

# **Kansas Corporate Monthly Membership Report**

**June 2011**



# Agenda

- Financial Review
  - May 2011 Results
  - 2011 Budget/Actual Net Income Graph
  - Change in CUSO Accounting
- Liquidity Update
  - Historical Member Overnight Deposits
- Interest Rate Risk/NEV Update – May 2011
- Capital Accumulation/Overview
- Board Action Items
- Business Model/Plan Update – PCC Commitments & Excess Balance Account
- KCCU/TSCCU Merger Update
- July Calendar of Events



# May 2011 Results

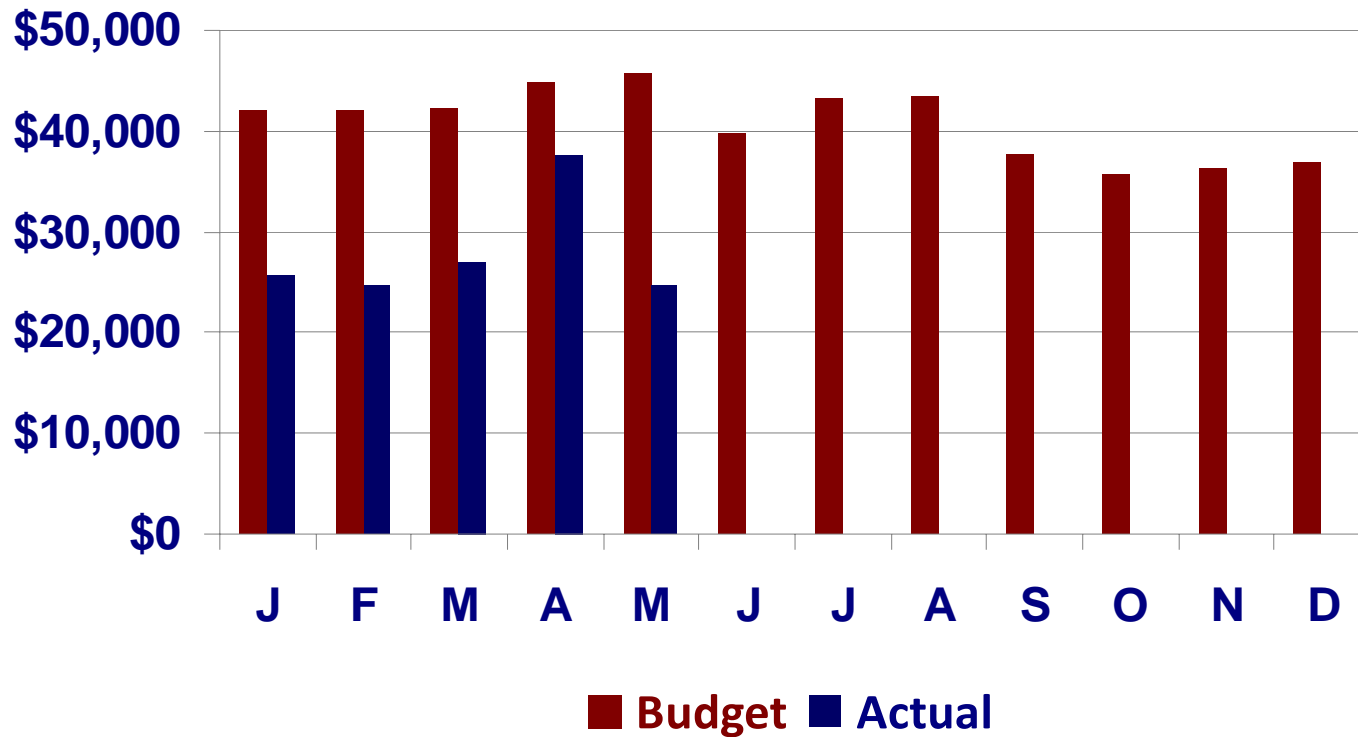
Kansas Corporate ended May 2011 with year-to-date Net Income of \$139,707. Net Income remains less than budget due primarily to lower net interest income. Net interest income is lower due to lower than budget fed funds effective and Libor rates which have negatively impacted the return on overnight and floating rate assets.

Daily average net assets for the previous 12-month period increased to \$349.5 Million, an increase of \$4.4 Million from the prior month.

As of May 2011, Kansas Corporate had Retained Earnings of \$868,502 representing a Retained Earnings ratio of 0.25% and a Total Capital ratio of 7.72%.



# 2011 Budget/Actual Net Income



# Change in CUSO Accounting

KCCU is in the process of finalizing with our external auditors the changing of our accounting for our CUSO investments from the Cost Method to the Equity Method.

This change is being made to conform to industry standards as well as the pending merger, which when approved, will require the change in accounting to the Equity Method because of the increased ownership in the CUSOs.

This change will require KCCU to reflect a 1-time gain of approximately \$300,000 to Retained Earnings and will reflect our on-going share of the CUSOs monthly income/loss through our income statement.



# Liquidity Update

Liquidity remains strong and continues to exceed our internal projections, but there has been a decline in the average overnight deposits which reflects historical trends. Liquidity balances remain higher than in the previous four years as shown in the attached graph.

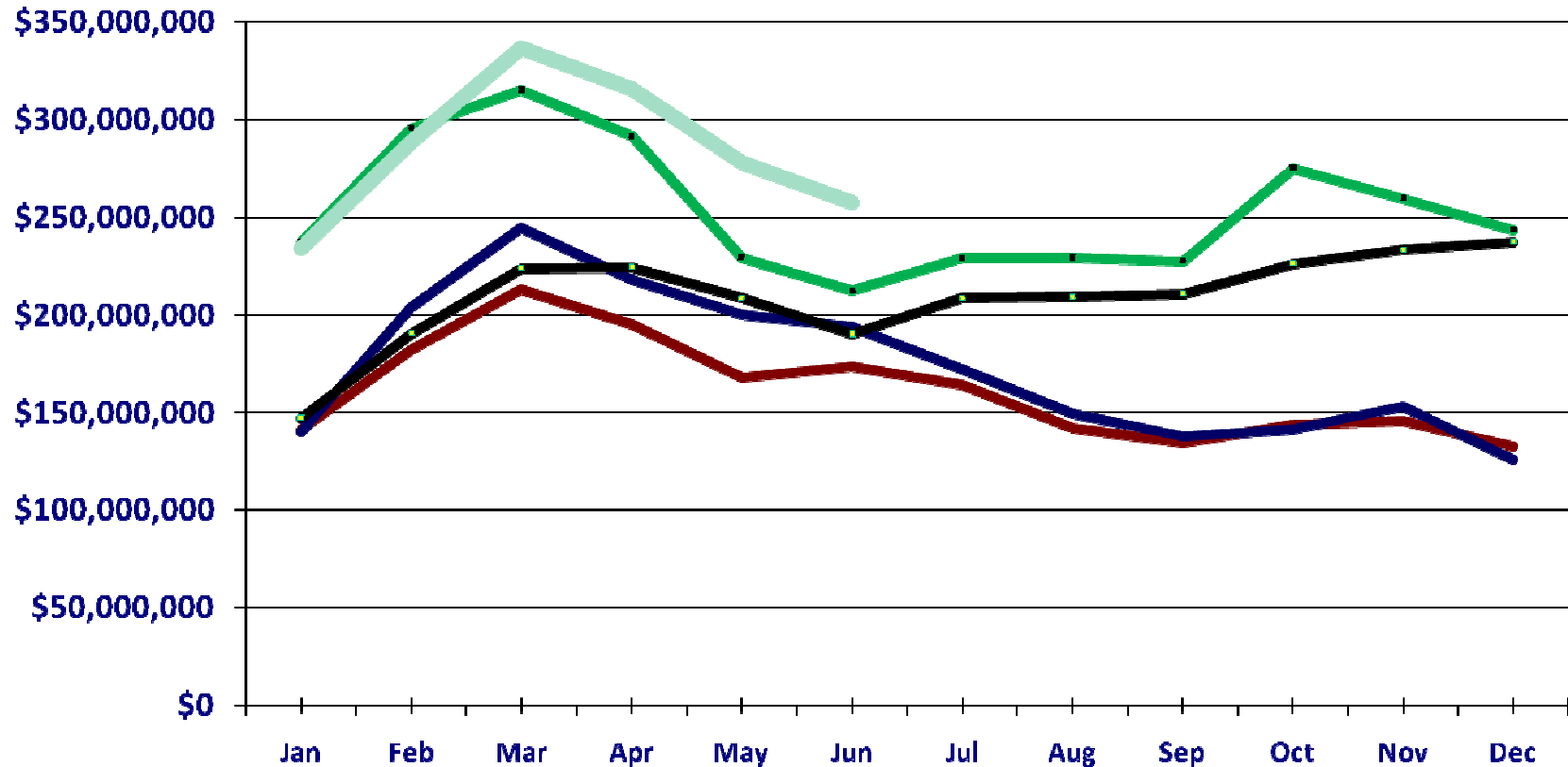
Current external liquidity sources of \$338 Million include:

- FHLB Collateralized LOC – \$115 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 – May 2011						
	Net Economic Value (NEV)	NEV Dollar Change	NEV Percentage Change	NEV Ratio	Reg Limits	Pass / Fail
Base Case	\$27,061,994	-	-	8.15%	Minimum Ratio: 3%	<b>PASS</b>
+ 300 bps increase in interest rates	\$24,557,439	(\$2,504,555)	(9.26%)	7.46%	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 May 2011 was \$394,944
- Retained Earnings ratio was 0.25% as of May 2011 versus 0.13% 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 4<sup>th</sup> highest Total Capital ratio for all corporate credit unions



## Capital Overview

<i>(In Thousands)</i>	<b>May 2011</b>	<b>May 2010</b>	<b>Change</b>
Retained Earnings	<b>\$868.5</b>	\$473.6	+ \$394.9
12-Month DANA	<b>\$349,524.0</b>	\$366,023.5	(\$16,499.5)
Ratios:			
Retained Earnings	<b>0.25%</b>	0.13%	+ 0.12%
Core Capital	<b>0.25%</b>	0.13%	+ 0.12%
Total Capital	<b>7.72%</b>	7.48%	+ 0.24%



# June Board Action Items

## Board of Director's Meeting – June 22, 2011

- Approved May 2011 Financial Statements and Committee Reports
- Approved May 2011 Net Economic Value Report
- Authorized KCCU Management to enter into an agreement with Shared Financial Solutions to provide ACH services
- Approved Merger Plan with Treasure State Corporate Credit Union (TSCCU) prepared by KCCU Management in accordance with the requirements of the Kansas Department of Credit Unions (KDCU)



# 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. Requesting members to sign binding commitment letters indicating their intent to purchase PCC by July 31<sup>st</sup>.
- **At end of June 2011, we have received confirmed commitments from 72 members representing over \$13.4 million in PCC purchases, exceeding the minimum requested amount of PCC.**
- **Currently includes commitments from 21 out-of-state members that didn't previously have a capital investment at KCCU.**
- 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 staff is always available to attend any member board meeting or answer questions.



# 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 to 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.
- KDCU and NCUA conducted on-site review week of June 28<sup>th</sup> and will be recommending to the FRB that KCCU meets the operational readiness standards.
- EBA to be available in August/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. Will be submitted for preliminary approval to KDCU in the first week of July.
- Once preliminary approval is received, member meetings for the purpose of voting on the merger will be scheduled with both memberships – targeting mid-August.
- If memberships of both corporates approve the merger, then 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 19 TSCCU members in June to update members 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.
- Meetings are scheduled with the majority of the remaining TSCCU members in July to provide a similar update.
- 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.



# July 2011

## Calendar of Events



Monday	Tuesday	Wednesday	Thursday	Friday
27	28	29	30	1
4 Independence Day – Office Closed	5	6	7 Staff Meeting KCCU & TSCCU – Joint Operations Call	8
11	12	13 NCUL Golf Fore Kids - Omaha	14 KCCU & TSCCU – Joint Operations Call	15 ALCO Meeting Board Meeting
18	19	20	21 Staff Meeting KCCU & TSCCU – Joint Operations Call	22
25	26 Supervisory Committee Meeting	27	28 KCCU & TSCCU – Joint Operations Call	29