

Southwest Corporate Federal Credit Union  
FINANCIAL REPORT  
August 2008

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## Management's Discussion and Analysis

This section of the Southwest Corporate Federal Credit Union (Southwest Corporate) August 2008 Financial Report should be read in conjunction with the Management's Discussion and Analysis in the 2007 Annual Report.

### Results of Operations

Southwest Corporate's net income for the eight months ended August 31, 2008 totaled \$41,742,000, an increase of \$20,213,000 over the same period in 2007. A summary of Southwest Corporate's results of operations, return on average assets (ROA), and return on equity (ROE) for the eight months ended August 31, 2008 is included in the following table (in thousands).

Net interest income	<b>\$52,805</b>
Noninterest income	<b>18,953</b>
<u>Operating expense</u>	<u><b>30,016</b></u>
<u>Net income</u>	<u><b>\$41,742</b></u>
<u>ROA</u>	<u><b>0.53%</b></u>
<u>ROE</u>	<u><b>18.10%</b></u>

The increase in net income for the first eight months of 2008 is due to higher net interest income for the period. The higher net interest income is primarily attributable to the historically wide spread between Libor and Effective Fed Funds rates resulting from the current market dislocation. The higher earnings in 2008 allow Southwest Corporate to enjoy accelerated growth of retained earnings and a strengthening of Southwest Corporate's capital and retained earnings ratios. This growth in retained earnings is especially important during turbulent market conditions like those that currently exist.

### Credit Risk

Southwest Corporate's investment activities are conducted within limits set by internal policies and by Part 704 (Appendix B Parts II, IV and V) of the National Credit Union Administration (NCUA) Rules and Regulations. Southwest Corporate's investment policy limits longer-term investments to treasury and agency securities, asset-backed securities rated A- or higher, privately issued mortgage-backed securities rated at least A-, and corporate bonds rated BBB+ or higher. Deposits in financial institutions are generally limited to institutions with a debt rating of at least A-. Commercial paper investments are limited to issuers rated P-2 or higher. Interest rate swap agreements are limited to counterparties rated at least A-. Dollar exposure limits are also established in Southwest Corporate's investment policies relative to each investment's rating and term.

A summary of the long-term credit ratings of Southwest Corporate's investment securities at August 31, 2008 is included in the following table (in thousands).

	Federal Agency	AAA	AA	A	<A	Total
Mortgage-backed securities (1)	\$ 161,801	\$ 1,894,606	\$ 27,442	\$ 5,458	\$ 10,385	\$ 2,099,692
Asset-backed securities (2)	-	1,370,387	512,475	210,909	115,702	2,209,473
Corporate bonds (3)	-	106,372	243,491	151,234	9,837	510,934
	\$ 161,801	\$ 3,371,365	\$ 783,408	\$ 367,601	\$ 135,924	\$ 4,820,099

(1) The weighted average lives of Southwest Corporate's AAA, AA, A and <A rated mortgage-backed securities are 2.86, 5.08, 4.91 and 3.24, respectively.

(2) The weighted average lives of Southwest Corporate's AAA, AA, A and <A rated asset-backed securities are 1.81, 2.55, 1.27 and 2.96, respectively. A rated asset-backed securities are comprised of 61% credit card collateral, 10% equipment collateral and 29% home-equity collateral.

(3) The weighted average lives of Southwest Corporate's AAA, AA, A and <A rated corporate bonds are 2.40, 1.61, 1.35, and 0.41, respectively.

Southwest Corporate's portfolio consists of high credit quality investments with approximately 73 percent of investment securities rated AAA at August 31, 2008. In addition, Southwest Corporate does not have any investments in structured investment vehicles (SIVs), collateralized debt obligations (CDOs), commercial mortgage-backed securities, or auction-rate securities.

Southwest Corporate's asset-backed security portfolio at August 31, 2008 is summarized by security type in the following table (in thousands).

	AAA	AA	A	<A	Total
Home equity	\$ 842,408	\$ 308,740	\$ 59,937	\$ 115,702	\$ 1,326,787
Student loan	321,321	72,960	-	-	394,281
Credit card	113,208	33,628	129,115	-	275,951
Auto	20,976	97,147	-	-	118,123
Equipment	72,474	-	21,857	-	94,331
Total	\$ 1,370,387	\$ 512,475	\$ 210,909	\$ 115,702	\$ 2,209,473

Southwest Corporate's investment in residential mortgage-backed and home equity asset-backed securities at August 31, 2008 is \$3,264,693,000, with 84 percent of these securities rated AAA. The collateral underlying these investments is classified as prime (i.e., FICO score equal to and greater than 720), near-prime (i.e., FICO score between 720 and 650) and sub-prime (i.e., FICO score below 650).

Southwest Corporate's residential mortgage-backed and home equity asset-backed security selection procedures are based on conservative portfolio management strategies and credit practices, and are focused on top-tier servicers and issuers. Additionally, Southwest Corporate maintains conservative exposure limits to single issuers (i.e., trusts). Currently, the largest single trust exposure to a sub-prime collateral issuer in the residential mortgage-backed and home equity asset-backed security sector is approximately \$30.1 million or 4 percent of Southwest Corporate's total capital.

Residential mortgage-backed and home equity asset-backed structures are comprised of many classes of securities, with various levels of subordinated classes being first to absorb any losses experienced on the underlying mortgage loan collateral, thus providing credit enhancement to the senior classes. Southwest Corporate's residential mortgage-backed and home equity asset-backed securities are highly-rated classes that are senior to the subordinate classes. In addition, a portion of Southwest Corporate's securities also have insurance coverage to further support the senior classes in the event of deteriorating collateral performance. The insurance coverage provided by

the monoline insurers increases the existing credit enhancement provided to the senior class owned by Southwest Corporate.

Beginning in January 2008, several of the monoline insurers were placed on review for downgrade by the rating agencies. These companies sought additional capital to maintain their AAA ratings from the rating agencies. The capital raised was ultimately not enough, and the rating agencies downgraded the companies during the first and second quarters of 2008. The majority of the securities which had insurance guarantees were downgraded as well. The majority of Southwest Corporate's securities which have been downgraded below A are guaranteed by the monoline insurers. In August 2008, XL Capital Assurance Inc. became Syncora Guarantee Inc. Syncora Guarantee Inc. settled a large outstanding claim with Merrill Lynch and was able to reverse loss reserves related to the claim. This is a positive outcome for holders of securities which have insurance wraps by Syncora Guarantee Inc. as it provides more capital to pay claims that may arise.

The following table details the exposure to each monoline insurer for residential mortgage-backed and home equity asset-backed securities at August 31, 2008 (in thousands).

	Par Value	Fair Value	Moody's	Fitch Ratings (Fitch)	Standard & Poor's (S&P's)
Ambac Financial Group	\$ 285,640	\$ 194,024	Aa3	n/a	AA
MBIA, Inc.	185,324	122,540	A2	n/a	AA
FGIC Corp.	163,167	102,534	B1	CCC	BB
FSA	75,952	56,124	AAA	AAA	AAA
Syncora Guarantee Inc.	8,623	4,207	B2	n/a	BBB-
	\$ 718,706	\$ 479,429			

Southwest Corporate has received \$122,418,000 in pay-downs since December 31, 2007 on securities that have exposure to the monoline insurers.

The following table details Southwest Corporate's investments in residential mortgage-backed and home equity asset-backed securities at August 31, 2008 (in thousands).

	AAA	AA	A	<A	Total	Average Credit Enhancement	
						excluding wrapped securities	including wrapped securities
Prime collateral	\$ 966,706	\$ 117,084	\$ 5,458	\$ 23,069	\$ 1,112,317	10%	22%
Near-prime collateral							
Fico 719-700	827,402	118,633	15,623	52,638	1,014,296	19%	37%
Fico 700-680	177,796	40,127	-	8,774	226,697	21%	43%
Fico 680-650	57,342	14,331	5,162	7,662	84,497	41%	58%
Sub-prime collateral							
Fico 649-640	63,679	11,772	-	13,841	89,292	45%	46%
Fico 640-620	556,403	8,050	39,152	14,632	618,237	39%	39%
Fico 620-575	87,700	26,185	-	5,472	119,357	42%	86%
	\$ 2,737,028	\$ 336,182	\$ 65,395	\$ 126,088	\$ 3,264,693		

The average credit enhancements (including the financial guarantee insurance wraps by the monoline insurers) on the near-prime collateral is 40 percent and the sub-prime collateral is 41 percent at August 31, 2008. Due to the substantial credit enhancements available to the senior classes, the credit quality of Southwest Corporate's residential mortgage-backed and home equity asset-backed securities are substantially greater than the credit quality of the underlying collateral. As noted in the table above, the credit enhancement rises when the wrapped securities are included as the financial guarantee by the monoline insurers provides credit enhancement of 100 percent on the wrapped securities.

Southwest Corporate has \$49,500,000 in senior debt exposure to Lehman Brothers (Lehman) outstanding at August 31, 2008. Lehman filed for Chapter 11 bankruptcy protection September 15, and indicated that it is trying to sell off key business units. External credit sources preliminarily estimate recovery to range from 30% to 80%. The expected recovery will depend on how quickly Lehman is forced to liquidate securities into the current distressed market. Even at the lower end of the recovery range, Southwest Corporate's 2008 net income is expected to be strong.

### **U.S. Central**

Southwest Corporate has \$4,103,334,000 invested in U.S. Central at August 31, 2008 of which \$1,462,990,000 is invested overnight. The weighted average life of investments in U.S. Central is 0.65 years (excluding capital investments).

U.S. Central has long term ratings of AA+ by Fitch and S&P's and Aa1 by Moody's. The long-term debt ratings held by U.S. Central are very high investment grade.

As reported by U.S. Central, U.S. Central's portfolio consists of high credit quality investments. U.S. Central's investment in residential mortgage-backed and home equity asset-backed securities at August 31, 2008 is approximately \$20,124,928,000, with 72.9 percent of these securities rated AAA. The average credit enhancement of its investment in residential mortgage-backed and home equity asset-backed securities is 41.2 percent as reported by U.S. Central.

### **Spread Risk**

Spread risk pertains to the decline in the fair values of Southwest Corporate's investment securities caused by a widening of the spread between the securities' yields and comparable treasury yields. Spreads on securities with residential mortgage collateral have dramatically widened since June 2007 due to a significant lack of liquidity (i.e., active trading) in the mortgage securities market stemming from concerns about the credit quality of mortgage loan collateral.

The credit dislocation described above has continued to linger since December 2007. The decline in the market prices since December has resulted from leveraged investors, which funded their investment portfolio through borrowings (e.g., hedge funds), having to sell securities to meet margin calls in the current distressed market. This has driven market prices further down as the only trading currently taking place is by those investors that are forced to sell securities. This trend was exasperated by the rescue of Bear Stearns & Co., Inc. by the Federal Reserve Bank of

New York and JPMorgan Chase Bank and the downgrades of certain bond insurers. These significant events resulted in distressed sales and further depressed the prices on all investment classes, including agency securities. In July and August 2008, spreads widened due to the uncertainty surrounding Freddie Mac and Fannie Mae. There continues to be an unwillingness of broker dealers and financial institutions to purchase non-agency mortgage-backed securities in the current distressed market.

As disclosed in Footnote 11 - Accumulated Other Comprehensive Loss, the impact of the recent market dislocation is most visible in the balance of Southwest Corporate's unrealized losses on available-for-sale securities. Southwest Corporate has not reclassified any securities from available-for-sale to held-to-maturity. The following table summarizes the change in Southwest Corporate's unrealized losses on available-for-sale securities since June 30, 2007, clearly illustrating the impact of the spread widening on the fair values of residential mortgage-backed and home equity asset-backed securities (in thousands):

	Unrealized Gains/(Losses) on Available-For-Sale Securities		
	August 2008	December 2007	June 2007
Mortgage-backed securities	( <b>\$475,121</b> )	(\$81,809)	(\$10,963)
Asset-backed securities	( <b>494,269</b> )	(186,017)	60
Corporate bonds	( <b>13,400</b> )	(6,964)	(56)
<b>Total</b>	<b>(\$982,790)</b>	(\$274,790)	(\$10,959)

Southwest Corporate utilizes a conservative methodology to determine the fair value of the investment securities. Southwest Corporate has engaged an independent third-party expert to value the sub-prime and near-prime securities. In addition to providing pricing, this firm also provides validation of the internal credit monitoring process performed by Southwest Corporate. The third party utilizes current market inputs such as similar trades, prepayment speeds and collateral performance to determine market prices. This additional transparency of pricing assumptions allows Southwest Corporate to reconcile the validity of the prices. There continues to be a wide range in the prices obtained from the pricing services for securities. If the highest price had been selected for each security, the unrealized loss at August 31, 2008 would have been \$759,879,000.

Southwest Corporate has the intent and ability to hold the investment securities until the anticipated recovery and believes the decline in fair value is largely due to the unique market conditions. The current unrealized losses on available-for-sale securities are not expected to result in appreciable realized losses due to the high credit quality of the securities and Southwest Corporate's additional sources of liquidity.

### **Interest Rate Risk**

Southwest Corporate's primary method of monitoring interest rate risk is through the net economic value (NEV) test. The NEV test measures the dollar and percentage change in the fair value of Southwest Corporate's capital (retained earnings and members' capital accounts) given a parallel, instantaneous, and permanent 300 basis point upward and downward change in the yield curve.

The objective of the NEV test is to measure whether Southwest Corporate has sufficient capital to absorb potential changes to the fair value of its balance sheet given large, sustained instantaneous interest rate shocks.

A summary of Southwest Corporate's NEV test at August 31, 2008 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Pts.	Fair Value -300 Basis Pts.
Capital	\$ (221,579)	\$ (399,842)	\$ (42,171)
% Change in Capital	-	(80.5%)	81.0%

Southwest Corporate's NEV under a 300 basis point increase in rates exceeds the regulatory limit of 28 percent. Southwest Corporate's NEV results are materially impacted by the current unrealized losses on the available-for-sale securities. As discussed above, the unrealized losses have increased due to the continuation of the market dislocation that began in July 2007. The change in NEV since December 31, 2007 has not been the result of any investment purchase and sale activity, but rather the erosion in market price valuations. If the security prices were closer to pre-dislocation levels, the reported decline in NEV under a 300 basis point increase in rates would have been in the low teens.

### **Liquidity Risk**

Liquidity risk pertains to whether Southwest Corporate has sufficient short-term assets, marketable securities, and borrowing capacity to meet member credit unions' potential liquidity needs.

At August 31, 2008 Southwest Corporate has \$2,271,851,000 in cash, overnight shares, and federal funds sold at U.S. Central. When available, Southwest Corporate has the ability to borrow against Fed Funds lines of credit, issuance of commercial paper, reverse repurchase transactions, and secured lines of credit from U.S. Central. Southwest Corporate's primary source of external liquidity is secured advances from the Federal Home Loan Bank (FHLB) of Dallas. Currently, Southwest Corporate's line of credit at FHLB of Dallas is \$2,300,000,000 of which \$1,300,000,000 was outstanding at August 31, 2008. This compares to \$1,125,000,000 which was outstanding at August 31, 2007.

Additionally, Southwest Corporate's investment portfolio is expected to generate cash flows of over \$2,400,000,000 in the next twelve months from principal paydowns and maturities of U.S. Central certificates. Southwest Corporate's focus over the last several months has been to build liquidity to meet members' increasing loan demand and share flows.

Although Southwest Corporate's on-balance sheet loan portfolio is small, it has additional uncommitted lines of credit to members of \$6,623,000,000 at August 31, 2008. Approximately 99 percent of outstanding lines of credit are collateralized by specific or general pledges by members.

## Regulatory Capital

Southwest Corporate is required under the terms of Part 704 of the NCUA's rules and regulations to maintain a minimum capital to average assets ratio of 5 percent. Capital is defined in Part 704 as retained earnings and members' capital accounts. The 5 percent requirement is based upon Southwest Corporate's election to operate under an NEV limit of 28 percent.

A summary of Southwest Corporate's regulatory capital position at August 31, 2008 is as follows (in thousands).

Members' capital accounts	<b>\$391,987</b>
<u>Retained earnings</u>	<b>366,637</b>
<u>Total regulatory capital</u>	<b>\$758,624</b>

12-month daily average net assets **\$12,255,936**

Capital ratio	<b>6.19%</b>
Retained earnings ratio	<b>2.99%</b>

## Agency Ratings

Southwest Corporate has obtained a Commercial Paper Rating from two rating agencies addressing its capacity to service \$900,000,000 in total commercial paper borrowings, and a Senior Obligation Rating from the same two agencies addressing its creditworthiness as a counterparty in interest rate swap and other senior obligations.

Southwest Corporate received ratings in the highest category for its ability to service commercial paper debt, and in the second highest category for its ability to meet senior obligations. A summary of the agency ratings is as follows:

	<u>Commercial Paper Ratings</u>	<u>Senior Obligation Ratings</u>
S&P's (1)	<b>A-1+</b>	<b>AA</b>
Fitch (2)	<b>F-1+</b>	<b>AA-</b>

**Note 1: S&P's reaffirmed Southwest Corporate's ratings in September 2007.**

**Note 2: Fitch placed Southwest Corporate's ratings on Negative Watch in June 2008.**

Southwest Corporate also received an Individual Rating from Fitch assessing Southwest Corporate on a wide range of factors including: profitability, balance sheet integrity, franchise value, management, operating environment, future prospects, operating consistency, capital, and product and geographic diversification. Southwest Corporate's Individual Rating is A/B on a scale of A through E. The ratings are based on criteria such as Southwest Corporate's asset quality, liquidity sources, capital strength, and risk management practices.

**Southwest Corporate Federal Credit Union**  
**Consolidated Statement of Financial Condition**  
**August 31, 2008**

(in thousands)

		unaudited
<b>Assets</b>		
Cash and cash equivalents	\$ 809,083	
Federal funds sold	1,462,768	
Securities purchased under agreements to resell	25,193	
Trading account assets	30,873	
Interest rate derivative assets	37,324	
Investments available-for-sale	4,820,099	
Investments held-to-maturity	78,540	
Other investments	2,703,449	
Loans to members	833,720	
Premises and equipment, net	21,855	
Goodwill	2,568	
Accrued receivables and other assets	41,735	
<b>Total assets</b>	<b>\$ 10,867,207</b>	
<b>Liabilities</b>		
Members' share accounts	9,723,623	
Borrowed funds	1,300,000	
Interest rate derivative liabilities	405	
Accrued expenses and other liabilities	61,066	
<b>Total liabilities</b>	<b>11,085,094</b>	
<b>Members' Equity</b>		
Members' capital accounts	391,987	
Retained earnings	366,637	
Accumulated other comprehensive loss	(976,511)	
<b>Total members' equity</b>	<b>(217,887)</b>	
<b>Total liabilities and members' equity</b>	<b>\$ 10,867,207</b>	

*The accompanying notes are an integral part of the consolidated financial statements*

**Southwest Corporate Federal Credit Union  
Consolidated Statement of Income  
For the Eight Months Ended August 31, 2008**

(in thousands)

unaudited

**Interest income**

Investments and trading account assets	\$ 265,916
Loans to members	<u>14,211</u>
Total interest income	<u>280,127</u>

**Cost of funds**

Dividends on members' share accounts	221,181
Interest on borrowed funds	<u>6,141</u>
Total cost of funds	<u>227,322</u>

Net interest income	<u>52,805</u>
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**Noninterest income**

Share draft and depository processing fees	13,901
Net loss on investments	(3,151)
Net gain on derivative transactions	1,453
Other noninterest income	<u>6,750</u>
Total noninterest income	<u>18,953</u>

**Operating expense**

Compensation and benefits	16,119
Information technology	4,079
Outside processing and service fees	3,819
Professional fees	1,686
Office occupancy	1,454
Other operating expense	<u>2,859</u>
Total operating expense	<u>30,016</u>

Net income	<u>\$ 41,742</u>
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*The accompanying notes are an integral part of the consolidated financial statements*

**Southwest Corporate Federal Credit Union  
Consolidated Statement of Members' Equity  
For the Eight Months Ended August 31, 2008**

(in thousands)	Paid-in Capital Shares	Retained Earnings unaudited	Accumulated Other Comprehensive Loss	Comprehensive Loss
Balance at December 31, 2007	\$ 8,364	\$ 324,581	\$ (267,935)	
Net income		<b>41,742</b>		\$ <b>41,742</b>
Redemption of paid-in capital	<b>(8,364)</b>			
Cumulative effect of adoption of the fair value option		<b>425</b>		<b>425</b>
Other comprehensive loss			<b>(708,576)</b>	<b>(708,576)</b>
Dividends paid on paid-in capital shares		<b>(111)</b>		
Comprehensive loss				<u>\$ <b>(666,409)</b></u>
Balance at August 31, 2008	\$ -	\$ <b>366,637</b>	\$ <b>(976,511)</b>	

*The accompanying notes are an integral part of the consolidated financial statements*

## Notes to Financial Statements

### 1. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement No.159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard is effective for Southwest Corporate on January 1, 2008. Southwest Corporate de-designated certain hedges and elected the fair value option on the related hedged items as of January 1, 2008. The impact of adopting SFAS 159 increases retained earnings by \$425,000.

### 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include pass-through reserves deposited with the Federal Reserve Bank of \$14,383,000 at August 31, 2008. Member credit unions’ reserve balances are included in the members’ share accounts in the consolidated statement of financial condition. Cash on deposit and cash items in the process of collection from correspondent banks and the Federal Reserve Bank are included in cash and cash equivalents in the consolidated statement of financial condition. Cash items in the process of collection at August 31, 2008 totaled \$712,798,000. Also included in cash and cash equivalents are U.S. Central certificates of deposit maturing the next business day.

### 3. INTEREST RATE DERIVATIVES

Interest rate derivatives at August 31, 2008 are comprised of interest rate swap agreements. The impact of netting interest rate swap gains and losses, and interest receivable and payable, per counterparty at August 31, 2008, is summarized in the following table (in thousands):

Interest rate derivative assets	
Interest rate swap gains	<b>\$31,785</b>
Interest rate swap losses	<b>(17,709)</b>
<u>Net interest rate swap gains</u>	<b>14,076</b>
Interest receivable	<b>35,956</b>
Interest payable	<b>(12,708)</b>
<u>Net interest receivable</u>	<b>23,248</b>
<u>Interest rate derivative assets</u>	<b>\$37,324</b>

<u>Interest rate derivative liabilities</u>	
Interest rate swap gains	\$ -
Interest rate swap losses	<b>(68)</b>
<u>Net interest rate swap losses</u>	<b>(68)</b>

Interest receivable	<b>117</b>
Interest payable	<b>(454)</b>
<u>Net interest payable</u>	<b>(337)</b>

<u>Interest rate derivative liabilities</u>	<b>\$ (405)</b>
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A net unrealized gain on derivative transactions of \$1,453,000 is recognized in the consolidated statement of income for the eight months ended August 31, 2008. Net unrealized gains or losses recognized in the consolidated statement of income pertain to interest rate swaps that are not designated as hedges and the ineffective portion of designated hedges.

A summary of Southwest Corporate's hedging activity at August 31, 2008 is included in the following table (in thousands):

Fair value hedges	<b>\$3,548,678</b>
Cash flow hedges	<b>345,779</b>
<u>No hedge designation</u>	<b>169,061</b>
<u>Total</u>	<b>\$4,063,518</b>

Fair value and cash flow hedges are comprised of interest rate swap agreements in which Southwest Corporate pays a floating rate and receives a fixed rate in return, or pays fixed and receives floating. Southwest Corporate utilizes swap agreements to manage interest rate risk. The fair value hedges consist of swaps that hedge the exposure to changes in the fair values of Southwest Corporate share certificates, investment securities, certificates in U.S. Central or member term loans. The cash flow hedges consist of swaps that hedge the variability of expected future interest payments on floating rate investments.

In the event of counterparty default, credit risk on interest rate swap transactions is limited to the balance of interest rate derivative assets. Southwest Corporate manages credit risk arising from interest rate swap transactions through credit approval procedures that include specific limits for individual counterparties, and ongoing monitoring procedures to measure outstanding swap exposure against the established limits. Southwest Corporate's policies require swap transactions to be executed with counterparties that possess a credit rating of A- or better. Credit risk is further mitigated by contractual arrangements with each of Southwest Corporate's counterparties that provide for the netting of replacement cost gains and losses and accrued interest receivable and payable on multiple swap transactions with the same counterparty.

#### 4. TRADING ACCOUNT ASSETS

Trading account assets are primarily comprised of fixed income mutual funds that invest in treasury, agency and investment-grade residential mortgage-backed securities.

#### 5. INVESTMENTS AVAILABLE-FOR-SALE

The amortized cost and estimated fair value of investments available-for-sale at August 31, 2008 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value	Unrealized Gain/(Loss)
Mortgage-backed securities	\$2,574,813	\$2,099,692	(\$475,121)
Asset-backed securities	2,703,742	2,209,473	(494,269)
Corporate bonds	524,334	510,934	(13,400)
Total	\$5,802,889	\$4,820,099	(\$982,790)

Certain investments available-for-sale are pledged as collateral to secure borrowings and clearing settlements. The fair value of cash and pledged securities is \$1,689,893,000 at August 31, 2008.

#### 6. INVESTMENTS HELD-TO-MATURITY

The amortized cost and estimated fair value of investments held-to-maturity at August 31, 2008 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value	Unrealized Gain/(Loss)
Mortgage-backed securities	\$25,005	\$25,005	\$ -
Asset-backed securities	53,535	53,346	(189)
Total	\$78,540	\$78,351	(\$189)

Southwest Corporate has not reclassified any securities from available-for-sale to held-to-maturity.

#### 7. OTHER INVESTMENTS

Other investments are comprised of the following investments at August 31, 2008 (in thousands):

Share certificates in U.S. Central	\$2,353,172
Membership capital shares in U.S. Central	236,732
Member paid-in capital shares in U.S. Central	20,290
Other shares in U.S. Central	30,150
Capital stock in Federal Home Loan Bank of Dallas	60,928
Other investments	2,177
Total	\$2,703,449

## 8. LOANS TO MEMBERS

Loans to members are comprised of the following loan types at August 31, 2008 (in thousands):

Open-end credit lines	<b>\$ 300,442</b>
Term loans	<b>533,278</b>
Total	<b>\$ 833,720</b>

## 9. MEMBERS' SHARE ACCOUNTS

Members' share accounts are comprised of the following account types at August 31, 2008 (in thousands):

Cash management	<b>\$ 1,774,925</b>
Performance tiered	<b>3,099,777</b>
Standard tiered	<b>249,523</b>
Share certificates	<b>4,490,490</b>
Other shares	<b>108,908</b>
Total	<b>\$ 9,723,623</b>

## 10. BORROWED FUNDS

Borrowed funds at August 31, 2008 consist of fixed rate advances from Federal Home Loan Bank of Dallas of \$1,300,000,000. The advances are collateralized by pledges of securities with a fair value of \$1,684,236,000 at August 31, 2008.

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss at August 31, 2008 is comprised of the following components (in thousands):

	Unrealized Losses On AFS Securities	Unrealized Gains On Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at December 31, 2007	(\$274,790)	\$6,855	(\$267,935)
Net change	<b>(708,000)</b>	<b>(576)</b>	<b>(708,576)</b>
Balance at August 31, 2008	<b>(\$982,790)</b>	<b>\$6,279</b>	<b>(\$976,511)</b>

## **12. CAPITAL RATIOS**

Southwest Corporate is required by Part 704 of the NCUA Rules & Regulations to maintain a minimum capital ratio (i.e., retained earnings and members' capital accounts over net average assets) of 5.00 percent. Southwest Corporate's capital ratio at August 31, 2008 is 6.19 percent. Southwest Corporate's retained earnings ratio (i.e., retained earnings over net average assets) at August 31, 2008 is 2.99 percent.