a powerful network

Primary Financial
a history of bright futures

annual report 2004

table of **contents**

a letter from **the chairman**

Imagine if the cooperative power of the credit union movement could be harnessed to give financial institutions access to thousands of institutional investors. And what if that same cooperative power could give credit unions access to competitive rates on federally insured CDs from issuers all across America? That would be a pretty powerful network.

Primary Financial **IS** that network. Owned by 29 corporate credit unions and U.S. Central, the wholesale financial center for corporate credit unions, Primary Financial is a credit union service organization (CUSO) that serves the certificate investing and liquidity needs of America's credit unions through a one-of-a-kind distribution network.

Credit unions aren't just customers of corporate credit unions – they're the owners. And the owners know that corporates are looking out for their best interests. It's those trusted partner relationships – along with great rates and service – that have contributed to the remarkable history of Primary Financial and our SimpliCD program. Since our inception in 1996, we have placed more than $13 billion in certificates.

Last year, we experienced tremendous growth beyond our own expectations, but we will not rest there. In 2005, we will continue our efforts to expand the power of our network by increasing the number of investors and issuers in the SimpliCD program. We'll also work even harder to help our corporate credit union partners strengthen their relationships with their members.

Thank you to our dedicated board of directors and staff, who remain committed to helping Primary Financial meet the investment needs of America's credit unions. Your contributions are invaluable.

Gregory S. Moore

Gregory S. Moore, Chairman
President and CEO, Georgia Central Credit Union

board of **directors**

Row 1 (seated, L to R): Kathy Garner, President/CEO, Northwest Corporate Federal Credit Union (Vice Chairman); Greg Moore, President/CEO, Georgia Central Credit Union (Chairman); Nakia Gaylord, Director, Administrative Services, Georgia Central Credit Union;
Row 2 (standing, L to R): Lew Lambert, President, Minnesota Operations, Mid-States Corporate Federal Credit Union (Secretary); Jeff Navin, Vice President/CIO, Constitution State Corporate Credit Union, Inc. (Director); Lee Butke, President/CEO, Corporate One Federal Credit Union (Director); Bob Burrell, Executive Vice President, Chief Investment Officer, Western Corporate Federal Credit Union (Treasurer)

a powerful **network**

More than 86 million Americans are members of a credit union, a cooperative financial institution that they own and control. There are more than 9,000 credit unions across America.*

Primary Financial harnesses that collective power to give financial institutions a more convenient way to generate funds or invest in federally insured certificates of deposit.

SimpliCD

When financial institutions are in need of liquidity, one phone call allows them to issue certificates of deposit and publish their rates in front of thousands of potential credit union investors. It's quick, easy and cost effective. Issuers don't pay to see what other financial institutions are showing to attract investors — we shop the market for them. Plus, Primary Financial can pool investors into one CD, saving issuers time and money. Issuers send only one signature card and one monthly interest check. We handle the rest.

*CUNA Mutual Group Trend Report, December 2004

Likewise, our SimpliCD program gives credit unions a convenient way to invest substantial funds in federally insured CDs. Investors don't have to call multiple issuers to find competitive rates or wire funds to all of them. SimpliCD searches its powerful network for the best rates and offers single transaction settlement. Plus, SimpliCD monitors each account in their portfolio, providing comprehensive reports of all holdings, settlement dates, rates and monthly interest.

a history of **success**

After our change in ownership in August 2003, 12 new co-brokers began offering SimpliCD to their members. Those co-brokers generated sales resulting in more than $544 million in outstandings from 503 credit union investors as of December 31, 2004. They also secured investment agreements from 245 additional credit unions, positioning the SimpliCD program for future growth.

As a result of our unique ownership structure and powerful distribution network, by the end of 2004, Primary Financial had relationships with almost 28 percent of all credit unions in America. In addition, the number of financial institutions issuing certificates of deposit through Primary Financial held stable at 752.

vital **stats**

as of 12/31/04

$3.18 billion
Assets under management

2,619
Total investors in 47 states

752
Total issuers

Despite a tightening in credit union liquidity and a rising rate environment in the last half of 2004, our assets under management at year-end remained steady at $3.18 billion.

These successes have been achieved with a focus on efficiency and profitability. In the first full year of operations since our change in ownership, Primary Financial generated nearly $595,000 of income while continuing to offer competitive rates to investors.

a bright **future** ahead

In our strategic plan for 2004, Primary Financial set an aggressive goal of securing investment agreements with more than 2,300 credit unions. At the end of the year, we significantly surpassed that important goal by securing agreements with 2,619 investors — proving that expanding our ownership structure was a strategic success.

In 2005, Primary Financial will continue to set aggressive goals for expanding and strengthening its relationships with investors and issuers. Growth will enable us to provide financial institutions with better, more convenient solutions. As the SimpliCD program grows its investor base, issuers will have a larger pool of investors from which to quickly generate funds. Furthermore, adding issuers to the program will give investors more choice, with access to more rates from an even more diverse group of financial institutions. In addition, we plan to work with our corporate owners to strengthen their relationships with their members.

As we look back on another successful year in our history, Primary Financial remains well positioned to serve the certificate investing and liquidity needs of America's financial institutions.

Convenient solutions, great rates, exceptional service, and a powerful network of corporate credit union partners – that's the bright future of Primary Financial.

independent **auditors'** report

The Board of Directors
Primary Financial Company LLC

We have audited the accompanying balance sheets of Primary Financial Company LLC (the Company), formerly Corporate Exchange LLC, as of December 31, 2004 and 2003, and the related statements of operations, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primary Financial Company LLC as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Columbus, Ohio
February 28, 2005

balance sheets

Assets	December 31, 2004	2003
Cash	$ 4,008,377	$ 3,420,447
Certificates held for resale		100,000
Gross spreads receivable	6,434,632	6,964,102
Advances to customers	301,000	200,000
Goodwill and intangible assets	3,628,055	3,607,315
Other assets	248,644	188,981
TOTAL ASSETS	$ 14,620,708	$ 14,480,845
Liabilities and Members' Equity		
Liabilities:		
Deferred spreads	$ 2,439,315	$ 1,018,141
Co-broker spreads payable	3,408,686	3,361,724
Amounts due to customers	1,305,054	1,167,715
Note payable	1,096,484	3,256,986
Accounts payable and accrued expenses	263,343	163,140
TOTAL LIABILITIES	8,512,882	8,967,706
Members' Equity	6,107,826	5,513,139
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 14,620,708	$ 14,480,845

See accompanying notes to financial statements.

statements of **operations**

	Year ended December 31,	
	2004	2003
Revenue		
Spread income:		
Gross spread income	$ 4,922,266	$ 302,072
Co-broker spread	(2,374,067)	(160,247)
NET SPREAD INCOME	2,548,199	141,825
Interest and other income	487,343	385,556
TOTAL REVENUE	3,035,542	527,381
Expenses		
Professional and other outside services	766,921	389,152
Salaries and benefits	752,389	216,016
Settlement processing	392,606	98,420
Office operations and occupancy	207,639	65,095
Other	321,300	143,404
TOTAL EXPENSES	2,440,855	912,087
NET INCOME (LOSS)	$ 594,687	$ (384,706)

See accompanying notes to financial statements.

statements of changes in **members' equity**

	Members' Equity
Balance at January 1, 2003	$ —
Issuance of member interests	5,897,845
Net loss	(384,706)
Balance at December 31, 2003	5,513,139
Net income	594,687
Balance at December 31, 2004	$ 6,107,826

See accompanying notes to financial statements.

statements of **cash** flows

	Year ended December 31, 2004	2003
Cash flows from operating activities:		
Net income (loss)	$ 594,687	$ (384,706)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	(261,958)	(255,741)
Net change in:		
Gross spreads receivable	992,292	442,979
Certificates held for resale	100,000	
Advances to customers	(101,000)	100,000
Other assets	(75,332)	49,243
Deferred spreads	1,421,174	1,018,141
Co-broker spreads payable	20,108	73,940
Amounts due to customers	137,339	134,474
Accounts payable and accrued expenses	100,203	(932,022)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,927,513	246,308
Cash flows from investing activities:		
Purchase of property and equipment	(26,833)	(4,433)
Payment of royalties to Corporate One	(112,573)	(6,150)
Purchase of SimpliCD business		(2,215,278)
NET CASH USED IN INVESTING ACTIVITIES	(139,406)	(2,225,861)
Cash flows from financing activities:		
Issuance of member interests		5,400,000
Payments on note to Corporate One	(2,200,177)	
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,200,177)	5,400,000
NET INCREASE IN CASH	587,930	3,420,447
CASH AT BEGINNING OF PERIOD	3,420,447	
CASH AT END OF PERIOD	$ 4,008,377	$ 3,420,447

See accompanying notes to financial statements.

notes to financial statements

(1) Summary of Significant Accounting Policies

(a) Organization, Operations and Cash Flow Information

Primary Financial Company LLC (the Company) is a multiple member limited liability company and is a corporate credit union service organization (CUSO) of its members, 29 corporate credit unions and U.S. Central. The Company was established in accordance with the regulations of the National Credit Union Administration (NCUA) and the Ohio Revised Code. As an LLC, the Company is not subject to federal income tax.

The Company (formerly known as Corporate Exchange, LLC (Corporate Exchange)) was capitalized by a group of corporate credit unions in January 2003. On August 31, 2003, Corporate Exchange purchased Primary Financial Company LLC from Corporate One Federal Credit Union (Corporate One) for cash, a note payable and member interests in Corporate Exchange. Corporate One remained a co-broker of the Company after the sale. Subsequent to the purchase, Corporate Exchange and the Company merged, with the Company being the surviving entity. In December 2003, additional members acquired interests in the Company.

The Company is registered with the State of Ohio as a licensed securities dealer. The Company brokers non-negotiable certificates of deposit through a turnkey program, called SimpliCD, which enables its customers to invest in federally insured certificates of deposit. As part of this service, the Company places certificates and collects principal and interest on behalf of its customers. The Company earns a spread over the term of the certificates for performing the services of the SimpliCD program.

The Company sells SimpliCD via its co-broker network. The co-brokers, most of which are the corporate credit unions that are also the owners, earn a portion of the spread for certificates of deposit they sell.

The Company's office located at 3260 Middle Road, Columbus, Indiana, 47203, has been designated an Office of Supervisory Jurisdiction (OSJ) of CU Investment Solutions Inc. (ISI), a member of the National Association of Securities Dealers (NASD). As an OSJ, the Company is subject to the jurisdiction of the Securities and Exchange Commission under the Securities and Exchange Act of 1934.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(b) *Cash*

Cash represents demand deposits with Corporate One and other financial institutions. At December 31, 2004, approximately $4 million was held in interest-earning demand deposit accounts at Corporate One.

(c) *Gross Spreads Receivable and Deferred Spreads*

Gross spreads receivable represents the total amount of spread the Company expects to receive from the placement of certificates of deposit over the term of the certificates. This receivable is recorded upon placement of the certificates, along with the corresponding deferred spreads and co-broker spreads payable. The deferred spreads are recognized as revenue over the term of the certificates.

(d) *Advances to Customers*

The Company generally receives the proceeds of its customers' maturing certificates of deposit from the certificate issuer and remits the proceeds to the customer on the maturity date. Occasionally, there is a slight delay in the receipt of principal from the issuer. In those instances, as a service to its customers, the Company advances the principal to its customers.

(e) *Goodwill and Identifiable Intangible Assets*

Goodwill is not amortizable but is subject to an annual impairment test. There were no impairment losses in 2004 or 2003. Identifiable intangible assets are amortized straight line over their estimated useful lives of five years.

(f) *Co-broker Spreads Payable*

Co-broker spreads payable represents the amount of spread the Company expects the co-brokers will earn over the life of the certificates sold by the co-brokers.

(g) *Amounts Due to Customers*

Amounts due to customers represents interest that the Company has received on behalf of its customers, but has not yet remitted to its customers.

(2) ACQUISITION

On August 31, 2003, Corporate Exchange acquired the Company from Corporate One for cash of $3.95 million, a $3.30 million non-interest-bearing note payable and shares of member interest in Corporate Exchange valued at $498,000. Final payment on the note is due in February 2005. The fair value of the assets acquired was $9.91 million, consisting primarily of gross spreads receivable, identifiable intangibles and cash. The fair value of liabilities assumed at the date of the acquisition was $5.40 million, consisting primarily of co-broker spreads payable and amounts due to customers. The excess of the purchase price over the fair value of the net assets acquired, or goodwill, was $3.17 million.

The identifiable intangible asset totaling $459,000 consists of co-broker relationships acquired. Accumulated amortization of the identifiable intangible asset was $122,400 and $30,600 at December 31, 2004 and 2003, respectively. Amortization expense for the identifiable intangible asset over the next four years is estimated to be as follows:

2005	$91,800
2006	91,800
2007	91,800
2008	61,200

In addition to the consideration paid at closing, the Company will pay Corporate One, for 12 years, amounts above the spread it pays for placements under the existing co-broker agreement. The Company, for five years, will also pay Corporate One a portion of the spread on all certificates placed by certain co-brokers that were placing certificates at the time of the purchase. These additional payments are considered compensatory and are expensed as incurred. Such expense was $181,000 and $62,000 in 2004 and 2003, respectively, and is included in co-broker spread in the accompanying statements of operations. For 12 years, the Company will also pay Corporate One a royalty on all other co-broker placements of certificates of deposit through the Company, including all placements by new co-brokers. These royalties are considered additional purchase consideration and have been recorded as additional goodwill. The total of such royalties was $113,000 and $6,000 in 2004 and 2003, respectively.

Simultaneous with the acquisition of Primary Financial Company LLC, the Company entered into a management contract with Corporate One. For a period of two years beginning September 1, 2003 Corporate One agreed to provide the Company executive management services, including executive oversight, event planning and marketing services. For a period of three years beginning September 1, 2003, with the option to renew annually, Corporate One agreed to provide the Company certain support services including accounting, payroll and benefits administration, technical support and certain treasury functions. Expense related to this agreement was $524,000 in 2004 and $160,000 in 2003.

(3) Commitments and Contingencies

The Company and Corporate One have an agreement whereby Corporate One has extended a $3 million line of credit to the Company to be used to facilitate the settlement of customer transactions. The line and the note payable issued in connection with the acquisition are secured by the assets of the Company. The interest rate on the line is equal to Corporate One's top tier overnight deposit rate plus 15 basis points. This is the same rate Corporate One charges to other borrowers under similar lending agreements. At December 31, 2004 and 2003, no advances were outstanding on this line.

The Company leases an office facility under an operating lease that expires in July 2006. Minimum annual rentals related to this agreement are $29,775 in 2005 and $17,369 in 2006. The Company has the option to extend this lease until 2008 at a rate not to exceed $32,849 annually. It is likely the Company will extend such lease.

(4) Net Capital Requirement

The Company, as a licensed securities dealer with the State of Ohio, is required to maintain net capital, as defined, of at least $25,000. The Company was in compliance with this requirement at December 31, 2004 and 2003.

(5) Retirement Plans

All of the Company's employees participate with Corporate One employees in two defined contribution plans in which the Company contributed a total of 11.5 percent of the participant's eligible compensation to the participant's accounts in the plans. One of the plans is a contributory plan, to which employees can contribute a portion of their compensation on a pre-tax basis. Retirement expense was approximately $65,000 in 2004 and $18,000 in 2003.

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3260 Middle Road
Columbus, Indiana 47203

P.O. Box 2616
Columbus, Ohio 43216-2616

800/639-0339
www.epfc.com