

Kansas Corporate Monthly Membership Report

October 2011



Agenda

- Financial Review
 - September 2011 Results
 - 2011 Budget/Actual Net Income Graph
- Year-to-Date | 3Q Financial Review
 - YTD Actual/Budget Variance
 - Key Driving Factors
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 - Operating Expense Trends
 - Coverage Ratio
- Liquidity Update
 - Historical Member Overnight Deposits
- Interest Rate Risk/NEV Update – August 2011
- Capital Accumulation/Overview
- Board Action Items
- Supervisory Committee Action Items
- Business Model/Plan Update – PCC Commitments
- KCCU/TSCCU Merger Update
- November Calendar of Events



2011 Results

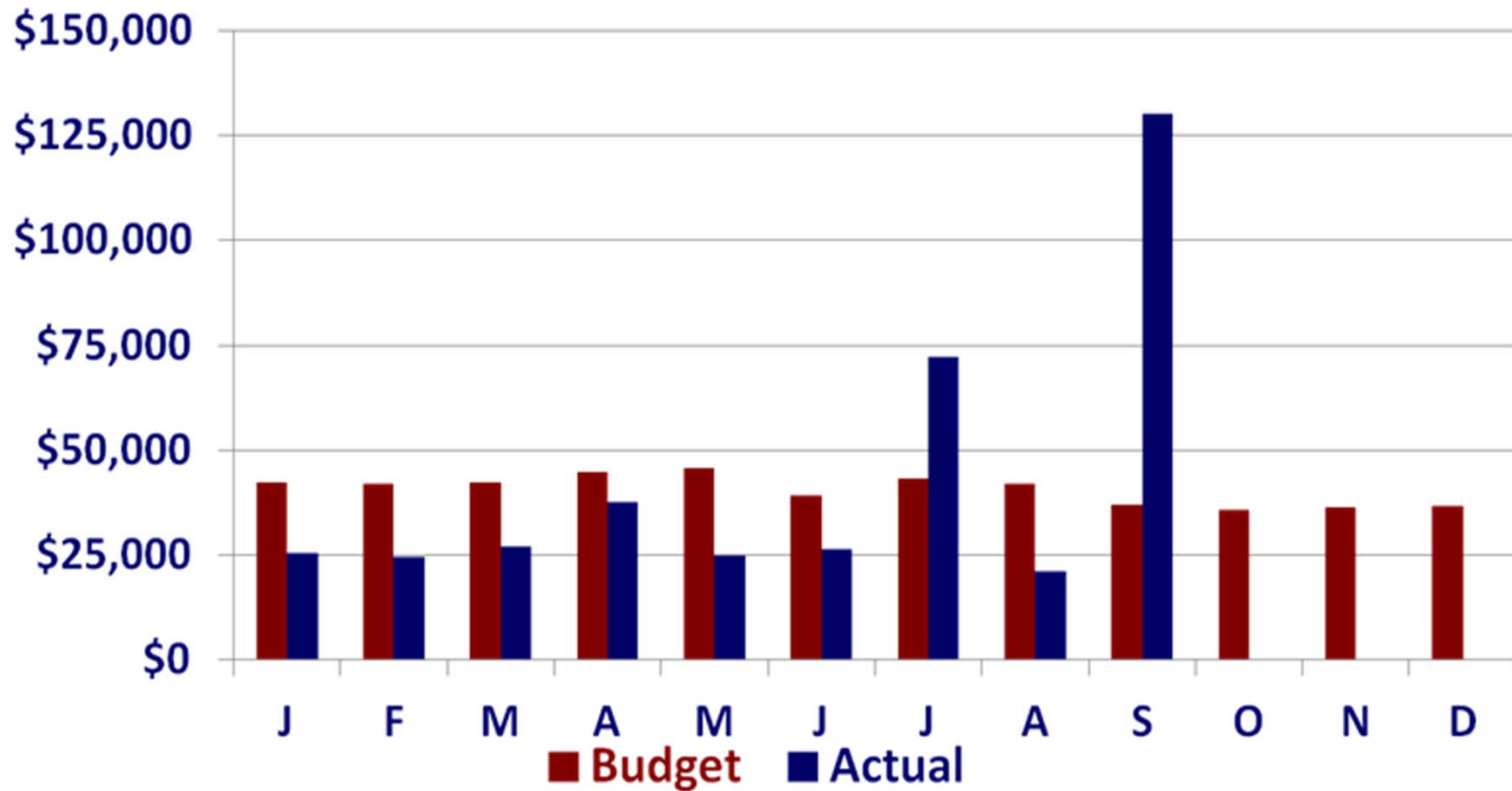
Kansas Corporate ended September 2011 with year-to-date Net Income of \$389,909. Year-to-date ROA is 14.1 basis points. Net Income for September was \$130,185, which was positively impacted by the short-term partnership with another corporate credit union to serve as the Excess Balance Account (EBA) agent for their members generating fee revenue as well as an increase in marketable securities sales which also generated solid commission income for the month.

Daily average net assets for the previous 12-month period increased to \$363.3 million, an increase of \$2.1 million from the prior month and \$21.4 million since December 2010.

As of September 2011, Kansas Corporate had Retained Earnings of \$1,118,704, representing a Retained Earnings ratio of 0.31% and a Total Capital ratio of 8.05%.



2011 Budget/Actual Net Income



3Q 2011 - Year-to-Date Financial Results

<i>(In Thousands)</i>	Actual 2011	Budget 2011	Variance
Net Interest Income	\$743.2	\$819.2	(\$76.0)
+ Fee Income	\$1,656.2	\$1,557.3	+ \$98.9
- Operating Expenses	\$1,980.6	\$1,940.3	(\$40.3)
= Net Operating Income	\$418.8	\$436.2	(\$17.4)
+ Other Gains/Losses	\$34.2	\$0.0	+ \$34.2
- NCUSIF Premium	(\$63.2)	(\$57.6)	(\$5.6)
= Net Income	\$389.9	\$378.7	+ \$11.2



Key Driving Factors

Balances

- YTD Average Assets are \$34.2 million greater than budget
- Majority of deposits in overnight accounts, which are at a lower spread and fed funds effective rate has been lower than budgeted reducing KCCU's return on investments

Corporate Stabilization Fund Assessment & Other Gains

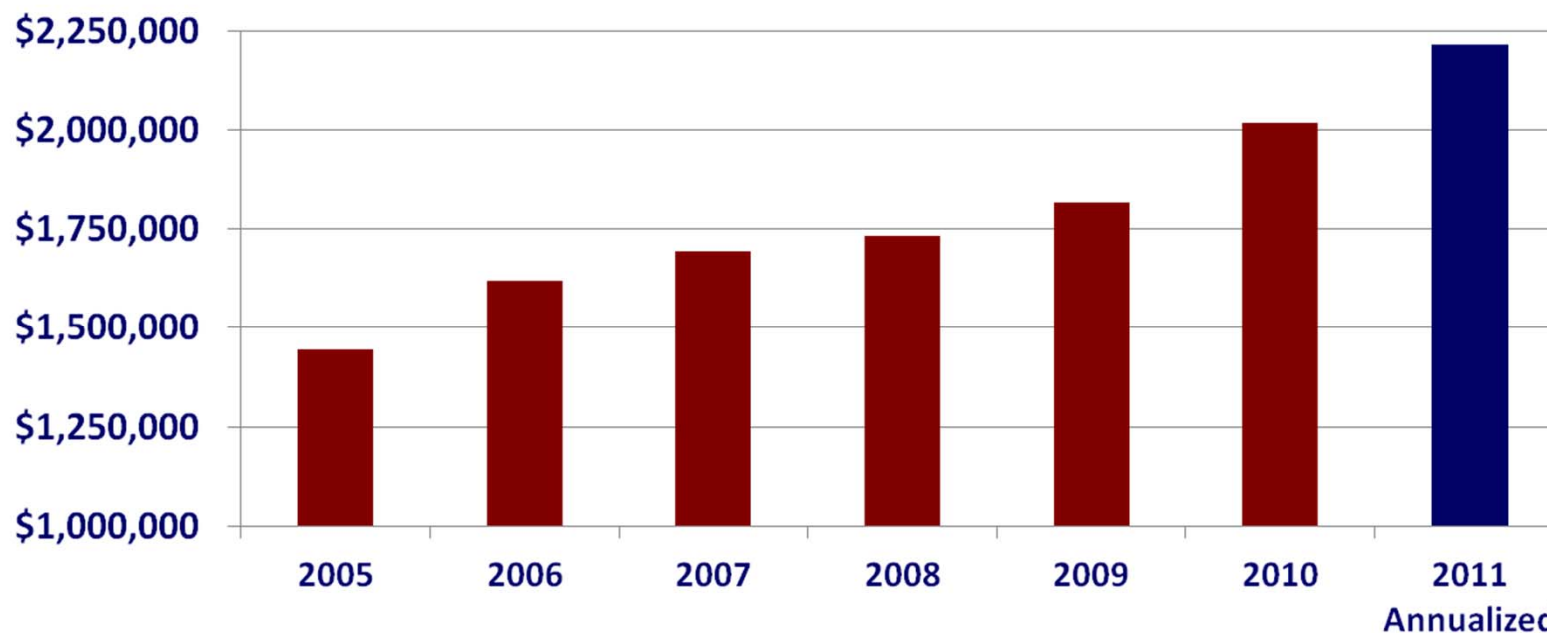
- KCCU recognized the entire 2011 Assessment amount by September month-end
- Marketable securities were sold for an unbudgeted gain in July

Fees/Operating Expenses

- Fee revenue higher due to short-term EBA partnership with another corporate credit union
- Operating expenses are slightly higher than budgeted due primarily to expenses associated with merger activity; switching of vendors; and additional product usage by membership
- Despite expenses being slightly higher than 2011 budget, they remain controlled as total operative expenses are only \$3,600 or 0.2% higher than 2010 expenses for the first nine months of the year



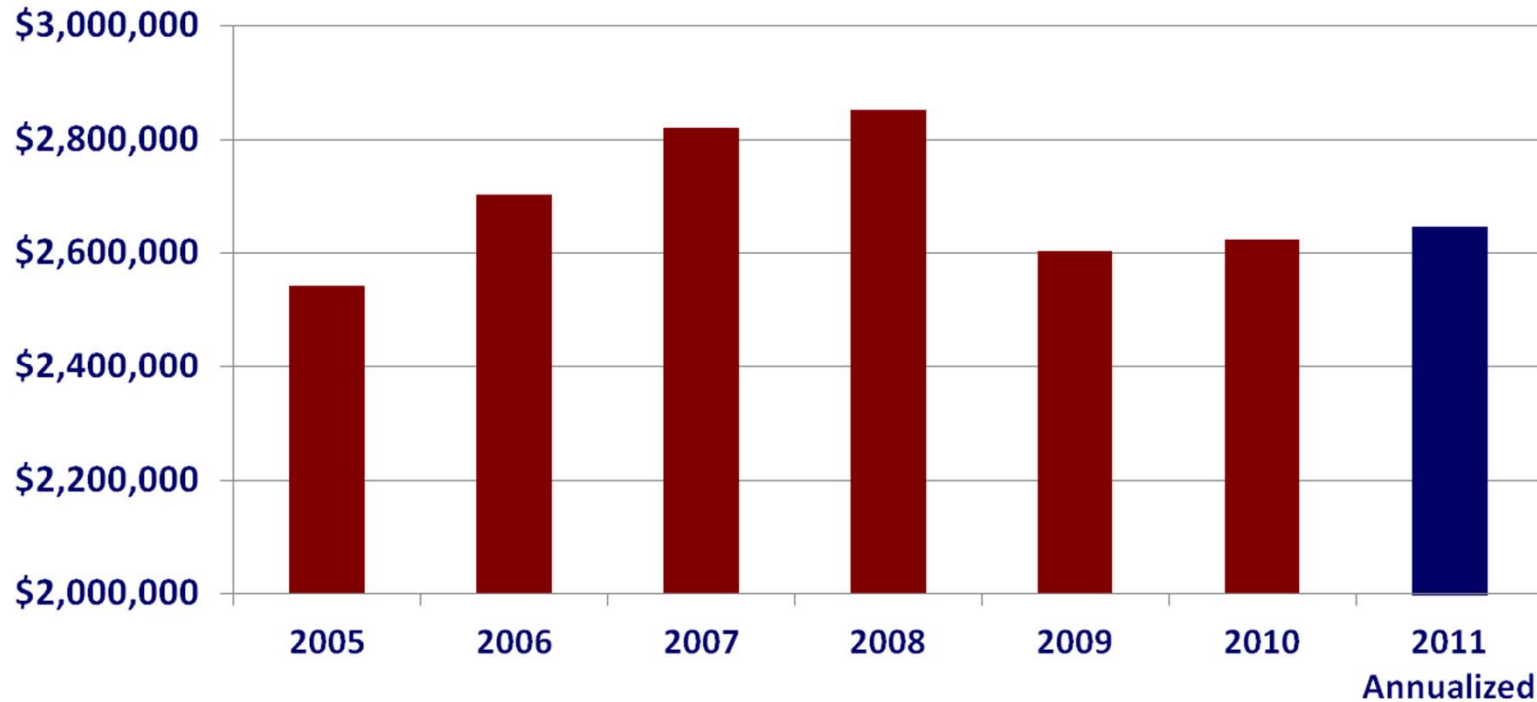
Fee Income Trends



Increases in fee income have been realized over the years and exceeded \$2 million for the first time in 2010. On pace to reach \$2.2 million in 2011.



Operating Expense Trends

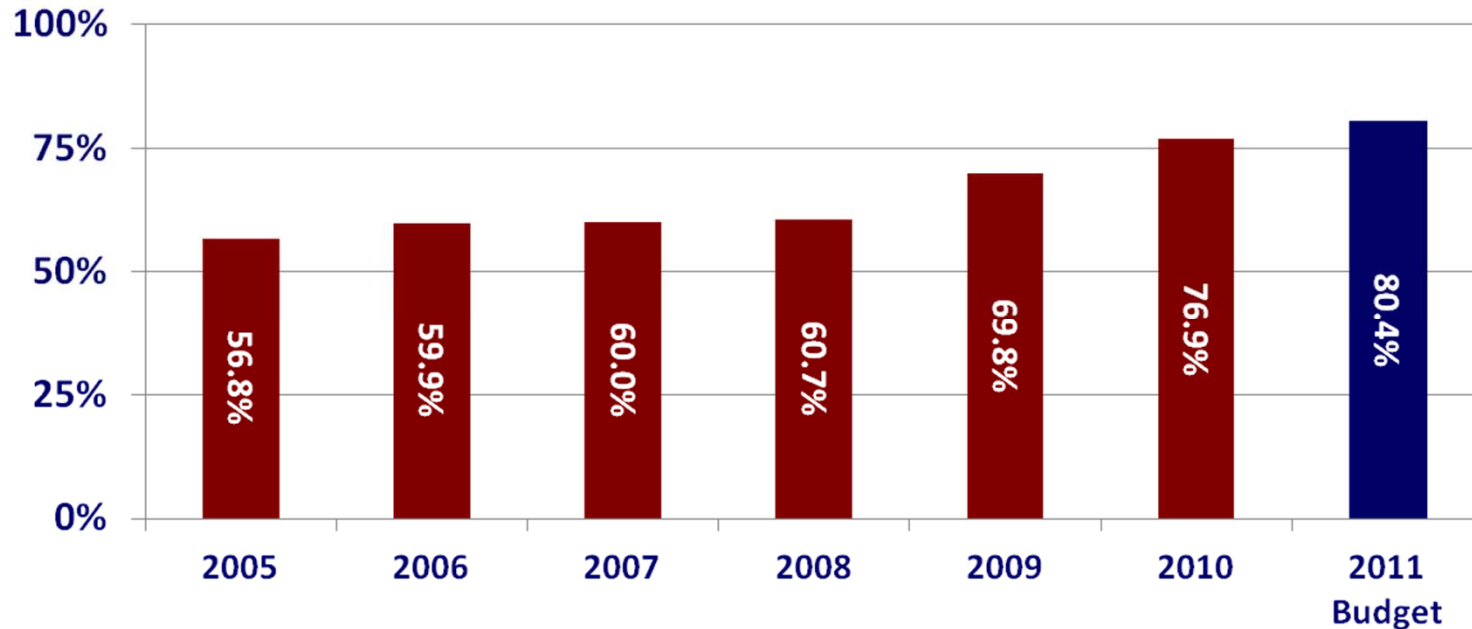


Expense reductions implemented over the past several years have contained our operating expenses to 2006 levels or lower.



Coverage Ratio

(Fee Income / Operating Expenses)



Fee income continues to cover a greater percentage of operating expenses each year. Annualized fee income and operating expenses project a Coverage Ratio of 83.6% for 2011. Percentage has increased more than 20% in the past five years.

This higher coverage ratio allows KCCU to not be overly reliant on net interest income.



Liquidity Update

Liquidity remains strong and continues to exceed our internal projections. Liquidity balances remain higher or similar to the previous four years as shown on the next slide.

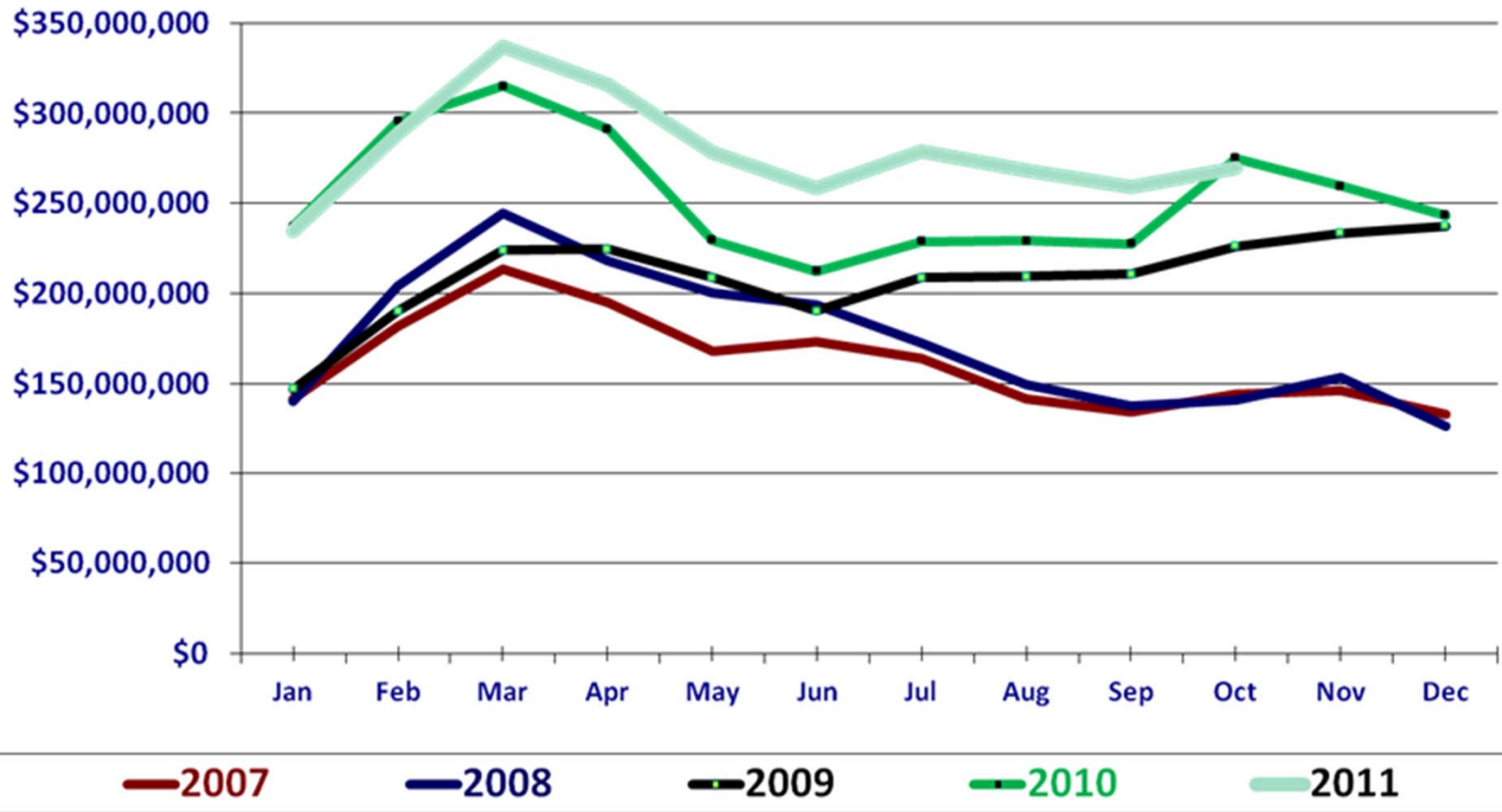
Current external liquidity sources of \$340 Million include:

- FHLB Collateralized LOC – \$142 Million
- TCCULGP – \$75 Million
- SunTrust Bank Advised LOC - \$10 Million
- Cross-Corporate Deposit Agreement – \$90 Million
- USC Bridge Advised LOC - \$23 Million

No external funding needs envisioned in the foreseeable future.



Historical Member Overnight Deposits



Interest Rate Risk – Net Economic Value (NEV)

NEV Testing Results – August 2011						
	Net Economic Value (NEV)	NEV Dollar Change	NEV Percentage Change	NEV Ratio	Reg Limits	Pass / Fail
Base Case	\$26,743,051	-	-	8.43%	Minimum Ratio: 3%	PASS
+ 300 bps increase in interest rates	\$23,749,186	(\$2,993,865)	(11.20%)	7.57%	Minimum Ratio: 3% Max % Change: (15%)	PASS

KCCU passes 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 September 2011 was \$485,294
- Retained Earnings ratio was 0.31% as of September 2011 versus 0.18% one year ago
- Capitalized members have contributed more than \$21 Million in Perpetual Contributed Capital
- The capital ratios of the revised corporate credit union regulation will become effective at the end of October 2011 – **KCCU meets all new capital ratios and will be considered “Well Capitalized”**



Capital Overview

<i>(In Thousands)</i>	3Q 2011	3Q 2010	Change
Retained Earnings	\$1,118.7	\$633.4	+ \$485.3
12-Month DANA	\$363,344.5	\$347,511.9	+ \$15,832.6
Ratios:			
Retained Earnings	0.307%	0.182%	+ 0.125%
Total Capital	8.054%	7.849%	+ 0.205%



October Board Action Items

Board of Director's Meeting – October 26, 2011

- Approved September 2011 Financial Statements and Committee Reports
- Approved proposed revisions to KCCU's Investment Policy in order to comply with requirements of revised NCUA Regulation Part 704 governing corporate credit unions
- Approved proposed revisions to KCCU's Asset Liability Management Policy in order to comply with requirements of revised NCUA Regulation Part 704
- Received update from management on the following issues: recent merger activities with Treasure State Corporate Credit Union (TSCCU); conversion of ACH users to the new coreCONNECT system; current PCC commitments; current status regarding the future of USC Bridge payment systems/products; and an update on meeting with Idaho credit unions to review KCCU's Business Model



October Supervisory Committee Action Items

Supervisory Committee Meeting – October 25, 2011

- Reviewed and accepted the 2011 ACH Compliance Audit conducted by J. Tenbrink & Associates. The audit was performed to verify compliance with 2011 ACH Rules. Results indicated that KCCU is in compliance with all of the audit requirements and there were no corrective actions recommended.
- Reviewed and accepted the 2011 BSA Compliance Audit conducted by J. Tenbrink & Associates. The audit reviewed KCCU's compliance with BSA, OFAC and the U.S. Patriot Act. Results indicated that no risk exposure points were identified at KCCU and no corrective actions were recommended.
- Reviewed and accepted the 3rd quarter internal audits of the vault cash in the Kansas City facilities of Brinks & PSI Garda. No discrepancies were noted in the audit and cash balances reconciled to general ledger balances.
- Received update from management that KDCU and NCUA have scheduled their annual joint examination for the weeks of November 7th and 14th. The exam team will consist of approximately five examiners in week one and nine examiners in week two.



Business Model/Plan Update – PCC Commitments

- PCC investment transactions occurred on September 30th and throughout October as additional members finalized their commitment and returned signed documents
- **As of October 28th, 127 members have purchased over \$21 Million in PCC, exceeding initial minimum requested amount**
 - **Includes commitments from 33 out-of-state members that didn't previously have a capital investment at KCCU**
- At the invitation of the Idaho Credit Union League, KCCU staff met with 23 Idaho credit unions to review our Business Model with interested credit unions



KCCU & TSCCU Merger Plan Update

- In August, both memberships approved the Proposed Merger
- The Final Merger Plan was completed in accordance with NCUA's Corporate Credit Union Merger Manual and was submitted to NCUA on October 7th
- Final approval of Merger Plan was received from the appropriate state regulatory agencies
- NCUA approval process has a longer timeline. NCUA's required on-site review will be completed in conjunction with the annual joint examination process scheduled in mid-November.
- The Merger Plan will most likely be on the NCUA agenda for the December 2011 NCUA Board meeting
- KCCU Perpetual Contributed Capital (PCC) Informational Packet was sent to all TSCCU members the first of September and commitments were asked to be made by November 15, 2011
- **To date, 44 TSCCU members have approved PCC investments in KCCU amounting to \$9.4 million**



November 2011

Calendar of Events



Monday	Tuesday	Wednesday	Thursday	Friday
31	1	2 ALCO Meeting LT – Weekly Development Call	3 Staff Meeting KCCU & TSCCU – Joint Operations Call	4
7 KDCU NCUA Exam	8 KDCU NCUA Exam Montana Fall Forum – Bozeman, MT	9 KDCU NCUA Exam Montana Fall Forum – Bozeman, MT LT – Weekly Development Call	10 KDCU NCUA Exam Montana Fall Forum – Bozeman, MT Wire Transfer Internal Audit KCCU & TSCCU – Joint Operations Call	11 Veterans' Day – Office Closed
14 KDCU NCUA Exam	15 KDCU NCUA Exam	16 KDCU NCUA Exam LT – Weekly Development Call	17 KDCU NCUA Exam Staff Meeting KCCU & TSCCU – Joint Operations Call	18 KDCU NCUA Exam
21 Credit Committee Meeting	22 Supervisory Committee Meeting	23 LT – Weekly Development Call	24 Thanksgiving Day – Office Closed	25
28	29	30 Board Meeting ALCO Meeting LT – Weekly Development Call	1 Staff Meeting KCCU & TSCCU – Joint Operations Call	2