

# **Kansas Corporate Monthly Membership Report**

**July 2011**



# Agenda

- Financial Review
  - June 2011 Results
  - 2011 Budget/Actual Net Income Graph
- Liquidity Update
  - Historical Member Overnight Deposits
- Interest Rate Risk/NEV Update – June 2011
- Capital Accumulation/Overview
- Board Action Items
- Supervisory Committee Action Items
- Business Model/Plan Update – PCC Commitments
- Business Model/Plan Update – Excess Balance Account
- KCCU/TSCCU Merger Update
- August Calendar of Events



# 2011 Results

Kansas Corporate ended June 2011 with year-to-date Net Income of \$166,189. Net Income continues to remain less than budgeted due primarily to lower net interest income and lower commission revenue. The lower than budgeted fed funds effective and Libor rates have negatively impacted the return on overnight and floating rate assets. Although investment sales in 2011 has far exceeded the 2010 pace, the fact that most investments are being made on the short end of the yield curve results in lower commission revenue than budgeted.

Management is making necessary adjustments to meet budgeted Net Income for the year, including evaluating the sale of assets to take advantage of gains; reducing accrual of assessment expense to reflect a 0.25% assessment versus the budgeted 0.30%; change in CUSO accounting to the equity method which would positively impact monthly income; and exploring partnerships that can provide enhanced fee revenue from off-balance sheet opportunities.



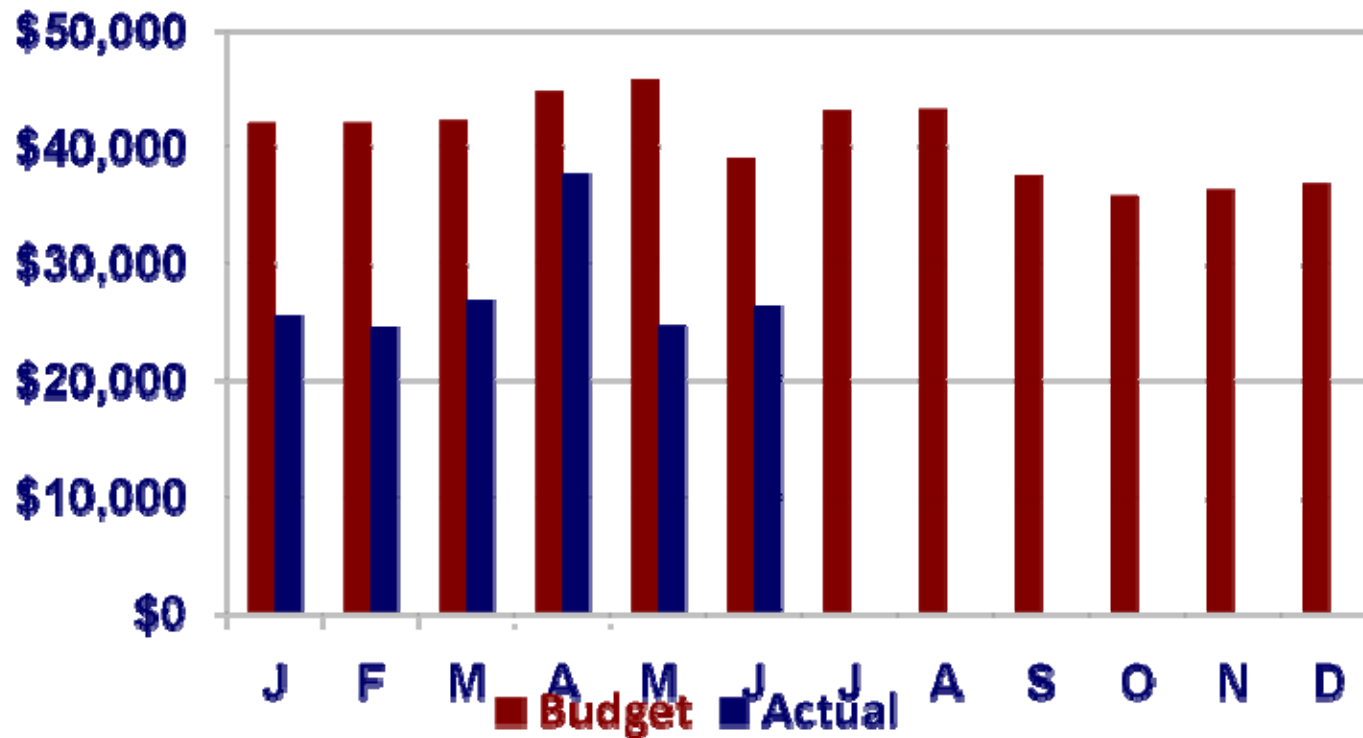
## 2011 Results

Daily average net assets for the previous 12-month period increased to \$354.2 Million, an increase of \$4.7 Million from the prior month.

As of June 2011, Kansas Corporate had Retained Earnings of \$894,984 representing a Retained Earnings ratio of 0.25% and a Total Capital ratio of 7.61%.



# 2011 Budget/Actual Net Income



# Liquidity Update

Liquidity remains strong and continues to exceed our internal projections and has even increased during the month of July when historically overnight balances have declined. Liquidity balances remain higher than in the previous four years as shown in the graph following this slide

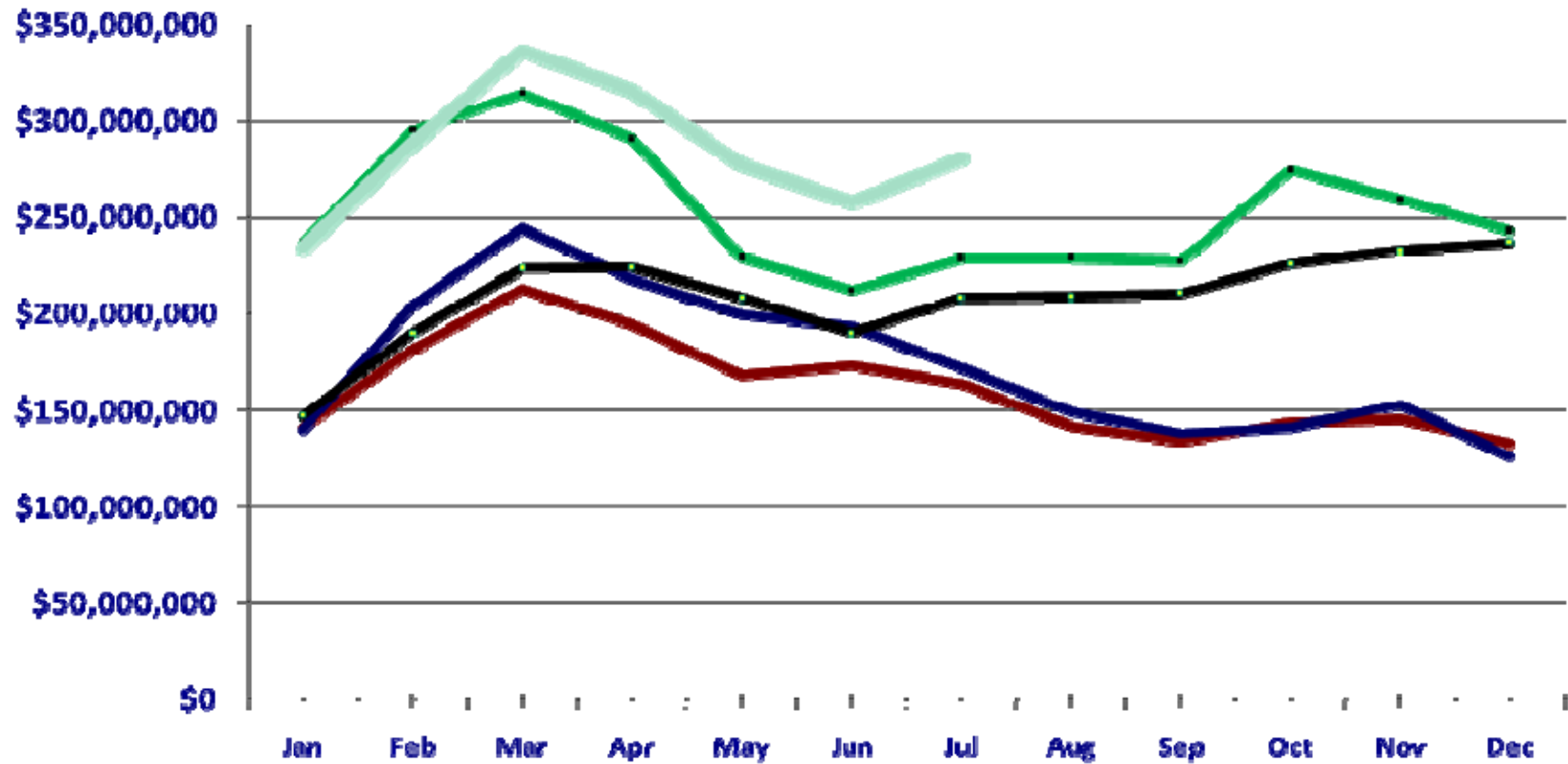
Current external liquidity sources of \$331.4 Million include:

- FHLB Collateralized LOC – \$108.4 Million
- TCCULGP – \$75 Million
- SunTrust Bank Advised LOC - \$10 Million
- Cross-Corporate Deposit Agreement – \$90 Million
- USC Bridge Advised LOC - \$48 Million

No external funding needs envisioned in the foreseeable future.



# Historical Member Overnight Deposits



— 2007

— 2008

— 2009

— 2010

— 2011



# Interest Rate Risk – Net Economic Value (NEV)

NEV Testing Results – June 2011						
	Net Economic Value (NEV)	NEV Dollar Change	NEV Percentage Change	NEV Ratio	Reg Limits	Pass / Fail
Base Case	\$26,975,700	-	-	7.87%	Minimum Ratio: 3%	<b>PASS</b>
+ 300 bps increase in interest rates	\$24,045,839	(\$2,929,861)	(10.86%)	7.08%	Minimum Ratio: 3%  Max % Change: (15%)	<b>PASS</b>

KCCU remains one of about half of the corporate credit unions that pass both the required minimum NEV ratio and the maximum change requirement in the +300 rate shock scenarios. This testing requirement remains the same in the final corporate Rule approved by the NCUA Board and all corporate credit unions must be compliant by October 2011.



# Capital Accumulation

- Increase to Retained Earnings during the past 12 months through June 2011 was \$374,812
- Retained Earnings ratio was 0.25% as of June 2011 versus 0.14% one year ago
- Based upon the latest call report data from April 2011, KCCU had the 10<sup>th</sup> highest Retained Earnings ratio and the 3<sup>rd</sup> highest Total Capital ratio for all corporate credit unions



## Capital Overview

<i>(In Thousands)</i>	<b>June 2011</b>	<b>June 2010</b>	<b>Change</b>
Retained Earnings	<b>\$895.0</b>	\$520.2	+ \$374.8
12-Month DANA	<b>\$354,209.4</b>	\$360,302.4	(\$6,093)
Ratios:			
Retained Earnings	<b>0.25%</b>	0.14%	+ 0.11%
Core Capital	<b>0.25%</b>	0.14%	+ 0.11%
Total Capital	<b>7.61%</b>	7.59%	+ 0.02%



# July Board Action Items

## Board of Director's Meeting – July 15, 2011

- Approved June 2011 Financial Statements and Committee Reports
- Approved June 2011 Net Economic Value Report
- Authorized KCCU management to enter into an agreement with another corporate credit union to serve as the Federal Reserve Bank (FRB) Excess Balance Account (EBA) Agent for their membership. The other corporate credit union benefits by allowing them to offer the EBA to their members immediately while they obtain approval from the FRB and benefits KCCU by providing additional fee income from an off-balance sheet product.
- Received update from management on the recent merger activities with Treasure State Corporate Credit Union (TSCCU)
- Discussed NCUA's voluntary prepayment proposal for Corporate Stabilization Fund assessments



# Supervisory Committee Action Items

## Supervisory Committee Meeting – July 26, 2011

- Reviewed and accepted the Information Technology Security internal audit completed by Trace Security which covered KCCU's physical, technical, and operational controls
  - It was noted that KCCU has developed very well-documented processes and has achieved a level of visibility and planning for IT processes that is uncommon in the industry
  - Major control areas were found well-addressed
  - Intrusion detection technologies are in place, as well as centrally-managed configuration management processes, including central patch management and a centralized event log system.
  - Trace Security recommended reviewing environmental monitoring capabilities in IT areas, however, relative to the whole control-space at KCCU, these items represented opportunities for improvement, not significant implementation failures.
  - All recommendations will be responded to by management and the Supervisory Committee will monitor progress on recommendations via report provided at each committee meeting.



# Supervisory Committee Action Items

## Supervisory Committee Meeting, con't – July 26, 2011

- Reviewed and accepted the Reconciliations internal audit completed by J. Tenbrink & Associates. The objective of the audit was to verify that key transaction accounts have been reconciled to the sub ledgers on at least a monthly basis and included a review of payroll, accounts payable, and employee expense reports.
  - No exceptions or findings were noted in the audit.
- Reviewed and accepted the Vault Cash internal audits at the Wichita locations of both Garda and Brinks.
  - No discrepancies were noted in either vault facility.



# Business Model/Plan Update – PCC Commitments

- Formal Perpetual Contributed Capital (PCC) Offering documents sent to all current capitalized KCCU members' in mid-May and potential capitalized members in late-May. Requested members sign binding commitment letters indicating their intent to purchase PCC by July 31<sup>st</sup>.
- **As of July 25<sup>th</sup>, KCCU has received confirmed commitments from 100 members representing over \$19.1 million in PCC purchases, exceeding the minimum requested amount of PCC.**
- **Currently includes commitments from 27 out-of-state members that didn't previously have a capital investment at KCCU.**
- An additional potential \$1.7 million of PCC could be added to the current total if the remaining current capitalized members participate in the PCC offering.
- PCC investment transactions will occur on September 30, 2011
- KCCU staff have been, and will continue as needed, to meet with members and their boards to answer questions about the new Business Model/Plan and the PCC investment.



# Business Model/Plan Update – EBA/FRB

- Per our Business Model/Plan, KCCU plans to participate in the Excess Balance Account (EBA) offered by the Federal Reserve Bank (FRB) in order to offer an off-balance sheet overnight investment option to the membership. The EBA would primarily be used to ensure compliance with the new regulation which limits the amount of assets from any one member to 15% and help address any member internal investment policy that limits the amount of deposits at KCCU.
- Submitted application and received approval from the FRB to offer the EBA contingent upon concurrence from KDCU and NCUA after a review of our operational readiness to ensure that the proper policies and procedures are in place at KCCU.



# Business Model/Plan Update – EBA/FRB

- KDCU and NCUA conducted on-site review the week of June 28<sup>th</sup> and recommended to the FRB that KCCU meets the operational readiness standards to serve as an EBA Agent.
- In early July, the FRB gave final approval for KCCU's participation as an EBA Agent and the program will be available to members in the late August or September timeframe.



# KCCU & TSCCU Merger Plan Update

- Merger Plan developed to meet KDCU requirements was completed and approved by both KCCU and TSCCU boards in June. Plan submitted for preliminary approval to KDCU the first week of July.
- Preliminary approval of the Merger Plan was received from KDCU on July 19<sup>th</sup>
- Merger Plan will be provided to the members of both corporates in the first week of August
- Membership meetings for the purpose of voting on the merger will be scheduled with both memberships – targeting late-August.
- If memberships of both corporates approve the merger, final approval will be sought from both state regulatory agencies and the completed merger plan with additional information requested by NCUA will be submitted to the NCUA for final approval.



# KCCU & TSCCU Merger Plan Update

- KCCU and TSCCU CEOs met with 24 TSCCU members during a week in July and have met in-person with a total of 43 TSCCU members over the past 2 months to provide updates on the merger and discuss what will stay the same; what will change; and what enhancements will be available to TSCCU members after the merger.
- Weekly conference calls continue to be held with the operational staffs of both corporates and progress is being made on the operational merger plan as key tasks are completed by their scheduled completion dates.



# August 2011

## Calendar of Events



Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3 LT – Weekly Development Call	4 Staff Meeting KCCU & TSCCU – Joint Operations Call	5
8	9 Credit Committee Meeting	10 LT – Weekly Development Call	11 KCCU & TSCCU – Joint Operations Call	12
15	16	17 LT – Weekly Development Call	18 Staff Meeting KCCU & TSCCU – Joint Operations Call BSA/ACH Audit	19 BSA/ACH Audit
22	23 Supervisory Committee Meeting	24 LT – Weekly Development Call Board Meeting ALCO Meeting	25 KCCU & TSCCU – Joint Operations Call	26
29	30	31 LT – Weekly Development Call	1	2