

KANSAS CORPORATE CREDIT UNION



2009 ANNUAL REPORT

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VOLUNTEERS

BOARD OF DIRECTORS

Gary Colcher, Chairman | Credit Unions United | Topeka, KS
Bill Hauber, Vice Chairman | Frontier Community Credit Union | Leavenworth, KS
Ted Underwood, Secretary/Treasurer | Golden Plains Credit Union | Garden City, KS
Mark Kolarik | Kansas Teachers Community Credit Union | Pittsburg, KS
Glen Scott | Envista Credit Union | Topeka, KS
Bob Thurman | Credit Union of America | Wichita, KS
Wayne Warfel | Wichita Federal Credit Union | Wichita, KS

ASSET/LIABILITY COMMITTEE

Kent Gleason, Chair | Kansas Corporate Credit Union | Wichita, KS
Mark Kolarik | Kansas Teachers Community Credit Union | Pittsburg, KS
Glen Scott | Envista Credit Union | Topeka, KS
Larry Eisenhauer | Kansas Corporate Credit Union | Wichita, KS
Brady McLeod | Kansas Corporate Credit Union | Wichita, KS
Alan Weikal | Kansas Corporate Credit Union | Wichita, KS

CREDIT COMMITTEE

Mark Bezdek, Chair | Credit Union 1 of Kansas | Topeka, KS
Rick Blue | White Eagle Credit Union | Augusta, KS
Paul Meissner | Credit Union of America | Wichita, KS

SUPERVISORY COMMITTEE

Mahlon McCaleb, Chair | Meritrust Credit Union | Wichita, KS
Jacque Cully | Central Kansas Credit Union | Hutchinson, KS
LaRae Kraemer | K-State Federal Credit Union | Manhattan, KS

STAFF

Larry Eisenhauer | President & CEO
Kent Gleason | Executive Vice President
Circe Gleeson | Marketing Manager
Candice Howard | Account Specialist
Tonya Johnston | Operations Manager
Wendy Joy | Account Specialist
Brady McLeod | Senior Financial Analyst
Kip Poe | Vice President, Information & Technology
Heather Seiler | Executive Assistant
Walter Thompson | Financial Analyst
Alan Weikal | Controller

MemServe, LLC

Judy Kampsula, Card Services Manager
Mary Miller, Visa Services Representative

MISSION

Strengthen the credit union system by providing exceptional products and service to our members.

VISION

The strategic partner of choice for credit unions.

STATEMENT OF VALUES

ACCOUNTABILITY

We insist on business relationships that promote accuracy and reliability. We vow to be responsive and reactive in respect to your needs.

COMMITMENT

We are committed to the credit union system, determined to provide innovative solutions and exceptional member service.

COOPERATION

We pledge to live and breathe the cooperative spirit under which we were chartered.

ENTHUSIASM

We strive to provide a culture that exhibits a willingness and eagerness to serve.

EXCELLENCE

We pledge to exceed your expectations by providing total member satisfaction. To create the distinction between Kansas Corporate and others.

INITIATIVE

We strive to envision the answer to questions unasked. To be entrepreneurial in spirit in our efforts to create products and services to meet the needs of credit unions.

INTEGRITY

We vow to conduct business in a professional and honest manner, worthy of your trust.

LEADERSHIP

We strive to lead the credit union community in the delivery of financial products and services, the advancement of technology and new business ventures.

RESPECT

We vow to operate in an environment respectful of ourselves, our business partners, and above all else, our member/owners.

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REPORT OF THE CHAIRMAN & PRESIDENT

2009 was the culmination of several years of unprecedented events too numerous to recount. We witnessed the collapse of the housing bubble and watched as it spread from the housing market to other parts of the economy, resulting in what many economists consider the worst financial crisis since the Great Depression. Regulators and government entities implemented economic stimulus plans to shore up financial institutions on the brink of disaster. The Fed Funds Rate was dropped to an all-time low – a range of 0.00% - 0.25%. With the struggling economy and historically low interest rates, we were prepared for 2009 to be one of the most challenging years in our history. But no one could anticipate what lay ahead or how the future of the credit union industry was about to change forever.

The “Great Recession”, as this economic period has been termed, has both exemplified and challenged the cooperative spirit of the credit union network. At the first sign of trouble, credit unions around the nation rallied in support of the industry. Programs such as the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (CU HARP) were created to stimulate extra liquidity and help pay down external borrowings. Kansas Corporate members showed their support by investing \$129 Million in these liquidity building programs. Members also showed their support through increased usage of KCCU products and services and increased deposits - more than \$26 million was deposited during the summer months when, historically, we see relatively low overnight deposits.

Unfortunately, even these tremendous efforts were thwarted by ever-mounting Other-Than-Temporary-Impairment (OTTI) charges at US Central (USC) which posed a systemic risk to the entire credit union industry. The costs of the resulting stabilization efforts - a \$1 Billion capital infusion from the National Credit Union Share Insurance Fund (NCUSIF) and Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) - put in place by the NCUA, would be shared by every credit union, natural person and corporate alike, through an insurance premium to restore the NCUSIF equity ratio to 1.30%.

As we watched these events unfold, our goal was to buffer members from the trickle-down of losses to the greatest extent possible. From inception, KCCU management has worked to preserve capital and build retained earnings, holding fast

to our core values of providing services members need at the best price possible. Our approach to attain these results was conservative, investing in US Central in support of the original model of pooling corporate resources to save us all unnecessary costs, a model designed to be beneficial to our mission and our members. Few could foresee the market collapse that would shake that foundation to the ground.

We had ample retained earnings to absorb USC’s year-end 2008 and 1st quarter 2009 depletions to portions of our capital. However, the release of USC’s audited financials in September and subsequent write-downs to cover 2nd quarter OTTI losses pushed us into a negative retained earnings position. Due to NCUA mandate, we were faced with one of the most unpleasant realities to date – depleting Member Paid-In-Capital (PIC) accounts to eliminate our retained earnings deficit. Less than a month later we were forced to do so again, depleting the remainder of our Member PIC balances and 6.23% of Membership Capital Shares, actions which finally ended our exposure to losses on USC contributed capital accounts.

The aforementioned steps were part of a three-pronged approach by the NCUA to address the extraordinary strains on liquidity and capital in the corporate credit union network. The third part of their plan involved a restructuring of the corporate system. Twice during the year we called on members to make their voices heard by submitting comments on the Advanced Notice of Public Rulemaking (ANPR) and the proposed Regulation 704. In each instance, Kansas credit unions rose to the occasion to make sure NCUA was informed of the value found in partnership with *your* corporate. Nineteen percent of Kansas credit unions submitted comments regarding the ANPR and, though all the letters haven’t been released regarding Regulation 704, it appears just as many Kansas credit unions responded to that call to action.

Though much time and attention was directed toward participation in webinars, in-person meetings, conference calls, planning sessions and email correspondence with CUNA, USC, NCUA, ACCU, multiple other corporate credit unions and, most importantly, our membership to ensure everyone was amply informed every step of the way, much time still had to be devoted to “day-to-day business”. In this low rate environment, members looked to the expert level knowledge and investment strategy of our financial analysts

REPORT OF THE CHAIRMAN & PRESIDENT

to address increasing ALM concerns. Our licensed Asset and Investment Management (AIM) analysts worked overtime to help members structure effective investment portfolios in this trying economy. SimpliCD proved a useful tool for accomplishing their task, providing access to CDs with better rates of return coupled with eased accounting burdens and safeguards to ensure no more than the federally insured amount was invested at any institution. By the end of the year, 92 member credit unions were enrolled and regularly benefitting from the SimpliCD program.

Despite everything that transpired, your continued support, along with the diligence of our board, management and staff, has already resulted in some positive strides. As of December 31, 2009, Reserves and Undivided Earnings equaled \$311,170, representative of a Retained Earnings Ratio of 0.09%. Total Assets increased \$55,346,286 or 19% to a year-end total of \$339,583,783, with an ROA of 8.5 bps and a projection to increase to the 12.5 bps range by end-of-year 2010. Our Total Capital Ratio was 7.57%, third highest in the corporate network.

Our current financial plan shows steady growth throughout the coming months and years. We have already realized reductions in our expenses of 8.7%, or \$248,646, and continue to look for additional cost cutting measures in the interest of preserving your capital. We'll also be looking to maximize our return on investments, continue participation in the Share Guarantee Program, develop additional liquidity sources and limit new investments in USC to guaranteed investments only.

While recounting the events of the past year may not necessarily be pleasant, it definitely demonstrates the unstoppable spirit of credit unions and reminds us why we are proud to be a part of this movement. We believe the cooperative solution the corporate network was designed to be is still the answer for providing an enduring source of service and liquidity to our membership. But more importantly, your voices rise above our beliefs and it is apparent that you too believe in Kansas Corporate.

As we await NCUA's final regulation, anticipated by end of summer, Kansas Corporate continues to follow board directives of facilitation and development of a new strategic plan and direction, based on the new regulations, to ensure member credit unions continue to receive current

Kansas Corporate financial products and services in a cooperative fashion. We may not know exactly what the future holds but we continue our proactive establishment of key partnerships necessary for continued delivery of products and services and seek out new opportunities to better serve your needs. We appreciate and continue to solicit member input as we move toward our new future knowing that meeting your needs is the key to success for credit union members, credit unions, and Kansas Corporate.

We are honored to have each and every one of our loyal members supporting us as we begin this new chapter in credit union history.

Respectfully submitted,



Gary Colcher | Chairman



Larry Eisenhauer | President & CEO

REPORT OF THE ASSET/LIABILITY COMMITTEE

By design, Kansas Corporate did not grow our balance sheet during 2009. Kansas Corporate's net average assets for 2009 were \$366 million, approximately \$40 million dollars lower than the previous year. Use of off-balance sheet programs, SimpliCD and CU Investment Solutions, Inc. (ISI), allowed us to meet our members investment needs while keeping our balance sheet in check. This action helped minimize pressure on the amount of capital we need to maintain. Without these off-balance sheet tools and our use of them our balance sheet could be over \$750 million and our capital ratio, 7.57% at year-end and third highest in the corporate network, would now be approximately half its current level. Although no one could foresee the extremeness of the measures that were taken last year, by staying true to ourselves and our credit unions, by striving not to be the biggest, but instead, simply the best, we've positioned ourselves to be a viable entity that credit unions can rely on down the line as they have the past 50 plus years.

SimpliCD, our off-balance sheet program that facilitates credit union investments in bank and S&L CDs, again served credit unions well in 2009. User levels very similar to 2008 were seen again last year...94 signed contracts, 78 active investors and outstanding certificate totals over \$225 million. However, it was ISI, our program that provides brokerage services to credit unions that experienced a record setting year in 2009 with 160 trades completed for a par value of over \$112 million. 2008 figures included a total of 70 trades for a par value of \$53.5 million, approximately half the 2009 level.

Extensive measures were taken in 2009 to strengthen our sources of liquidity to ensure meeting member demand, which was of no great consequence as credit unions nationwide watched their loan-to-share ratios decrease to 76.0% in 2009 from 82.3% in 2008, and loans grow only 1%, as reported by the CUNA Economics & Research department. The historical liquidity pattern was counter-cyclical for one of the first times in history as loan demand didn't increase during the summer months in 2009 as expected, but instead credit union liquidity runneth over as overnight balances increased during the hot summer months, especially in the Managed Liquidity accounts.

Membership in the Federal Home Loan Bank (FHLB) of Topeka in 2008 called for KCCU to restructure a portion of our investment portfolio. This trend continued throughout 2009 and amounted to an additional liquidity

source of approximately \$45 – 50 million by year-end. Kansas Corporate was also approved for the Temporary Corporate Credit Union Liquidity Guarantee Program, offered by the National Credit Union Share Insurance Fund, to guarantee the timely principal and interest payment on certain unsecured debt of participating corporate credit unions. These new sources and tools and newly acquired \$75 million line-of-credit at Pacific Coast Bankers Bank, augmented our line at US Central with an additional \$115 million in liquidity.

Regardless that the Organization for Economic Cooperation & Development raised its economic forecast for the first time in 2 years as the U.S. slump showed signs of easing, rates were held to their lowest possible level by the Federal Open Market Committee, 0.00% to 0.25%, in hopes to spur economic growth.

KCCU capital account balances began being depleted in April 2009 in response to USC Other-Than-Temporary-Impairment (OTTI) charges. As a result of NCUA mandate and independent auditor interpretation, Kansas Corporate was required to write off our capital investments at USC, \$20,033,410, and restate our undivided earnings to zero at year-end 2008. This action resulted in a Retained Earnings Ratio of 0.09% and Capital Ratio of 7.57% for the year-ended 2009.

Many, if not all, axioms were tested in 2009. This committee serves to secure the continued financial strength of Kansas Corporate, which as you well know, is a challenge in and of itself. Throw in the corporate stabilization and restructuring components that we witnessed this past year and that will continue well into the future and you'll understand the combined knowledge and expertise we need and have at our disposal through our staff and committee members.

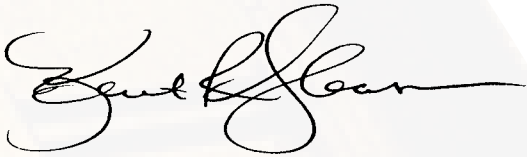
Meticulous oversight of investments, liquidity and risk management are key staples to achieving committee objectives of proposing investment and asset/liability management policy changes that adhere to all regulatory requirements with respect to ALM. To ensure success in meeting objectives, the Committee is continually monitoring economic conditions, investment activity, rates on investment and loan accounts, as well as tracking deposit and liquidity trends to determine future financial product development. Additionally, monthly

REPORT OF THE ASSET/LIABILITY COMMITTEE

meetings allow the committee timely appraisal of Kansas Corporate's financial position as well as investment strategy, interest rate risk position, liquidity position and our progress in complying with all regulatory requirements.

The challenges ahead of us are great. The triumphs, greater yet.

Respectfully submitted,



Kent Gleason | Committee Chair

Committee Members

Mark Kolarik | Kansas Teachers Community Credit Union

Glen Scott | Envista Credit Union

Larry Eisenhauer | Kansas Corporate Credit Union

Brady McLeod | Kansas Corporate Credit Union

Alan Weikal | Kansas Corporate Credit Union

REPORT OF THE TREASURER

OTTI and our familiarity with it began in January 2009, as USC reported a much larger than anticipated Other-Than-Temporary-Impairment charge of \$1.2 Billion on their investment portfolio. Regardless that no losses had actually occurred, the National Credit Union Share Insurance Fund (NCUSIF) issued a \$1 Billion Capital Note to USC in late January to maintain liquidity, strengthen capital and begin the restructuring of the corporate network. The actions that followed in March included conservatorship of both USC and WesCorp Federal Credit Union and the related costs to credit unions and corporates would greatly impact profitability for 2009 as each credit union would incur an unanticipated expense due to an NCUSIF premium assessment that would occur later in 2009. Further and equally significant would be the NCUA mandate that corporate capital losses had to be offset by depletion of member contributed capital excluding corporate credit unions from operating with negative retained earnings, resulting in yet another unanticipated expense to members due to the write-down of their capital investments.

OTTI charges at USC continued to mount as the year wore on and corporate credit unions began to see their capital investments become impaired. KCCU would see our Retained Earnings Ratio fall to 0.09% at year-end 2009, down from the 2008 unaudited year-end figure of 3.01%. The Total Capital Ratio ended 2009 at 7.57% down from 11.69% one year prior. NCUA, concerned that corporate credit unions would be challenged to provide routine daily operational services due to the decrease in capital levels, issued an order that permitted corporate credit unions to use the capital level as reported on their November 30, 2008, 5310 Call Report for purposes of determining regulatory compliance with capital-based requirements and regulation in the corporate rule. Based on November 30, 2008 data, the KCCU ratios for Retained Earnings and Total Capital are 2.96% and 11.49%, respectively. Total Reserves & Undivided Earnings ended 2009 at \$311,170, as KCCU was required to write off 100% of our capital investment at USC, \$20,033,410, effective year-end 2008. Retained earnings of \$12,212,373 helped absorb a portion of the capital loss but KCCU was required per NCUA Letter 09-CU-10, issued May 2009, to cover our capital losses that exceeded retained earnings by exhausting 100% of our Member Paid-in Capital accounts and 6.3% of our Membership Capital Shares balances.

Total Assets ended 2009 up 19% or \$55,346,286 to \$339,583,783. The creation of the Temporary Corporate

Credit Union Share Guarantee Fund (TCCUSGF) by NCUA aided in this growth as NCUA identified the criticality of credit unions maintaining their excess liquidity in the corporate network. The TCCUSGF was initially approved by the NCUA Board January 28, 2009, followed by revisions in April and June 2009, and consists of a temporary guarantee by the NCUSIF of all shares (excluding paid-in-capital and membership capital accounts) at all corporate credit unions. The guarantee program has a rolling two-year term and currently extends through June 30, 2012, allowing for investments with maturities of two year or less in participating corporate credit unions made before June 30, 2010, to be fully covered by the guarantee program, in addition to the existing deposits already covered.

Net Income at year-end 2009 was \$311,170, taking into account that KCCU continued to pay dividends to members on their capital accounts in 2009, even though US Central ceased paying dividends on our capital accounts at year-end 2008.

Despite the capital write downs that occurred in 2009, Kansas Corporate is poised to meet regulatory requirements going forward. Among the 26 corporate credit unions that comprise the Corporate Network, Kansas Corporate currently has the third highest Total Capital Ratio and tenth highest Retained Earnings Ratio. The projected December 2010 Retained Earnings Ratio, based on the January 2010 budget, is 0.22% - almost halfway to the stated 3-year retained earnings goal of 0.45% in the proposed corporate regulation.

We've worked hard to position ourselves for future viability. The events of 2009 definitely impacted our path but we continue to operate in a prudent manner as stewards for our members and the credit union community as a whole. This you can count on.

Respectfully submitted,



Ted Underwood | Secretary/Treasurer

REPORT OF THE CREDIT COMMITTEE

Serving as the primary liquidity provider for our credit union members has always been and continues to be a critical core function for Kansas Corporate. As such, the objectives of the Kansas Corporate Credit Committee have not changed, however the measures with which to obtain them continue to evolve.

This Committee works to maintain a credit analysis system that best meets the needs of our membership and Kansas Corporate, and recommends and enacts lending policy and procedural revisions in accordance with the established guidelines as determined by the board of directors.

In 2009, the Credit Committee met five times, during which they completed annual reviews of all outstanding advised lines of credit, semi-annual reviews of all advised lines of credit, and reviewed and analyzed credit union investment, borrowing, liquidity and growth trends, locally and nationally. And this year, based on the current financial environment and credit union performance, the Committee began exploring new methods for calculating line of credit amounts. By year-end, the committee had compared the old analysis method to newly discussed methods, based on a new set of criteria that may replace the calculation method used since the early '90s.

The liquidity cycle of Kansas Corporate was not immune to the historic market upheaval we all experienced in 2009, and a new trend emerged. Historically during the summer months, overnight deposits decline and borrowing increases. In 2009, from June through August, average overnight deposits increased \$26.3 Million, compared to a decline of \$44 Million in 2008 and \$31.6 Million in 2007, during the same time period. Whether due to the deposit guarantee, an increase in overall liquidity or the low interest rate environment, it was certainly a reversal of a long-standing historical trend and only time will tell if the reversal is permanent. As a result, overall borrowing from Kansas Corporate decreased as member liquidity improved due to strong share growth experienced in 2009.

Committee and staff focus their energies on meeting the varied liquidity needs of all our members and their

combined experience is instrumental in providing solutions that do just that. We appreciate the opportunity to serve your liquidity needs.

Respectfully submitted,



Mark C. Bezdek | Committee Chair

Committee Members

Rick Blue | White Eagle Credit Union

Paul Meissner | Credit Union of America

REPORT OF THE SUPERVISORY COMMITTEE

2009 was a year unlike any other. The committee, board, and management spent the majority of the year in a holding pattern; anticipating the release of USC's 2008 audit. McGladrey & Pullen, LLC, our contracted audit firm, like all other corporate credit union auditing firms, felt it necessary to wait until the USC audit was finalized before determining potential impairment of our USC capital accounts. The wait, thought met with significant unease, proved to be the right thing to do.

This Committee serves to aide the board of directors in fulfilling its fiduciary responsibilities with regard to Kansas Corporate's accounting and reporting practices, which is accomplished in part through oversight of all external and internal audits, risk assessments, and bridging the gap between regulatory bodies and the board and management.

Regardless of the delay in receipt of the finalized audit, a delay that lasted until December 2009, committee activities continued full steam ahead as the financial audit is but one item of a very long list accomplished annually by the Supervisory Committee. Countless committee hours are spent in review of the annual examination performed jointly by the Kansas Department of Credit Unions (KDCU) and the National Credit Union Administration (NCUA). The committee also oversees all internal audits and risk assessments. In 2009, a 3-year internal audit plan was established based on internal areas that have been ranked as high or medium risk, with the five highest risk areas identified as Investments, Asset/Liability Management, Information Systems, Loans and Wire Transfers. Audits going forward will include one of these five highest ranked areas being audited each quarter in addition to the annual internal audits of ACH, Business Continuity, BSA/OFAC, Reconciliations and Vault Cash.

Valuable recommendations are garnered from the many audits and risk assessments completed every year. Based on recommendations from the Information Technology Risk Assessment, Kansas Corporate purchased and began use of a secure email platform. This new system allows email messages containing secure data to be encrypted so that the receiver must authenticate and decrypt the message before reading its contents. Also, as a result of the Business Continuity Risk Assessment, Kansas

Corporate partnered with Mid-Atlantic Corporate Federal Credit Union, for APEX-ACH contingency purposes.

Managing the oversight of such a busy audit/risk assessment calendar throughout the year seems daunting in itself but the 7 committee meetings held in 2009 saw many other agenda items completed. Beyond performing the BSA/OFAC internal audit, committee members also lent their expertise to oversight of the KCCU Annual Contingency Test performed at our local contingency location, Central Star Credit Union. Another 2-day 'surprise' test for most staff and members led to recommendations going forward that not only strengthen our plan but help ensure preparedness in an actual emergency.

Kansas Corporate, in an effort to reduce audit expense and garner fresh perspective in review of our financial statements, signed a 3-year audit contract with Orth, Chakler, Murnane, & Company, a firm with a knowledgeable grasp of both corporate credit unions and natural person credit union operations, that begins with the 2009 audit.

The enormity of meeting committee objectives of regulatory compliance and sound business practice consume the meetings and actions of the Supervisory Committee. The energy expended by this committee to ensure a safe, sound, strong and compliant corporate credit union knows no limits.

Upon review of the findings of the Independent Auditors and Regulators, the Committee believes the audits and examinations provide a reasonable basis to conclude the financial statements of Kansas Corporate, for the year ended December 31, 2009, are fairly presented and Kansas Corporate is in compliance with all credit union regulations.

Respectfully submitted,



Mahlon McCaleb | Committee Chair

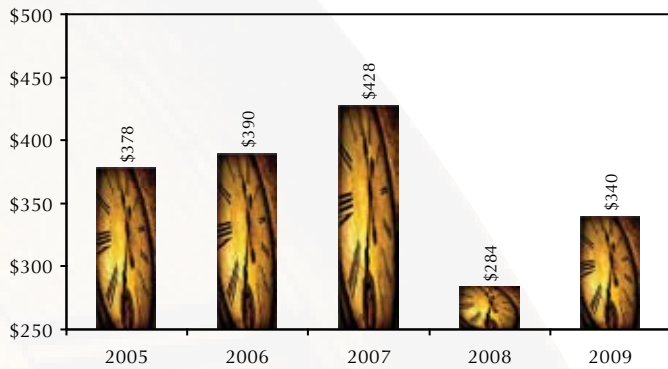
Committee Members

Jacque Cully | Central Kansas Credit Union

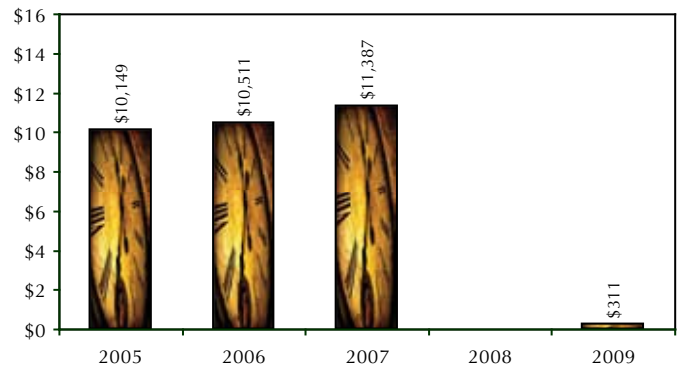
LaRae Kraemer | K-State Federal Credit Union

FINANCIAL OVERVIEW

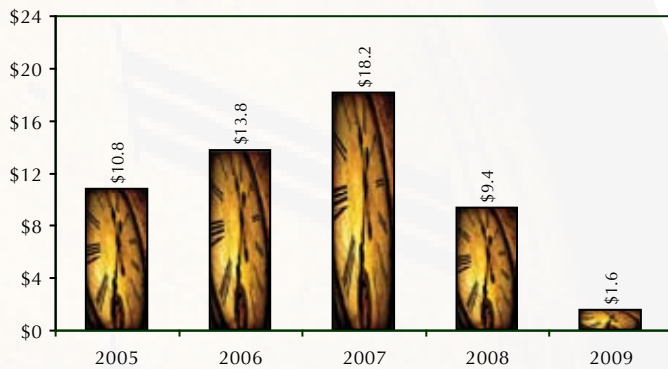
TOTAL ASSETS
MILLIONS



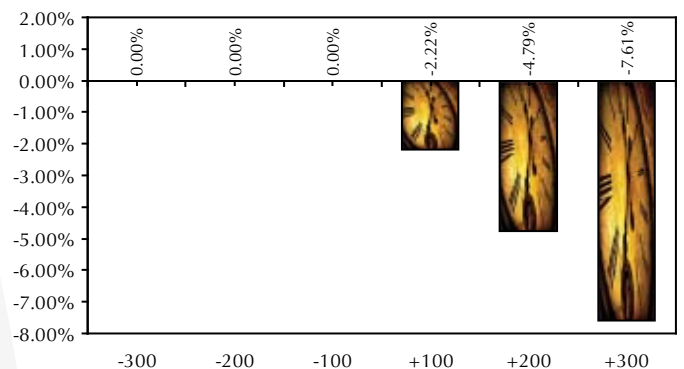
TOTAL RESERVES & UNDIVIDED EARNINGS
THOUSANDS



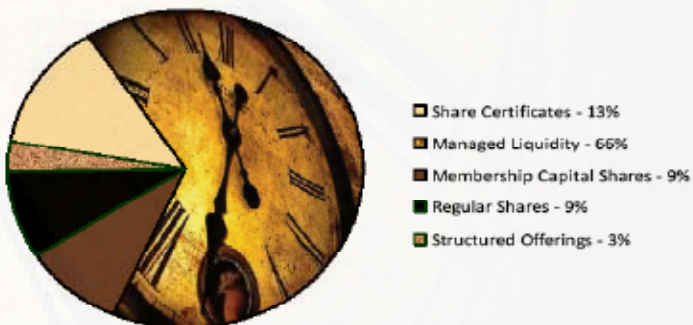
DIVIDENDS
MILLIONS



NET ECONOMIC VALUE CHANGE
12.31.2009



DISTRIBUTION OF MEMBER EQUITY
12.31.2009



DISTRIBUTION OF INVESTMENTS
12.31.2009





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