. As a group, credit unions with assets under $10 million had a loss of membership and sluggish loan growth compared to credit unions with assets above $250 million.

Since 2000, credit unions have evolved and become more complex insitutions. In 2012, credit unions continued this trend, diversified their holdings and grew their real estate and member business loan portfolios. Credit unions also continued to expand into online and mobile banking. At the end of 2012, 4,828 federally insured credit unions offered online banking and 1,851 offered mobile banking services.

The credit union industry also continued to consolidate. The number of federally insured credit unions fell from 7,094 at the end of 2011 to 6,819 institutions at the end of 2012, a trend consistent with recent years.

Finally, despite overall improvements in the industry's financial performance, 22 credit unions failed in 2012. Fourteen of these credit unions with approximately $716 million in assets were liquidated and eight were merged into other institutions with NCUA assistance.

Growth of Credit Union Products and Services
From 2000–2012



Federally insured credit unions continue to grow in sophistication by offering new, more complex products and services such as online banking, member business loans and other services.

Our Work, Our People: NCUA at a Glance

Our Work, Our People: NCUA in Brief

Created by the U.S. Congress in 1970, NCUA is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions, and charters and regulates federal credit unions. A three-member Board of Directors oversees NCUA's operations by setting policy, approving budgets and adopting rules.

NCUA protects the safety and soundness of the credit union system by identifying, monitoring, and combating risks to the National Credit Union Share Insurance Fund (NCUSIF). Backed by the full faith and credit of the U.S. Government, the NCUSIF insures individual accounts up to $250,000 and joint accounts up to $250,000 per member. NCUA provides insurance to nearly 94 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. Credit union members have never lost a penny of insured savings at a federally insured credit union.

Through robust and effective examinations, NCUA helps to ensure that credit unions are safe and viable financial institutions. When a credit union does fail, NCUA works to minimize the impact of credit union failures on the entire industry.

NCUA further plays a role in helping to ensure broader financial stability. NCUA is a member of, and in 2012 chaired, the Federal Financial Institutions Examination Council (FFIEC) which is responsible for developing uniform principles, standards and report forms, and promoting uniformity in the supervision of depository financial institutions. NCUA's Chairman is also a member of the Financial Stability Oversight Council, an interagency body tasked with identifying risks and responding to emerging threats to the financial system.

In 2012, NCUA relied upon 1,191 full-time equivalent employees to perform all the vital tasks in the agency's insurance, consumer protection and regulatory roles. NCUA operates a central office located in Alexandria, Va., the Asset Management and Assistance Center located in Austin, Texas, to liquidate credit unions and recover assets, and five regional offices. In these regional offices, NCUA has 77 supervisory groups each with eight to ten examiners responsible for a portfolio of credit unions covering all 50 states, Puerto Rico, Guam and the U.S. Virgin Islands.

NCUA Board of Directors

NCUA has a three-member Board of Directors appointed by the President of the United States and confirmed by the U.S. Senate. By law, no more than two Board members are from the same political party, and members serve staggered six-year terms. The NCUA Board normally meets monthly, except August, in open session in Alexandria, Va.

Chairman Debbie Matz was nominated by President Barack Obama to serve as NCUA's eighth Board Chairman. She was sworn into office on Aug. 24, 2009. Starting in 2010, Mrs. Matz also represents NCUA as one of ten voting members on the Financial Stability Oversight Council. She additionally serves on the FFIEC, which she chaired until April 2013, and on the board of NeighborWorks America. Most recently a federal credit union's executive vice president/chief operating officer, Mrs. Matz is no stranger to NCUA, having served as an NCUA Board Member from January 2002 to October 2005. President Bill Clinton previously appointed Ms. Matz to serve as Deputy Assistant Secretary of Administration at the U.S. Department of Agriculture. Mrs. Matz served as an economist on the congressional Joint Economic Committee for many years. Her term expires April 10, 2015.

Board Member Michael E. Fryzel was appointed by President George W. Bush to a seat on the NCUA Board. He was confirmed by the U.S. Senate June 26, 2008, took the oath of office as NCUA Chairman on July 29, 2008, and served in this role for just over a year. Mr. Fryzel was an attorney in private practice specializing in financial, regulatory and real estate law prior to his appointment. A former director of the Illinois Department of Financial Institutions, Mr. Fryzel served on the Illinois Governor's Board of Credit Union Advisors from 1992 until his NCUA appointment. His term expires Aug. 2, 2013.

Christiane Gigi Hyland also served as a Board Member until Oct. 5, 2012. Her seat is presently vacant.

Senior staff reporting to the NCUA Board in 2012 included:

- Mary F. Rupp, Secretary of the Board;
- Steve Bosack, Chief of Staff to the Chairman;
- Buddy Gill, Senior Strategic Communications and External Relations Advisor to the Chairman;
- Sarah Vega, Senior Policy Advisor to Board Member Fryzel;
- David M. Marquis, Executive Director;
- Michael McKenna, General Counsel; and
- Todd M. Harper, Director, Office of Public and Congressional Affairs.

NCUA Central Office Leadership

NCUA's Board and executive director are located in its Alexandria, Va., central office along with the following major offices that administer the agency's various programs.

The **Office of the Executive Director (**OED), led by David M. Marquis in 2012, is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional directors and central office directors report to the executive director, and NCUA's Equal Opportunity Program is included within OED. OED also manages NCUA's strategic planning program, which directs the agency's planning process, and tracks and reports on goal achievement.

Marquis retired from the agency at the end of 2012 after 34 years of service. He was succeeded by Mark A. Treichel.

The **Office of Examination and Insurance** (E&I), led by Larry Fazio, is responsible for NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within E&I, the Division of Supervision oversees NCUA's examination and supervision program. The Division of Risk Management oversees the agency's credit union problem resolution program. The Division of Analytics and Surveillance manages the agency's data gathering, surveillance and national risk assessment programs, as well as, supports NCUA's supervision of technology risk in credit unions. Finally, E&I's Division of Capital and Credit Markets evaluates and develops policies and procedures related to credit union loans and investments and asset liability management. The division also oversees the day-to-day operations of the Central Liquidity Facility and the NCUA Guaranteed Note (NGN) program.

The **Office of General Counsel** (OGC), led by Michael McKenna, addresses legal matters affecting NCUA. These duties include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA Rules and Regulations, processing Freedom of Information Act requests, and advising the Board and the agency on general legal matters. OGC also drafts regulations designed to ensure the safety and soundness of credit unions.

The **Office of Consumer Protection** (OCP), led by Gail Laster, is responsible for consumer compliance policy, program, and rulemaking; fair lending examinations; interagency coordination for consumer protection and compliance issues; member complaint resolution; and the agency's financial literacy programs. OCP also handles chartering, charter conversions, bylaw amendments, field of membership expansions and low-income credit union designations. Laster replaced Kent D. Buckham, who retired in December 2012.

The **Office of the Chief Financial Officer** (OCFO), led by Mary Ann Woodson, is responsible for agency budget preparation and management, ongoing finance and accounting functions, facilities management, and procurement. OCFO also handles billing and collection of credit union NCUSIF premiums and Temporary Corporate Credit Union Stabilization Fund assessments.

The **Office of Corporate Credit Unions** (OCCU), led by Scott Hunt, supervises the corporate credit union system. As a credit union for credit unions, corporates provide a variety of payment, liquidity and investment services. At year-end 2012, there were 17 corporate credit unions that ranged in size from $9.3 million to $4.3 billion. At the start of 2013, NCUA reorganized its operations and OCCU became the Office of National Examinations and Supervision. The new office oversees all corporate credit unions and will supervise consumer credit unions with more than $10 billion in assets effective Jan. 1, 2014.

The **Office of Small Credit Union Initiatives** (OSCUI), led by William Myers, supports two primary roles, assisting the agency's risk mitigation program and fostering credit union development, particularly the expansion of services provided by small credit unions to all eligible consumers. OSCUI fulfills these roles by providing training, customized consulting assistance and financial support offered through grants and loans funded by the Community Development Revolving Loan Fund.

The **Office of the Chief Economist** (OCE), led by John D. Worth, supports NCUA's safety and soundness goals by developing and distributing economic intelligence. OCE also enhances NCUA's understanding of emerging microeconomic and macroeconomic risks by producing meaningful and robust modeling and risk identification tools, and participating in agency and inter-agency policy development.

The **Office of Public and Congressional Affairs** (PACA), led by Todd M. Harper, monitors federal legislative issues and serves as NCUA's liaison with Capitol Hill and other government agencies. PACA is also the source of information about NCUA and its functions for the public, credit unions, league and trade organizations and the media.

The **Office of the Chief Information Officer** (OCIO), led by Ronnie Levine, manages NCUA's automated information resources. OCIO's work includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software, and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled. Additionally, OCIO manages the NCUA.gov and MyCreditUnion.gov websites.

The **Office of Minority and Women Inclusion** (OMWI), led by Tawana James, oversees issues related to diversity in management, employment and business activities. The office works to increase participation of minority- and women-owned businesses in NCUA's programs and contracts. OMWI also works to preserve minority credit unions and to assess the diversity policies and practices of credit unions regulated by NCUA.

The **Office of Human Resources** (OHR), led by Cheryl Eyre, provides a full range of human resources functions to all NCUA employees. OHR administers recruitment and merit promotion, position classification, compensation, employee records, training, employee benefits, performance appraisals, incentive awards, adverse actions and grievance programs. OHR is also responsible for labor relations.

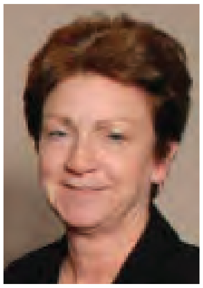
The **Office of Inspector General** (OIG), led by William DeSarno, promotes the economy, efficiency and effectiveness of NCUA programs and operations. OIG also detects and deters fraud, waste and abuse, supporting NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. Additionally, OIG conducts independent audits, investigations and other activities, and keeps the NCUA Board and U.S. Congress fully and currently informed.

NCUA Regional Offices and AMAC

Outside of Alexandria, Va., NCUA has five regional offices and the Asset Management and Assistance Center. The bulk of NCUA staff is assigned to the agency's five regions. This staff regularly examines federally insured credit unions to ensure safe and sound operations.

The **Asset Management and Assistance Center** (AMAC), led by Mike Barton, conducts credit union liquidations, and performs asset management and recovery. AMAC also assists NCUA regional offices with the review of large, complex loan portfolios and actual or potential bond claims. Additionally, AMAC staff participates extensively in the operational phases of conservatorships and record reconstruction.

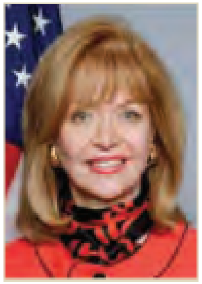
NCUA's **Region I** is located in Albany, N.Y. Directed by Mark A. Treichel in 2012, the region covers Connecticut, Maine, Massachusetts, Michigan, Nevada, New Hampshire, New York, Rhode Island, and Vermont. Treichel assumed duties as NCUA Executive Director on Jan. 1, 2013, and was succeeded by Larry Blankenberger as Region I Director. At the start of 2013, NCUA returned oversight of federally insured credit unions in Nevada to Region V.



NCUA's **Region II** is located in Alexandria, Va. Directed by Jane A. Walters, the region covers California, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia.

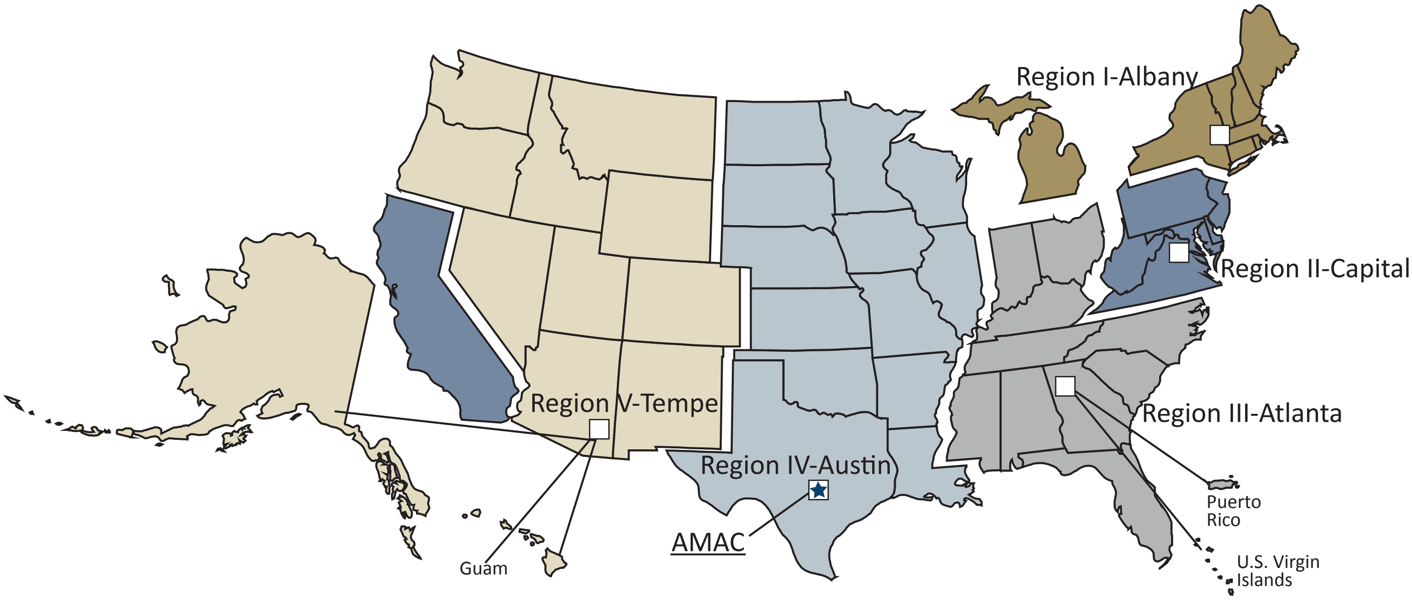
NCUA's **Region III** is located in Atlanta, Ga. Directed by Herbert S. Yolles, the region covers Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Puerto Rico, Ohio, South Carolina, Tennessee, and the U.S. Virgin Islands.

NCUA's **Region IV** is located in Austin, Texas. Directed by C. Keith Morton, the region covers Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin.



NCUA's **Region V** is located in Tempe, Ariz. Directed by Elizabeth Whitehead, the region covers Alaska, Arizona, Colorado, Guam, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming. Oversight of federally insured credit unions in Nevada returned to Region V at the start of 2013.

NCUA Regional Map



Note: The map above reflects NCUA's current regional alignment. On Jan. 1, 2013, oversight of federally insured credit unions in Nevada moved from Region I to Region V.

Management Discussion & Analysis

Management Discussion and Analysis

A Year of Transition, Growth and Stability

In 2012, the credit union industry transitioned away from the financial crisis, grew earnings and assets, and experienced increased stability.

Overall, the credit union industry showed strong financial performance in 2012. Earnings were $8.5 billion, a 36.2 percent increase from $6.3 billion in 2011 and a record for the credit union industry. Federally insured credit unions also reported $597.7 billion in loans outstanding at the end of 2012, a 4.6 percent increase over last year. Improving economic conditions also contributed to a reduction in delinquencies and charge-offs.

As the credit union industry transitioned and grew, NCUA's activities in 2012 could be lumped into five broad categories. Specifically, NCUA worked to:

- Ensure a safe and sound credit union system and maintain a strong and independent National Credit Union Share Insurance Fund (NCUSIF);
- Modernize regulations to meet the demands of an evolving marketplace;
- Draw down the agency's response to the financial crisis;
- Engage, coordinate with and provide assistance to key stakeholders; and
- Prepare and position the agency for the future.

Through these collective efforts, NCUA continued to proactively implement policies designed to maintain an effective regulatory environment in which credit unions can thrive, both now and in years to come.

Ensuring a Safe and Sound Credit Union System

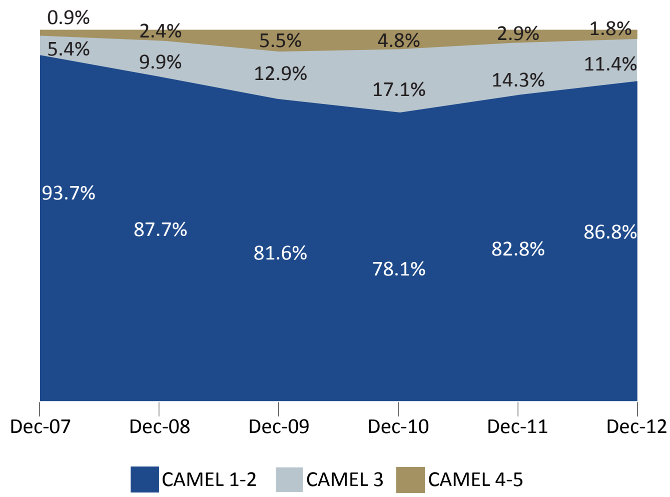
NCUA is committed to ensuring a safe and sound credit union system in both good times and bad. Fortunately, credit unions as a group had a strong year in 2012 as a result of a recovering economy and the many actions taken by NCUA and credit unions to mitigate small problems before they became big ones.

CAMEL Ratings Rise in 2012

A key indicator of the improved performance of credit unions in 2012 is the ongoing uptick in aggregate CAMEL ratings.

NCUA's CAMEL rating consists of an assessment of a credit union's capital adequacy, asset quality, management, earnings and liquidity (asset-liability management). The CAMEL rating system is designed to take into account and reflect all significant financial, operational and management factors examiners assess in their evaluation of a credit union's performance and risk profile. CAMEL ratings range from a 1 (the highest rating) to a 5 (the lowest rating). Credit unions with a composite CAMEL code 3 rating exhibit some degree of supervisory concern in one or more of the component areas. CAMEL code 4 credit unions generally exhibit unsafe and unsound practices or conditions, and CAMEL code 5 credit unions exhibit extremely unsafe and unsound practices and conditions.

Distribution of Assets by CAMEL Codes
From 2007 to 2012



In 2012, assets in troubled federally insured credit unions continued to decline to their lowest levels since 2008. This decline reduced the NCUSIF's risk exposure and helped to ensure the NCUSIF's strong financial performance in 2012.

NCUA refers collectively to CAMEL code 4 and 5 credit unions as "troubled credit unions." At the end of 2012, total assets in troubled credit unions decreased to $19.0 billion, compared to $29.4 billion at the end of 2011. The number of credit unions with CAMEL codes 3, 4 or 5 declined to 15.1 percent of all federally insured credit unions, the lowest level since 2008.

NCUSIF Ends 2012 in a Stronger Position

The NCUSIF ended 2012 in a stronger position because of fewer losses, continued portfolio growth and a decline in the number of troubled credit unions, among other factors. The NCUSIF at the end of the year had reached the statutory equity ratio of 1.30 percent on an insured share base of $839.4 billion. In comparison, the NCUSIF equity ratio in 2011 was 1.30 percent on an insured share base of $795.3 billion.

NCUA calculated the year-end 2012 figure after transferring $88.1 million in equity from the NCUSIF to the Temporary Corporate Credit Union Stabilization Fund. The Federal Credit Union Act requires NCUA to transfer any NCUSIF equity above the normal operating level of 1.30 percent at the end of each year as long as the Stabilization Fund has outstanding borrowings from the U.S. Treasury. Before the transfer, the equity ratio had risen to 1.31 percent.

Because of this strong performance, the Board did not charge credit unions an NCUSIF premium in 2012.

Member Deposits Remain Secure

Member deposits at federally insured credit unions are protected by the NCUSIF up to $250,000. As a result, the members of the 22 credit unions that failed in 2012 suffered no losses on their insured deposits. All verified shares from liquidations in 2012 were paid out within five days of the credit union's closure.

These 22 failures cost the NCUSIF $207 million. Of the credit unions that failed, eight went through assisted mergers. Of the 2012 failures, NCUA's Asset Management and Assistance Center kept $408 million in assets to manage, as compared to keeping $24 million for the prior year. Concurrently, the Asset Management and Assistance Center managed a greater amount of complex assets, which were primarily loans. Gross assets managed increased by 55 percent from $719 million at the end of 2011 to $1.1 billion at the end of 2012.

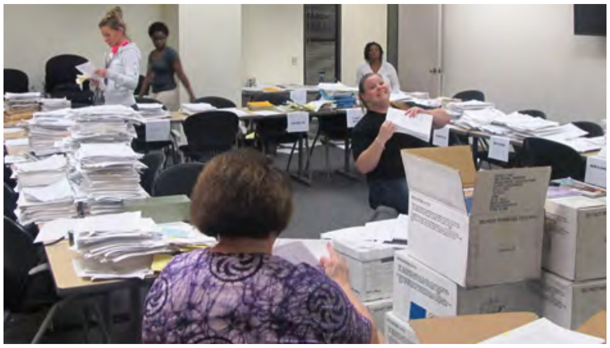
Conditions at Conserved Credit Unions Improve

The four credit unions under NCUA conservatorship throughout 2012 continued to show improved financial performance.

Texans Credit Union's net worth ratio improved to 161 basis points for the year, and Keys Federal Credit Union posted improved net income and a net worth ratio of 3.7 percent. Additionally, AEA Federal Credit Union launched several new services, found efficiency in its operations and improved the credit union's net worth ratio by 137 basis points. Finally, Arrowhead Central Credit Union grew to nearly $700 million in assets by the end of 2012.

The performance of each of these credit unions demonstrates the critical role that conservatorship can play in preventing losses to the NCUSIF and potentially returning a troubled credit union back to its members after achieving financial viability and resolving problems at the financial institution.

Exams Focus on Managing Risks



The staff from NCUA's Asset Management and Assistance Center sorts through thousands of documents from a failed credit union. This is a painstaking process, but it helps to ensure that every member receives their insured deposits in a timely manner.

In 2012, NCUA again used a risk-focused approach when conducting examinations. During their reviews, NCUA examiners focused on evaluating several key lending risks, including:

- Asset concentration;
- Long-term, fixed-rate loans;
- Third-party loans; and
- Loan modifications.

After nearly a decade of risk-focused examination scheduling, NCUA completed the transition to an annual examination program. Over a period of 24 months, NCUA's regional offices and their field staff converted to the new exam schedule.

Through shortened examination cycles, NCUA has been proactive in assisting credit unions to correct problems at an earlier stage in order to avoid greater costs later on. The annual examination cycle ultimately contributed to the decline in the number of troubled credit union assets and the NCUSIF's risk exposure in 2012.

Additionally, NCUA worked with state regulators to examine all federally insured, state-chartered credit unions with more than $250 million in assets. In conducting annual examinations of federal credit unions and federally insured, state-chartered credit unions above the threshold, NCUA's regional examiners completed 12,496 supervisory contacts in 2012, which included 740,424 exam hours. Because of this new exam schedule and priorities, the number of examinations has increased by approximately a third in recent years.

NCUA Insures Five New Credit Unions

With an improving economy, interest in credit union charters rose. In all, NCUA approved four new federal charter applications and insured the deposits for one new state-chartered credit union in 2012. The issuance of new charters facilitates the achievement of NCUA's goal of expanding access to credit unions.

Collectively, these new credit unions have a potential field of membership of 3.2 million individuals. This includes 762,000 people living in economically challenged portions of the country, including a low-income communities in New Brunswick, N.J. and in Kalamazoo, Mich.; the Pine Ridge Reservation in South Dakota; and a seven-county low-income community in Alabama.

Members of Region I's Division of Management Services review an updated compliance manual at the regional office in Albany, N.Y. The employees of NCUA's regional offices play an important role in NCUA's examination program and outreach to regional leagues and trade associations across the country.

National Supervision Policy Manual Advances Consistency

To provide additional clarity and consistency to the examination process, NCUA developed and implemented the National Supervision Policy Manual. The culmination of two years of work, the new manual improves the efficiency of the examination process by responding to the Board's direction to remove regional differences in quality control. The manual also implements key recommendations from the statutorily mandated Material Loss Reviews conducted by NCUA's Office of Inspector General.

NCUA took this action to provide the industry with a better understanding of NCUA's policies, reducing possible misunderstandings that may occur during the examination process.

Addressing Consumer Compliance and Fair Lending Risks

During 2012, NCUA's Office of Consumer Protection focused its fair lending examination efforts on large federal credit unions—those with assets over $100 million. Additionally, the office completed supervisory contacts at credit unions with fair lending issues previously identified during the 2011 examinations. In total, NCUA issued three civil monetary penalties and 14 preliminary warning letters for late submissions of information required by the Home Mortgage Disclosure Act.

During 2012, NCUA's Office of Consumer Protection also coordinated with Consumer Financial Protection Bureau (CFPB) and other agencies on the Mortgage Servicer Guidance for service members with permanent change of station orders. The agency additionally participated in two widely attended interagency webinars on fair lending practices and service member financial protection.

In addition, the Office of Consumer Protection issued regulatory alerts and letters to credit unions, as well as developed articles in NCUA's monthly newsletter informing credit unions about Home Mortgage Disclosure Act requirements, disclosure notices and error resolution procedures for international remittances, and mortgage servicing practices affecting military homeowners.

Modernizing Regulations

The year 2012 marked the first full year of Chairman Debbie Matz's Regulatory Modernization Initiative that began in mid-2011. The initiative's goal is to ensure that NCUA's rules balance safety and soundness with the demands of the current marketplace, target practices that pose the greatest risk to the NCUSIF, and are minimally burdensome to credit unions. Additionally, these efforts are in line with the spirit of President Obama's Executive Order 13579, which applies to rulemaking by independent regulatory agencies. NCUA already proactively reviews one-third of its rules every three years.

Some key initiatives pursued in 2012 as part of the Regulatory Modernization Initiative include:

- Revising the Troubled Debt Restructuring rule to keep more members in their homes and ease credit union reporting;
- Streamlining the application process for eligible low-income designations to remove red tape and encourage more small business lending; and
- Revising the threshold definition for "small" credit unions from $10 million to less than $50 million to provide regulatory relief for two-thirds of all credit unions.

In all, NCUA issued six final rules and nine proposed rules in 2012. NCUA also issued seven clarifying legal opinions and streamlined three

REGULATORY MODERNIZATION INITIATIVE ACCOMPLISHMENTS	
IMPROVED RULES	
☑	Easing Troubled Debt Restructurings to keep members in their homes
☑	Expanding potential fields of membership in rural districts
☑	Allowing federal credit unions to invest in Treasury's Inflation-Protected Securities
☑	Expanded seven RegFlex provisions to all federal credit unions
☑	Providing additional regulatory relief for small credit unions up to $50 million
CLARIFIED LEGAL OPINIONS	
☑	Permitting loan maturities up to 40 years after loan modifications
☑	Redefined "fleet" from two to five vehicles for member business loans
☑	Treating video tellers as credit union service facilities
☑	Permitting federal credit unions to go through the process of a charter change to help facilitate a merger
STREAMLINED PROCESS	
☑	Implemented "Opt-In" process for eligible credit unions to receive a Low-Income Designation
☑	Allowing credit unions to obtain blanket waivers for certain member business loans
☑	Cancelled NCUA Board meetings in months when no new NCUA regulations were proposed

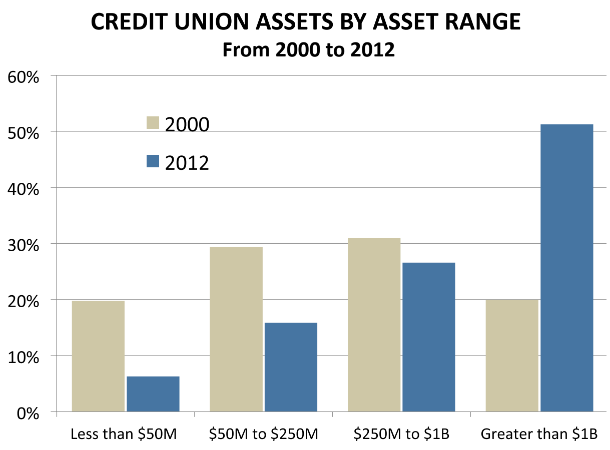
important regulatory and compliance processes. Finally, the Board approved the creation of a new office to focus on the evolving potential risks of the largest entities in the industry.

Establishing the Office of National Examinations and Supervision

In July, the Board approved a restructuring of the agency's operations with the creation of the Office of National Examinations and Supervision (ONES). This office assumed supervision of corporate credit unions at the beginning of 2013 and will enhance oversight of the nation's largest credit unions—those with more than $10 billion in assets—beginning in 2014.

ONES will leverage NCUA's national and regional expertise to promote high-quality evaluations of risk and risk-management practices. The realignment reallocates existing resources to focus on the largest credit unions that, due to their asset size, pose a potential risk to the integrity of the NCUSIF.

Prior to this reorganization, NCUA spent 45 percent of examination hours on credit unions with less than $50 million in assets, yet this group held only 7 percent of the industry's total assets. Meanwhile, the largest credit unions—those with more than $1 billion in assets—held 47 percent of industry assets and received only 10 percent of examination hours.



As the credit union industry consolidates, risk is being concentrated in larger, more complex credit unions. ONES allows NCUA to direct more resources to the institutions that potentially pose the largest threats to the NCUSIF.

Finally, the new office will provide a single point of contact with the CFPB for coordinating joint examinations for credit unions over $10 billion, helping to create better interagency coordination.

Protecting Safety and Soundness

During 2012, NCUA proposed and finalized several rules designed to protect the NCUSIF from losses. Two important rules were related to designating troubled condition credit unions and implementing interest rate risk reforms.

The Board issued a proposed rule in July, which it finalized at the start of 2013, permitting either NCUA or a state regulator to designate a federally insured, state-chartered credit union in troubled condition. Since 2008, four federally insured, state-chartered credit unions failed after NCUA more timely assigned a troubled condition rating than the state regulator. These failures caused $235 million in NCUSIF losses—25.5 percent of the fund's losses over the last five years. Previously, only a state regulator could make the troubled condition designation for a federally insured, state-chartered credit union.

The current low-interest rate environment also exposes credit unions and the NCUSIF to possible losses due to interest rate risk. During 2012, credit unions held nearly 31 percent of their assets in long-term, fixed-rate mortgages. To get out in front of this issue, the Board finalized an interest rate risk rule in 2012. Among other things, the rule requires credit unions with assets above $50 million to develop an interest rate risk policy and program that incorporates five elements. They include:

- Adoption of a board-approved interest rate risk policy;
- Oversight by the board of management's implementation of the interest rate risk policy;
- Development of risk-measurement systems to assess the interest rate risk sensitivity of earnings, asset values and liability values;
- Establishment of internal controls to monitor adherence to interest rate risk limits; and
- Implementation of a decision-making process that is informed and guided by interest rate risk measures.

NCUA tailored the rule this way because not every credit union has the same risk profile. It provides flexibility for a credit union's managers and board of directors to develop policies and procedures that meet the needs of their particular institution.

Credit unions with more than $50 million in assets began complying with the new rule at the end of September.

Members of the Federal Financial Institutions Examination Council meet at NCUA's headquarters in Alexandria, Va. This interagency group is charged with developing rules and regulations that are consistent at all federally insured depository institutions. NCUA Board Chairman Matz (center) also chaired the FFIEC in 2012.

As a result of a Board-approved revision in early 2013, credit unions with less than $50 million in assets are exempt from the requirement to adopt and implement interest rate risk policies. These small credit unions have a limited interest rate risk exposure to the NCUSIF.

Supporting Small and Rural Credit Unions

In pursuing rulemaking activities during 2012, NCUA remained aware of and took steps to address the unique circumstances of small credit unions.

As part of NCUA's ongoing efforts to provide regulatory relief to small credit unions, the Board issued a proposed rule in September that would have changed the definition of a "small entity" under the Regulatory Flexibility Act to include federally insured credit unions with less than $30 million in assets. After a public comment period, the Board voted to increase this threshold to $50 million when issuing the final rule in January 2013.

The updated threshold contained in the final rule almost doubled the number of federally insured credit unions with regulatory exemptions through the small credit union definition. In all, the final rule covers 4,604, or nearly 68 percent, of federally insured credit unions.

In response to requests to enhance the sustainability of federal credit unions in rural areas, NCUA also issued a proposed rule in September to change the definition of a "rural district." The proposed change would allow a credit union's operations area to be designated a rural district if the population does not exceed 250,000 or 3 percent of the population of the state in which the credit union is located. If the district crosses state lines, the 3 percent population requirement would be based on the population of the state containing the majority of the district. NCUA finalized this rule in early 2013.

Finally, in 2012 NCUA instituted an expedited examination process for well-managed, small credit unions with CAMEL ratings of 1, 2 or 3 and assets under $10 million. As part of this effort, NCUA will allot 40 hours per examination. During these streamlined exams, NCUA focuses on pertinent areas of risk, such as lending, record keeping and auditing.

Expanding the Number of Low-Income Designations

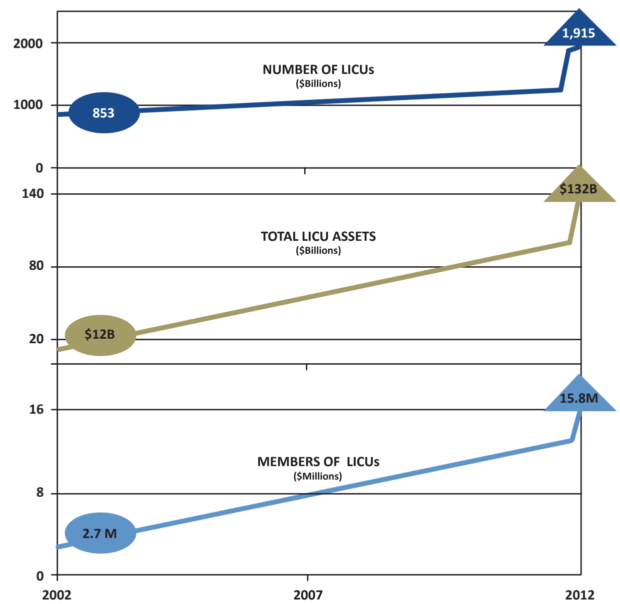
In August, NCUA announced a major initiative to streamline the process for federal credit unions to receive designation as a low-income credit union (LICU). Through this outreach campaign, NCUA sent letters to more than 1,000 federal credit unions notifying them of their existing eligibility for the LICU designation.

Rather than waiting for credit unions to complete the required paperwork to become a LICU, NCUA contacted qualifying credit unions alerting them of their LICU eligibility. Credit unions receiving letters could then opt-in with a simple reply to agree to the designation.

A low-income designation offers several significant benefits to credit unions and their communities. These benefits include:

- Exemption from the 12.25 percent statutory cap on member business loans by credit unions;
- Ability to accept non-member deposits from any source;
- Access to NCUA's Office of Small Credit Union Initiatives programs, including the grants and loans provided by the Community Development Revolving Loan Fund and the consulting services offered by NCUA's Economic Development Specialists; and
- Authorization to obtain supplemental capital, such as from the U.S. Treasury's Community Development Financial Institutions program, private benefactors and foundations, and institutions interested in receiving Community Reinvestment Act credit.

LOW-INCOME DESIGNATED CREDIT UNIONS
From January 2002 to January 1, 2013



Since the start of NCUA's Low-Income Designation Initiative, nearly $65.9 billion in new assets and nearly 7.5 million members are now part of low-income credit unions.

Because of these benefits and the ease by which eligible credit unions could become a LICU, NCUA had a very positive response. By the end of 2012, 690 federal credit unions with 7.5 million members and $65.9 billion in assets had accepted the low-income designation, bringing the number of LICUs to 1,915. In all, LICUs now have 15.8 million members and $132 billion in assets.

Because of this success, NCUA is now working with state regulators to make it easier for state-chartered credit unions to determine if they are eligible for the LICU designation. NCUA finalized these cooperative regulatory efforts in the first quarter of 2013.

Providing Regulatory Relief

Consistent with the goals of the Regulatory Modernization Initiative, a number of the rule changes adopted or proposed in 2012 by the Board provided regulatory relief. A sampling of three such rule changes follows.

Reporting of Troubled Debt Restructurings Simplified. The Board adopted a final rule in May on troubled debt restructuring and loan workout guidance. These changes ensure that members who can no longer afford to make full payments on their original mortgages can keep their homes if they agree to certain modified terms with their credit union.

Credit unions can modify loans without having to classify restructured troubled debt as delinquent immediately. In particular, the rule:

- Requires federally insured credit unions to adopt and adhere to written policies that govern loan workout;
- Allows credit unions to calculate the past-due status of all loans consistent with loan contract terms including amendments made to loan terms through a formal troubled debt restructuring;
- Eliminates the dual and often manual delinquency-tracking burden on credit unions for managing and reporting restructured troubled debt; and
- Reaffirms current industry practices by requiring credit unions to discontinue interest accrual on loans past due by 90 days or more and to establish requirements for returning such loans to accrual status.

In approving this rule change, the Board struck a balance between providing more flexibility in loan workouts to help credit union members overcome short-term financial difficulties while requiring credit unions to charge off non-performing loans that are unlikely to be repaid.

Proposal Allows Credit Unions to Invest in TIPS. The Board issued a proposed rule in September to allow federal credit unions to invest in the variable-rate instruments known as Treasury Inflation-Protection Securities, or TIPS. Under this proposal, federal credit unions would be allowed to use TIPS as a risk-management tool to protect themselves against inflation risk. Because TIPS are backed by the full faith and credit of the U.S. Government, they carry no credit risk. In addition, TIPS are tied to the Consumer Price Index rather than a specific interest rate. As a result, they carry less interest rate risk than other Treasury investments.

NCUA finalized this rule in early 2013.

RegFlex Initiative Expanded. In May 2012, the Board approved a final rule to modify several existing rules to enable all federal credit unions to engage in RegFlex activities without the need to apply for a RegFlex designation first. Specifically, NCUA allowed federal credit unions to:

- Make charitable contributions to charities of their choosing;
- Accept non-member deposits, up to the greater of 20 percent of shares or $3 million, from local governmental entities or other credit unions;
- Use a six-year time horizon (instead of three years) to partially occupy unimproved property acquired for future expansion;
- Obtain certain exceptions to constraints on purchasing whole loans from other federally insured credit unions;
- Enter into borrowing-repurchase transactions in which the purchased securities have maturities exceeding the maturity of the borrowing-repurchase agreement, provided the investment value does not exceed net worth and is subject to certain constraints;
- Purchase private-label commercial mortgage-related securities, subject to certain net worth constraints and safety and soundness investment criteria; and
- Invest in zero-coupon securities, subject to certain net worth and investment maturity limits.

During 2013, NCUA anticipates continuing to propose and finalize rules under the Regulatory Modernization Initiative.

Continuing Corporate Resolution Efforts

As the credit union industry's performance improved in 2012, NCUA successfully wound down several initiatives implemented during the financial crisis to stabilize the corporate credit union system. Notably, NCUA succeeded in its efforts to address problems in the corporate credit union system without service disruptions to credit unions or their members.

During the financial crisis in 2007–2009, sizable losses from the mortgage-backed securities held by several corporate credit unions led to significant problems. As a result, NCUA ultimately liquidated five corporate credit unions.

To stabilize and repair the corporate credit union system, NCUA implemented its Corporate Resolution Plan from 2008–2012. The plan followed four key principles:

- Prevent any disruption of payment services to consumer credit unions and their members;
- Maintain confidence in the credit union system;
- Minimize long-term costs in keeping with sound public policy principles; and
- Facilitate an orderly transition to a new regulatory framework while maximizing consumer credit choices.

During 2012, NCUA finished several key elements of the Corporate Resolution Plan. NCUA shuttered Western Bridge Corporate Federal Credit Union in July after transitioning the bridge's services to a new corporate credit union. NCUA then liquidated U.S. Central Bridge Corporate Federal Credit Union in October. NCUA took this action after migrating key services to other marketplace providers.

Additionally, the Temporary Corporate Credit Union Share Guarantee Program, which provided additional insurance coverage to a corporate credit union member's excess shares, expired as planned at year's end. The expiration occurred without any major deposit outflows or operational disruptions. In 2012, NCUA also retired the remaining $3.5 billion balance on Medium Term Notes issued to support the cash flow needs of the Stabilization Fund.

While the Stabilization Fund is expected to remain open until 2021, NCUA effectively closed the chapter on stabilizing, resolving and reforming the nation's corporate credit union system. Moreover, NCUA achieved these results at no cost to taxpayers.

Seeking Accountability

As NCUA worked to complete the Corporate Resolution Plan, the agency continued efforts to hold accountable those who caused the corporate crisis. In 2012, NCUA filed four additional cases against the Wall Street investment firms that sold faulty mortgage-backed securities to the five failed corporates. When purchased, 82 percent of these securities had a triple-A rating, but 68 percent of these instruments were below investment grade at the end of 2012.

In all, NCUA has filed 10 lawsuits seeking recoveries from responsible parties. By the end of 2012, NCUA had recovered more than $170 million in settlements with other entities, including a March settlement with HSBC for $5.25 million. These settlements furthered the agency's goal of minimizing losses resulting from the five corporate failures, and NCUA will use the net proceeds to reduce the total assessments that all credit unions have to pay for the corporate system's losses.

NCUA also took action against several former officials at the failed corporate credit unions in 2012, including issuing cease-and-desist and prohibition orders to four individuals to bar them from participating in, consulting with, or selling securities to corporate credit unions in the future. Further, NCUA entered into an agreement barring the former CEO of Western Corporate Federal Credit Union from becoming an employee of, holding any office in, or otherwise participating in any manner in the conduct of the affairs of any federally insured credit union. The former CEO also agreed to pay $600,000 to the corporate's liquidating agent.

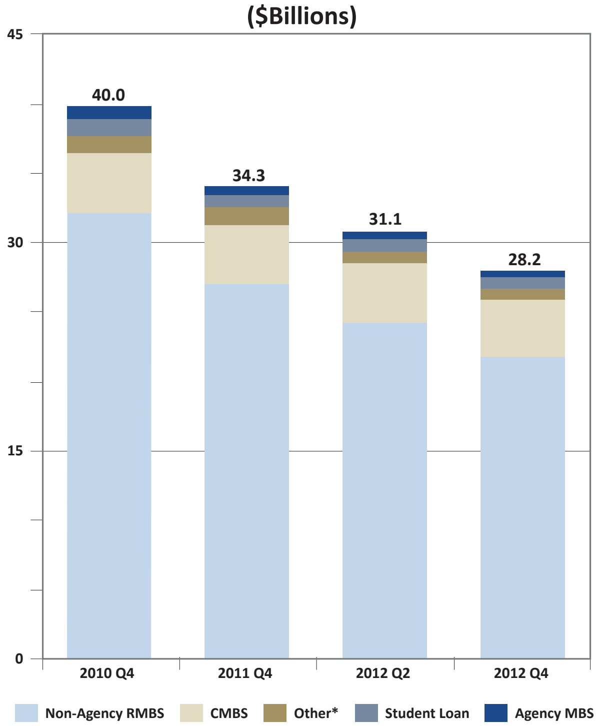
Addressing Emergency Liquidity Needs

As anticipated, the closure of U.S. Central Bridge in 2012 reduced the borrowing capacity for the credit union system's emergency liquidity needs.

The Central Lending Facility (CLF) is the credit union industry's emergency liquidity facility. U.S. Central Bridge had served as the leading agent stockholder in the CLF, but with the orderly dissolution of the bridge, the CLF stock was fully redeemed. The redemption lowered the CLF's borrowing capacity, from $49.8 billion at the end of 2011, to $2.3 billion at the end of 2012 because the CLF's statutory borrowing authority is tied to the amount of subscribed capital stock and surplus.

As a result, emergency liquidity through the CLF is available only to a limited number of credit unions. The CLF is open to all credit unions that purchase a prescribed amount of capital stock. At the end of 2012, the CLF had 124 credit union members that own stock directly. To address the diminished borrowing capacity of the credit union system and to protect the NCUSIF from losses, the Board issued a proposed rule in July to require large credit unions, which hold most of the industry's assets, to establish access to a government-backed emergency liquidity source.

DISTRIBUTION OF LEGACY ASSET TYPE AND BALANCE OUTSTANDING
($Billions)



* "Other" is composed of corporate debt and other asset-backed securities

The reduction of the legacy asset balance since 2010 is a result of principal repayments of $7.8 billion and realized losses of $4.0 billion.

Monitoring Legacy Assets

Under the Corporate Resolution Plan, NCUA created a re-securitization program to provide long-term funding for the legacy assets from the five failed corporate credit unions through the issuance of the NCUA Guaranteed Notes (NGNs). The NGNs are guaranteed by NCUA and are backed by the full faith and credit of the U.S. Government.

The legacy assets consist of more than 2,000 investment securities, secured by approximately 1.6 million residential mortgages, as well as commercial mortgages, student loans and other securitized assets. The NGN program is designed to minimize losses of the corporate credit union system on the industry.

The outstanding balance of the legacy assets fell to $28.2 billion at year's end. During 2012, the balance decreased by $6.1 billion due to a combination of principal repayments and realized losses. NCUA will continue to monitor the performance of the legacy assets in 2013, issuing semi-annual updates and provide updates on its website.

Engaging, Assisting and Coordinating with Stakeholders

Throughout 2012, the Board and NCUA's senior staff were out in front of a variety of audiences answering questions, explaining policies and listening to the ideas and concerns of credit union officials, their boards of directors and credit union members. NCUA also worked to provide assistance to the agency's stakeholders, especially providing consumers with access to valuable information and supporting the work of low-income and small credit unions. Finally, NCUA continued to coordinate with other federal agencies and state regulators on important policy issues, including chairing the Federal Financial Institutions Examination Council (FFIEC) in 2012.

Hearing Industry Concerns through Listening Sessions and Webinars

During quarterly webinars and six listening sessions across the country, thousands of credit union officials had opportunities to speak directly with the Chairman and senior staff, offer ideas for improvements and learn more about the agency's regulatory priorities. These sessions gave the Chairman and senior staff the chance to interact with industry officials, as well as credit union directors and consumers.

During the listening sessions, NCUA had thoughtful conversations about trends in the credit union industry, the agency's regulations, the examination process and emerging threats to the industry. Credit union officials participating in these events raised a wide array of issues, including questions about rulemakings, regulatory burdens, examination policies and procedures, interest rate risk management and member business lending.

As a result of the listening sessions, NCUA gained a greater understanding of the needs and concerns of the industry. Additionally, insights gained during these meetings spurred several of NCUA's regulatory and policy initiatives in 2012. For example, NCUA used the input received during the listening sessions to clarify and simplify troubled debt restructurings and workout loans. The feedback also influenced the agency's efforts to modify the definition of a small credit union to provide regulatory relief to credit unions with fewer resources.

In addition to the listening sessions, NCUA regularly used webinars to bring policymakers to credit unions in 2012. During a February webinar, Chairman Matz and CFPB Director Richard Cordray briefed 2,100 registered participants from the credit union industry and the public about pending initiatives and answered dozens of questions. NCUA also used webinars to train credit union managers, volunteers and directors.

Chairman Debbie Matz (standing) meets with credit union officials during one of her six listening sessions held across the country.

Improving Financial Literacy and Consumer Awareness

Since the successful launch of MyCreditUnion.gov in 2011, traffic on NCUA's consumer website has steadily increased. During 2012, MyCreditUnion.gov had more than 155,000 visits. The website contains important consumer protection information, such as the right to receive a free credit report annually, as well as information about credit unions, saving, borrowing, managing debt, and common financial scams. Consumers can also find answers to questions about federal credit unions and how to file or resolve a credit union complaint through the Consumer Assistance Center.

As part of the agency's efforts to promote Financial Literacy Month, NCUA launched Pocket Cents, a financial literacy microsite within MyCreditUnion.gov, in April 2012. Pocket Cents introduces young people to the benefits of credit unions and the importance of setting financial goals. The website provides access to tools and information designed to teach school-age youth positive financial habits. Pocket Cents' lessons are available in both English and Spanish.

Further, NCUA's Office of Consumer Protection continued to represent the agency on the Financial Literacy and Education Commission and the American Savings Education Council Government Interagency Group. NCUA also participates in an interagency partnership with the Department of Education and the Federal Deposit Insurance Corporation to advance financial literacy, financial access and financial capability.

Located within MyCreditUnion.gov, Pocket Cents provides important personal finance lessons that help children, teens, parents, and service members learn about the importance of savings and making sound financial decisions.

Coordinating Across Agencies

In 2012, Chairman Matz continued to represent NCUA as one of 10 voting members on the Financial Stability Oversight Council (FSOC). Created by the Dodd-Frank Wall Street Reform and Consumer Protection Act, FSOC is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The participation on FSOC has broadened NCUA's perspective, identified emerging risks in the system that could affect credit unions, and improved access to information.

NCUA also continued in 2012 to chair the FFIEC. Chairman Matz began her two-year term as FFIEC Chairman in 2011. She is the first NCUA Chairman in more than 20 years to head the FFIEC, which includes NCUA, CFPB, the Federal Reserve Board, FDIC, the Office of the Comptroller of the Currency and the State Liaison Committee.

Created by Congress in 1979, the FFIEC establishes uniform principles, standards and report forms for the federal examination of financial institutions. The FFIEC also makes recommendations to promote uniformity in the supervision of financial institutions and conducts schools for examiners. Some key FFIEC projects in 2012 involved creating guidance on the use of social media at financial institutions, developing the appraisal complaint hotline required by the Dodd-Frank Act, and coordinating matters related to the National Mortgage Licensing System and Registry required by the Secure and Fair Enforcement for Mortgage Licensing Act.

Timely and Effective Resolution of Member Complaints

In 2012, the NCUA continued efforts to refine the agency's approach to responding to member complaints and improving quality assurance. The average length of time to resolve a member complaint fell by more than 33 percent to 60 days from an average of 80 days in 2011.

In all, the Consumer Assistance Center received 10,889 phone calls and 3,053 complaints from consumers during the year. Of the 2,320 investigations completed, 379 cases were successful in obtaining monetary relief for members, which totaled $324,685.

MyCreditUnion.gov provides consumers with a wealth of personal finance information in easy-to-understand language. Credit union members can also use the electronic portal to submit complaints for NCUA's review.

Increasing Membership in Underserved Areas

Under the Federal Credit Union Act, credit unions have a mission to meet the credit and savings needs of consumers, especially people of modest means. During 2012, NCUA assisted in providing access to financial services through

Staff from NCUA's Office of Small Credit Union Initiatives lead a training webinar for small and low-income credit unions.

the agency's ongoing Underserved Areas Initiative. This initiative allows more people of modest means to experience the benefits credit unions provide to their members and communities. In 2012, NCUA approved 14 multiple common-bond credit unions to serve 950,000 potential members who resided in 18 underserved areas.

Identifying Potential Minority Credit Unions

The Dodd-Frank Act charged NCUA with designing and implementing a program to preserve minority credit unions. To begin this process, NCUA's Office of Minority and Women Inclusion began gathering information from the Call Report system to allow credit unions to identify themselves as a minority credit union, starting with the Dec. 31, 2011, Call Report cycle. At the end of 2012, 805 federally insured credit unions had self-identified as a minority credit union.

Building Capacity at Small and Low-Income Credit Unions

In 2012, specialists in NCUA's Office of Small Credit Union Initiatives (OSCUI) provided consulting and training services to help small and low-income designated credit unions become more efficient and provide better services to their members. NCUA reorganized the program's operations during 2012 to create a two-cycle program each year. During the first consulting cycle, which ran from July through December, 206 credit unions received consulting assistance from NCUA on matters like net worth restoration plans, offering new products and services, and succession planning.

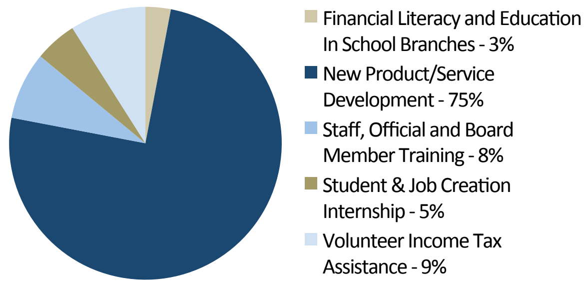
In addition, OSCUI identified 14 small credit unions that manually filed Call Reports and provided them with computers for electronic filing. The donated computers helped the credit unions—each of which had less than $10 million in assets—modernize their operations. Many of these credit unions are now using the computers to modernize other record keeping as well, such as putting member loan and share information into a digital format.

OSCUI also collaborated with external stakeholders to develop presentations that covered different aspects of fraud in credit union operations. These presentations provided risk-management personnel at small credit unions with detailed information on wire transfer fraud, fraudulent deposits, lending fraud and employee dishonesty.

Providing Grants and Loans

OSCUI administers the Community Development Revolving Loan Fund, a fund set up by Congress to support credit unions that serve low-income communities. Each year, NCUA provides loans and grants to small and low-income credit unions in need through this fund.

GRANTS APPROVED BY INITIATIVE TYPE



For 2012, the OSCUI approved $1.4 million in funding for 103 credit union applicants. The average award amount per credit union was $13,000.

In 2012, OSCUI implemented an automated system that greatly improved the efficiency in which NCUA approves loans and grants. This new system also made it easier for small credit unions or first-time applicants to request these funds. In 2012, nearly 25 percent of grants awarded went to first-time applicants.

In all, NCUA received 331 grant applications with more than $5 million in funding requests, the highest total funding request in the program's history. NCUA ultimately provided $1.4 million in grants to 103 low-income designated credit unions in 2012. Credit unions used these grants for developing new products and services for low-income or underbanked consumers, supporting internships, providing tax assistance to members, and training staff and board members.

Expanding NCUA's Outreach

In 2012, NCUA enhanced and expanded its outreach efforts through online resources, social media postings, printed materials and mobile devices. Notably, NCUA.gov, which houses information about the agency's regulatory programs for credit unions, received more than 2.85 million visits in 2012.

NCUA's free monthly newsletter, *The NCUA Report*, serves as the agency's primary communication vehicle. In each edition, credit union managers, board members and industry experts can learn more about NCUA's policy initiatives, emerging risks, consumer protection regulations and economic trends.

Also, 2012 marked the first full-year of producing OSCUI's e-newsletter, *FOCUS*, which has a regular readership of nearly 4,000. This newsletter helps small and low-income credit unions stay abreast of OSCUI's training webinars and initiatives, and features articles about NCUA's rulemakings and how they affect small and low-income designated credit unions.

Social media also continues to be a growing component of NCUA's overall communications strategy. In the last year, NCUA's social media presence connected thousands of interested parties in the online community, providing critical information on matters like small and low-income credit union grants and loans, training dates, regulatory changes, deadlines and employment opportunities at the agency. At the end of 2012, NCUA had 2,133 followers on Twitter and 1,235 followers on Facebook.

NCUA's social media channels played a critical role in reaching credit unions and their members during Superstorm Sandy. During the storm, credit unions were able to dependably access information about the agency's emergency and assistance plans through NCUA's social media postings, along with safety tips for members in the storm's path.

In 2012, NCUA's Office of the Chief Economist initiated a series on NCUA's YouTube channel that provides credit union management and industry watchers with up-to-date insights and analysis of trends in the broader economy, as well as how those trends could affect a credit union's bottom line. These video updates also regularly featured discussions about the agency's regulatory and policy initiatives, like the final rule on interest rate risk, changes in emergency liquidity access and implementation of the Corporate Resolution Plan.

To make sure that credit union managers have the information needed to make better decisions, the Office of the Chief Economist also launched two economic reports for credit unions in 2012. The first is a quarterly map review that provides credit unions with key performance metrics on a state-by-state basis. The analysis details industry trends, such as changes in delinquency ratios and membership growth rates, in an easy-to-understand format. The second is a downloadable spreadsheet with regional unemployment and home price data, important information often used by credit unions.

To facilitate access to federally insured credit unions, NCUA released its first mobile application in 2012. Designed to provide users with intuitive access to credit union information, the CU Locator app utilizes GPS technology to determine the closest branch to user's current location. Users can view results on a detailed map or in a list that displays the nearest branch address, telephone number, branch hours of operation, web page information and driving directions. The app also allows users to connect with NCUA's website, social media channels and subscribe to the agency's email alerts. CU Locator is available at no cost for the iPhone, iPad and Android-compatible smartphones and tablets.

Communicating Clearly

Clear and concise communications are a critical part of meeting NCUA's mission. That's why NCUA worked in 2012 to further incorporate the principles of the Plain Writing Act, which became law in October 2010, into all of the agency's external communications. Every member of NCUA's workforce completed online training in 2012, and selected staff received additional training. Staff are now incorporating the principles of plain writing in their daily duties, including drafting examination reports, new regulations, agency publications and press releases.

Positioning NCUA for the Future

During 2012, NCUA's leadership undertook many initiatives designed to position the agency to meet tomorrow's challenges. These activities involved sound budget management, enhanced training, hiring outreach and diversity awareness, succession planning and information security and data collection.

Ensuring Sound Financial Management

NCUA continues to spend its resources effectively and efficiently, without sacrificing either the agency's core mission of protecting safety and soundness or the goal of making NCUA a desirable place to work. During 2012, the Board directed each office during the agency's mid-year budget review to increase efficiencies and reduce line items wherever possible. As a result, NCUA decreased the 2012 Operating Budget by $2 million.

In developing the agency's budget for 2013, NCUA again used a zero-based budgeting approach where every projected expense must be justified. In November of 2012, the Board approved a $251.4 million budget for 2013. This budget amounts to just under 29 cents for every $1,000 of credit union deposits, down slightly for the second year in a row and significantly less than the almost 38 cents for every $1,000 on deposits reported in 2000. The rate of 2013 budget growth was also slower than the projected increase in industry assets.

Providing Quality Examiner Training

Board Member Michael Frzyel addresses NCUA employees at the agency's annual award ceremony.

NCUA recognizes that for examiners to perform their jobs well, they need effective training. In 2012, 127 members of NCUA's examination staff, 90 state examiners and two staff members from the Federal Reserve Board attended one or more training classes at NCUA, accounting for 468 individual training slots. In addition to new examiner training, NCUA delivered 1,630 internal training slots during the year to NCUA staff and state examiners.

Additionally, 147 NCUA examiners and other staff participated in training provided by the FFIEC. This interagency council provides timely and cost-efficient specialized training programs for examiners and staff. Finally, all NCUA personnel participated in a comprehensive, week-long training session the agency organizes every two years.

Hiring Diverse and Talented Professionals

NCUA continued to enhance its diversity at the agency in 2012. In March, the Board approved an agency-specific Diversity and Inclusion Strategy. Throughout 2012, NCUA's Office of Minority and Women Inclusion also worked with NCUA's divisions in:

- Implementing the agency-wide Diversity and Inclusion Strategic Plan; and
- Expanding recruitment strategies to widen the pool for diverse candidates for job vacancies.

The execution of this plan resulted in slight year-over-year increases in several populations of the NCUA workforce, including veterans and the disabled, as well as Asian- and African-Americans. In the senior staff personnel catagory, there were 13 selections in 2012 and 62 percent of these selections were minorities, women or both. The overall representation of female employees in the senior staff in NCUA's workforce increased in 2012 to 41 percent from 33 percent, and African-American representation increased to 7 percent from 2 percent.

Succession Planning Leads to Smooth Changes in Leadership

NCUA bid farewell to several of its seasoned leaders in 2012, including Executive Director David M. Marquis who retired in December. Yet, because the agency had in place a succession plan, NCUA was able to groom staff to move into these positions. In the case of finding a new Executive Director, NCUA moved Mark A. Treichel, who served as Region I's Director, into the position quickly without any disruption to the day-to-day operations of the agency.

NCUA recruiters conduct outreach for new examiners at an event in Los Angeles, Calif.

NCUA also saw opportunities to bring in talent from the outside for fresh perspectives in key operational areas as well. New talent at all levels of the organization, including senior leadership, is stimulating innovation and increasing the agency's technical expertise. Outside hires for senior leadership positions in 2012 included the heads of the Office of Consumer Protection and the Office of the Chief Information Officer. Compared to 2009, 75 percent of NCUA's offices had a new director in 2012.

NCUA Ranks Among Best Places to Work

NCUA has a goal of being an employer of choice, and in 2012 continued to be a top performer in employee satisfaction for federal agencies.

Specifically, NCUA showed the strongest growth among medium-sized agencies in the annual Best Places to Work in Federal Government rankings. The Partnership for Public Service rated NCUA first for improvement in employee satisfaction year-over-year amongst 22 federal agencies with 1,000 to 14,999 employees.

In 2012, NCUA improved its overall annual ranking to sixth out of 22 medium-sized federal agencies and bettered its scores in nearly every survey category. NCUA performed particularly well in the area of effective leadership, which the Partnership for Public Service describes as a primary factor in employee attitudes toward job satisfaction.

NCUA ranked second for employee skills and mission match amongst its peer agencies. The agency's employees also gave NCUA strong endorsements in the areas of diversity, fairness and employee empowerment.

In addition, NCUA established the Veterans Educational Benefits Program where the Department of Veterans Affairs pays qualified veterans a monthly education benefit for time spent in approved apprenticeship and on-the-job training programs. Veterans in examiner positions are eligible to receive monthly benefits while attending required initial training and during on-the-job training.

Enhancements Keep NCUA at the Forefront of Information Security

Information security continued to be a major concern in 2012, and the Office of Chief Information Officer made sure NCUA remained protected. In January, NCUA became one of just 14 agencies in the federal government that fully implemented the Managed Trusted Internet Provider Service. This service provides NCUA with additional security features, helps optimize and standardize the security of external Internet connections, and makes NCUA compliant with the Office of Management and Budget's requirements for Trusted Internet Connections.

CU Online Upgrades Improve Information Collection

In May 2012, NCUA launched a new version of its flagship data collection application—Credit Union Online (CU Online). CU Online is a web-based program used by credit unions and state regulators to capture and display credit union information. It consists of two parts: the Credit Union Profile and the Online 5300 Call Report.

Members of Region IV's field examination team take part in a training class in Minneapolis on the use of a new computer platform to help them with their examinations of credit unions.

As part of the software development process, NCUA listened to users and incorporated many ideas and changes to improve usability and convenience as part of the major refresh of this key reporting system. Notable changes include:

- Improved user interface;
- Enhanced printing;
- Warnings to prevent errors and improve efficiency;
- Real-time calculations; and
- Historical warnings.

The upgraded CU Online was recognized as a finalist in the American Council for Technology's Industry Advisory Council competition for the "Best in Class, Best in Government" award for excellence in enhancing the customer experience.

Increasing Supplier Diversity

Throughout the year, NCUA continued to advance its supplier diversity initiatives to promote the inclusion of minority- and women-owned businesses in the agency's contracting opportunities. Items such as the agency's new Vendor Registration Form and guidelines to diversify the types of firms invited to participate in bid opportunities have allowed NCUA to better attract and track minority- and women-owned businesses. As a result of these supplier diversity initiatives $3.7 million, or 8.7 percent out of $42.8 million in contracts awarded during 2012 went to minority- and women-owned businesses.

As the agency's supplier diversity initiatives mature, NCUA anticipates increases in minority- and women-owned business participation and utilization within the agency's procurement activities.

Looking Ahead

While 2012 was a year filled with many successes, NCUA remains vigilant in protecting the industry against emerging threats. Interest rate risk, emergency liquidity needs and cyber-attacks are among the most pressing.

Throughout 2012, some credit unions took advantage of the growth in interest rate spreads by borrowing short and lending long. If left unchecked, a reversal of today's record-low rates would negatively impact the balance sheets of many credit unions.

To address this potential problem, NCUA revised the agency's rules in 2012 to require credit unions presenting the greatest risk exposure to the NCUSIF to put in place interest rate risk policies. Credit union management and boards must be prepared for a change in the interest rate environment when it comes.

The closure of U.S. Central Bridge Corporate Credit Union left more than 6,000 credit unions without access to the Central Liquidity Facility for emergency liquidity needs. NCUA issued a proposed rule on emergency liquidity in 2012, and NCUA is educating credit unions about the importance of maintaining access to emergency liquidity.

Credit unions also face a growing demographic problem. The average age of adult credit union members is 47, up from 42 several years ago. Yet the peak borrowing age is 25–44. By this measure, the average credit union member is already past their prime borrowing years. Fortunately, credit unions have an enormous untapped market: 33 percent of the U.S. population is under age 20. NCUA is taking steps to educate credit unions about the need to tap into this underserved population.

But credit unions will have to adapt their business practices to reach this market. Individuals in this age group expect mobile banking, 24/7 convenience and expanded online service. If credit unions are not able to meet these demands, the industry could face future difficulties attracting younger members.

In sum, NCUA had a productive and successful year in 2012. The agency was able to meet its core strategic objective of maintaining a safe, sound and healthy credit union industry, but also was able to the lay the groundwork for a stronger and more competitive credit union industry of the future by taking proactive actions.

There is no doubt that new issues will arise in the future. However, NCUA is committed to adopting and implementing an effective, safe and sound and flexible regulatory framework to ensure that millions of Americans will be able to rely on federally insured credit unions for their financial needs for many years to come.

2012 Performance Results Summary

2012 Performance Results

Performance Results Summary

Throughout 2012, NCUA implemented initiatives designed to achieve its mission of providing, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit. This mission is consistent with NCUA's vision of protecting consumer rights and member deposits.

NCUA used its vision and mission statement to guide the development of the agency's Strategic Plan. NCUA's 2012 Annual Performance Summary is based on NCUA's Strategic Plan and complies with the Office of Management and Budget's guidance on implementation of the Government Performance and Results Modernization Act of 2010.

To measure performance, NCUA established two or more performance goals within each of the four core strategic objectives. Each performance goal also includes one or more indicators and targets. NCUA reviews performance goals each quarter. This review and assessment allows the agency to make adjustments to better enhance performance results.

As requested by the Office of Management and Budget, NCUA has additionally established several high priority performance goals from among its annual performance goals. As defined by Office of Management and Budget, these short-term goals have a high direct value to the public and resolve challenges that will lead to improved effectiveness or efficiency that could not be overcome without directing agency resources to their achievement.

NCUA integrated its high priority performance goals into its annual objectives. The high priority goals are the highest priority of focus and resources. In 2012 these goals were:

- Monitor and control risk in consumer credit unions, as measured by net worth growth in the consumer credit union system, the long-term assets ratio, the potential loss-coverage ratio, and a reduction in the National Credit Union Share Insurance Fund (NCUSIF) losses as a percentage of total insured shares;
- Continue to stabilize the corporate credit union system, as measured by the corporate credit union system capital ratio requirements; and
- Ensure consumer credit unions that are members of bridge corporate credit unions transition from the bridge corporate entities without disruption of member services, as measured by the percent of credit unions that successfully transition.

Specifically, NCUA's strategic goals and objectives for 2012 were:

Strategic Goals	Annual Objectives
Ensure a safe, sound and healthy credit union system	• Monitor and control risk in consumer credit unions • Continue to stabilize the corporate credit union system • Ensure consumer credit unions that are members of bridge corporate credit unions transition from the bridge corporate entities without disruption of member services • Promptly pay member's insured shares upon involuntary liquidation of a credit union
Promote credit union access to all eligible persons	• Address consumer complaints effectively and efficiently • Assist low-income credit unions in growing and increasing accessibility of credit union services • Increase awareness of share insurance and credit unions in younger demographics • Increase total credit union membership potential
Further develop a regulatory environment that is transparent and effective, with clearly articulated and easily understood regulations	• Reduce regulatory and/or legislative act violations • Improve communications with credit unions • Improve transparency of the NCUA Guarantee Notes Program
Cultivate an environment that fosters a diverse, well-trained and motivated staff	• Recruit, hire and retain a larger, more diverse pool of potential candidates/employees • Enhance communication within the agency vertically and horizontally • Develop and implement agency succession planning for staff, mid-level managers and senior managers • Develop and implement a comprehensive, integrated and strategic focus for diversity

Using the following key, a summary of NCUA's performance by each of the agency's strategic goals follows:

- Goal achieved
- Goal not achieved with no impact on overall program and activity performance
- Goal not achieved with an impact on overall program and activity performance

Annual Performance Objective 1.1 – High Priority Performance Goal

Monitor and control risk in consumer credit unions

Performance Indicators	2012 Target
• *Net worth growth in consumer credit union system*	• *Obtain an aggregate increase in net worth dollars of at least 5 percent*
• *Potential loss coverage*	• *Decrease the aggregate potential loss-coverage ratio from previous year*
• *Long-term assets ratio*	• *Maintain an aggregate net long-term assets ratio of less than 35 percent*
• *NCUSIF losses/total insured shares*	• *Decrease*

Results	2007	2008	2009	2010	2011	2012
• *Net worth growth in consumer credit union system*	11.4%	10.6%	9.9%	10.1%	10.2%	10.4%
• *Potential loss coverage*	N/A	N/A	N/A	N/A	23.6%	20.9%
• *Long-term assets ratio*	30.0%	31.9%	31.6%	33%	32.5%	32.9%
• *NCUSIF losses/total insured shares*	0.046%	0.067%	0.132%	0.065%	0.007%	0.025%

Annual Performance Objective 1.2 – High Priority Performance Goal

Continue to stabilize the corporate credit union system

Performance Indicators	2012 Target
Corporate credit unions will maintain the following capital ratios or greater:	
• *4 percent interim leverage*	• *100% meet by December 31, 2012*
• *4 percent Tier 1 risk-based*	• *100% meet by December 31, 2012*
• *8 percent total risk-based*	• *100% meet by December 31, 2012*
• *2 percent NEV ratio*	• *100% meet by December 31, 2012*

Results	2007	2008	2009	2010	2011	2012
• *Corporate credit unions will maintain the following capital ratios or greater:*	N/A	N/A	N/A	N/A	79.2%	100%
• *4 percent interim leverage*	N/A	N/A	N/A	N/A	N/A	100%
• *4 percent Tier 1 risk-based*	N/A	N/A	N/A	N/A	N/A	100%
• *8 percent total risk-based*	N/A	N/A	N/A	N/A	83.3%	100%
• *2 percent NEV ratio*	N/A	N/A	N/A	N/A	N/A	100%

Annual Performance Objective 1.3 – High Priority Performance Goal

Ensure consumer credit unions that are members of bridge corporate credit unions transition from the bridge corporate entities without disruption of member services

Performance Indicator	2012 Target					
All credit unions transition from bridge corporate entities	*100 percent by December 31, 2012*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
All credit unions transition from bridge corporate entities	N/A	N/A	N/A	N/A	N/A	100%

Annual Performance Objective 1.4

Promptly pay members' insured shares upon involuntary liquidation of a credit union

Performance Indicator	2012 Target					
Average number of days from liquidation date to payout of confirmed member shares.	*5 business days*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Average number of days from liquidation date to payout of confirmed member shares.	4.25	4.3	3.5	6.3	2.5	3.25

Annual Performance Objective 2.1

Address consumer complaints effectively and efficiently

Performance Indicator	2012 Target					
Average response time to consumer complaints	*60 days or less*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Average response time to consumer complaints	N/A	N/A	N/A	N/A	80	60

Annual Performance Objective 2.2

Assist low-income credit unions in growing and increasing accessibility of credit union services

Performance Indicator	2012 Target					
• *Percent of CDRLF grants and loans to first-time applicants* • *Growth in number of low-income designated credit unions*	• *25 percent* • *40 new per year*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Percent of CDRLF grants and loans to first-time applicants	99%	51%	28%	36%	24%	41%
Total number of low-income designated credit unions	1,087	1,088	1,085	1,111	1,118	1,915

Annual Performance Objective 2.3

Increase awareness of NCUSIF and credit unions in younger demographics

Performance Indicator	**2012 Target**					
Number and age of NCUA's Twitter and Facebook followers	• *Benchmark NCUA's Twitter followers by appropriate age groups after Twitter launches age demographic analytics in the first quarter, 2012* • *Increase NCUA's Facebook followers ages 25–44 by 150 percent in 2012*					
Percentage of credit unions offering mobile banking	*Increase*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Number and age of NCUA's Twitter and Facebook followers	N/A	N/A	N/A	N/A	**369**	**717**
Percentage of credit unions offering mobile banking	N/A	N/A	**5.7%**	**9.8%**	**14.2%**	**27.1%**

Annual Performance Objective 2.4

Increase total credit union membership potential

Performance Indicators	**2012 Target**					
• *Number of potential members* • *Number of potential members added through field of membership expansion*	• *Potential member growth of +7 percent* • *Increase in the number of potential members added through field of membership expansion from previous year*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Number of potential members growth rate	**7.7%**	**9.1%**	**5.1%**	**7.5%**	**3.3%**	**5.7%**
Number of potential members added through field of membership expansion (millions)	**34.5**	**8.5**	**19.2**	**14.5**	**8.9**	**21.5**

Annual Performance Objective 3.1

Reduce regulatory and legislative act violations*

Performance Indicators	2012 Target					
Number of violations identified • *Equal Credit Opportunity Act violations* • *Home Mortgage Disclosure Act violations* • *Fair Housing Act violations* • *Truth-in-Lending violations*	*Decrease the number of incidences from previous year*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Number of violations identified:						
• *Equal Credit Opportunity Act violations*	133	98	98	85	69	54
• *Home Mortgage Disclosure Act violations*	72	69	69	41	42	31
• *Fair Housing Act violations*	22	15	10	12	46	18
• *Truth-in-Lending violations*	366	369	349	320	389	401

*NCUA has developed new educational and compliance tools to help federal credit unions comply with consumer protection laws and regulations. Details about these tools will appear in the 2013 Annual Report.

Annual Performance Objective 3.2

Improve communications with credit unions

Performance Indicator	2012 Target					
Attendance in industry webinars	*Increase from 2011 numbers*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Attendance in industry webinars	N/A	N/A	N/A	N/A	9,950	7,904

Annual Performance Objective 3.3

Improve transparency of NCUA Guarantee Notes Program

Performance Indicator	2012 Target					
• *Publish NGN transparency information on www.ncua.gov* • *Add NGN specific disclosures to Temporary Corporate Credit Union Stabilization Fund Report*	• *Publish and update quarterly and/or semi-annually* • *Present NGN transparency information quarterly*					
Results	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Publish NGN transparency information on www.ncua.gov	N/A	N/A	N/A	N/A	N/A	Complete
Add NGN specific disclosures to Temporary Corporate Credit Union Stabilization Fund Report	N/A	N/A	N/A	N/A	N/A	Complete

Annual Performance Objective 4.1

Recruit, hire and retain a larger, more diverse pool of potential candidates/employees

Performance Indicators	2012 Target
• *Increase diversity of new hires in underrepresented categories to include veterans and those with disabilities*	• *Increase by 10 percent*
• *Increase diversity representation in senior level staff (CU-13 and above) hiring*	• *Increase by 10 percent*
• *Decrease in number separations of minorities*	• *Decrease by 10 percent*

Results	2007	2008	2009	2010	2011	2012
Increase diversity of new hires in underrepresented categories to include veterans and those with disabilities	50%	47%	50%	51%	60%	64%
Increase diversity representation in senior level staff (CU-13 and above) hiring	35%	65%	58%	68%	59%	59%
Decrease in number separations of minorities	45%	54%	52%	61%	59%	54%

Annual Performance Objective 4.2

Enhance communications within the agency vertically and horizontally

Performance Indicator	2012 Target
OPM Employee Viewpoint survey question 64, "How satisfied are you with the information you receive from management on what's going on in your organization?"	*Improve from 56 percent (2010) to 65 percent positive responses*

Results	2007	2008	2009	2010	2011	2012
OPM Employee Viewpoint survey question 64, "How satisfied are you with the information you receive from management on what's going on in your organization?"	N/A	41%	N/A	45%	57%	65%

Annual Performance Objective 4.3

Develop agency succession planning for staff, mid-level managers, and senior managers

Performance Indicator	2012 Target
• *Increase in succession plans for each NCUA organization to include regional offices and field offices*	• *Each NCUA office has a plan*
• *Increase NCUA employees applying for senior level positions (CU-13 and above)*	• *Increase by 25 percent*

Results	2007	2008	2009	2010	2011	2012
Increase in succession plans for each NCUA organization to include regional offices and field offices	N/A	N/A	N/A	N/A	N/A	Data Unavailable
Increase NCUA employees applying for senior level positions (CU-13 and above)	N/A	N/A	N/A	N/A	N/A	Data Unavailable

Annual Performance Objective 4.4

Develop and implement a comprehensive, integrated and strategic focus for diversity

Performance Indicator	2012 Target
• *Use the civilian labor force demographic data to compare and measure diversity at all staff levels*	• *Equal or exceed the civilian labor force figures where low participation exists*
• *Improve use of women- and minority-owned businesses when contracting for goods and services*	• *Establish baseline and continue improving*

Results	2007	2008	2009	2010	2011	2012
Use the civilian labor force (CLF) demographic data to compare and measure diversity at all staff levels (33%)	N/A	N/A	N/A	N/A	**25.5%**	**27%**
Improve use of women- and minority-owned businesses when contracting for goods and services	N/A	N/A	N/A	N/A	**8.1%**	**13.3%**

Budget and Expenditures by Program

The original 2012 budget for NCUA totaled $236.9 million. NCUA allocated the majority of its budget, $122.6 million, to insurance programs and related activities, followed by $96.5 million for corporate and consumer credit union supervision programs.

The remaining programs consist of $5.7 million to small credit union initiatives, $6.6 million to consumer protection, and $5.5 million to asset management. NCUA proportionally allocates general and administrative costs to each program. Agency wide, utilization of original budget funds was 96.3 percent in 2012.

NCUA also budgeted for 1,260 full-time equivalent workers in 2012. NCUA allocated the majority of its workforce to insurance programs and related activities, followed by corporate and consumer credit union supervision programs. At years end, NCUA had 1,191 full-time equivalent employees.

Program	Dollars (in Millions)		Percent		Full-Time Equivalents		Percent	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Supervision	$96.5	$92.8	40.7%	40.7%	509	482	40.4%	40.5%
Insurance	$122.6	$119.0	51.8%	52.1%	648	619	51.4%	52.0%
Small Credit Union Initiatives	$5.7	$5.2	2.4%	2.3%	27	24	2.1%	2.0%
Consumer Protection	$6.6	$6.5	2.8%	2.9%	39	36	3.1%	3.0%
Asset Management	$5.5	$4.6	2.3%	2.0%	37	30	3.0%	2.5%
Total	**$236.9**	**$228.0**			**1,260**	**1,191**		

Financial Section

Message from NCUA's Chief Financial Officer

Mary Ann Woodson
Chief Financial Officer

I am pleased to present the National Credit Union Administration's 2012 financial statements for NCUA's four permanent funds:

- The National Credit Union Share Insurance Fund (NCUSIF);
- The NCUA Operating Fund;
- The NCUA Central Liquidity Facility; and
- The NCUA Community Development Revolving Loan Fund.

The agency's four permanent funds received unqualified or "clean" financial statement opinions from independent financial auditors, reflecting our uncompromising commitment to excellence in financial reporting. NCUA set this standard of excellence in the early 1980s and we have sustained it because of our ongoing dedication to strong internal controls over financial reporting. This agency-wide focus enables us to proactively identify and mitigate any potential financial reporting risks that may arise due to new programs, new transactions, or changes in operations. A measure of our success is that we had no findings in our independent auditors' reports on compliance and internal control over financial reporting.

Taken together, the auditors' reports and accompanying financial statements confirm our commitment to transparency, accountability and stewardship to the President, Congress, federally insured credit unions, and the American public.

During 2012, NCUA continued its pledge to be an effective steward of agency funds. NCUA expended just over 96 percent of its operating budget and returned $2.5 million of excess cash by reducing 2013 operating fees. NCUA is in compliance with all applicable laws such as the Federal Managers' Financial Integrity Act, the Prompt Payment Act, the Debt Collection and Improvement Act, and the Federal Information Security Management Act. As required by the Improper Payments Information Act, we have determined that NCUA programs are not susceptible to a high risk of significant improper payments.

Looking ahead to 2013, maintaining strong internal controls will remain a priority at NCUA to ensure our tradition of accountability and transparency to our stakeholders. We will continue quarterly reporting of the financial highlights on both the NCUSIF and the Temporary Corporate Credit Union Stabilization Fund at public Board meetings, and monthly financial highlights will be posted at NCUA.gov.

Most importantly, we will continue our critical role of identifying and addressing risks to the NCUSIF to prevent losses when possible.

Sincerely,

Mary Ann Woodson

Mary Ann Woodson
Chief Financial Officer

Overview of NCUA's Permanent Fund Programs

NCUA operates four permanent funds—the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. All four funds received unqualified or "clean" audit opinions for 2012. A summary of each fund follows.

The National Credit Union Share Insurance Fund (NCUSIF) is the federal fund created by Congress in 1970 to insure member deposits in credit unions. Administered by NCUA, the NCUSIF is backed by the "full faith and credit" of the U.S. Government. The NCUSIF protects the deposits of nearly 94 million members at federally insured credit unions up to $250,000.

The NCUA Operating Fund, in conjunction with the NCUSIF, finances the agency's operations.

The Central Liquidity Facility provides liquidity for all member credit unions and can invest in U.S. Government and agency obligations, deposits of federally insured institutions, and shares or deposits in credit unions.

The NCUA Community Development Revolving Loan Fund provides loans and grants to low-income designated credit unions.

In addition to the NCUSIF, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, NCUA operates the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund), which Congress created to manage the costs of paying for the recent corporate credit union failures over time. The Stabilization Fund is planned to close in 2021. Published separately, the results of the 2012 independent audit of the Stabilization Fund are available at http://go.usa.gov/TagJ.

National Credit Union Share Insurance Fund

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011
and Independent Auditor's Report

Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund[1] (NCUSIF or Fund). Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the U.S. Government. As of December 2012, the NCUSIF insures $839.4 billion in member shares in over 6,800 credit unions.

The NCUSIF protects members' accounts in insured credit unions in the unlikely event of a credit union failure. The NCUSIF insures the balance of each members' account, dollar-for-dollar, up to the standard maximum share insurance amount of $250,000, including principal and posted dividends through the date of the failure. The Fund insures all types of member shares received by a credit union in its usual course of business.

The NCUSIF also provides funding when the NCUA Board determines that some form of financial assistance to troubled credit unions will result in the least resolution cost. Examples of financial assistance include:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit, permanent cash assistance in the form of a subordinated note; and
- the identification of an assisted merger partner.

When a credit union is no longer able to continue operating and assistance alternatives are not practical, the credit union will be liquidated and the NCUSIF will pay members' shares up to the standard maximum insurance amount.

Organizational Structure

NCUA's Director of the Office of Examination and Insurance (E&I) is responsible for overseeing the agency's examination and supervision program. NCUA's E&I Director is also the President of the NCUSIF and responsible for risk management of the NCUSIF. Regional offices primarily conduct examinations and other NCUA offices provide operational and administrative services to the NCUSIF. The Asset Management and Assistance Center (AMAC) conducts credit union liquidations. AMAC establishes an Asset Management Estate (AME) to collect the obligations due to the credit union, monetize assets and distribute amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities.

II. Performance Goals, Objectives and Results

Consistent with the *NCUA 2011-2014 Strategic Plan*, the agency prepared the *NCUA Annual Performance Plan for 2013*, which included the high priority performance goal to "monitor and control risks in consumer credit unions." The plan measures success for this goal as a decrease in the ratio of "net losses for current year failures to average insured shares." For 2012, the ratio was 0.026%, as compared to 0.007% for 2011. While there was an increase in the measure, overall, NCUSIF losses were not significant.

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[1] The NCUSIF is one of five funds established in the U.S. Treasury and administered by the NCUA Board. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. In addition, the NCUA Board administers the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) that was established in 2009 to accrue the losses of corporate credit unions during the credit crisis and to recover such losses over time from insured credit unions. All five funds report under separate financial statements.

In measuring the performance of the NCUSIF for 2012 and 2011, the following additional measures should be considered.

2012 and 2011 Performance Measures		
	December 31, 2012	December 31, 2011
Equity Ratio (Before Distribution)	1.31%	1.32%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$412.5 million	$606.6 million
Net Position	$11.3 billion	$10.8 billion
Insured Shares	$839.4 billion	$795.3 billion
Credit Union Involuntary Liquidations and Assisted Mergers	22	16
Assets in CAMEL[2] 4 and 5 rated Credit Unions	$19.0 billion	$29.4 billion

The equity ratio and contingent liability are significant financial performance measures in assessing the ongoing operations of the NCUSIF. The equity ratio serves as a mechanism to balance funding from capitalization deposits and premium assessments in response to changes in insured share growth, insurance losses, interest income from U.S. Treasury security investments, as well as other revenues and expenses.

Equity Ratio and Normal Operating Level

The financial performance of the NCUSIF revolves around the equity ratio and the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the contributed one percent deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. The NOL is the desired long-term target equity level for the NCUSIF. The NCUA Board sets the NOL between 1.20 and 1.50 percent. The NCUA Board set the current NOL at 1.30 percent.

By statute, when the equity ratio falls below 1.20 percent, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio. In 2012 and 2011, the NCUA Board did not assess a premium charge to insured credit unions for the NCUSIF. The NCUSIF pays a distribution when the equity ratio exceeds the NOL at year-end. When the NCUSIF or the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) does not have an outstanding borrowing from the U.S. Treasury, the distribution is paid to insured credit unions.

Despite the stresses in the financial services industry resulting from the recent financial crisis, the equity ratio was at 1.31 percent, slightly above the NOL as of the year-end 2012. This resulted in a distribution payable of $88.1 million to TCCUSF to reduce the equity ratio to 1.30 percent. For 2011, the NCUSIF ended the year with an equity ratio of 1.32 percent, which resulted in a distribution of $278.6 million to TCCUSF to reduce the equity ratio to 1.30 percent.

Insurance Losses (Contingent Liabilities)

Through its supervision process, NCUA applies a supervisory rating system to assess each insured credit union's relative health in the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity (CAMEL), applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The NCUSIF's contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates. In addition, specific analysis is performed on those insured credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

[2] CAMEL is the acronym for **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity.

NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall credit union economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA uses the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry.

The credit union industry improved during 2012 as reflected by the reduction in assets in CAMEL 4 and 5 rated credit unions as compared to 2011. Assets in CAMEL 4 and 5 rated credit unions dropped to $19.0 billion at the end of 2012, versus $29.4 billion at the end of 2011. This decrease contributed to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF balance sheets. The NCUSIF ended 2012 with Insurance and Guarantee Program Liabilities of $412.5 million to cover potential losses as compared with $606.6 million for the previous year-end, a reduction of $194.1 million.

Due to uncertain systemic risks and the possibility of variances from historical data, actual losses could differ materially from the contingent liabilities recorded by the NCUSIF.

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures have inherent limitations including the change over time in the correlation of cause and effect. A strong correlation between cause and effect in one period may not continue into the next. In addition, performance measures may not address systemic risks, which can have a significant determination on future results.

III. Financial Statement Analysis

The NCUSIF ended 2012 in a strong position as a result of the growth of Total Assets, a reduction in Insurance and Guarantee Program Liabilities, which more than offset the growth of Operating Expenses and a decline in Interest Revenue.

Summarized Financial Information (in thousands)		
	December 31, 2012	December 31, 2011
Total Assets	$11,874,691	$11,675,484
Investments, Net	11,293,087	11,392,576
Notes Receivable, Net	249,254	70,000
Receivables from Asset Management Estates, Net	252,029	114,741
Insurance and Guarantee Program Liabilities	412,452	606,617
Contributed Capital	8,315,011	7,805,718
Net Position	11,283,852	10,788,878
Operating Expenses	141,237	132,358
Provision for Insurance Losses, Reserve Expense (Reduction)	(74,874)	(525,678)
Total Net Cost/(Income) of Operations	54,685	(401,087)
Cumulative Results of Operations	2,968,841	2,983,160
Interest Revenue - Investments	206,995	226,011

Balance Sheet Highlights
Assets grew by $199.2 million in 2012. Asset growth primarily came from Contributed Capital, which increased by $509.3 million during 2012. In addition, Investments reflect a $99.5 million decreased as investments were used to help fund the acquisition of a collateralized senior note receivable and fund

activities in AMEs. The collateralized senior note receivable was $179.3 million as of the 2012 year-end and Receivables from Asset Management Estates increased by $137.3 million in 2012.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively. The decrease reflects improved financial strength in the credit union industry, as reflected in the decline in assets of CAMEL 4 and 5 rated credit unions over 2012.

Statements of Net Cost Highlights
Total Net Cost of Operations was $54.7 million for 2012, as compared to Total Net Income from Operations for 2011 of $401.1 million. In 2012, like 2011, the decline in Insurance and Guarantee Program Liabilities resulted in a reduction in reserve expenses related to insurance losses in the Statements of Net Cost. The reduction was $74.9 million for 2012 versus $525.7 million for 2011.

Cumulative Results of Operations Highlights
Cumulative results of operations decreased by $14.3 million in 2012. This decrease was due to Interest Revenue of $207.0 million, distribution to TCCUSF of $88.1 million, net unrealized losses on Investments of $78.5 million and Net Cost of Operations of $54.7 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

As of December 31, 2012 and 2011, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling $88.1 million and $278.6 million, respectively, thereby bringing the equity ratio down to its NOL of 1.30 percent.

Statements of Budgetary Resources Highlights
Activity impacting budget totals of the overall Federal Government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF's net outlays were negative, meaning that NCUSIF had net cash inflows of $280.2 million and $289.7 million for 2012 and 2011, respectively. This increase is primarily the result of the growth of credit union insured shares and the related 1.00 percent contributed capital deposit adjustment.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Liquidity Risk and Capital Resources

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) as well as investments in U.S. Treasury Securities. Investments in U.S. Treasury Securities include overnight investments, which are available for the possibility of urgent liquidity needs.

2012 and 2011 Fund Balance with Treasury and Investments		
	December 31, 2012	December 31, 2011
Fund Balance with Treasury	$2.5 million	$0.4 million
U.S. Treasury Securities		
Overnight	$359.7 million	$558.9 million
Available-for-Sale	$10,933.4 million	$10,833.7 million

During 2012, the FBWT account was primarily increased by maturing investments in U.S. Treasury securities. The FBWT account was decreased by purchases of U.S. Treasury securities, nonexpenditure transfers, and amounts expended for the purposes of the share insurance program.

The NCUSIF has multiple other sources of funding including:

- capitalization deposits contributed by insured credit unions, as provided by the Federal Credit Union Act (FCU Act);
- cumulative results of operations retained by the NCUSIF;
- assessments on insured credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

The NCUSIF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

Contributed Capital
Each insured credit union must deposit and maintain in the NCUSIF 1.00 percent of its insured shares. For the years ended December 31, 2012 and 2011, the NCUSIF's contributed capital from insured credit unions increased by $509.3 million and $320.6 million, respectively. Total insured shares were $839.4 billion and $795.3 billion as of December 31, 2012 and 2011, respectively.

At December 31, 2012, NCUA estimated the total insured shares to be approximately $839.4 billion, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately $79.0 million from insured credit unions in early 2013 when NCUA invoices for its biannual contributed capital adjustment.

Cumulative Results of Operations
The NCUSIF ended 2012 and 2011 with a total of $3.0 billion in cumulative results of operations. Interest Revenue is currently the primary source of funds for operations.

Assessments
The NCUA Board may also assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2012 and 2011, the NCUA Board did not assess any premium charges to insured credit unions for the NCUSIF.

Borrowing Authority from the U.S. Treasury
The NCUSIF has $6.0 billion in maximum statutory borrowing authority, shared with the TCCUSF, from the U.S. Treasury. As of December 31, 2012 and 2011, the TCCUSF had $5.1 billion and $3.5 billion in borrowing outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had $0.9 billion and $2.5 billion, respectively, in available borrowing authority shared with the TCCUSF. The estimated losses and liquidity needs of the TCCUSF are based on the NCUA's expectations and assumptions about the resolution of failed corporate credit unions, including the disposition and recovery value of their assets. Actual losses of the TCCUSF, including the TCCUSF's funding needs, could differ from those estimates. Consequently, additional borrowing for the TCCUSF reduces funds available from this source.

Borrowing Authority from the CLF
The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2012 and 2011, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances made under the current promissory notes can be made in amounts up to the statutory borrowing authority and cannot mature later than March 31, 2013. The CLF had borrowing capacity under its note purchase agreement with the FFB of $2.3 billion as of December 31, 2012.

IV. Systems, Controls, and Legal Compliance

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq*., as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the FCU Act in part by amending the definitions of "equity ratio" and "net worth." NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. §661e (a) (1)).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The Federal Manager's Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA managers monitor and assess their relevant internal controls and report on their assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. NCUA is in compliance with FMFIA as well as all applicable laws such as the Prompt Payment Act, and the Debt Collection and Improvement Act. As required by the Improper Payments Elimination and Recovery Act, we have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

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Independent Auditors' Report

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

KPMG

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the NCUSIF changed its presentation for reporting the statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the NCUSIF's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

Supplemental Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NCUSIF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities section is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 15, 2013

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 2,479	$ 423
Investments, Net - U.S. Treasury Securities (Note 3)	11,293,087	11,392,576
Accounts Receivable - Other	8	10
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)	14,415	15,756
Accrued Interest Receivable (Note 3)	63,154	81,707
Total Intragovernmental Assets	11,373,143	11,490,472
PUBLIC		
Accounts Receivable - Capitalization Deposits from Insured Credit Unions, Net (Note 4)	38	30
Accounts Receivable - Premium Assessments from Insured Credit Unions, Net (Note 4)	-	73
Accounts Receivable - Other	25	-
General Property, Plant, and Equipment, Net	-	18
Notes Receivable, Net (Note 5)	249,254	70,000
Accrued Interest Receivable - Notes (Note 5)	202	150
Other - Receivables from Asset Management Estates (AMEs), Net (Note 6)	252,029	114,741
Total Public Assets	501,548	185,012
TOTAL ASSETS	$ 11,874,691	$ 11,675,484
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	$ 690	$ -
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 9)	2,040	1,182
Other - Distribution Payable to the Temporary Corporate Credit Union Stabilization Fund (Note 8)	88,090	278,641
Total Intragovernmental Liabilities	90,820	279,823
PUBLIC		
Accounts Payable	87,567	166
Other - Insurance and Guarantee Program Liabilities (Note 7)	412,452	606,617
Total Public Liabilities	500,019	606,783
TOTAL LIABILITIES	590,839	886,606
Commitments and Contingencies (Note 7)		
NET POSITION		
Contributed Capital (Note 12)	8,315,011	7,805,718
Cumulative Result of Operations	2,968,841	2,983,160
Total Net Position	11,283,852	10,788,878
TOTAL LIABILITIES AND NET POSITION	$ 11,874,691	$ 11,675,484

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF NET COST
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
GROSS COSTS		
Operating Expenses	$ 141,237	$ 132,358
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 7)	(74,874)	(525,678)
AME Receivable Bad Debt Expense (Reduction) (Note 6)	(2,910)	(6,730)
Total Gross Costs	63,453	(400,050)
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)	(290)	(344)
Interest Revenue on Notes (Note 5)	(2,097)	(150)
Insurance and Guarantee Premium Revenue	(6,381)	(543)
Total Earned Revenues	(8,768)	(1,037)
TOTAL NET COST/(INCOME) OF OPERATIONS	$ 54,685	$ (401,087)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,983,160	$ 2,370,890
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	206,995	226,011
Other		
Distribution to the Temporary Corporate Credit Union Stabilization Fund (Note 8)	(88,090)	(278,641)
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments	(78,539)	263,813
Total Financing Sources	40,366	211,183
(Net Cost of)/Income from Operations	(54,685)	401,087
Net Change	(14,319)	612,270
CUMULATIVE RESULTS OF OPERATIONS	2,968,841	2,983,160
CONTRIBUTED CAPITAL (Note 12)		
Beginning Balances	7,805,718	7,485,159
Change in Contributed Capital	509,293	320,559
CONTRIBUTED CAPITAL	8,315,011	7,805,718
NET POSITION	$ 11,283,852	$ 10,788,878

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
BUDGETARY RESOURCES (Notes 11 and 14)		
Unobligated balance, brought forward, January 1	$ 10,453,208	$ 10,430,194
Spending authority from offsetting collections (mandatory)		
Collected	940,745	705,451
Change in receivables from federal sources	(18,556)	9,358
Anticipated nonexpenditure transfer	(88,090)	(278,641)
TOTAL BUDGETARY RESOURCES	$ 11,287,307	$ 10,866,362
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 746,148	$ 413,154
Unobligated balance, end of year:		
Exempt from apportionment	10,541,159	10,453,208
Total unobligated balance, end of year	10,541,159	10,453,208
TOTAL STATUS OF BUDGETARY RESOURCES	$ 11,287,307	$ 10,866,362
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, January 1	$ 1,710	$ 4,279
Uncollected customer payments from Federal sources, brought forward, January 1	(81,717)	(72,359)
Obligated balance, start of year (net), before adjustments	(80,007)	(68,080)
Obligations incurred	746,148	413,154
Outlays (gross)	(660,547)	(415,723)
Change in uncollected customer payments from Federal sources	18,556	(9,358)
Obligated balance, end of year		
Unpaid obligations, end of year	87,311	1,710
Uncollected customer payments from Federal Sources, end of year	(63,161)	(81,717)
OBLIGATED BALANCE, END OF YEAR (NET)	$ 24,150	$ (80,007)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	$ 834,099	$ 436,168
Actual offsetting collections (mandatory)	(940,745)	(705,451)
Change in uncollected customer payments from Federal sources (mandatory)	18,556	(9,358)
Anticipated offsetting collections (mandatory)	88,090	278,641
BUDGET AUTHORITY, NET (MANDATORY)	$ -	$ -
Outlays, gross (mandatory)	$ 660,547	$ 415,723
Actual offsetting collections (mandatory)	(940,745)	(705,451)
AGENCY OUTLAYS, NET (MANDATORY)	$ (280,198)	$ (289,728)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the Federal Credit Union Act (FCU Act), 12 U.S.C. §1781 *et seq.*, as amended. The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under management of the National Credit Union Administration (NCUA) Board (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state-chartered credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates required supervisory involvement with the state chartering authorities for state chartered credit unions insured by the NCUSIF. Federally insured (insured) credit unions are required to report certain financial and statistical information to NCUA on a quarterly basis and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUA with the ability to identify insured credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit pursuant to Section 208 of the FCU Act, permanent cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In a liquidation, the NCUSIF pays members' shares up to the maximum insured amount, and monetizes the credit union's assets.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). These assets and liabilities are held in part, for the primary benefit of non-federal parties and therefore are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities*. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet. Additionally, NCUA entity assets are non-fiduciary.

Sources of Funding
Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF 1.00 percent of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF has borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury and the ability to borrow from the NCUA's Central Liquidity Facility (CLF).

Recent Legislation
In January 2011, *The National Credit Union Authority Clarification Act*, Public Law 111-382 (2011), amended the FCU Act by clarifying NCUA's authority to make TCCUSF expenditures without borrowing from the U.S. Treasury.

The National Credit Union Authority Clarification Act amended the FCU Act to permit the NCUA Board to assess a special premium with respect to each insured credit union in an aggregate amount that is reasonably calculated to make any pending or future TCCUSF expenditures, in addition to existing authority to make assessments to repay U.S. Treasury advances. The National Credit Union Authority Clarification Act also stated that "the Board take into consideration any potential impact on credit union earnings that such an assessment may have" and requires the premium be paid not later than 60 days after the date of the assessment. *The National Credit Union Authority Clarification Act* also amended the definitions of ''equity ratio'' and ''net worth,'' as further described in Note 12.

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB's SFFAS. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* revised August 3, 2012.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, NCUA considers and where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

Basis of Accounting

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. §661e(a)(1)).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;

- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid and settlement of the guarantee liabilities; (iii) allowance amounts established for loan loss related to permanent cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs. Since 2009, the economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the Federal Government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments

Investment securities primarily consist of marketable U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held to maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities.*

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

The NCUSIF reviews all U.S. Treasury securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is OTTI, the NCUSIF takes into consideration whether it has the intent to sell the security. The NCUSIF also considers available evidence to assess whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUA intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis, OTTI shall be considered to have occurred.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Accounts Receivable

Accounts receivable represent the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

Capitalization Deposits from Insured Credit Unions
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00 percent of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority according to the FCU Act Section 202, *Administration of the Insurance Fund*, to assess insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.30 percent. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20 percent, the NCUA Board shall establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified (1.20 percent) before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

Premium receivable refers to premium charge amounts that have been billed to insured credit unions, but have not been received as of the reporting date. As the premium assessments are collected, the portion billed on behalf of the TCCUSF is recorded as a payable to the TCCUSF.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of losses in an existing receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all principal and interest contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

Notes Receivable

Notes receivable represent loans to insured credit unions as authorized by the NCUA Board, including assistance under Section 208 of the FCU Act. Any related allowance for loss represents the difference between the funds disbursed and the expected repayment from the insured credit unions.

Other - Receivables from Asset Management Estates

Receivables from AMEs include claims to recover payments made by the NCUSIF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R.) §709.5(b). Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. The recoveries from these AME assets are paid to the NCUSIF as AME assets are monetized and to the extent a receivable is due for share payout obligations and administrative expenses.

The allowance for losses on receivables from AMEs are based on asset recovery rates, and come from several sources including:

- actual or pending AME asset disposition data;

- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

Distribution Payable

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the NCUSIF records a non-exchange liability, per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, for unpaid amounts due as of the reporting date, as discussed herein.

Insurance and Guarantee Program Liabilities

In accordance with SFFAS No. 5, all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;
- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for probable losses relating to insured credit unions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the adequacy of Liquidity (CAMEL), applying a rating ranging from "1" (strongest) to "5" (weakest). The contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates. In addition, credit union specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Net Position and Contributed Capital

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00 percent of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

Revenue Recognition

Exchange Revenue
Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

Non-Exchange Revenue
Non-exchange revenues are inflows of resources that the Federal Government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00 percent of its insured shares. This amount is recognized as non-exchange revenue upon receipt. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Statement of Budgetary Resources

The NCUSIF has updated the Statement of Budgetary Resources presentation in the 2012 financial statements in accordance with the new presentation requirements of OMB Circular No. A-136, *Financial Reporting Requirements*. All calendar year 2011 activity and balances reported on the Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

Tax-Exempt Status

The NCUSIF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2012 and 2011, consisted of the following:

(Dollars in thousands)	2012	2011
Total Fund Balance with Treasury: Revolving Funds	$ 2,479	$ 423
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 10,541,159	$ 10,453,208
Obligated Balances Not Yet Disbursed	87,311	1,710
Non-Budgetary FBWT Accounts	(10,650,920)	(10,651,420)
Non-FBWT Budgetary Accounts	24,929	196,925
Total	$ 2,479	$ 423

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits, which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary FBWT accounts, which consist of investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2012 and 2011, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held to maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2012 and 2011, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows:

(Dollars in thousands)	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain (Loss)	Carrying/ Fair Value
As of December 31, 2012:						
U.S. Treasury Securities						
Available-for-Sale	$ 10,751,623	$ (189,900)	$ 63,154	$ 10,320,000	$ 371,661	$ 10,933,384
Held to Maturity	359,703	n/a	-	359,703	n/a	359,703
Total Public Investments	$ 11,111,326	$ (189,900)	$ 63,154	$ 10,679,703	$ 371,661	$ 11,293,087
As of December 31, 2011:						
U.S. Treasury Securities						
Available-for-Sale	$ 10,560,623	$ (177,145)	$ 81,707	$ 10,120,000	$ 450,200	$ 10,833,678
Held to Maturity	558,898	n/a	-	558,898	n/a	558,898
Total	$ 11,119,521	$ (177,145)	$ 81,707	$ 10,678,898	$ 450,200	$ 11,392,576

Maturities of U.S. Treasury securities as of December 31, 2012 and 2011 were as follows:

(Dollars in thousands)	2012 Fair value	2011 Fair value
Held to Maturity (Overnights)	$ 359,703	$ 558,898
Available-for-sale:		
Due prior to one year	1,622,672	1,627,172
Due after one year through five years	6,835,744	7,785,740
Due after five years through ten years	2,474,968	1,420,766
	$ 11,293,087	$ 11,392,576

There were no realized gains or losses for the years ended December 31, 2012 and 2011.

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2012 and 2011.

(Dollars in thousands)	Duration of Unrealized Losses Less than 12 months	
	Unrealized Losses	Fair Value
As of December 31, 2012:		
Available-for-sale:		
U.S. Treasury securities	$ (6,681)	$ 1,390,141
As of December 31, 2011:		
Available-for-sale:		
U.S. Treasury securities	$ (72)	$ 111,688

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF lent approximately $42 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $290 thousand and $344 thousand for the years ended December 31, 2012 and 2011, respectively. The note receivable balance as of December 31, 2012 and 2011 was approximately $14.4 million and $15.8 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2012 and 2011 was 1.93 percent and 2.10 percent respectively. The interest rate as of December 31, 2012 and 2011 was 1.83 percent and 2.01 percent, respectively.

As of December 31, 2012, the above note requires principal repayments as follows:

Years Ending December 31	**Secured Term Note** (Dollars in thousands)
2013	$ 1,341
2014	1,341
2015	1,341
2016	1,341
2017	1,341
Thereafter	7,710
Total	$ 14,415

Public – Accounts Receivable

Capitalization Deposits from Insured Credit Unions
As of December 31, 2012 and 2011, the capitalization deposits due from insured credit unions were $38 thousand and $30 thousand, respectively.

Premium Assessments from Insured Credit Unions
As of December 31, 2012 and 2011, assessments due from insured credit unions were $0 and $73 thousand, respectively.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2012 and 2011 was zero.

5. NOTES RECEIVABLE

As of December 31, 2012 and 2011, the NCUSIF had two outstanding capital notes due from insured credit unions. The capital notes receivable totaled $80.0 million and the related allowance for loss was $10.0 million, for a net capital note receivable of $70.0 million as of December 31, 2012 and 2011. These capital notes are subordinated to all shareholders, creditors, and any other such financial obligations. Accrued interest on the notes is due on a semi-annual basis. Interest on these notes have fixed and variable terms.

As of December 31, 2012, the NCUSIF had an outstanding collateralized senior note due from an insured credit union for $179.3 million. Accrued interest on the notes is due on a monthly basis. Interest on this note has variable terms.

As of December 31, 2012 and 2011, the accrued interest receivable for the notes totaled $202 thousand and $150 thousand, respectively.

6. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2012 and 2011, the receivable from AMEs was $1.1 billion and $932.0 million, and the related allowance for loss was $880.1 million and $817.3 million, for a net receivable from AMEs of $252.0 million and $114.7 million, respectively.

(Dollars in thousands)	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Gross Receivable from AME	$ 1,132,137	$ 932,061
Allowance for Loss, beginning balance	817,320	777,570
AME Receivable Bad Debt Expense (Reduction)	(2,910)	(6,730)
Increase in Allowance	107,578	80,955
Write-off of Cancelled Charters	(41,880)	(34,475)
Allowance for Loss, ending balance	880,108	817,320
Receivable from AME, Net	$ 252,029	$ 114,741

7. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies insured credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for both identified and anticipated losses resulting from insured credit union failures were $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2012 or as of December 31, 2012. There were no guarantees outstanding during 2011 or as of December 31, 2011.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2012 and 2011 were approximately $0 and $115.0 million, respectively. The insured credit unions borrowed $0 and $15.4 million, from the third-party lender, under these line-of-credit guarantees as of December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the NCUSIF reserved $0 and $2.1 million, respectively, for these guaranteed lines-of-credit. Guarantees of $60.0 million expired on December 31, 2012.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance or purchase and assumption agreement to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2012 and 2011, respectively.

The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows:

(Dollars in thousands)	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Beginning balance	$ 606,617	$ 1,225,281
Reserve Expense (Reduction)	(74,874)	(525,678)
Insurance losses claims paid	(349,080)	(105,099)
Net Estimated Recovery/Claim on AMEs	229,789	12,113
Ending balance	$ 412,452	$ 606,617

The Insurance and Guarantee Program Liabilities at December 31, 2012 and December 31, 2011 were comprised of the following:

- Specific reserves were $95.2 million and $16.4 million, respectively. Specific reserves are identified for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.
- General reserves were $317.3 million and $590.2 million, respectively.

In addition to these recorded contingent liabilities, additional adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions and, accordingly, could differ significantly from these estimates.

8. OTHER LIABILITIES – DISTRIBUTION PAYABLE

Per Section 202(c) (3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution to insured credit unions after each calendar year, if:

(i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid;
(ii) the NCUSIF's equity ratio exceeds the normal operating level of 1.30 percent; and
(iii) the NCUSIF's available assets ratio exceeds 1.00 percent.

The amount of share distribution should equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30 percent, and does not reduce the NCUSIF's available assets ratio below 1.00 percent.

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described under Section 202(c)(3) of the FCU Act. As of December 31, 2012 and 2011, the TCCUSF had an outstanding advance from the U.S. Treasury. Where the TCCUSF has an outstanding advance from the U.S. Treasury, Section 217(e) of the FCU Act requires the NCUSIF to make a distribution to the TCCUSF of the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30 percent and does not reduce the NCUSIF's available assets ratio below 1.00 percent.

As of December 31, 2012 and 2011, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling approximately $88.1 million and $278.6 million, respectively; thereby bringing the equity ratio down to its normal operating level of 1.30 percent. As of December 31, 2012 and 2011, the NCUSIF's available assets ratio was 1.29 and 1.32 percent, respectively. The equity ratio and available assets ratio calculations are discussed in Note 12. The $88.1 million amount payable as of December 31, 2012 is expected to be paid in the first half of 2013, upon receipt of certification of certain insured share information from credit unions.

9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and expenses arise from transactions with other federal entities. Public revenue and expenses arise from transactions with domestic and foreign persons and organizations outside of the Federal Government.

Intragovernmental Costs and Exchange Revenue	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
(Dollars in thousands)		
Intragovernmental Costs	$ 137,528	$ 129,985
Public Costs/(Cost Reduction)	(74,075)	(530,035)
Total	63,453	(400,050)
Intragovernmental Exchange		
Revenue	(290)	(344)
Public Exchange Revenue	(8,478)	(693)
Total	(8,768)	(1,037)
Net Cost/(Income)	$ 54,685	$ (401,087)

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 59.3 percent and 58.9 percent to the NCUSIF for 2012 and 2011, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $137.5 million and $130.0 million for the years ended December 31, 2012 and 2011, respectively, is reflected as an expense in the Statements of Net Cost. These transactions are settled monthly. As of December 31, 2012 and 2011, amounts due to the NCUA Operating Fund for allocated administrative expenses were $2.0 million and $1.2 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund.

Administrative Services Reimbursed to the NCUA Operating Fund	**For the Year Ended December 31, 2012**	**For the Year Ended December 31, 2011**
(Dollars in thousands)		
Employee Salaries	$ 75,177	$ 73,271
Employee Benefits	26,178	20,996
Employee Travel	15,446	15,313
Contracted Services	10,408	9,107
Administrative Costs	7,472	8,518
Rent, Communications, and Utilities	2,847	2,780
Total Services Provided by the NCUA Operating Fund	$ 137,528	$ 129,985

10. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2012 and 2011, the TCCUSF had $5.1 billion and $3.5 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2012 and 2011, the NCUSIF had $0.9 billion and $2.5 billion, respectively, in available borrowing authority shared with the TCCUSF.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As of December 31, 2012 and 2011, the CLF had available borrowing capacity under its note purchase agreement for $2.3 billion and $10.0 billion. CLF's current note purchase agreement expires March 31, 2013.

At December 31, 2012 and 2011, the NCUSIF had $3.2 billion and $12.5 billion, respectively, in total available borrowing authority.

11. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2012 and 2011. Activity impacting budget totals of the overall Federal Government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2012 and 2011, the NCUSIF's resources in budgetary accounts were $11.3 billion and $10.9 billion and undelivered orders were $694 thousand and $362 thousand, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities, because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

Budgetary resources listed on the NCUSIF's statements and the budgetary resources found in the budget of the Federal Government differ because the NCUSIF's statements are prepared as of December 31, calendar year, rather than as of September 30, the Federal Government's fiscal year end.

12. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998* (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00 percent of the credit union's insured shares. Under Section 1782(c) of the FCU Act, the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than $50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of $50.0 million or more. The annual and semi-annual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00 percent contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2012 and 2011, contributed capital owed to the NCUSIF totaled $38 thousand and $30 thousand, respectively. As of December 31, 2012 and 2011, contributed capital due to insured credit unions was zero.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the *Helping Families Act of 2009*, which states that at the end of any calendar year in which the TCCUSF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions as described above. In lieu of the distribution, the NCUSIF shall make a distribution to the TCCUSF for the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.30 percent and does not reduce the current available assets ratio below 1.00 percent.

Pursuant to the FCU Act, the NCUSIF calculated and initiated distributions to the TCCUSF in the estimated amount of $88.1 million and $278.6 million, which is recognized as a payable as of December 31, 2012 and 2011. Thus, the NCUSIF's calculated equity ratio after distribution as of December 31, 2012 and 2011 was 1.30 percent, based on estimated total insured shares as of December 31, 2012 and 2011 of $839.4 billion and $795.3 billion, respectively. Total contributed capital as of December 31, 2012 and 2011 was $8.3 billion and $7.8 billion, respectively.

The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

The calculated available assets ratio as of December 31, 2012 and 2011 was 1.29 and 1.32 percent, based on total estimated insured shares as of December 31, 2012 and 2011 of $839.4 billion and $795.3 billion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF (including the distribution payable to the TCCUSF) and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c), to (B) the aggregate amount of the insured shares in all insured credit unions.

13. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities.*

The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Schedule of Fiduciary Activity	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
(Dollars in thousands)		
Fiduciary Net Liabilities, beginning of year	$ (823,594)	$ (781,264)
Net Realized Losses upon Liquidation	(196,037)	(59,986)
Revenues		
Interest on Loans	10,775	7,535
Other Fiduciary Revenues	2,154	1,691
Expenses		
Professional & Outside Services Expenses	(8,667)	(7,501)
Compensation and Benefits	(1,773)	(1,729)
Other Expenses	(1,848)	336
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	(1,233)	(25,144)
Net Gain/(Loss) on Real Estate Owned	210	712
Other, Net Gain/(Loss)	3,313	7,281
Decrease/(Increase) in Fiduciary Net Liabilities	(193,106)	(76,805)
Write off of Fiduciary Liabilities for Cancelled Charters	41,880	34,475
Fiduciary Net Liabilities, end of year	**$ (974,820)**	**$ (823,594)**

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets, as well as the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities.

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2012	As of December 31, 2011
(Dollars in thousands)		
Fiduciary Assets		
Loans	$ 186,688	$ 96,755
Real Estate Owned	32,443	31,687
Other Fiduciary Assets	25,209	7,954
Total Fiduciary Assets	**244,340**	**136,396**
Fiduciary Liabilities		
Insured Shares	63,861	8,595
Secured Claims	-	1,400
Accrued Liquidation Expenses	17,571	7,290
Unsecured Claims	4,692	7,793
Uninsured Shares	899	2,851
Due to NCUSIF	1,132,137	932,061
Total Fiduciary Liabilities	**1,219,160**	**959,990**
Total Fiduciary Net Assets/(Liabilities)	**$ (974,820)**	**$ (823,594)**

14. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. The Reconciliation of Net Cost of Operations to Budget consisted of the following:

Reconciliation of Net Cost of Operations to Budget	As of December 31, 2012	As of December 31, 2011
(Dollars in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Budgetary Obligations Incurred	$ 746,148	$ 413,154
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(922,189)	(714,809)
Net Obligations	(176,041)	(301,655)
Other Resources:		
Net Unrealized (Gain)/Loss	78,539	(263,813)
Total Resources Used to Finance Activities	(97,502)	(565,468)
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(331)	432
Resources that Fund Expenses Recognized in Prior Periods	88,948	(2,136)
Costs Capitalized on the Balance Sheet	192,861	285,061
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(51,290)	413,986
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	230,188	697,343
Resources Used to Finance the Net Cost of Operations	132,686	131,875
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	(74,874)	(525,678)
AME Receivable Bad Debt Expense (Reduction)	(2,910)	(6,730)
Increase in Exchange Revenue	(235)	(574)
Components not Requiring or Generating Resources		
Depreciation Expense	18	20
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(78,001)	(532,962)
Net Cost/ (Income) from Operations	$ 54,685	$ (401,087)

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through February 15, 2013, which is the date the financial statements were available to be issued. Management determined that there were no items to disclose as of December 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2012 and 2011, the aggregate outstanding insured shares of the insured credit unions were $839.4 billion and $795.3 billion, respectively. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, pursuant to Section 217(b)(2)(A) of the FCU Act, to the extent that the required funding for the guarantee obligations exceeds the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the general reserves were $317.3 million and $590.2 million, respectively. At December 31, 2012 and 2011, the specific reserves resulting from insured credit unions' failures were $95.2 million and $16.4 million, respectively.

While certain risk factors remain elevated, as compared to pre-2009, the NCUSIF's contingent liability decreased by $194.1 million from 2011 to 2012, and decreased by $618.7 million from 2010 to 2011. The trend is partly attributable to certain improving metrics, specifically a declining trend in the resolution of certain troubled credit unions, a reduction in assets in credit unions with CAMEL 4 and 5 ratings, and lower delinquencies and charge-offs.

Fees and Premiums

During 2012 and 2011, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

Sensitivity, Risks and Uncertainties of the Assumptions

As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures using an internal model that applies failure and loss rates based on historical data to troubled credit unions identified through the CAMEL rating system under various scenarios. Historical trends are not indicative of future performance. Actual losses could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2012.

The development of assumptions for key input variables of our estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include failure and loss rates. The failure rate is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates the NCUA's expectations and assumptions about macroeconomic trends such as unemployment rate and level of consumer debt, as well as credit union system-wide factors such as delinquencies, bankruptcies and charge-offs. The loss rate is developed based on historical loss experience from actual failures, and incorporates the NCUA's expectations and assumptions about anticipated recoveries. The assumptions developed for the estimation model are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

The NCUSIF general reserve is sensitive to assumptions made about the failure and loss rates under various scenarios in the Monte Carlo simulation. Changing our assumptions for observed variations in failure rates and loss rates results in a wide range of losses, as compared to $317.3 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2012. Consistent with accounting standards, the assumptions used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.

National Credit Union Administration Operating Fund

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditor's Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (OF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

OF management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2012 and 2011, and the results of its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities section is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2013

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
ASSETS:		
CASH AND CASH EQUIVALENTS (Note 3)	$36,521	$36,982
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 7)	2,040	1,182
EMPLOYEE ADVANCES	25	43
OTHER ACCOUNTS RECEIVABLE, Net (Note 7)	211	885
PREPAID EXPENSES AND OTHER ASSETS	1,055	1,015
ASSETS HELD FOR SALE (Note 6)	854	397
FIXED ASSETS — Net of accumulated depreciation of $27,208 and $25,231 as of December 31, 2012 and December 31, 2011, respectively (Note 4)	31,464	31,760
INTANGIBLE ASSETS — Net of accumulated amortization of $10,772 and $8,333 as of December 31, 2012 and December 31, 2011, respectively (Note 5)	5,232	7,367
TOTAL	$77,402	$79,631
LIABILITIES AND FUND BALANCE:		
LIABILITIES:		
Accounts payable and accrued other liabilities	$4,604	$7,074
Obligations under capital leases (Note 8)	78	58
Accrued wages and benefits	10,178	9,295
Accrued annual leave	13,832	12,699
Accrued employee travel	695	628
Notes payable to National Credit Union Share Insurance Fund (Note 7)	14,415	15,756
Total liabilities	43,802	45,510
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12)		
FUND BALANCE	33,600	34,121
TOTAL	$77,402	$79,631

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
REVENUES:		
Operating fees	$ 88,798	$ 86,197
Interest	47	18
Other	1,280	1,200
Total revenues	90,125	87,415
EXPENSES, NET (Note 7):		
Employee wages and benefits	66,509	62,194
Travel	9,946	9,809
Rent, communications, and utilities	1,949	1,936
Contracted services	7,123	6,326
Depreciation and amortization	6,289	4,695
Administrative	(1,170)	1,242
Total expenses	90,646	86,202
EXCESS OF REVENUES (UNDER) / OVER EXPENSES	(521)	1,213
FUND BALANCE—Beginning of year	34,121	32,908
FUND BALANCE—End of year	$ 33,600	$ 34,121

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues (under) / over expenses	$ (521)	$ 1,213
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	6,289	4,695
Provision for loss on disposal of employee residences held for sale	186	305
Loss on fixed asset and intangible asset retirements	107	2
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(858)	1,675
Employee advances	18	7
Other accounts receivable, net	674	(536)
Prepaid expenses and other assets	(40)	356
(Decrease) increase in liabilities:		
Accounts payable	(2,470)	2,031
Accrued wages and benefits	883	714
Accrued annual leave	1,133	1,298
Accrued employee travel	67	96
Net cash provided by operating activities	5,468	11,856
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and intangible assets	(3,950)	(6,146)
Proceeds from insurance on fixed assets	25	-
Purchases of employee residences held for sale	(1,301)	(1,197)
Proceeds from sale of employee residences held for sale	658	1,192
Net cash used in investing activities	(4,568)	(6,151)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(20)	(27)
Net cash used in financing activities	(1,361)	(1,368)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(461)	4,337
CASH AND CASH EQUIVALENTS—Beginning of year	36,982	32,645
CASH AND CASH EQUIVALENTS—End of year	$ 36,521	$ 36,982
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES -		
Acquisition of equipment under capital lease	$ 40	$ 61
CASH PAYMENTS FOR INTEREST	$ 290	$ 344

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

A significant majority of the Fund's revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based on its prior year asset balances and rates set by the NCUA Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The Fund maintains its accounting records in accordance with the accrual basis of accounting. As such, the Fund recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

Related Parties – The Fund exists within NCUA and is one of five funds managed by the NCUA Board. The other funds managed by the Board, deemed related parties, are:

a) The National Credit Union Share Insurance Fund (NCUSIF)
b) The National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF)
c) The National Credit Union Administration Central Liquidity Facility (CLF)
d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF and CLF as described in Note 7.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2012 and 2011 were cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal programmers, and other personnel in the development of the software. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the building and two to ten years for the furniture, equipment, computer software, and leasehold improvements.

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustment to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund holds certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell—based on a review of available financial information including but not limited to appraisals, markets analyses, etc. — is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less costs to sell.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

Accounts Receivable – Receivables include amounts due from the NCUSIF, employee advances, and other accounts receivable. In 2011, amounts also include a non-recurring rent incentive associated with an office lease in Alexandria, Virginia.

As of December 31, 2012 and 2011, the Fund's Other Accounts Receivable includes an allowance in the amount of $76,000 and $0, respectively.

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). This act provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease.

Operating Fees – Each federally chartered credit union is assessed an annual fee based on their assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to Freedom of Information Act (FOIA) fees, sales of publications, parking income, and rental income is recognized when earned.

Income Taxes – The Fund is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 8.

Fair Value of Financial Instruments – The following method and assumption was used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from related parties, employee advances, other accounts receivable (net), accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate their respective fair values.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Advertising Costs – Advertising costs, per FASB ASC 720-35-50, *Other Expenses - Advertising Costs*, consist primarily of radio and Internet advertisements. Advertising costs are expensed as incurred. The Fund enters into certain contracts for the purpose of advertising. In 2012 and 2011, advertising expenses amounted to approximately $0 and $248,000, respectively.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Deposit with U.S. Treasury	$ 435	$ 240
U.S. Treasury Overnight Investments	36,086	36,742
Total	$ 36,521	$ 36,982

As a revolving fund within the U.S. Treasury, the Operating Fund does not hold any cash or cash equivalents outside of Treasury.

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Office building and land	$ 47,899	$ 46,336
Furniture and equipment	10,265	9,394
Leasehold improvements	406	376
Equipment under capital leases	102	99
Total	58,672	56,205
Less accumulated depreciation	(27,208)	(25,231)
Assets under construction	-	786
Fixed assets — net	$ 31,464	$ 31,760

Depreciation expense for the years ended December 31, 2012 and 2011 totaled $2,427,000 and $2,407,000, respectively.

In 2011, assets under construction primarily represented costs incurred related to building improvements to the King Street NCUA headquarters office space. Upon completion in 2012, all costs were fully capitalized and transferred to "Office building and land".

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2012 and 2011 (in thousands).

	2012	2011
Internal-use software	$ 15,823	$ 13,187
Less accumulated amortization	(10,772)	(8,333)
Total	5,051	4,854
Internal-use software-in development	181	2,513
Intangible assets — net	$ 5,232	$ 7,367

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2012 and 2011 totaled $3,862,000 and $2,288,000, respectively.

Internal-use software that is in development represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house.

6. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Currently, the Fund owns three homes. Ongoing costs to maintain properties are expensed as incurred. The balance of real estate available for sale as of December 31, 2012 and 2011 was $854,000 and $397,000, respectively, net of impairment charges and costs to sell of $120,000 and $133,000 as of December 31, 2012 and 2011, respectively.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 100% of the expenses of the Office of Corporate Credit Unions to the extent that it exceeds the actual operating fees paid by Federal corporate credit unions, plus 59.3% of all other expenses to NCUSIF for 2012 and 58.9% for 2011. The cost of the services allocated to NCUSIF, which totaled $137,528,000 and $129,985,000 for 2012 and 2011, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2012 and 2011, amounts due from NCUSIF, under this allocation method, totaled $2,040,000 and $1,182,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $290,000 and $344,000 for 2012 and 2011, respectively. The notes payable balances as of December 31, 2012 and 2011 were $14,415,000 and $15,756,000, respectively. The current portion of the long term debt is $1,341,000 as of December 31, 2012 and 2011, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2012 and 2011 were 1.93% and 2.10%, respectively. The interest rates as of December 31, 2012 and 2011 were 1.83% and 2.01%, respectively.

The secured term note requires principal repayments as of December 31, 2012 as follows (in thousands):

Years Ending December 31	Secured Term Note
2013	$ 1,341
2014	1,341
2015	1,341
2016	1,341
2017	1,341
Thereafter	7,710
Total	$ 14,415

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's employee salaries and related benefits, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were $553,000 and $637,000 for the years ending December 31, 2012 and 2011, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $0 and $171,000 of amounts due from the CLF as of December 31, 2012 and 2011, respectively.

(c) Support of CDRLF

Pursuant to the Act, the Fund supports the administration of programs under CDRLF by paying related personnel and other associated costs. The estimation of administrative expenses includes personnel related costs, travel, training, telephone, supplies, printing and postage.

For the years ending December 31, 2012 and 2011, administrative support to CDRLF is estimated at (in thousands):

	2012	2011
Personnel	$ 347	$ 331
Other	89	20
Total	$ 436	$ 351

(d) Support of TCCUSF

Pursuant to the Act, the Fund supports the administration of programs under TCCUSF by paying related personnel and other associated costs. The estimation of administrative expenses includes personnel related costs, travel, training, telephone, supplies, printing and postage.

For the years ending December 31, 2012 and 2011, administrative support to TCCUSF is estimated at (in thousands):

	2012	2011
Personnel	$ 1,838	$ 3,674
Other	59	104
Total	$ 1,897	$ 3,778

In 2012, the Fund began collecting from TCCUSF, reimbursements for the salary and benefits of certain staff in newly created positions who directly work on TCCUSF-related activities with settlement and payment occurring quarterly. The total amount associated with these staff was $231,000 in 2012, which is not included in the above table.

(e) Federal Financial Institutions Examination Council (FFIEC)

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member and currently serves as its Chairman. FFIEC was established on March 10, 1979 as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2012 and 2011, FFIEC assessments totaled $868,000 and $828,000, respectively. FFIEC's 2013 budgeted assessments to NCUA total $748,000 (unaudited).

(f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 6.

8. LEASE COMMITMENTS

Description of Leasing Agreements - The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes laptops, and copiers.

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2017. Office rental charges amounted to approximately $1,156,000 and $1,129,000, of which approximately $685,000 and $665,000 were reimbursed by NCUSIF for 2012 and 2011, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that will continue through 2015.

Capital Leases – The Fund leases copier equipment under lease agreements that run through 2017. Amounts presented in the table below include $13,000 of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2012, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2013	$ 1,664	$ 24
2014	1,174	24
2015	689	22
2016	191	15
2017	193	6
Thereafter	-	-
Total	$ 3,911	$ 91

Based on the allocation factor approved by the NCUA Board, NCUSIF is expected to reimburse the Fund for approximately 59.1% of the 2013 operating lease payments.

The Fund, as a lessor, holds operating lease agreements with three tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry five year terms with escalating rent payments. The last of these leases is set to expire in 2015.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2012 are as follows (amounts in thousands):

Years Ending December 31	Scheduled Rent Payments	
2013	$	576
2014		518
2015		71
2016		-
2017		-
Thereafter		-
Total	$	1,165

9. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans are defined benefit retirement plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions up to $17,000 in 2012, and the Fund will match up to 5% of the employee's gross pay. In 2012 and 2011, the Fund's contributions to the plans were approximately $19,224,000 and $18,211,000, respectively, of which approximately $11,400,000 and $10,726,000, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans, and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The Fund's policy in 2012 and thereafter is to contribute, 3.0% of an employee's compensation as defined in the NCUA Collective Bargaining Agreement (CBA), Article 9 *Compensation and Benefits.* NCUA's contribution for 2012 was $3,655,000. The operating expense associated with the NCUA Savings Plan in 2012 was $5,000. A total of 59.3% of all costs of the NCUA Savings Plan was allocated to the NCUSIF in 2012. The Fund's policy is to match employee contributions up to 1.0% in 2013 and 2.0% in 2014 and thereafter. In the event that the federal pay freeze is lifted, the match decreases to 0.5% in 2013 and 1.0% in 2014 and thereafter. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

10. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 820, *Fair Value Measurements and Disclosures.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2012 and 2011. The impairment charges are recorded within the statement of revenues, expenses and changes in fund balance and represent non-recurring fair value measures.

	2012			2011		
	Amortized Cost Basis	**Aggregate Fair Value**	**Total Impairment Charges**	**Amortized Cost Basis**	**Aggregate Fair Value**	**Total Impairment Charges**
Assets held for sale	$ 854	$ 854	$ 120	$ 397	$ 397	$ 133

Assets held for sale – Assets held for sale represents residences from relocating employees and is presented at aggregate fair value less cost to sell. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. The Fund believes that these measurements fairly reflect the most current valuation of the assets. Accordingly, the Fund uses level 3 inputs to measure the fair value of these investments.

The carrying values approximate the fair values of certain financial instruments as of December 31, 2012 and 2011, were as follows (in thousands):

	2012		2011	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Cash and cash equivalents	$36,521	$36,521	$36,982	$36,982
Due from NCUSIF	2,040	2,040	1,182	1,182
Employee advances	25	25	43	43
Other accounts receivable, net	211	211	885	885
Obligation under capital lease	78	78	58	58
Notes payable to NCUSIF	14,415	14,415	15,756	15,756

Cash and Cash Equivalents – The carrying amounts for cash and cash equivalents financial instruments approximates fair value as the short-term nature of these instruments does not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid is within the first quarter of fiscal year 2013.

Employee Advances – The carrying amounts for receivables from employees' financial instruments approximates fair value, as the amount is scheduled to be paid in fiscal year 2013.

Other Accounts Receivable, Net – The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts have been written down by an allowance to reflect the net amount that is deemed collectible.

Obligation under Capital Lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximates fair value because the underlying interest rates approximates rates currently available to the Fund.

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximates fair value due to its variable rate nature.

11. CONTINGENCIES

NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which has or may ultimately result in settlements or decisions against the agency. For those matters where an estimate is possible and the loss is probable, such amount has been accrued in other liabilities as of December 31, 2012.

12. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) with the National Treasury Employees Union (NTEU) that became effective on November 1, 2011. NTEU is the exclusive representative of approximately 80% of NCUA employees. This agreement will remain in effect for a period of three years from its effective date and will be automatically renewable for additional one year periods until otherwise renegotiated by the parties.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2013, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

National Credit Union Administration
Central Liquidity Facility

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditor's Report

KPMG

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

CLF management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2012 and 2011, and the results of its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CLF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities section is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2013

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 3 and 6)	$ 39,168	$ 1,989,641
Accounts Receivable (Notes 4 and 6)	-	1,000
Investments Held to Maturity (Net of $1,035 and $622 unamortized premium, fair value of $73,055 and $109,957 as of 2012 and 2011, respectively) (Notes 5 and 6)	72,107	108,872
Accrued Interest Receivable (Note 6)	196	145
TOTAL	$ 111,471	$ 2,099,658
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts Payable (Note 6)	$ 76	$ 219
Other Liabilities (Notes 6 and 7)	3,224	12,310
Dividends Payable (Note 6)	19	366
Member Deposits (Notes 6 and 9)	299	322
Total Liabilities	3,618	13,217
MEMBERS' EQUITY		
Capital Stock – Required ($50 per share par value authorized: 3,223,232 and 82,403,220 shares; issued and outstanding: 1,611,616 and 41,201,610 shares as of 2012 and 2011, respectively) (Notes 7 and 8)	80,581	2,060,081
Retained Earnings	27,272	26,360
Total Members' Equity	107,853	2,086,441
TOTAL	$ 111,471	$ 2,099,658

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
REVENUE:		
Investment Income	$ 1,661	$ 8,101
Total Revenue	1,661	8,101
EXPENSES: (Note 11)		
Personnel Services	417	437
Personnel Benefits	107	111
Other General and Administrative Expenses	57	89
Total Operating Expenses	581	637
Interest – Liquidity Reserve	-	1
Total Expenses	581	638
NET INCOME	$ 1,080	$ 7,463

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	Capital Stock		Retained	
	Shares	**Amount**	**Earnings**	**Total**
BALANCE – December 31, 2010	39,118,159	$ 1,955,908	$ 22,006	$ 1,977,914
Issuance of Required Capital Stock	2,378,097	118,905		118,905
Redemption of Required Capital Stock (Note 7)	(294,646)	(14,732)		(14,732)
Dividends Declared ($0.08/share) (Notes 8 and 9)			(3,109)	(3,109)
Net Income			7,463	7,463
BALANCE – December 31, 2011	41,201,610	2,060,081	26,360	2,086,441
Issuance of Required Capital Stock	447,305	22,365		22,365
Redemption of Required Capital Stock (Note 7)	(40,037,299)	(2,001,865)		(2,001,865)
Dividends Declared ($0.01/share) (Notes 8 and 9)			(168)	(168)
Net Income			1,080	1,080
BALANCE – December 31, 2012	1,611,616	$ 80,581	$ 27,272	$ 107,853

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,080	$ 7,463
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Amortization of investment premiums	376	4,927
(Increase)/decrease in accrued interest receivable	(51)	355
(Decrease)/increase in accounts payable	(143)	(20)
(Decrease)/increase in other liabilities	(272)	272
Net cash provided by operating activities	990	12,997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,962,123)	(1,685,858)
Proceeds from maturing investments	1,999,511	3,548,615
Net cash provided by investing activities	37,388	1,862,757
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of required capital stock	22,333	118,905
Dividends paid (notes 8 and 9)	(505)	(4,222)
Redemption of required capital stock	(2,010,649)	(2,694)
Withdrawal of member deposits, net	(30)	(7)
Net cash provided by/(used in) financing activities	(1,988,851)	111,982
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,950,473)	1,987,736
CASH AND CASH EQUIVALENTS - beginning of year	1,989,641	1,905
CASH AND CASH EQUIVALENTS - end of year	$ 39,168	$ 1,989,641
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - cash paid during the year for interest	$ -	$ -

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the "Act"). CLF is designated as a mixed-ownership Government corporation under the Government Corporation Control Act. CLF exists within NCUA and is managed by the NCUA Board. CLF became operational on October 1, 1979.

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

CLF is subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 8 and 10 for further information about the capital stock and the CLF's borrowing authority.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – CLF maintains its accounting records on the accrual basis of accounting. CLF recognizes interest income on loans and investments when they are earned, and recognizes interest expense on borrowings when it is incurred. CLF recognizes expenses when incurred. CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Cash and Cash Equivalents – CLF considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – By statute, CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities,* as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the "investment income" line item in the Statement of Operations.

CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. CLF obtains a security interest in the assets of the member equal to at least 110 percent of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2012 and 2011.

Borrowings – CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

Tax-Exempt Status – CLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Reclassifications – Certain amounts in the financial statements have been reclassified to conform to the current year presentation.

Related Parties – CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies. In addition, NCUA OF pays CLF's employees' salaries and benefits, as well as CLF's portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time CLF employees spend performing CLF functions.

3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents consisted of the following:

(Dollars in thousands)	As of December 31, 2012	As of December 31, 2011
U.S. Treasury Securities	$ 39,157	$ 1,988,905
USC Bridge Daily Transaction Share Account	-	447
PNC Bank	-	289
SunTrust Bank	11	-
Total	$ 39,168	$ 1,989,641

The USC Bridge Daily Transaction Share Account, which was a variable rate share account used primarily for CLF clearing transactions, closed during 2012. The account was available only to CLF. U.S. Treasury securities had an initial term of less than three months when purchased.

4. ACCOUNTS RECEIVABLE

At December 31, 2012, CLF did not have any accounts receivable. At December 31, 2011, CLF recognized $1 million in accounts receivable for the pending receipt of a matured U.S. Treasury Note. The security matured on December 31, 2011 and was removed from investments, but proceeds were not received until January 2012.

5. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2012 and 2011 were as follows:

(Dollars in thousands)	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2012				
U.S. Treasury Securities	$ 72,107	$ 994	$ (46)	$ 73,055
As of December 31, 2011				
U.S. Treasury Securities	$ 108,872	$ 1,085	$ -	$ 109,957

Maturities of debt securities classified as held-to-maturity were as follows:

	As of December, 31 2012		As of December 31, 2011	
(Dollars in thousands)	Net Carrying Amount	Aggregate Fair Value	Net Carrying Amount	Aggregate Fair Value
Due in one year or less	$ 999	$ 1,002	$ 98,849	$ 99,050
Due after one year through five years	42,890	43,221	5,009	5,286
Due after five years through ten years	28,218	28,832	5,014	5,621
Total	$72,107	$73,055	$108,872	$109,957

6. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents– The carrying amounts for cash and cash equivalents approximate fair value.

Accounts receivable – The carrying amount for accounts receivable approximates fair value because it represents pending proceeds from a maturing U.S. Treasury security.

Investments held-to-maturity – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which a share price can be readily obtained. The fair value for investments is determined using the quoted market prices at the reporting date (observable inputs).

Member Deposits – Funds maintained with CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, other liabilities, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2012 and 2011. The carrying values and approximate fair values of financial instruments are as follows:

	As of December 31, 2012		As of December 31, 2011	
Financial Instruments (Dollars in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$39,168	$39,168	$1,989,641	$1,989,641
Accounts receivable	-	-	1,000	1,000
Investments held-to-maturity	72,107	73,055	108,872	109,957
Accrued interest receivable	196	196	145	145
Accounts payable	76	76	219	219
Other liabilities	3,224	3,224	12,310	12,310
Dividends payable	19	19	366	366
Member deposits	299	299	322	322

7. OTHER LIABILITIES

Other liabilities include pending redemptions of capital stock and advance deposits from a future member credit union. CLF reclassified $3.2 million and $12.0 million of capital stock to other liabilities in 2012 and 2011, respectively, to reflect the pending redemption of 64,487 and 240,753 shares, respectively, of required capital stock at the request of a regular (non-agent) member credit union. Capital stock is redeemable upon demand by members, subject to certain conditions as set out in the Act and NCUA regulations. The redemption will occur in 2013. Dividends are paid on these shares until they are redeemed. As of December 31, 2011, other liabilities also include $272.0 thousand in advance deposits from a credit union that became a member in 2012.

8. CAPITAL STOCK

Membership in CLF is voluntary and is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of $50. There are two types of membership—regular (natural person credit unions) and agent (through corporate credit unions). Natural person credit unions may borrow from CLF directly as a regular member or indirectly through an agent member.

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the natural person credit unions served by the agent member, one-half of which is required to be remitted to CLF. In both cases, member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of CLF whose capital stock account constitutes less than five percent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes five percent or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2012, CLF had one member withdrawal request pending. As of December 31, 2011, CLF had one member withdrawal request pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

In FY1984, CLF accepted an agent membership request from U.S. Central Federal Credit Union (USC) on behalf of its corporate credit union members. CLF appointed USC as the agent group representative and master servicer for all loans extended by CLF. USC relied on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP is a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of securities held by the failed corporate credit unions, and establishing a new regulatory framework for corporate credit unions.

As a part of the CSRP, the NCUA Board liquidated five corporate credit unions, including USC on October 1, 2010, and placed them in the Asset Management Estate (AME) status.

To facilitate the resolution process, the NCUA Board chartered four bridge corporate credit unions (Bridge Corporates) including USC Bridge. The Bridge Corporates were established to function in a temporary capacity and were formed by the NCUA Board as chartered private enterprises to purchase selected assets, including CLF capital stock held by USC, and assume liabilities and member shares of the five liquidated corporate credit unions in order to provide uninterrupted services to the natural person credit unions that were members of the now failed corporate credit unions.

In conjunction with CSRP efforts, the NCUA Board had been actively pursuing a credit union system-led resolution to the Bridge Corporates to facilitate a number of transitions, including the CLF agent-member structure. Neither USC Bridge's members nor NCUA were able to secure the transition of USC's products and services to a successor entity, thereby leading to the Board's decision to wind-down and liquidate USC Bridge's operations as of October 29, 2012. Accordingly, USC Bridge discontinued its role as the agent group representative for CLF and CLF redeemed USC Bridge's capital stock on October 25, 2012. The result of the liquidation of the agent group representative is that, as of December 31, 2012, CLF membership is comprised solely of regular members, and no agent arrangement is in place. As of December 31, 2012, USC Bridge had been liquidated and held no CLF capital stock. As of December 31, 2011, $2.0 billion of CLF capital stock was held by USC Bridge, on behalf of its member corporate credit union members.

CLF's capital stock accounts were composed of the following as of December 31, 2012 and 2011:

(Dollars in thousands, except share data)	As of December 31, 2012		As of December 31, 2011	
	Shares	**Amount**	**Shares**	**Amount**
Regular members	1,611,616	$ 80,581	1,288,203	$ 64,411
Agent members	-	-	39,913,407	1,995,670
Total	1,611,616	$ 80,581	41,201,610	$ 2,060,081

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for both regular and agent members change quarterly.

9. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

10. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2012 and 2011, CLF's statutory borrowing authority was $2.3 billion and $49.8 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. In conjunction with the closure of USC Bridge, CLF redeemed the Agent Group stock on October 25, 2012. The termination of Agent Membership resulted in a significant decline in the amount of subscribed capital stock. In turn, the level of corresponding borrowing authority also declined as only Regular members of the Facility currently contribute capital to CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). NCUA maintains a note purchase agreement with FFB on behalf of CLF. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances made under the current promissory notes can be made in amounts up to the statutory borrowing authority and cannot mature later than March 31, 2013. FFB was notified of the reduction in the Maximum Principal Amount in accordance with the terms of the Note (paragraph 4(b)).

As of December 31, 2012, CLF was in compliance with its borrowing authority.

11. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and related benefits of CLF's employees, CLF's building and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA OF quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately $553.0 thousand and $637.0 thousand respectively, for December 31, 2012 and 2011. Accounts payable includes approximately $0 and $171.0 thousand respectively, for December 31, 2012 and 2011, due to NCUA OF for services provided.

12. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2012 through February 14, 2013, which is the date CLF issued these financial statements. Management determined that there are no other items to disclose.

National Credit Union Administration
Community Development Revolving Loan Fund

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditor's Report

KPMG

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the Board of Directors, National Credit Union Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2012 and 2011, and the results of its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CDRLF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities section is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2013

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 12,918,956	$ 14,371,893
Loans Receivable (Notes 5, 7, and 8)	3,949,022	2,756,164
Interest Receivable (Note 8)	3,283	6,772
Total	$ 16,871,261	$ 17,134,829
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 1,230,923	$ 1,513,828
Fund Balance:		
Fund Capital (Note 4)	13,778,866	13,565,689
Accumulated Earnings	1,861,472	2,055,312
Total Fund Balance	15,640,338	15,621,001
Total	$ 16,871,261	$ 17,134,829

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SUPPORT AND REVENUES:		
Interest on Cash Equivalents	$ 8,405	$ 2,681
Interest on Loans	18,964	41,761
Appropriation Revenue		
Appropriations Expended (Note 4)	1,492,872	1,069,588
Cancelled Technical Assistance Grants (Note 6)	(459,049)	-
Total Support and Revenues	1,061,192	1,114,030
EXPENSES:		
Technical Assistance Grants	1,744,702	1,153,780
Cancelled Technical Assistance Grants (Note 6)	(489,802)	(615,339)
Provision for Loan Losses	132	60
Total Expenses	1,255,032	538,501
NET INCOME/(LOSS)	$ (193,840)	$ 575,529

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Fund Capital				
	For Loans	For Technical Assistance Grants	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2010	$ 13,387,777	$ -	$ 13,387,777	$ 1,479,783	$ 14,867,560
Appropriations Received (Note 4)	-	1,250,000	1,250,000	-	1,250,000
Appropriations Expended	-	(1,069,588)	(1,069,588)	-	(1,069,588)
Appropriations Rescinded	-	(2,500)	(2,500)	-	(2,500)
Net Income/(Loss)	-	-	-	575,529	575,529
December 31, 2011	13,387,777	177,912	13,565,689	2,055,312	15,621,001
Appropriations Received (Note 4)	-	1,247,000	1,247,000	-	1,247,000
Appropriations Expended	-	(1,492,872)	(1,492,872)	-	(1,492,872)
Cancelled Technical Assistance Grants (Note 6)	-	459,049	459,049	-	459,049
Net Income/(Loss)	-	-	-	(193,840)	(193,840)
December 31, 2012	$ 13,387,777	$ 391,089	$ 13,778,866	$ 1,861,472	$ 15,640,338

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$ (193,840)	$ 575,529
Adjustments to Reconcile Net Income/(Loss) to Net Cash Used in Operating Activities:		
Provision for Loan Loss	132	60
Appropriations Expended	(1,492,872)	(1,069,588)
Cancelled Technical Assistance Grants	459,049	-
Changes in Assets and Liabilities:		
Decrease in Interest Receivable	3,489	6,212
Decrease in Accrued Technical Assistance Grants	(282,905)	(680,266)
Net Cash Used in Operating Activities	(1,506,947)	(1,168,053)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	1,807,009	2,726,390
Loan Disbursements	(2,999,999)	-
Net Cash Provided by/(Used In) Investing Activities	(1,192,990)	2,726,390
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received 2012/2013	1,247,000	-
Appropriations Received 2011/2012	-	1,250,000
Appropriations Rescinded	-	(2,500)
Net Cash Provided by Financing Activities	1,247,000	1,247,500
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,452,937)	2,805,837
CASH AND CASH EQUIVALENTS — Beginning of Year	14,371,893	11,566,056
CASH AND CASH EQUIVALENTS — End of Year	$ 12,918,956	$ 14,371,893

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund (CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-income residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

Basis of Presentation – CDRLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – CDRLF reports its financial statements on the accrual basis of accounting in conformity with GAAP.

Cash Equivalents – The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2012 and 2011 were cash equivalents and were stated at cost, which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Loans Receivable and Allowance for Loan Losses – Prior to fiscal year 2012, outstanding principal was limited to $300,000 per credit union, the maximum loan term was five (5) years, and interest and principal were paid on a semi-annual basis beginning six months and one year, respectively, after the initial loan disbursement. Per NCUA policy, loans issued after May 22, 2012 carry a fixed rate of 0.4%, and the applicable regulation does not provide a maximum limit on loan applications. Interest is to be paid on a semiannual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The maximum term of each loan is five years.

Loans are initially recognized at their disbursed amount, net of the allowance for loan losses, if any.

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2012 and 2011. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Accrued Technical Assistance Grants – CDRLF issues technical assistance grants to low-income credit unions. CDRLF utilizes multi-year appropriated funds and income generated from the revolving fund to issue technical assistance grants. Grant income and expense is recognized when CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. CDRLF performs a review of long term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and then formal steps are taken to cancel identified technical assistance grants. The cancelled technical assistance grant funds are credited back to the original appropriated fund from which they are awarded.

Related Party Transactions – NCUA provides certain general and administrative support to CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because not all technical assistance grants are funded by appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the 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. Actual results could differ from management's estimates.

Income Taxes – CDRLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deposit with U.S. Treasury	$ 2,118,956	$ 4,371,893
U.S. Treasury Overnight Securities	10,800,000	10,000,000
	$ 12,918,956	$ 14,371,893

4. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance grants, is limited to the amount appropriated by Congress to date for CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in CDRLF's loan and technical assistance grant program.

Since inception, Congress has appropriated $13,387,777 for the revolving loan component of the program, and this component is governed by Part 705 of NCUA Rules and Regulations.

During the year ended December 31, 2012, CDRLF received appropriations for technical assistance grants in the amount of $1,247,000 for Federal fiscal years (FY) 2012-2013. Of this amount, $1,210,016 was expended for the year ended December 31, 2012. An additional $282,856 was expended from the FY 2011-2012 appropriation.

During the year ended December 31, 2011, CDRLF received appropriations for technical assistance grants in the amount of $1,250,000 for Federal FY 2011-2012, of which $2,500 was rescinded. At year ended December 31, 2011, $1,069,588 was expended from the FY 2011-2012 appropriation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans. As of December 31, 2012 no appropriated funds were remitted to the U.S. Treasury for cancelled appropriations.

5. LOANS RECEIVABLE

Receivables consisted of the following as of December 31, 2012 and 2011.

	2012	2011
Balance as of beginning of year	$ 2,756,164	$ 5,482,614
Add: Loans disbursed	2,999,999	-
Less: Loan repayments	(1,807,009)	(2,726,390)
Less: Bad Debt Expense	(132)	(60)
Loans receivable as of end of year	$ 3,949,022	$ 2,756,164
Changes in the allowance for loan losses consisted of the following:		
Balance as of beginning of year	$ -	$ -
Decrease (increase) in allowance	-	-
Accounts for loan losses as of end of year	$ -	$ -
Loans receivable, net as of end of year	$ 3,949,022	$ 2,756,164

Loans outstanding as of December 31, 2012, are scheduled to be repaid during the following subsequent years:

	2012
2013	$ 460,791
2014	460,791
2015	27,441
2016	-
2017	2,999,999
Loans Outstanding	3,949,022
Allowance for Loan Losses	-
Total Loans Receivable	$ 3,949,022

CDRLF has the intent and ability to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full.

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2012, CDRLF cancelled $30,753 of technical assistance grants awarded from the revolving fund and $459,049 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants under expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $459,049 was also recognized under revenue, resulting in no change to net income.

For the year ended December 31, 2011, CDRLF cancelled $615,339 from the revolving fund.

Cancelled technical assistances grants awarded from appropriations from FY 2008 through 2011 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $832,323 and $0 as of December 31, 2012 and 2011, respectively.

8. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan's projected future cash flow. CDRLF believes that the discount rate reflects the pricing and is commensurate with the risk of the loans to CDRLF. Loans are valued annually on December 31, 2012.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

The following table presents the carrying value amounts and established fair values of CDRLF's financial instruments as of December 31, 2012 and 2011.

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 12,918,956	$ 12,919,000	$ 14,371,893	$ 14,372,000
Loans receivable	3,949,022	3,954,000	2,756,164	2,777,000
Interest receivable	3,283	3,000	6,772	7,000
Liabilities:				
Accrued technical assistance grants	1,230,923	1,231,000	1,513,828	1,514,000

9. RELATED PARTY TRANSACTIONS

NCUA, in supporting the activities of CDRLF, provides for the administration of CDRLF. The administrative costs paid by NCUA's Operating Fund (OF) are directly related to the percentage of employee's time spent on CDRLF. The administrative cost calculation takes into account the employees' salary, benefits, travel, training, and certain "other" costs (e.g., telephone, supplies, online applications, printing, and postage).

For the years ending December 31, 2012 and 2011, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

	2012	2011
Employee	$ 346,613	$ 330,651
Other	89,421	19,989
Total	$ 436,034	$ 350,640

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2013, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

Statistical Data

National Credit Union Share Insurance Fund Ten-Year Trends

Fiscal year	2003	2004	2005	2006[3]	2007	2008	2009	2010[4]	2011	2012
INCOME (IN THOUSANDS)										
Premium	—	—	—	—	—	—	$727,466	$929,952	—	—
Investment income[1]	$151,175	$124,836	$175,017	$264,895	$320,163	$390,922	$188,774	$216,921	$226,011	$206,995
Other income	$760	$515	$645	$1,326	$1,166	$4,737	$33,319	$49,223	$1,037	$8,768
Total income	$151,935	$125,351	$175,662	$266,221	$321,329	$395,659	$949,559	$1,196,096	$227,048	$215,763
EXPENSES (IN THOUSANDS)										
Operating	$85,025	$81,405	$80,473	$82,056	$79,218	$81,516	$134,624	$165,830	$132,358	$141,237
Insurance losses	$38,043	$(3,424)	$20,940	$2,548	$186,397	$290,354	$625,140	$735,562	$(532,408)	$(77,784)
Total expenses	$123,068	$77,981	$101,413	$84,604	$265,615	$371,870	$759,764	$901,392	$(400,050)	$63,453
Net Income (In thousands)	$28,867	$47,370	$74,249	181,617	$55,714	$23,789	$189,795	$294,704	$627,098	$152,310
DATA HIGHLIGHTS										
Total equity (in millions)[2]	$6,073	$6,359	$6,618	$6,978	$7,261	$7,677	$8,957	$9,670	$10,339	$10,912
Equity as a percentage of shares in insured credit unions	1.27%	1.27%	1.28%	1.30%	1.29%	1.26%	1.23%	1.28%	1.30%	1.30%
NCUSIF loss per $1,000 of insured shares	$0.08	$0.00	$0.04	$0.00	$0.33	$0.47	$0.86	$0.97	$(0.67)	($0.09)
OPERATING RATIOS										
Premium income	—	—	—	—	—	—	76.6%	77.8%	—	—
Investment income	99.5%	99.6%	99.6%	99.5%	99.6%	98.8%	19.9%	18.1%	99.5%	95.9%
Other income	0.5%	0.4%	0.4%	0.5%	0.4%	1.2%	3.5%	4.1%	0.5%	4.1%
Operating expenses	56.0%	64.9%	45.8%	30.8%	24.7%	20.6%	14.2%	13.9%	58.3%	65.5%
Insurance losses	25.0%	(2.7)%	11.9%	1.0%	58.0%	73.4%	65.8%	61.5%	(-234.5%)	(-36.1%)
Total expenses	81.0%	62.2%	57.7%	31.8%	82.7%	94.0%	80.0%	75.4%	(-176.2%)	29.4%
Net income	19.0%	37.8%	42.3%	68.2%	17.3%	6.0%	20.0%	24.6%	276.2%	70.6%
INVOLUNTARY LIQUIDATIONS COMMENCED										
Number	8	14	10	12	7	15	16	18	15	14
Share payouts (in thousands)	$7,774	$88,746	$27,137	$19,799	$195,325	$648,620	$713,112	$701,145	$586,852	$667,814
Share payouts as a percentage of total insured shares	0.002%	0.018%	0.005%	0.004%	0.035%	0.106%	0.098%	0.093%	0.074%	0.780%
Shares in liquidated credit unions last Call Report (in thousands)	$31,421	$105,368	$32,513	$23,768	$578,880	$916,822	$990,931	$870,435	$459,403	$728,746

[1] 2008 includes $106 million gain on sale of U.S. Treasury Securities.
[2] Equity does not include unrealized gain (loss) from U.S. Treasury securities held as “Available for Sale Securities” beginning in 2008.
[3] Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, “Guarantor’s Accounting and Disclosure Requirements.”
[4] The NCUSIF adopted Federal Accounting Standards Advisory Board (FASAB) accounting standards beginning in 2010. For the purpose of this table, total income includes both exchange and non-exchange revenue.

Fiscal Year	2003	2004	2005	2006	2007	2008 [3]	2009	2010	2011	2012
MERGERS										
Assisted	5	7	5	4	5	3	12	10	1	8
Unassisted	166	331	260	281	237	253	207	193	212	265
SECTION 208 (FCU ACT) ASSISTANCE TO AVOID LIQUIDATION (IN THOUSANDS)										
Capital notes and other cash advances outstanding	$0	$0	$0	$15,000	$0	$0	$11,000,000	—	$80,000	$80,000
Non-cash guaranty accounts	$8,251	$70	$4,798	$679	$233,088	$126,340	$7,451	$108,046	$199,945	$32,132
Number of active cases	10	1	8	4	6	5	9	5	9	5
NUMBER OF PROBLEM CASE INSURED CREDIT UNIONS (CAMEL CODE 4 & 5)										
Number	217	255	280	240	211	271	351	365	409	369
Shares (millions)	$3,568	$4,350	$5,771	$5,323	$5,300	$16,314	$41,587	$38,510	$26,285	$16,940
Problem case shares as a percentage of insured shares	0.74%	0.87%	1.12%	0.96%	0.94%	2.48%	5.74%	5.09%	3.31%	2.02%

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
TOTAL INSURED SHARES IN NATURAL PERSON CREDIT UNIONS (IN MILLIONS)[1]										
Federal credit unions	$262,419	$276,392	$285,713	$296,466	$308,917	$361,264	$393,296	$410,480	$430,319	$452,525
State credit unions	$215,055	$222,573	$228,228	$237,724	$251,916	$297,732	$331,501	$345,471	$363,253	$385,366
Total shares	$477,474	$498,965	$513,941	$534,190	$560,832	$658,996	$724,797	$755,951	$793,572	$837,891
NUMBER OF MEMBER ACCOUNTS IN INSURED CREDIT UNIONS (IN THOUSANDS)[2]										
Federal credit unions	79,819	81,642	84,519	87,834	88,509	90,417	91,826	92,648	93,691	96,138
State credit unions	62,489	63,575	64,620	67,422	69,501	72,351	74,310	75,661	76,627	79,230
Total	142,308	145,217	149,139	155,256	158,010	162,768	166,136	168,309	170,318	175,368
NUMBER OF INSURED CREDIT UNIONS										
Federal credit unions	5,776	5,572	5,393	5,189	5,036	4,847	4,714	4,589	4,447	4,272
State credit unions	3,593	3,442	3,302	3,173	3,065	2,959	2,840	2,750	2,647	2,547
Total	9,369	9,014	8,695	8,362	8,101	7,806	7,554	7,339	7,094	6,819
Insured shares as a percentage of all credit union shares	90.4%	89.7%	89.0%	88.9%	88.7%	96.8%	96.3%	96.1%	95.9%	95.4%

[1] 2008 includes $106 million gain on sale of U.S. Treasury Securities.
[2] Equity does not include unrealized gain (loss) from U.S. Treasury securities held as "Available for Sale Securities" beginning in 2008.
[3] Amounts for 2006 and 2007 represent the carrying value of guarantees as determined under FIN 45, "Guarantor's Accounting and Disclosure Requirements."

Federal Credit Union Ten-Year Summary

Federal credit unions December 31 (dollar amounts in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of credit unions	5,776	5,572	5,393	5,189	5,036	4,847	4,714	4,589	4,447	4,272
Number of Members	46,153,280	46,857,837	47,914,140	48,254,353	48,474,301	49,130,191	49,604,483	50,081,400	50,743,403	51,796,869
Assets	$336,585	$358,701	$377,827	$394,131	$417,578	$447,124	$482,684	$500,075	$525,633	$557,119
Loans outstanding	$202,873	$223,875	$249,521	$270,418	$289,169	$309,277	$311,154	$306,276	$308,845	$322,675
Shares	$291,485	$308,318	$321,831	$333,914	$349,101	$373,366	$408,832	$427,603	$449,316	$474,903
Reserves[1]	$12,856	$13,576	$13,963	$14,487	$14,796	$14,879	$15,130	$15,875	$16,643	$17,596
Undivided earnings	$23,501	$26,051	$28,855	$31,581	$33,367	$33,177	$33,235	$34,615	$36,939	$40,280
Gross income	$19,765	$20,302	$22,796	$26,139	$29,227	$30,121	$29,469	$28,781	$27,728	$27,918
Operating expenses[2]	$11,242	$12,128	$13,308	$13,900	$15,225	$19,131	$19,766	$20,084	$19,259	$19,306
Dividends	$5,197	$4,683	$5,930	$8,398	$10,588	$9,686	$7,421	$5,483	$4,373	$3,600
Net income[3]	$3,271	$3,351	$3,295	$3,420	$2,909	$284	$1,098	$2,468	$3,541	$4,650
PERCENT CHANGE										
Total assets	11.7%	6.6%	5.3%	4.3%	5.9%	7.1%	8.0%	3.6%	5.1%	6.0%
Loans outstanding	11.6%	10.4%	11.5%	8.4%	6.9%	7.0%	0.6%	-1.6%	0.8%	4.5%
Shares	11.3%	5.8%	4.4%	3.8%	4.5%	7.0%	9.5%	4.6%	5.1%	5.7%
Reserves[1]	8.9%	5.6%	2.8%	3.8%	2.1%	0.6%	1.7%	4.9%	4.8%	5.7%
Undivided earnings	12.7%	10.8%	10.8%	9.4%	5.7%	-0.6%	0.2%	4.2%	6.7%	9.0%
Gross income	0.4%	2.7%	12.3%	14.7%	11.8%	3.1%	-2.2%	-2.3%	-3.7%	0.7%
Operating expenses[2]	10.7%	7.9%	9.7%	4.4%	9.5%	25.7%	3.3%	1.6%	-4.1%	0.2%
Dividends	-18.4%	-9.9%	26.6%	41.6%	26.1%	-8.5%	-23.4%	-26.1%	-20.2%	-17.7%
Net income[3]	6.2%	2.4%	-1.7%	3.8%	-14.9%	-90.2%	286.6%	124.8%	43.5%	31.3%
SIGNIFICANT RATIOS (IN PERCENT)										
Reserves to assets	3.8%	3.8%	3.7%	3.7%	3.5%	3.3%	3.1%	3.2%	3.2%	3.2%
Reserves and undivided earnings to assets[1]	10.8%	11.0%	11.3%	11.7%	11.5%	10.7%	10.0%	10.1%	10.2%	10.4%
Reserves to loans[1]	6.3%	6.1%	5.6%	5.4%	5.1%	4.8%	4.9%	5.2%	5.4%	5.5%
Loans to shares	69.6%	72.6%	77.5%	81.0%	82.8%	82.8%	76.1%	71.6%	68.7%	67.9%
Operating expenses to gross income[2]	56.9%	59.7%	58.4%	53.2%	52.1%	63.5%	67.1%	69.8%	69.5%	69.2%
Salaries and benefits to gross income	25.9%	27.1%	25.8%	24.2%	23.2%	23.9%	25.2%	26.4%	28.6%	30.2%
Dividends to gross income	26.3%	23.1%	26.0%	32.1%	36.2%	32.2%	25.2%	19.1%	15.8%	12.9%
Yield on average assets	6.2%	5.8%	6.2%	6.8%	7.2%	7.0%	6.3%	5.9%	5.4%	5.2%
Cost of funds to average assets	1.7%	1.4%	1.7%	2.3%	2.8%	2.4%	1.8%	1.2%	1.0%	0.8%
Gross spread	4.5%	4.4%	4.5%	4.5%	4.4%	4.5%	4.6%	4.6%	4.4%	4.4%
Net income divided by gross income[3]	16.6%	16.5%	14.5%	13.1%	10.0%	0.9%	3.7%	8.6%	12.8%	16.7%
Yield on average loans	6.9%	6.3%	6.2%	6.5%	6.7%	6.6%	6.3%	6.2%	5.9%	5.5%
Yield on average investments[4]	2.7%	2.6%	3.2%	4.0%	4.7%	3.9%	2.7%	2.0%	1.7%	1.4%

1 Does not include the allowance for loan losses.
2 Includes the provision for loan losses.
3 Net income prior to reserve transfers.
4 Starting in 2000, investments includes cash on deposit and cash equivalents.

Federally Insured, State-Chartered Credit Union Ten-Year Summary

Federally insured, state-chartered credit unions December 31 (dollar amounts in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of credit unions	3,593	3,442	3,302	3,173	3,065	2,959	2,840	2,750	2,647	2,547
Number of Members	36,287,049	36,710,302	36,896,076	37,499,194	38,363,147	39,452,881	40,332,998	40,447,236	41,092,953	42,042,565
Assets	$273,572	$288,295	$300,868	$315,817	$335,885	$364,132	$402,069	$414,395	$436,121	$464,612
Loans outstanding	$173,241	$190,377	$208,731	$223,917	$237,755	$256,720	$261,285	$258,555	$262,640	$275,066
Shares	$236,856	$247,804	$255,588	$267,274	$283,298	$307,762	$343,835	$358,877	$378,093	$402,948
Reserves[1]	$10,790	$11,098	$11,479	$11,474	$11,854	$12,416	$12,650	$12,896	$13,090	$13,549
Undivided earnings	$18,232	$20,200	$21,943	$24,337	$26,121	$25,717	$26,434	$28,066	$30,566	$33,904
Gross income	$16,382	$16,538	$18,165	$20,936	$23,703	$24,358	$24,043	$23,262	$22,366	$22,543
Operating expenses[2]	$9,629	$10,252	$10,805	$11,348	$12,725	$15,967	$16,668	$16,512	$15,863	$15,773
Dividends	$3,123	$2,800	$3,557	$5,084	$6,277	$5,695	$4,303	$3,126	$2,464	$2,045
Net income[3]	$2,508	$2,438	$2,364	$2,303	$1,828	$ (451)	$575	$2,118	$2,868	$3,893
PERCENT CHANGE										
Total assets	6.9%	5.4%	4.4%	5.0%	6.4%	8.4%	10.4%	3.1%	5.2%	6.5%
Loans outstanding	7.7%	9.9%	9.6%	7.3%	6.2%	8.0%	1.8%	-1.0%	1.6%	4.7%
Shares	6.5%	4.6%	3.1%	4.6%	6.0%	8.6%	11.7%	4.4%	5.4%	6.6%
Reserves[1]	0.8%	2.9%	3.4%	0.0%	3.3%	4.7%	1.9%	1.9%	1.5%	3.5%
Undivided earnings	11.8%	10.8%	8.6%	10.9%	7.3%	-1.5%	2.8%	6.2%	8.9%	10.9%
Gross income	-4.1%	1.0%	9.8%	15.3%	13.2%	2.8%	-1.3%	-3.3%	-3.9%	0.8%
Operating expenses[2]	7.1%	6.5%	5.4%	5.0%	12.1%	25.5%	4.4%	-0.9%	-3.9%	-0.6%
Dividends	-22.3%	-10.3%	27.0%	42.9%	23.5%	-9.3%	-24.4%	-27.3%	-21.2%	-17.0%
Net income[3]	-2.9%	-2.8%	-3.0%	-2.6%	-20.6%	-124.7%	-227.5%	268.3%	35.4%	35.7%
SIGNIFICANT RATIOS (IN PERCENT)										
Reserves to assets	3.9%	3.8%	3.8%	3.6%	3.5%	3.4%	3.1%	3.1%	3.0%	2.9%
Reserves and undivided earnings to assets[1]	10.6%	10.9%	11.1%	11.3%	11.3%	10.5%	9.7%	9.9%	10.0%	10.2%
Reserves to loans[1]	6.2%	5.8%	5.5%	5.1%	5.0%	4.8%	4.8%	5.0%	5.0%	4.9%
Loans to shares	73.1%	76.8%	81.7%	83.8%	83.9%	83.4%	76.0%	72.0%	69.5%	68.3%
Operating expenses to gross income[2]	58.8%	62.0%	59.5%	54.2%	53.7%	65.6%	69.3%	71.0%	70.9%	70.0%
Salaries and benefits to gross income	26.2%	27.8%	26.7%	24.9%	23.9%	24.9%	25.9%	27.5%	29.3%	31.3%
Dividends to gross income	19.1%	16.9%	19.6%	24.3%	26.5%	23.4%	17.9%	13.4%	11.0%	9.1%
Yield on average assets	6.2%	5.9%	6.2%	6.8%	7.3%	7.0%	6.3%	5.7%	5.3%	5.0%
Cost of funds to average assets	1.7%	1.4%	1.7%	2.4%	2.8%	2.4%	1.7%	1.2%	0.9%	0.7%
Gross spread	4.5%	4.5%	4.4%	4.4%	4.4%	4.5%	4.6%	4.5%	4.4%	4.3%
Net Income divided by gross income[3]	15.3%	14.7%	13.0%	11.0%	7.7%	-1.9%	2.4%	9.1%	12.8%	17.3%
Yield on average loans	6.6%	6.1%	6.0%	6.4%	6.7%	6.6%	6.2%	6.0%	5.6%	5.3%
Yield on average investments[4]	2.7%	2.6%	3.2%	4.0%	4.8%	3.9%	2.6%	1.9%	1.5%	1.2%

[1] Does not include the allowance for loan losses.
[2] Includes the provision for loan losses.
[3] Net income prior to reserve transfers.
[4] Starting in 2000, investments includes cash on deposit and cash equivalents.

Federal Credit Union Historical Data

Historical data for federal credit unions December 31, 1935 to 1973

Year	Charters issued	Charters cancelled	Inactive credit unions	Active credit unions	Members	Assets (Amounts in thousands of dollars)	Shares	Loans outstanding
1935*	828	0	134	772	119,420	$2,372	$2,228	$1,834
1936*	956	4	107	1,751	309,700	$9,158	$8,511	$7,344
1937*	638	69	114	2,313	483,920	$19,265	$17,650	$15,695
1938*	515	83	99	2,760	632,050	$29,629	$26,876	$23,830
1939*	529	93	113	3,182	850,770	$47,811	$43,327	$37,673
1940*	666	76	129	3,756	1,127,940	$72,530	$65,806	$55,818
1941*	583	89	151	4,228	1,408,880	$106,052	$97,209	$69,485
1942*	187	89	332	4,145	1,356,940	$119,591	$109,822	$43,053
1943*	108	321	326	3,938	1,311,620	$127,329	$117,339	$35,376
1944*	69	285	233	3,815	1,306,000	$144,365	$133,677	$34,438
1945	96	185	202	3,757	1,216,625	$153,103	$140,614	$35,155
1946	157	151	204	3,761	1,302,132	$173,166	$159,718	$56,801
1947	207	159	168	3,845	1,445,915	$210,376	$192,410	$91,372
1948	341	130	166	4,058	1,628,339	$258,412	$235,008	$137,642
1949	523	101	151	4,495	1,819,606	$316,363	$285,001	$186,218
1950	565	83	144	4,984	2,126,823	$405,835	$361,925	$263,736
1951	533	75	188	5,398	2,463,898	$504,715	$457,402	$299,756
1952	692	115	238	5,925	2,853,241	$662,409	$597,374	$415,062
1953	825	132	278	6,578	3,255,422	$854,232	$767,571	$573,974
1954	852	122	359	7,227	3,598,790	$1,033,179	$931,407	$681,970
1955	777	188	369	7,806	4,032,220	$1,267,427	$1,135,165	$863,042
1956	741	182	384	8,350	4,502,210	$1,529,202	$1,366,258	$1,049,189
1957	662	194	467	8,735	4,897,689	$1,788,768	$1,589,191	$1,257,319
1958	586	255	503	9,030	5,209,912	$2,034,866	$1,812,017	$1,379,724
1959	700	270	516	9,447	5,643,248	$2,352,813	$2,075,055	$1,666,526
1960	685	274	469	9,905	6,087,378	$2,669,734	$2,344,337	$2,021,463
1961	671	265	509	10,271	6,542,603	$3,028,294	$2,673,488	$2,245,223
1962	601	284	465	10,632	7,007,630	$3,429,805	$3,020,274	$2,560,722
1963	622	312	452	10,955	7,499,747	$3,916,541	$3,452,615	$2,911,159
1964	580	323	386	11,278	8,092,030	$4,559,438	$4,017,393	$3,349,068
1965	584	270	435	11,543	8,640,560	$5,165,807	$4,538,461	$3,864,809
1966	701	318	420	11,941	9,271,967	$5,668,941	$4,944,033	$4,323,943
1967	636	292	495	12,210	9,873,777	$6,208,158	$5,420,633	$4,677,480
1968	662	345	438	12,584	10,508,504	$6,902,175	$5,986,181	$5,398,052
1969	705	323	483	12,921	11,301,805	$7,793,573	$6,713,385	$6,328,720
1970	563	412	578	12,977	11,966,181	$8,860,612	$7,628,805	$6,969,006
1971	400	461	777	12,717	12,702,135	$10,533,740	$9,191,182	$8,071,201
1972	311	672	425	12,708	13,572,312	$12,513,621	$10,956,007	$9,424,180
1973	364	523	286	12,688	14,665,890	$14,568,736	$12,597,607	$11,109,015

*Data for 1935-44 are partly estimated.

Historical data for federal credit unions December 31, 1974 to 2012

Year	Charters issued	Charters cancelled	Inactive credit unions	Active credit unions	Members	Assets	Shares	Loans outstanding
						(Amounts in thousands of dollars)		
1974	367	369	224	12,748	15,870,434	$16,714,673	$14,370,744	$12,729,653
1975	373	334	274	12,737	17,066,428	$20,208,536	$17,529,823	$14,868,840
1976	354	387	221	12,757	18,623,862	$24,395,896	$21,130,293	$18,311,204
1977	337	315	250	12,750	20,426,661	$29,563,681	$25,576,017	$22,633,860
1978	348	298	291	12,759	23,259,284	$34,760,098	$29,802,504	$27,686,584
1979	286	336	262	12,738	24,789,647	$36,467,850	$31,831,400	$28,547,097
1980	170	368	362	12,440	24,519,087	$40,091,855	$36,263,343	$26,350,277
1981	119	554	398	11,969	25,459,059	$41,905,413	$37,788,699	$27,203,672
1982	114	556	294	11,631	26,114,649	$45,482,943	$41,340,911	$28,184,280
1983	107	736	320	10,976	26,798,799	$54,481,827	$49,889,313	$33,200,715
1984	135	664	219	10,548	28,191,922	$63,656,321	$57,929,124	$42,133,018
1985	55	575	122	10,125	29,578,808	$78,187,651	$71,616,202	$48,240,770
1986	59	441	107	9,758	31,041,142	$95,483,828	$87,953,642	$55,304,682
1987	41	460	45	9,401	32,066,542	$105,189,725	$96,346,488	$64,104,411
1988	45	201	172	9,118	34,438,304	$114,564,579	$104,431,487	$73,766,200
1989	23	307	185	8,821	35,612,317	$120,666,414	$109,652,600	$80,272,306
1990	33	410	118	8,511	36,241,607	$130,072,955	$117,891,940	$83,029,348
1991	14	291	123	8,229	37,080,854	$143,939,504	$130,163,749	$84,150,334
1992	33	341	128	7,916	38,205,128	$162,543,659	$146,078,403	$87,632,808
1993	42	258	132	7,696	39,755,596	$172,854,187	$153,505,799	$94,640,348
1994	39	224	145	7,498	40,837,392	$182,528,895	$160,225,678	$110,089,530
1995	28	194	148	7,329	42,162,627	$193,781,391	$170,300,445	$120,514,044
1996	14	189	150	7,152	43,545,541	$206,692,540	$180,964,338	$134,120,610
1997	17	179	13	6,981	43,500,553	$215,097,395	$187,816,918	$140,099,926
1998	8	174	1	6,815	43,864,851	$231,904,308	$202,650,793	$144,849,109
1999	17	265	0	6,566	44,076,428	$239,315,693	$207,613,549	$155,171,735
2000	12	235	7	6,336	43,883,106	$242,881,164	$210,187,670	$163,850,918
2001	14	228	11	6,118	43,817,186	$270,122,649	$235,201,372	$170,326,327
2002	21	180	6	5,953	44,594,763	$301,237,877	$261,818,983	$181,767,853
2003	28	193	12	5,776	46,153,280	$336,584,591	$291,484,757	$202,873,141
2004	22	172	54	5,572	46,857,837	$358,700,825	$308,317,947	$223,874,845
2005	19	177	21	5,393	47,914,140	$377,827,227	$321,831,310	$249,520,525
2006	17	201	20	5,189	48,254,353	$394,130,995	$333,914,269	$270,418,384
2007	14	165	2	5,036	48,474,301	$417,578,324	$349,100,928	$289,169,391
2008	8	177	20	4,847	49,130,191	$447,124,352	$373,365,677	$309,277,352
2009	13	136	10	4,714	49,604,483	$482,684,405	$408,831,654	$311,153,591
2010	12	121	16	4,589	50,081,400	$500,075,341	$427,602,919	$306,276,074
2011	5	139	8	4,447	50,743,403	$525,633,071	$449,315,853	$308,844,729
2012	4	175	4	4,272	51,796,869	$557,118,658	$474,902,752	$322,674,539

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