Who We Are

Founded in 1981, VolCorp is in the business of providing business solutions to credit unions. We were organized as a not-for-profit cooperative and are wholly owned by the retail credit unions we serve. Our credit union owners provide us with capital for our operations and govern us through a nine member elected Board of Directors, serving three-year terms.

Chartered by the state of Tennessee, VolCorp has a national field of membership. Regulators include the National Credit Union Administration as well as The Tennessee Department of Financial Institutions. Deposits are insured by the National Credit Union Share Insurance Fund.

VolCorp operates from a single office located in Nashville and has a staff of 45 highly skilled employees, $1.5 billion in assets, and $6 million in annual fee income. We currently serve credit unions located in 16 states.

Products we offer include liquidity, investments, payments processing, cash delivery, internet management, ALM, design and consulting services. Through our partial ownership of CU Business Group and Primary Financial, we also offer business lending and brokered CD services.

With a steadfast commitment to service excellence and member value, VolCorp delivers solutions to meet credit union needs so that they can help their own members achieve financial security and pursue their dreams.
**Mission**

To serve as the primary financial partner with credit unions in providing superior products, services, and support.

VolCorp’s mission drives the corporate’s operations and serves as the foundation of its existence. To compete successfully in today’s business environment requires commitment, focus, and passion. VolCorp defines mission success as:

1. Upholding confidence in VolCorp’s safety, soundness and integrity;
2. Treating members as owners, providing them with the respect and attention owners are entitled to;
3. Ensuring members have dependable access to their funds and services;
4. Hiring and retaining highly experienced and well qualified staff;
5. Effectively educating members about our services; and,
6. Operating at a high level of efficiency.

**Vision**

To be indispensible to our members

**Values**

VolCorp is a values-driven organization. From our member service to our hiring philosophy, our goal is to demonstrate our values in every interaction.

<table>
<thead>
<tr>
<th>Integrity</th>
<th>Partnership</th>
<th>Respect</th>
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<tbody>
<tr>
<td>Fairness</td>
<td>Balance</td>
<td>Creativity</td>
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<td>Learning</td>
<td>Discipline</td>
<td>Efficiency</td>
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</table>
VolCorp’s strategic management process is overseen and driven by the VolCorp Board of Directors, which are elected representatives of its membership. The process begins with the identification of internal and external factors, which may impact strategic objective achievement. These factors are then taken into account each year as the Board sets long-term strategic objectives for VolCorp. Management then identifies and develops the strategic initiatives it deems necessary for achievement of the Board’s long-term objectives and sets intermediate performance goals to chart its progress. The annual budget is then developed as the beginning point of attaining the goals. The Board is provided with reports monthly as to the progress being made in achievement of the annual budget and strategic initiatives.
Long Term Objectives

Meet, or exceed, the requirements contained in the new NCUA corporate regulations.

Keep members happy with service.

Build value of member capital investment.

Strategic Initiatives

1. Raise an adequate amount of Perpetual Contributed Capital (PCC) that meets, or exceeds, regulatory requirements.
2. Manage assets to levels that achieve the minimum capital ratios.
3. Maintain NEV ratio above the required 2% minimum.
4. Develop and implement investment portfolio strategies that comply with corporate regulations, keep our rates competitive, and generate sufficient net interest income.
5. Develop new sources of fee income.
6. Maintain competitiveness of services.
7. Replace services received from U.S. Central with in-house systems or other vendors.
## Primary Performance Goals ($43.9 million PCC)

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<tr>
<td>DANA (Amounts in $Millions)</td>
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<td>MCA</td>
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<td>PCC</td>
<td>43.9</td>
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<td><strong>Earnings:</strong></td>
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<tr>
<td>Net Interest Income</td>
<td>4.8</td>
<td>4.9</td>
<td>5.0</td>
<td>5.2</td>
<td>5.4</td>
<td>5.6</td>
<td>5.8</td>
<td>6.1</td>
<td>6.3</td>
<td>6.6</td>
<td>6.8</td>
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<tr>
<td>Net Interest Margin</td>
<td>0.34%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
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<tr>
<td>Fee Income</td>
<td>5.9</td>
<td>5.8</td>
<td>6.1</td>
<td>6.4</td>
<td>6.7</td>
<td>7.0</td>
<td>7.4</td>
<td>7.7</td>
<td>8.1</td>
<td>8.5</td>
<td>9.0</td>
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<tr>
<td>Expenses</td>
<td>8.0</td>
<td>8.2</td>
<td>8.5</td>
<td>8.8</td>
<td>9.2</td>
<td>9.6</td>
<td>9.9</td>
<td>10.3</td>
<td>10.7</td>
<td>11.2</td>
<td>11.6</td>
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<tr>
<td>Net Income</td>
<td>2.7</td>
<td>2.5</td>
<td>2.6</td>
<td>2.7</td>
<td>2.9</td>
<td>3.1</td>
<td>3.3</td>
<td>3.5</td>
<td>3.7</td>
<td>3.9</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Return On Assets:</strong></td>
<td>0.19%</td>
<td>0.20%</td>
<td>0.20%</td>
<td>0.20%</td>
<td>0.20%</td>
<td>0.21%</td>
<td>0.21%</td>
<td>0.22%</td>
<td>0.22%</td>
<td>0.23%</td>
<td>0.23%</td>
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<tr>
<td>Retained Earnings</td>
<td>5.4</td>
<td>7.9</td>
<td>10.4</td>
<td>13.2</td>
<td>16.1</td>
<td>19.2</td>
<td>22.4</td>
<td>25.9</td>
<td>29.6</td>
<td>33.6</td>
<td>37.7</td>
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<tr>
<td>Total Capital</td>
<td>59.2</td>
<td>51.8</td>
<td>54.3</td>
<td>57.1</td>
<td>60.0</td>
<td>63.1</td>
<td>66.3</td>
<td>69.8</td>
<td>73.5</td>
<td>77.5</td>
<td>81.6</td>
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<tr>
<td>Leverage Ratio</td>
<td>4.13%</td>
<td>4.10%</td>
<td>4.14%</td>
<td>4.18%</td>
<td>4.22%</td>
<td>4.27%</td>
<td>4.32%</td>
<td>4.37%</td>
<td>4.43%</td>
<td>4.48%</td>
<td>4.20%</td>
</tr>
<tr>
<td>Retained Earnings Ratio</td>
<td>0.38%</td>
<td>0.62%</td>
<td>0.80%</td>
<td>0.96%</td>
<td>1.13%</td>
<td>1.30%</td>
<td>1.46%</td>
<td>1.62%</td>
<td>1.78%</td>
<td>1.94%</td>
<td>2.10%</td>
</tr>
<tr>
<td>Net Economic Value</td>
<td>4.00%</td>
<td>&gt;2.00%</td>
<td>&gt;2.00%</td>
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<td>&gt;2.00%</td>
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</table>
Explanations
The drop in the leverage ratio from 2019 to 2020 is due to the new regulations that do not count PCC in excess of retained earnings, beginning in 2020

Assumptions
$43.9 million of PCC will be raised in 2011
The shrinkage in assets from 2010 to 2011 is due to discontinuing of borrowings that inflated assets during 2010
DANA will grow by 4% annually
0.04% Increase in net interest margin for 2011 will be accomplished through more aggressive management of cash balances
No price changes, growth in fee income will be the result of volume growth only
5% Annual increase in fee income
4% annual increase in expenses

Risks
Assets will grow faster than projected
Less than $43.9 million will be raised in PCC
Interest rate environment will not accommodate the projected net interest margin
Volume growth in fee based services does not occur
Large, unexpected expenditures may be encountered
## Alternative Performance Goals ($35 million PCC)

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<td>Amounts in $Millions</td>
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<tr>
<td>DANA</td>
<td>1,435</td>
<td>1,262</td>
<td>1,115</td>
<td>1,160</td>
<td>1,206</td>
<td>1,254</td>
<td>1,304</td>
<td>1,357</td>
<td>1,411</td>
<td>1,467</td>
<td>1,526</td>
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<tr>
<td>MCA</td>
<td>53.8</td>
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<td>PCC</td>
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</table>

**Earnings:**

- **Net Interest Income**: 4.8 4.9 4.2 4.4 4.6 4.8 5.0 5.2 5.4 5.6 5.8
- **Net Interest Margin**: 0.34% 0.38% 0.38% 0.38% 0.38% 0.38% 0.38% 0.38% 0.38% 0.38% 0.38%
- **Fee Income**: 5.9 5.8 6.0 6.3 6.5 6.8 7.0 7.3 7.6 7.9 8.2
- **Expenses**: 8.0 8.2 8.4 8.7 8.9 9.2 9.5 9.8 10.0 10.3 10.7
- **Net Income**: 2.7 2.5 1.8 2.0 2.2 2.3 2.5 2.7 2.9 3.1 3.4

- **Return On Assets**: 0.19% 0.20% 0.17% 0.17% 0.18% 0.19% 0.19% 0.20% 0.21% 0.21% 0.22%
- **Retained Earnings**: 5.4 7.8 9.7 11.7 13.8 16.2 18.7 21.4 24.4 27.5 30.9
- **Total Capital**: 59.2 42.8 44.7 46.7 48.8 51.2 53.7 56.4 59.4 62.5 65.9
- **Leverage Ratio**: 4.12% 3.39% 4.01% 4.03% 4.05% 4.08% 4.12% 4.16% 4.21% 4.26% 4.05%
- **Retained Earnings Ratio**: 0.37% 0.62% 0.87% 1.01% 1.15% 1.29% 1.43% 1.58% 1.73% 1.87% 2.02%
- **Net Economic Value**: 4.00% >2.00% >2.00% >2.00% >2.00% >2.00% >2.00% >2.00% >2.00% >2.00% >2.00%
Explanations
The drop in the leverage ratio from 2019 to 2020 is due to the new regulations that do not count PCC in excess of retained earnings, beginning in 2020

Assumptions
$35 million of PCC will be raised in 2011
DANA will shrink until 2012 through the curtailment of borrowing and certificate sales and then grow by 4% annually
0.04% Increase in net interest margin for 2011 will be accomplished through more aggressive management of cash balances
No price increases or decreases, growth in fee income will be the result of volume growth only
4% annual increase in fee income
3% annual increase in expenses
Replace remaining services received from U.S. Central during 2011

Risks
Assets will grow faster than projected
Less than $35 million will be raised in PCC
Interest rate environment will not accommodate the projected net interest margin
Volume growth in fee based services does not occur
Large, unexpected expenditures may be encountered
**Strategic Initiative #1: Raise an adequate amount of Perpetual Contributed Capital**

**Capital Subscription Process**

**Primary Goal:** $43.9 million of PCC (81.6% of current MCA). This amount will allow VolCorp to achieve the required capital ratios without shrinking assets, raising prices, or discontinuing services. See Primary Performance Goals for balance sheet and income projections.

**Secondary Goal:** If at least $35 million (65% of current MCA) of PCC is raised, then assets can be reasonably reduced to still achieve the capital ratios required in the new corporate regulations. The shrinkage can be accomplished through substantial reduction of VolCorp certificate sales and replaced with increased sales of brokered bank certificates and securities. See Alternative Performance Goals for balance sheet and income projections.

**Contingency Plan:** Should VolCorp fail to raise $35 million, the conversion of MCA balances will be put on hold, either temporarily or permanently, until the VolCorp Board considers alternative strategies. This could mean anything from extending the subscription period beyond March 31st, shrinking assets and services, charter conversion, merger, to voluntary liquidation.

**Current Members:** Full members will be asked to sign an agreement converting 100% of their current MCA to PCC. The agreement contains a provision that no member’s MCA will be converted until sufficient PCC is committed to ensure VolCorp meets the capital requirements of the new corporate rules. Since additional amounts are not being solicited from members, just conversions of current MCA’s, no return of capital is required should VolCorp not be able to meet the requirements.
**New Members:** If any current associate member or new member wishes to become full members of VolCorp during this period they will be asked to purchase PCC using the current MCA rate (3/4 of 1% of total assets at 12/31/2009, with a $1 million cap). These funds will be held in escrow until enough commitments have been obtained to assure VolCorp’s compliance with the new capital requirements. If sufficient commitments have not been obtained by 12/31/2011, the funds will be returned.

**Associate Members:** No new associate members will be added during the capital subscription period and the Board will determine, after VolCorp’s capital position is secured, under what conditions associate memberships will be allowed.

**Timeline:**

**November, 2010**—conduct town hall meetings with members to communicate VolCorp’s proposed strategy, including compliance with the new corporate rules. Input from members will be solicited for potential changes to strategy.

**December 13, 2010**—Send conversion materials to members, including capital agreement, strategic plan, financial statements, securities portfolio and Q&A.

**January, 2011**—Send materials to associate members and prospective new members asking for capital investment.

**January 31, 2011**—Submit strategic plan to TDFI and NCUA for review.

**December 2010-March 2011**—Initial PCC Subscription period.

**April 1, 2011**—conversion date, provided that enough is raised to secure VolCorp’s future as an independent corporate. If not, Board will consider other options.

**April-June, 2011**—Extended subscription period (if needed).

**August 31, 2011**—Deadline for development of alternative plan if primary or secondary goals are not achieved. Choices include charter conversion, merger, or liquidation.
Strategic Initiative #2: Manage assets to levels that achieve the minimum capital ratios.

The **Performance Goals** identify the asset levels that are projected to achieve the required capital ratios. If assets exceed those levels and jeopardize VolCorp’s attainment of the minimum capital ratios, then the following tactics will be employed to reduce assets, depending on the amount of the overage:

**Minor Reduction**

1. Elimination of all borrowings by VolCorp through maintaining excess liquidity
2. Selective lowering of aggressive deposit rates

**Moderate Reduction**

3. Significant reduction of certificate rates
4. Elimination of non-member deposits
5. Implementation of maximum deposit ceiling per member

**Major Reduction**

6. Lowering of all deposit rates
Strategic Initiative #3: Maintain NEV ratio above the required 2% minimum.

As of 12/31/2010, VolCorp’s NEV ratio was above 4%, more than double the 2% minimum. In order to maintain the ratio above 2%, VolCorp will constantly monitor its interest rate risk position and adjust its investment purchases to stay above the 2% minimum. VolCorp’s NEV ratio will be reported monthly to the Board of Directors.

Strategic Initiative #4: Develop and implement investment portfolio strategies that comply with corporate regulations, keep our rates competitive and generate sufficient net interest income.

Legacy Assets—the most recent third party analysis of our legacy assets (as of December 31, 2010) indicated that VolCorp had only one security with OTTI (other than temporary impairment). The analysis also indicated that the asset was correctly valued as to impairment and that no additional OTTI was needed at that time. Since the total remaining book value of the security is less than VolCorp’s retained earnings, any further losses to the security would not expose member contributed capital to impairment.

New corporate rules—As of the end of 2010, VolCorp’s investment portfolio contained a few securities that placed it in violation of the new rules. An Investment Action Plan will be filed with the NCUA for resolution.

U.S. Central investments—As of the end of 2010, VolCorp had $474 million invested in U.S. Central certificates, down $106 million from the end of the previous year. All certificates are guaranteed by the NCUSIF. We do not anticipate any further certificate purchases from U.S. Central going forward and
runoff should lower the balance to $145 million by the end of 2011. We also anticipate that all certificates will be paid off sometime during 2012, if not before, as U.S. Central winds down.

WesCorp Investments—VolCorp stopped purchasing certificates from WesCorp in 2008. $9.6 million remained outstanding at the end of 2010 and they are all guaranteed by the NCUSIF. All but $800 thousand will mature in 2011, and the rest in 2012.

Portfolio strategy—Since VolCorp will no longer be purchasing certificates from U.S. Central or WesCorp, we will continue the process of building the securities portfolio throughout 2011, as certificates mature. All securities purchases will be made in compliance with the new, more restrictive, NCUA corporate rules.

In order to increase net interest margin to the levels indicated in the Performance Goals, VolCorp will be more aggressive in its liquidity management while also strictly adhering to the new corporate rules regarding liquidity. In the past, VolCorp employed a very conservative liquidity management philosophy and only borrowed for liquidity purposes on rare occasions. As a result, excess cash has been maintained, lowering VolCorp’s overall investment yield. Under the new strategy, VolCorp will maintain less liquidity and will, therefore, borrow more often. Adequate liquidity sources will be maintained, however, so that members will always have access to liquidity when they need it.
Strategic Initiative #5: Develop new sources of fee income.

It will be a major task of VolCorp during 2011, and beyond, to identify and develop new sources of fee income for the future in order to maintain a high level of efficiency. This may be done in conjunction with other corporates, with natural person credit unions, independently, or through a CUSO. The goal is to grow fee income at a faster rate than operating expenses without raising prices.

Strategic Initiative #6: Maintain Competitiveness of services.

It is VolCorp’s goal to be competitive in both price and service. The key to being price competitive is to maintain a high level of efficiency. The attributes of an efficient organization are:

- Income growth that exceeds expense growth
- Full utilization of the benefits of technology
- Well trained, motivated and right-sized staff
- Avoidance of unwarranted risks
- Well informed and thoroughly analyzed decision making
- Avoidance of extravagant expenditures that are not financially justified

Maintaining these attributes will culminate in better pricing for our members.

VolCorp will also, on an annual basis, survey members to ascertain that service excellence is maintained.
By of the end of 2010, VolCorp had successfully replaced many services formerly received from U.S. Central. This included our core system, wire transfer system, credit lines, and investment accounting software. Progress was also made in moving away from U.S. Central in investments, with the securities portfolio exceeding U.S. Central certificates.

Going into 2011, VolCorp is focusing on replacing the remaining U.S. Central services. These include brokerage, ACH, automated settlement, and safekeeping. The goal is to eliminate all services currently obtained from U.S. Central by the end of 2011, although some services may remain with CUSO’s spun off from U.S. Central.

Strategic Initiatives # 7: Replace services received from U.S. Central with in-house systems or other vendors.