VolCorp

2014 Financial Analysis

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Introduction

An integral part of a credit union's investment policies, procedures and practices is the analysis of all institutions in which it has invested its surplus funds—including corporate credit unions. Part 703 of the National Credit Union Administration's (NCUA) Rules and Regulations states:

> *"A Federal credit union must conduct and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation. A Federal credit union must update this analysis at least annually for as long as it holds the investment."*

ASSETS (in thousands)

December 31,	2014	2013	2012	2011	2010
Cash and Uncollected Cash Items	$ 287,293	228,434	333,645	193,975	184,982
Certificates of Deposit and balances with other financial institutions	3,072	1,101	2,335	133,277	548,610
U.S. Government-sponsored agency securities	436,533	365,223	539,073	562,729	316,087
Asset-backed Securities	468,826	407,579	282,130	300,991	275,767
Corporate Bonds	-	-	-	9,993	9,997
Federal Home Loan Bank Stock	9,680	9,819	9,819	5,829	5,829
Total Investments	918,111	783,722	833,357	1,012,819	1,156,290
Unrealized Gains and Losses on AFS	(120)	(1,916)	(183)	(2,150)	(318)
Net Investments	917,991	781,806	833,174	1,010,669	1,155,972
Demand Loans	6,409	4,999	4,656	433	2,549
Premises and Equipment	3,541	3,561	3,690	3,923	4,089
NCUSIF Capitalization Deposit	747	613	646	448	476
All Other Assets	4,855	2,909	4,114	3,406	3,627
TOTAL ASSETS	$ 1,220,836	1,022,322	1,179,925	1,212,854	1,351,695

In an Investment Guidance Paper, the NCUA further clarified its position on the analysis of corporate credit unions:

> *"NCUA recognizes that a small credit union may be unable to perform a detailed credit analysis. For a small credit union, investing funds in corporate credit unions may be an appropriate risk management alternative to investing in securities. However, NCUA expects a larger credit union to perform a credit analysis whenever there is credit risk. The uninsured portion of an investment in any insured institution presents such risk. NCUA supervision of corporate credit unions does not serve as a guarantee of the investment products offered by corporates, and does not ensure against potential loss. A credit union should review an institution's income, capital, and financial trends. In addition, for corporate credit unions, a credit union should review the corporate's operating level according to Section 704.8 and be aware of its exposure to a 300 basis point shift in interest rates."*

Though NCUA's investment regulation specifically exempts state-chartered credit unions, most are using the regulation as a guideline in their investment policies, procedures, and practices. Recognizing that the analysis of a corporate credit union can be burdensome and that some information may not be readily available, we are providing you with this comprehensive analysis of Volunteer Corporate Credit Union.

LIABILITIES & EQUITY (in thousands)

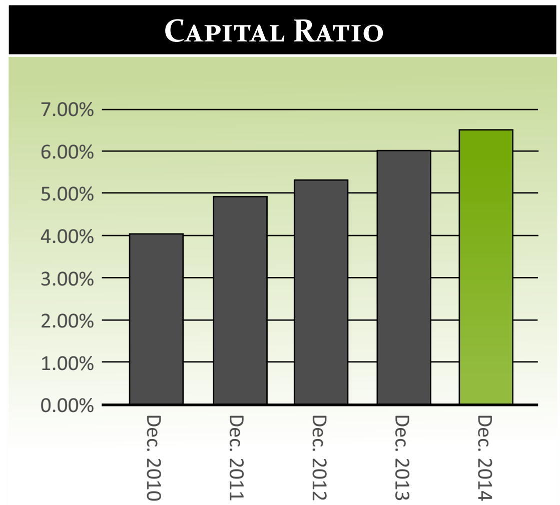
December 31,	2014	2013	2012	2011	2010
Deposits in Collection	$ 1,432	902	1,654	1,087	1,183
Accrued expenses and other liabilities	51,777	46,734	67,353	60,150	32,487
Federal Home Loan Bank Notes Payable	238,288	71,256	-	-	-
Total Liabilities	291,497	118,892	69,007	61,237	33,670
Daily Shares	824,353	785,240	992,927	1,043,349	1,130,581
Term Shares	23,361	42,164	41,586	46,588	128,589
Total Shares	847,714	827,404	1,034,513	1,089,937	1,259,170
Member Capital Shares	-	6,363	6,489	7,396	53,794
Perpetual Contributed Capital	69,242	60,780	60,780	48,647	-
Equity acquired in merger	863	-	-	-	-
Reserves and Undivided Earnings	11,640	10,799	9,319	7,787	5,379
Unrealized Gains and Losses on AFS	(120)	(1,916)	(183)	(2,150)	(318)
Total Capital	81,625	76,026	76,405	61,680	58,855
TOTAL LIABILITIES AND EQUITY	**$ 1,220,836**	**1,022,322**	**1,179,925**	**1,212,854**	**1,351,695**

REGULATORY ISSUES

Under the current regulatory requirements of Part 704 of the NCUA's Rules and Regulations, corporate credit unions' capital is segregated into two primary categories. These categories are *Adjusted Core Capital* (the basis of which is *Core Capital*) and *Supplementary Capital*.

Core Capital is defined as:

> *"(1) Retained earnings;*
> *(2) Perpetual contributed capital;*
> *(3) The retained earnings of any acquired credit union, or of an integrated set of activities and assets, calculated at the point of acquisition, if the acquisition was a mutual combination; and*
> *(4) Minority interests in the equity accounts of CUSOs that are fully consolidated. However, minority interests in consolidated ABCP programs sponsored by a corporate credit union are excluded from the credit unions' core capital or total capital base if the corporate credit union excludes the consolidated assets of such programs from risk-weighted assets pursuant to appendix C of this part."*



Adjusted Core Capital is defined as:

> *"Adjusted core capital means core capital modified as follows:*
> *(1) Deduct an amount equal to the amount of the corporate credit union's intangible assets that exceed one half percent of the corporate credit union's moving daily average net assets, but the NCUA, on its own initiative, upon petition by the applicable state regulator, or upon application from a corporate credit union, may direct that a particular corporate credit union add some or all of these excess intangibles back to the credit union's adjusted core capital;*
> *(2) Deduct investments, both equity and debt, in unconsolidated credit union service organizations (CUSOs);*
> *(3) If the corporate credit union, on or after October 20, 2011, contributes any perpetual contributed capital (PCC), or maintains any NCAs, at another corporate credit union, deduct an amount equal to this PCC or NCA"*
> *(4) Beginning on October 20, 2016, and ending on October 20, 2020, deduct any amount of perpetual contributed capital (PCC) that causes PCC minus retained earnings, all divided by moving daily net average assets, to exceed two percent; and*
> *(5) Beginning after October 20, 2020, deduct any amount of PCC that causes PCC to exceed retained earnings."*

Supplementary Capital is defined as the sum of the following items:

> *"(1) Nonperpetual capital accounts, as amortized under §704.3(b)(3);*
> *(2) Allowance for loan and lease losses calculated under GAAP to a maximum of 1.25 percent of risk-weighted assets; and*
> *(3) Forty-five percent of unrealized gains on available-for-sale equity securities with readily determinable fair values. Unrealized gains are unrealized holding gains, net of unrealized holding losses, calculated as the amount, if any, by which fair value exceeds historical cost. The NCUA may disallow such inclusion in the calculation of supplementary capital if the NCUA determines that the securities are not prudently valued."*

There are numerous ratios corporate credit unions calculate to determine the adequacy of capital and reserving requirements:

The *Capital Ratio* is calculated as follows:

> *"The corporate credit union's capital divided by its moving daily average net assets,"*

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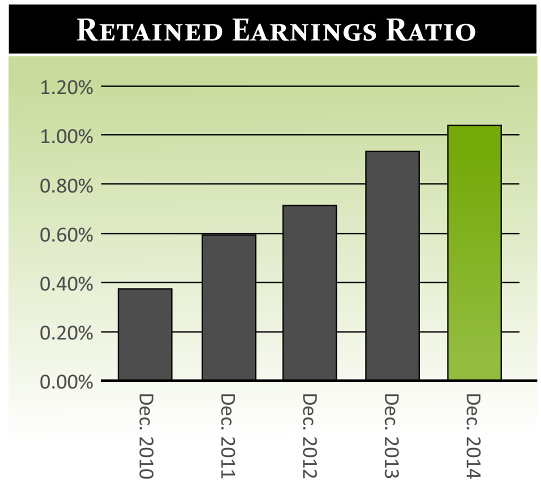
REGULATORY ISSUES (continued)



The *Retained Earnings Ratio* is calculated as follows:

The corporate credit union's retained earnings divided by its moving daily average net assets.

The *Leverage Ratio* is calculated as follows:

"Leverage ratio means, on or after October 21, 2013, the ratio of adjusted core capital to moving daily average net assets. This is the permanent leverage ratio."

The *Tier 1 Capital Ratio* is calculated as follows:

"Tier 1 capital means adjusted core capital. Tier 1 risk-based capital ratio means the ratio of Tier 1 capital to the moving monthly average net risk-weighted assets."

The *Tier 2 Capital Ratio* is calculated as follows:

"Tier 2 capital means supplementary capital plus any perpetual contributed capital deducted from adjusted core capital."

The *Total Risk-Based Capital Ratio* is calculated as follows:

"Total risk-based capital ratio means the ratio of total capital to moving monthly average net risk-weighted assets."

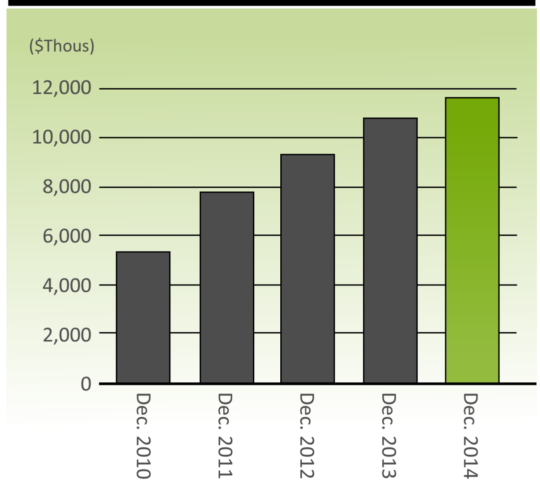
The NCUA's capital requirements for corporates are set forth in to Part 704.3 as follows:

"(1) A corporate credit union must maintain at all times:
(i) A leverage ratio of 4.0 percent or greater;
(ii) A Tier 1 risk-based capital ratio of 4.0 percent or greater; and
(iii) A total risk-based capital ratio of 8.0 percent or greater.
(2) To ensure it meets its capital requirements, a corporate credit union must develop and ensure implementation of written short- and long-term capital goals, objectives, and strategies which provide for the building of capital consistent with regulatory requirements, the maintenance of sufficient capital to support the risk exposures that may arise from current and projected activities, and the periodic review and reassessment of the capital position of the corporate credit union.
(3) Beginning with the first call report submitted on or after October 21, 2013, a corporate credit union must calculate and report to NCUA the ratio of its retained earnings to its moving daily average net assets. If this ratio is less than 0.45 percent, the corporate credit union must, within 30 days, submit a retained earnings accumulation plan to the NCUA for NCUA's approval. The plan must contain a detailed explanation of how the corporate credit union will accumulate earnings sufficient to meet all its future minimum leverage ratio requirements, including specific semiannual milestones for accumulating retained earnings. In the case of a state-chartered corporate credit union, the NCUA will consult with the appropriate state supervisory authority (SSA) before making a determination to approve or disapprove the plan, and will provide the SSA a copy of the completed plan. If the corporate credit union fails to submit a plan acceptable to NCUA, or fails to comply with any element of a plan approved by NCUA, the corporate will immediately be classified as significantly undercapitalized or, if already significantly undercapitalized, as critically undercapitalized for purposes of prompt corrective actions. The corporate credit union will be subject to all the associated actions under §704.4."

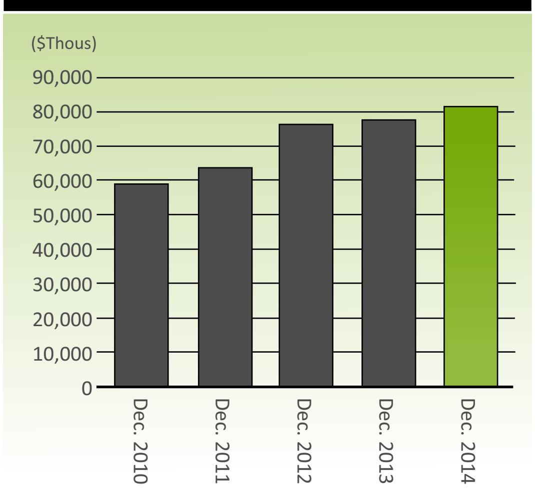
RETAINED EARNINGS AND TOTAL CAPITAL

In 2014, VolCorp continued its trend of profitability since the write-off of the US Central capital investment in 2008 and 2009. In fact, VolCorp showed profitability, not only in aggregate for the year, but also for each month throughout 2014 and did so despite the continued compression of interest rates. Significantly contributing to this earnings success were strong fee income performance and diligent expense controls. Diluting earnings in 2014, but boding well for the future is the fact that VolCorp also realized the completion in 2014 of all one-time merger related expenses from the merger with Kentucky Corporate Credit Union. Maintaining profitability is heavily reliant on careful balance sheet management, including monitoring the performance of VolCorp's securities and making the appropriate strategic decisions as dictated by the then current economic environment. VolCorp held no impaired or non-compliant securities during the year, and did not experience write-downs on any securities in its portfolio during 2014. After another successful year of business operations, the resulting 2014 year-end retained earnings balance was $11.64 million. Additionally, all member capital remains 100% intact and unimpaired.

Retained Earnings



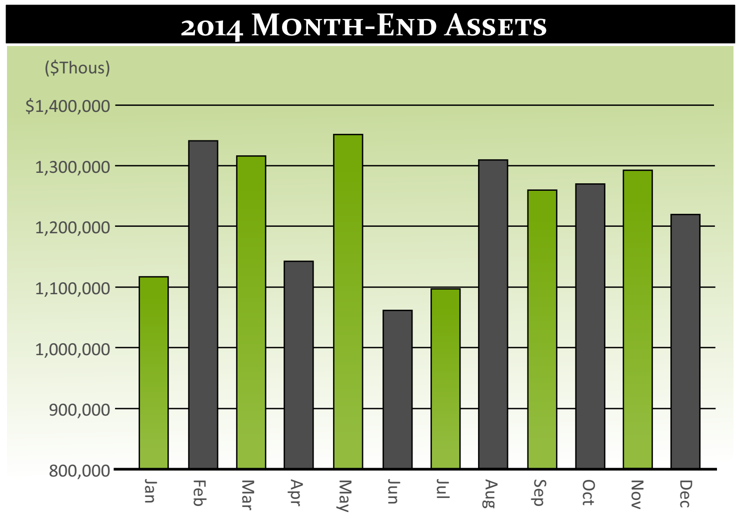
Total Capital



Corporate credit unions' balance sheets reflect the liquidity needs and cash flows of its members. Therefore, it is not unusual for a corporate credit union to experience asset fluctuations of 25 percent or more, not only from month-to-month, but also within periods of less than 30 days. In addition, corporate credit unions' month-end assets are often significantly inflated due to routine payrolls that flow into their member credit unions. As a result, it can be misleading to analyze a corporate credit union's retained earnings and capital ratios using month-end data. The NCUA recognized the distortion such fluctuations can cause, and, in its corporate credit union regulations, adopted the concept of using the corporates' moving daily average net assets (DANA) when calculating the retained earnings and capital ratios. For the year ending December 31, 2014, Volunteer Corporate's moving DANA rose to $1.21 billion compared with $1.16 billion for 2013. This increase is due in part to the merger with Kentucky Corporate Credit Union. VolCorp also continues to hold a large volume of off-balance sheet assets, helping members manage investments in SimpliCD products, marketable securities, and the Federal Reserve's Excess Balances Account. Reserves grew $1.7 million in 2014, partly due to strong earnings and partly from equity acquired in the merger offset by payment of dividends. By the same token, Perpetual Contributed Capital grew in 2014 by a net of $8.46 million, largely due to the merger with Kentucky Corporate Credit Union. VolCorp's strong year resulted in a retained earnings ratio of 1.04 percent at December 31, 2014, as compared to .93 percent in 2013. The healthy earnings for 2014 caused the Leverage Ratio to increase from 6.03 percent in 2013 to 6.52 percent at year-end 2014.

NET ECONOMIC VALUE (NEV) ANALYSIS

NEV is the net present value of a corporate's assets and the value of the assets' embedded options, minus the net present value of the corporate's shares and liabilities and the value of the shares' and liabilities' embedded options. A corporate's NEV Ratio is computed by dividing the NEV by the mark-to-market value of assets. NEV and the NEV Ratio are used to measure the inherent risk in a financial institution's balance sheet and as a proxy assessment of the liquidation value of the financial institution under certain interest rate environments. Under part 704.8(d)(ii) of its Rules and Regulations, the NCUA Board set a minimum base NEV Ratio of 2 percent for all corporate credit unions. In addition, the Board set a minimum NEV Ratio and maximum permissible downward NEV shifts under industry standard +/- 100, 200, and 300 basis point rate shocks. Shocking a corporate's balance sheet means determining the impact on the NEV and the NEV Ratio of an immediate, parallel, and sustained upward and downward shift in market interest rates. The NEV shift is the percent increase or percent decrease of current capital. Current capital is the difference between the mark-to-market value of assets and liabilities at current interest rates. The permissible, downward NEV shift is dependent, in part, upon the level of authority granted to each corporate by the NCUA Board. As a starting point, all corporate credit unions have the authority to operate at Base level. At this level, the permissible negative shift in the corporates' NEV Ratio is 15 percent under +/- 100, 200, and 300 basis point rate shocks. Each corporate credit union may petition the NCUA Board to operate under expanded authority. To obtain such authority, the corporate credit union must meet all the requirements of Part 704 of the NCUA's Rules and Regulations and fulfill additional capital, management, infrastructure, and asset liability requirements.



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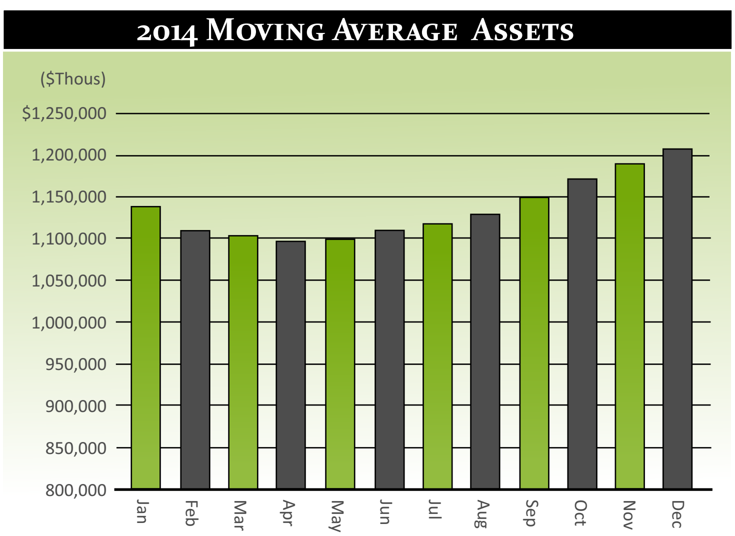
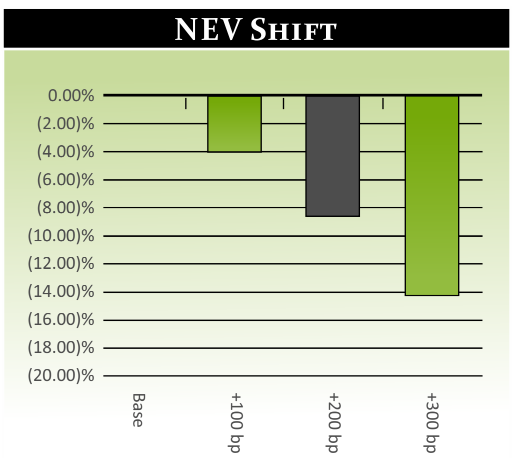


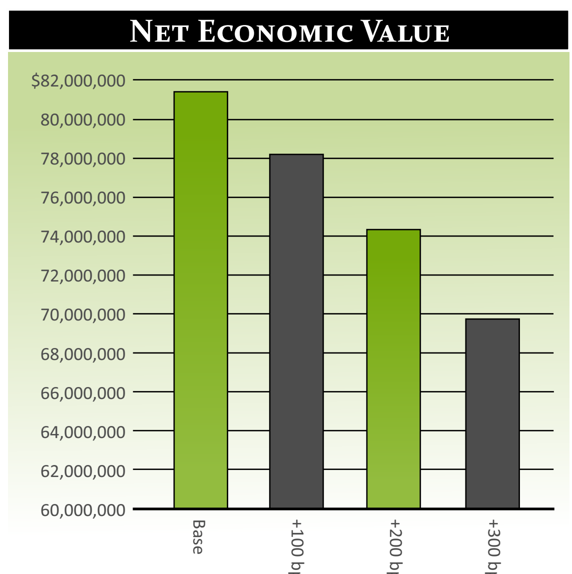
NET ECONOMIC VALUE (NEV) ANALYSIS (continued)

In September 1997, Volunteer Corporate's Board of Directors requested authority to operate at the expanded level termed *Base Plus*. In November 1997, Volunteer Corporate became the first corporate credit union to receive authority by the NCUA Board to operate above Base level. At Base Plus, the Corporate's permissible negative NEV shift increased from 15 percent to 20 percent. As of December 31, 2014, the cumulative change in Volunteer Corporate's NEV is a decrease of $11.84 million in an immediate up 300-basis point scenario. Given the December 31, 2014 level of interest rates with the Fed Funds Target rate set at 0-25 basis points, a downward shock scenario is non-applicable. This equates to an NEV shift of negative 14.32 percent – well below the maximum 20 percent negative shift permitted by Federal law.

The following illustrates the impact on Volunteer Corporate's Net Economic Value of the various interest rate scenarios as of December 31, 2014:

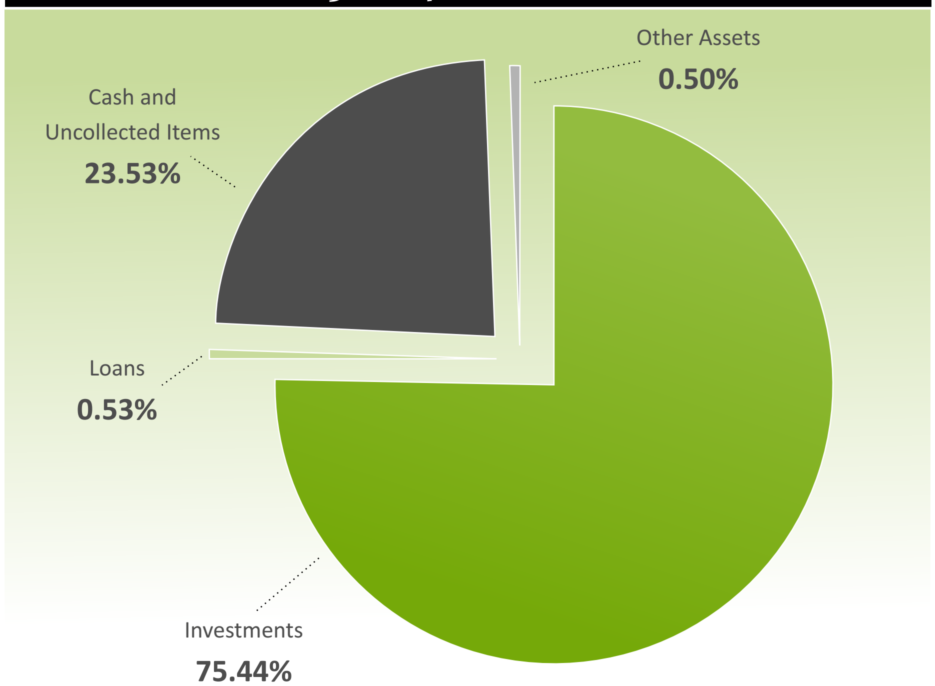
	Base	+100bp	+200bp	+300bp
NEV (thous.)	$ 81,493	$ 78,241	$ 74,386	$ 69,821
∆ **NEV** (from Base, thous.)	$ 0	(3,252)	(7,107)	(11,671)
%∆ **NEV** (from Base)	0.00%	(3.99)%	(8.72)%	(14.32)%





The quality of a financial institution's assets is one of the most important factors contributing to its financial soundness. In its 1997 study of the credit union movement, the Treasury addressed the quality of the corporate credit unions' assets in general when it stated, "Corporate credit unions invest in high-quality assets and thus have limited exposure to credit risk. In general, corporate credit unions' investment portfolios are of very high credit quality." VolCorp can still be described as such and could proudly claim the same throughout the collapse of the mortgage market and the resulting turmoil in both the securities markets and the securities portfolios of many financial institutions in recent years. As of December 31, 2014, 99.5 percent of VolCorp's assets consisted of cash and uncollected cash items, loans to member credit unions, and high-quality, low credit-risk investments. Furthermore, as of December 31, 2014, 100% of VolCorp's marketable security holdings were rated AA or AAA and 56.7% were issued or guaranteed by U.S. Government Agencies. Volunteer Corporate monitors the quality of its assets through extensive monthly credit analyses and portfolio modeling. As of March 31, 2015, the continued quality of VolCorp's investments was illustrated in that VolCorp had a marketable securities portfolio totaling $907 million with a total net unrealized gain of $352 thousand.

December 31, 2014 Asset Distribution



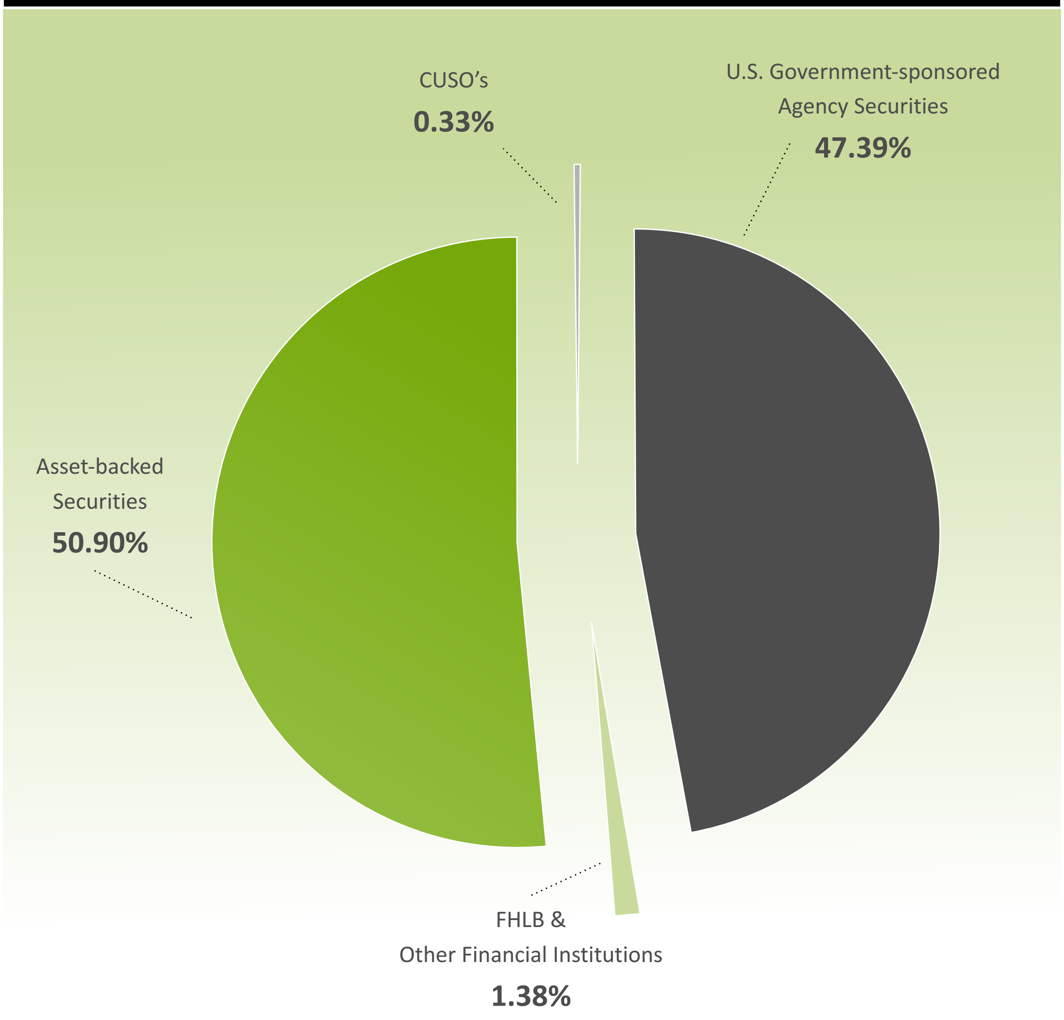
MEMBER LOANS

The Corporate has a responsibility to meet the liquidity needs of its membership, while protecting the deposits of its member credit unions. In response to this need, Volunteer Corporate has extended approved advised lines of credit to 298 member credit unions totaling $1.0 billion. As of December 31, 2014, total outstanding loans and lines of credit to members equaled $6.41 million, well below one percent of total assets. The quality of the loan portfolio is governed by the loan policies established by the Board of Directors and by the procedures followed by management in implementing these policies. All lines are reviewed on a semi-annual basis and detailed financial analyses are performed. From this review, it is determined which credit unions will be monitored on a more frequent basis and which credit unions may need additional attention. Moreover, each line of credit is secured by a general pledge of the borrowing credit union's assets. No loans at Volunteer Corporate are currently delinquent and delinquency is extremely rare. Since its charter, Volunteer Corporate has never charged off a loan to a member credit union.

INVESTMENTS

When making investment decisions, Volunteer Corporate has always kept a close eye on safety, liquidity, and yield. In order to minimize credit risk, Volunteer Corporate's policies allow funds to be placed only in Federal Home Loan Bank of Cincinnati, Federal Reserve Bank of Atlanta, U.S. Government-sponsored agency securities, federal agency securities or in other highly rated securities and top-rated banks and domestically chartered corporations. These policies further limit investments in banks, corporations and securities individually and in aggregate, and require extensive analysis and monitoring. The Corporate's approved-institution analysis considers size, capital adequacy, asset quality, management, earnings performance, and liquidity.

December 31, 2014 Investment Distribution



EARNINGS

Like all other credit unions, Volunteer Corporate is a not-for-profit financial cooperative, existing solely for the benefit of its members. The corporate's policy is to help its members increase their net income by providing cost-effective services and attractive investment yields. Since any profit would come at the expense of its members, it is not the policy of Volunteer Corporate to earn the maximum net income possible. Even so, the corporate must maintain a stable earnings position in order to pay dividends, cover budgeted expenses, provide service excellence, develop new services, maintain capital adequacy, and meet statutory reserve requirements. The events of the last several years have caused earnings to become all the more paramount for VolCorp as we work to increase our retained earnings and continue to provide services at competitive prices and investments at competitive yields. It is the policy of the corporate's Board of Directors to not increase earnings by sacrificing the safety of the members' shares through high risk investments or investment practices. As a result, Volunteer Corporate operates on an extremely thin operating margin and can do so only if efficiencies are maximized and expenses are controlled. Net income for 2014 equaled $1.49 million for a 12 basis point return on assets as efficiencies were maintained and our position of strength continued to garner the confidence of our members.

Comparative Income and Expenses (in thousands)

December 31,	2014	2013	2012	2011	2010
Interest Income					
Certificates of Deposit and balances with other financial institutions	$ 1,216	1,073	1,701	2,889	6,803
Investment Securities	4,157	4,076	5,311	4,747	3,588
Loans	51	29	17	14	9
Total Interest Income	5,424	5,178	7,029	7,650	10,400
Interest Expense					
Dividends on Shares	1,010	1,028	1,839	3,144	5,257
Interest on Borrowed Funds	179	76	119	4	316
Total Interest Expense	1,189	1,104	1,958	3,148	5,573
Net Interest Income	4,235	4,074	5,071	4,502	4,827
Non-Interest Income					
Item Processing	2,999	2,984	3,057	3,216	3,507
Gain(Loss) on Securities	28	95	183	114	250
Other	3,821	3,618	3,774	2,841	2,534
Total Non-Interest Income	6,848	6,697	7,014	6,171	6,291
Non-Interest Expenses					
Salaries and Benefits	5,084	4,653	4,802	4,086	3,940
Other	4,508	4,030	5,153	3,943	4,463
Total Non-Interest Expenses	9,592	8,683	9,955	8,029	8,403
Net Contribution to Retained Earnings	**$ 1,491**	**2,088**	**2,130**	**2,644**	**2,715**

LIQUIDITY

Volunteer Corporate is the primary depository institution and source of liquidity for the majority of its member credit unions. As such, the corporate has the responsibility of protecting the safety of its members' deposits while providing sufficient liquidity to meet their cash flow needs. To meet this responsibility, Volunteer Corporate maintains sufficient cash and overnight investments to provide for reasonable cash flow demands. The Corporate's liquidity position is monitored daily and adjusted, as necessary, for seasonal and anticipated fluctuations in our members' liquidity needs.

Office Information

CORPORATE OFFICE:

Address:
2460 Atrium Way
Nashville, Tennessee 37214

Websites:
www.volcorp.org
www.volcorpdesign.org

Numbers:
(615) 232-7900
(800) 470-3444
After Hours: (615) 232-7977
Main Fax: (615) 232-7999
Operations Fax: (615) 232-7979

Direct-Dial Extensions:
Member Services/Operations/Item Processing/ACH . . . 1
Investment Sales . . . 2
Marketing and Business Development . . . 3
Administration and President's Office . . . 4
Product Support . . . 5
Kentucky Office . . . 7
West Virginia Office . . . 8
Operator . . . 0

Office Hours:
VolCorp is open Monday, Tuesday, Wednesday and Friday from 7:30 a.m. to 4:30 p.m. (Central time). Thursday hours are from 8:30 a.m. to 4:30 p.m. (Central time). Our Member Services Department closes at 4:15 p.m. (Central time) each day. Office closings are coordinated with the Federal Reserve Bank holiday schedule.

WEST VIRGINIA OPERATIONS:

Physical Address:
411 Cedar Grove Road
Parkersburg, WV 26104

Mailing Address:
P.O. Box 209
Parkersburg, WV 26102-0209

Office Hours:
Monday - Friday: 8:00 a.m. - 5:00 p.m. Eastern

Numbers:
(615) 232-7900, Option 8
(800) 470-3444, Option 8

KENTUCKY OPERATIONS:

Address:
3615 Newburg Road
Louisville, KY 40218

Office Hours:
Monday - Friday: 8:00 a.m - 5:00 p.m. Eastern

Numbers:
(615) 232-7900, Option 7
(800) 470-3444, Option 7
Fax: (502) 459-8027

VolCorp
empowering our members.®