

# **Kansas Corporate Monthly Membership Report**

**August 2011**



# Agenda

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



## 2011 Results

Kansas Corporate ended July 2011 with year-to-date Net Income of \$238,534. Net income for July was \$72,345, which was positively impacted by a gain of \$32,446 on the sale of three marketable securities. Even without the gain, net income increased from previous monthly levels due to an improvement in both interest and non-interest income and a slight decline in operating expenses.

Year-to-date net income is still below budget and management continues to make necessary adjustments to meet budgeted net income for the year. Beginning in September, KCCU will enter into a short-term partnership with another corporate credit union to serve as the Excess Balance Account (EBA) agent for their members. KCCU management expects the partnership to generate fee revenue during the month which will help meet 2011 budgeted income targets.



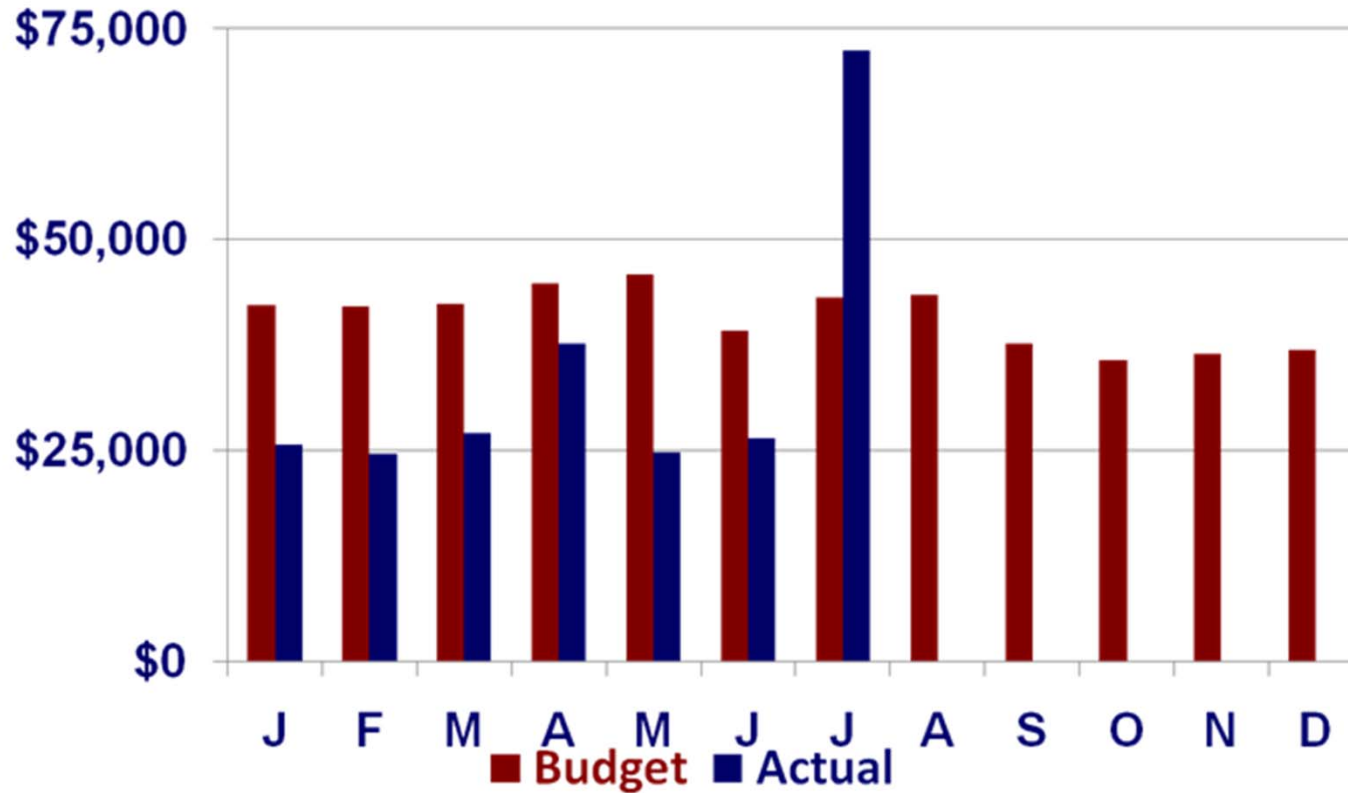
# 2011 Results

Daily average net assets for the previous 12-month period increased to \$358.3 million, an increase of \$4.1 million from the prior month.

As of July 2011, Kansas Corporate had Retained Earnings of \$967,329, representing a Retained Earnings ratio of 0.27% and a Total Capital ratio of 7.53%.



# 2011 Budget/Actual Net Income



# Liquidity Update

Liquidity remains strong, continues to exceed our internal projections, and has remained higher than normal during August when historically overnight balances have declined. Liquidity balances remain higher than in the previous four years as shown in the attached graph.

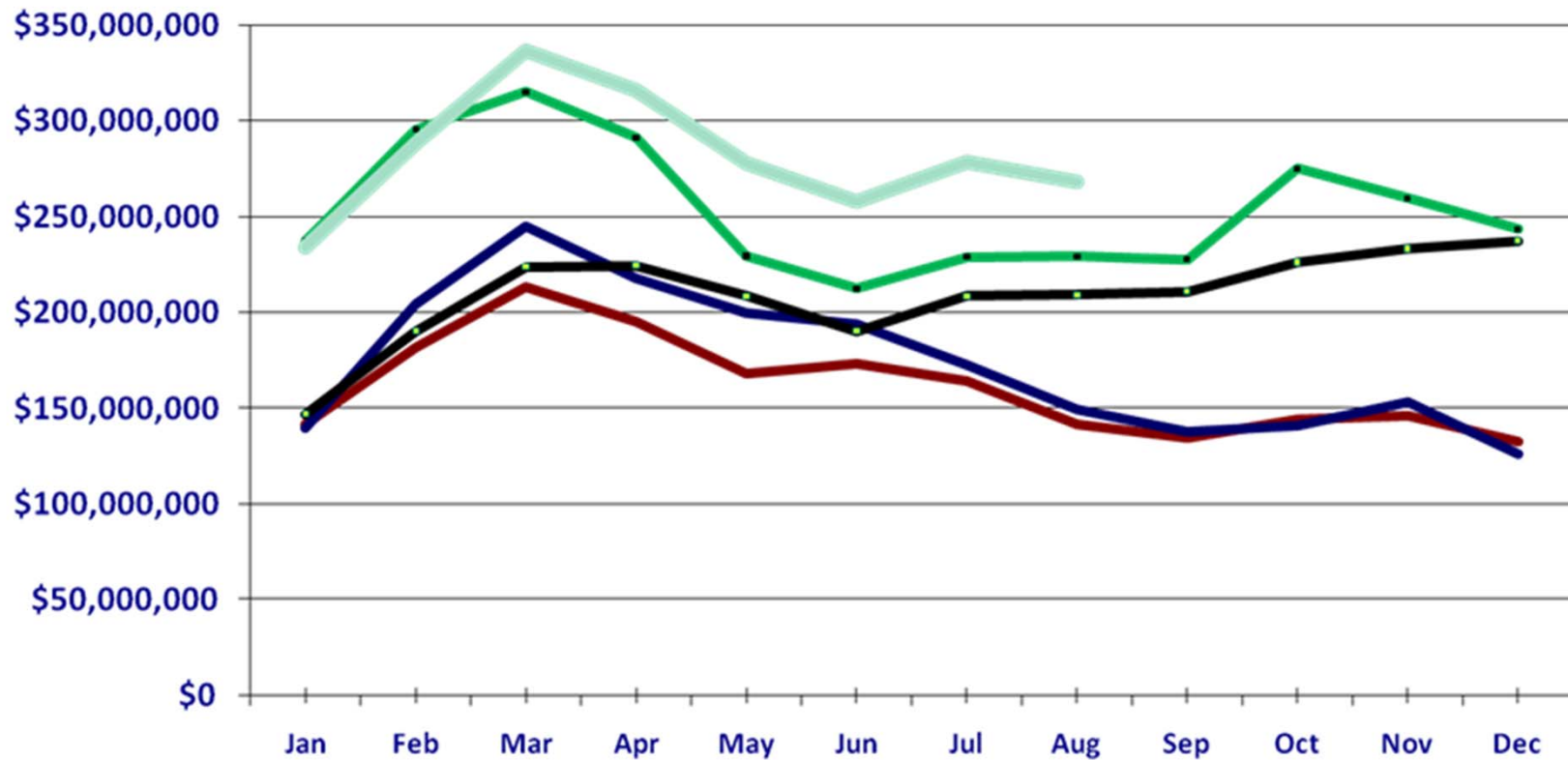
Current external liquidity sources of \$331.4 Million include:

- 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 – July 2011						
	Net Economic Value (NEV)	NEV Dollar Change	NEV Percentage Change	NEV Ratio	Reg Limits	Pass / Fail
Base Case	\$26,803,763	-	-	7.32%	Minimum Ratio: 3%	<b>PASS</b>
+ 300 bps increase in interest rates	\$23,923,803	(\$2,879,960)	(10.75%)	6.60%	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 July 2011 was \$406,505
- Retained Earnings ratio was 0.27% as of July 2011 versus 0.16% one year ago



## Capital Overview

<i>(In Thousands)</i>	<b>July 2011</b>	<b>July 2010</b>	<b>Change</b>
Retained Earnings	<b>\$967.3</b>	\$560.8	+ \$406.5
12-Month DANA	<b>\$358,251.0</b>	\$355,221.0	+ \$3,030
Ratios:			
Retained Earnings	<b>0.27%</b>	0.16%	+ 0.11%
Core Capital	<b>0.27%</b>	0.16%	+ 0.11%
Total Capital	<b>7.53%</b>	7.71%	(0.18%)

# August Board Action Items

## Board of Director's Meetings – August 10, 2011 & August 26, 2011

- August 10, 2011 Meeting - Board set the date for the Special Member Meeting to vote on the Proposed Merger with Treasure State Corporate Credit Union; and reviewed and approved the Notice of Special Member Meeting and the voting method and ballots.
- Approved July 2011 Financial Statements and Committee Reports
- Approved July 2011 Net Economic Value Report
- Authorized KCCU management to purchase up to a maximum of \$200,000 in shares in a CUSO to purchase ownership of CU Investment Solutions, Inc. (ISI). ISI is currently a wholly - owned CUSO of US Central Bridge Corporate CU (USC Bridge) and a group of interested corporate credit unions has negotiated an agreement to purchase the CUSO from USC Bridge. The purchase transaction is scheduled to occur at the end of September. By becoming an owner of ISI, KCCU should recognize annual earnings through ownership in addition to the commission revenue already earned on an annual basis.



# August Board Action Items

- Approved the 2011 BSA/AML Risk Assessment which is performed to help identify KCCU's risk profile and ensure that adequate processes are in place to mitigate risk. The findings are reported and shared with KCCU's Supervisory Committee, all KCCU staff and is approved by the Board.
- Received update from management on the following issues: recent merger activities with Treasure State Corporate Credit Union (TSCCU); conversion of ACH and front-end system to Lending Tools system; current PCC commitments; current status regarding the future of USC Bridge payment systems/products; and an update on potential future plans for the Central Liquidity Facility (CLF).



# August Board Action Items

- Reviewed the financial results of our two CUSO investments. Primary Financial Company, LLC (SimpliCD) has accumulated net income of \$2,242,138 for the first half of the year and has equity of \$19.7 million, which represents an equity ratio of 48.9% as of June 2011. CU Business Group, LLC, had net income of \$48,118 for the first half of the year and total equity of \$1.7 million, which represents an equity ratio of 72.4% as of June 2011.



# Special Member Meeting

- A Special Member Meeting was held August 26, 2011 for the sole purpose of voting on the proposed merger with Treasure State Corporate Credit Union (TSCCU).
- Members could vote by attending the in-person meeting and casting their vote or by mail ballot during the two weeks prior to the date of the in-person meeting.
- A webcast was held for interested members on August 19, 2011 to review the proposed merger and provide the opportunity to ask questions of KCCU management if unable to attend the in-person meeting.
- At the in-person meeting, KCCU management reviewed the proposed merger and provided background information on TSCCU; discussed advantages of the merger to both corporate credit unions; provided a review of financial projections of the consolidated entity and assurance of future compliance of the capital and ALM requirement of the new corporate credit union regulation.



# Special Member Meeting

- J. Tenbrink & Associates served as the Independent Teller for the counting of the ballots.
- **Management is pleased to report that the KCCU Membership voted 71 – 0 in favor of the proposed merger.**



# Supervisory Committee Action Items

## Supervisory Committee Meeting – August 23, 2011

- Reviewed and accepted the 2011 Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Risk Assessment. The assessment identified six high-risk products and services and five members were determined to be high risk and those members will be required to complete a BSA/AML questionnaire regarding their internal BSA/AML programs. The committee recommended approval of the 2011 BSA/AML Risk Assessment to the KCCU Board.
- It was reported to the committee that J. Tenbrink & Associates was on-site for two days in August to complete the field work for the annual BSA and ACH internal audits. All indications are that the audits went very well and the final written reports will be provided to the committee at their September meeting.



# Credit Committee Action Items

## Credit Committee Meeting – August 22, 2011

- Reviewed and approved thirty-eight advised lines-of-credit
- Approved a number of advised lines-of-credit for new Nebraska capitalized members
- Added 3 members to the monitor list which increased the number of members on the monitor list to 8



# 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 August 26<sup>th</sup>, KCCU has received confirmed commitments from 111 members representing over \$19.7 million in PCC purchases, exceeding the minimum requested amount of PCC.**
- **Currently includes commitments from 29 out-of-state members that didn't previously have a capital investment at KCCU.**
- An additional potential \$1.2 million of PCC could be added to the 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.



# KCCU & TSCCU Merger Plan Update

- The Proposed Merger Plan was provided to all members of both TSCCU and KCCU in early August in preparation of the membership votes on the Proposed Merger.
- KCCU held Special Member Meeting on August 26, 2011 and the membership voted 71 – 0 to approve the Proposed Merger.
- TSCCU membership had until August 26, 2011 to vote by mail ballot to the Independent Teller. TSCCU membership voted 52 – 0 to approve the Proposed Merger.
- Final approval from both state regulators is anticipated in September.
- The Final Merger Plan will be submitted to NCUA in mid-September and hopefully will be on track for the agenda for the November 2011 NCUA Board meeting.
- KCCU Perpetual Contributed Capital (PCC) Information Packets will be sent to all TSCCU members the first of September and commitments will be asked to be made by November 15, 2011.



# KCCU & TSCCU Merger Plan Update

- KCCU and TSCCU CEOs met with the Director of NCUA's Office of Corporate Credit Unions to ensure all NCUA merger requirements and expectations will be addressed in the final merger plan and to seek clarification on a few outstanding issues.
- 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.



# September 2011

## Calendar of Events



Monday	Tuesday	Wednesday	Thursday	Friday
29	30 MemServe Manager's Meeting	31 LT – Weekly Development Call	1 Staff Meeting KCCU & TSCCU – Joint Operations Call ALCO Meeting	2
5 Labor Day – KCCU Office Closed	6	7 LT – Weekly Development Call	8 KCCU & TSCCU – Joint Operations Call coreCONNECT ACH Beta Test Group - Training	9 coreCONNECT ACH Beta Test Group - Training
12	13	14 LT – Weekly Development Call Intech Client Conference – NE coreCONNECT ACH Beta Test Group – LIVE	15 Staff Meeting KCCU & TSCCU – Joint Operations Call Intech Client Conference – NE	16 Intech Client Conference – NE
19	20	21 LT – Weekly Development Call Board Meeting ALCO Meeting	22 KCCU & TSCCU – Joint Operations Call	23
26	27 Supervisory Committee Meeting	28 LT – Weekly Development Call	29 KCCU & TSCCU – Joint Operations Call	30 PCC Investment Purchases