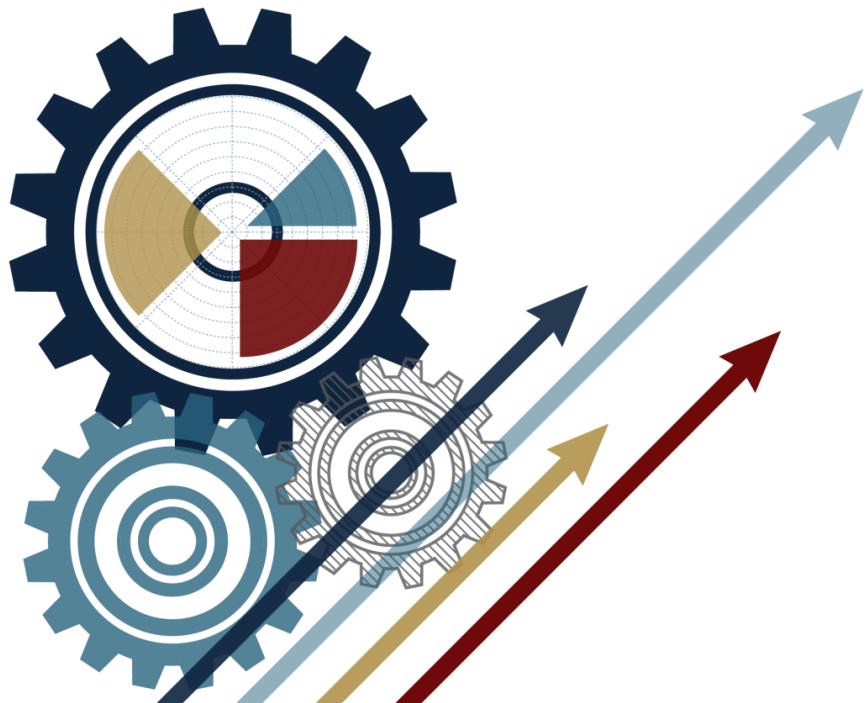


Trendwatch 1Q 2017



Data for March 31, 2017

Call Dates: May 24 & 25, 2017

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To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

Slide Link

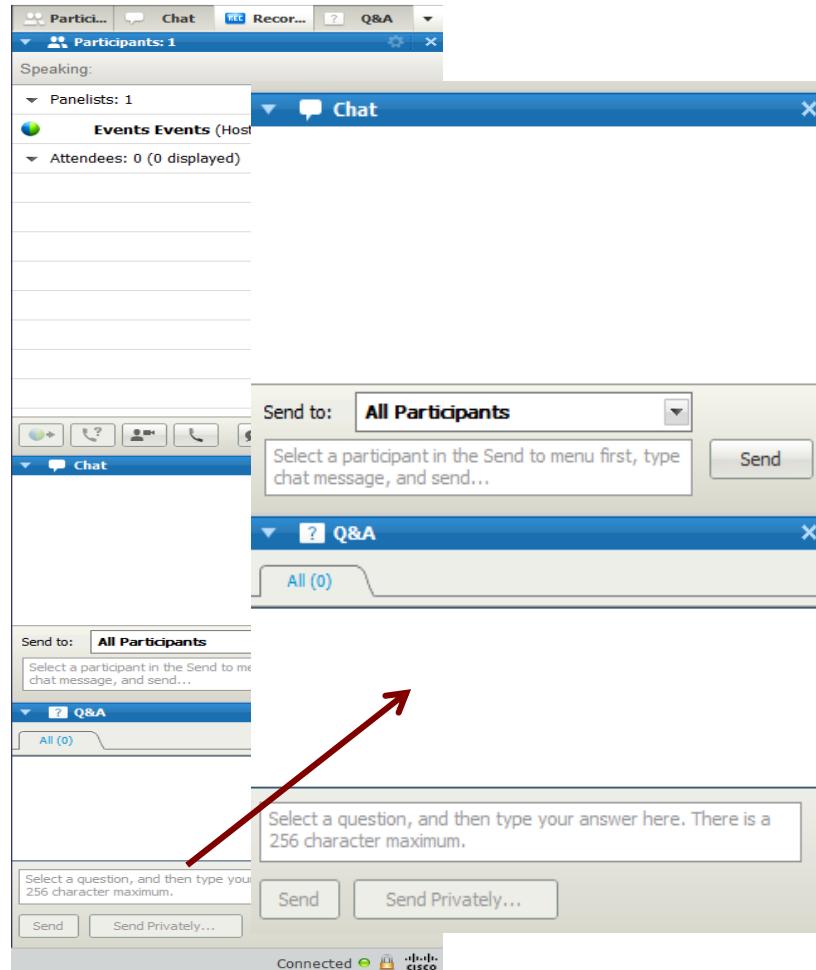
Today's slides can be found online at:

<http://bit.ly/Callahan-1Q2017Day2>

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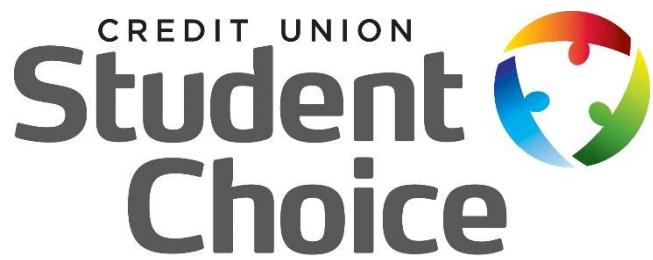
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Agenda

Market Update

Jason Haley, Managing Director, Investment Management Group, ALM First

1Q 2017 Credit Union Trends & Key Issues

“Starting the Year Off Right”

Jay Johnson, Partner, Callahan & Associates

Alix Patterson, Partner, Callahan & Associates

Remote Department Design

Karen Rosales, CEO, Arlington Community FCU

Sara Hunter, Director of Enterprise Solutions, Arlington Community FCU

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ALM First Market Update

Jason Haley

Managing Director, Investment Management Group



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Fax: 214.987.1052
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Speaker – Jason Haley



- Managing Director, Investment Management Group
- Responsible for cross-sector relative value analysis and all capital markets activities
- Oversees the development and execution of model and client-specific portfolio strategies
- Responsible for market research & commentary

Economic Update

- Immediate market reaction following the November election was a global reflation trade
 - Global data trend was already on an upswing
 - Expectations for big 3 reforms (tax reform, deregulation, and infrastructure spending)
 - Heightened growth expectations drove yield curve steeper and equity markets higher
- Initial healthcare reform failure dampened optimism that reforms would be able to make it through Congress is a reasonable timeframe
- Labor market data remains strong, but other metrics have disappointed, particularly recent core inflation readings
- Fed still appears motivated to move forward with monetary policy normalization

Actual vs. Expected Data Trend

Citigroup Economic Surprise Index



Market Inflation Expectations

TIPS 5yr Breakeven Yield (%)



Economic/Market Headwinds

- Recent weakness in core inflation dampening confidence in global reflation narrative
 - For CPI, housing inflation (OER) has been trending lower
- Chinese government crackdown on financial market risk
 - Near-term negative for global growth and commodity prices
- Lack of progress in Washington on big 3 agenda items
 - Russian probe has been a distraction for legislative agenda (special counsel appointment might help on this front)
 - Equity markets still pricing in optimistic outlook (S&P 500 +13% since election)
 - Impact of failed progress on sentiment (consumer & business)
- Looming federal budget battle in September
- Geopolitical risk (North Korea, ISIS, etc.)

Fed Update

- Fed leaders appear motivated to continue with normalization process barring a notable shift in the data trend
 - Several have suggested that fiscal stimulus/reform expectations have not been included in base forecasts
- Market still pricing in 100% probability of June rate hike
 - Market participants will be paying closer attention to any changes in QE reinvestment guidance and Fed forecasts
- Janet Yellen has said that getting the funds rate higher is a priority so that the Fed could respond “through traditional means” to an adverse shock to the economy
- How will fiscal progress (or lack thereof) influence the Fed?
- For depositories, greater emphasis should be placed on sound ALM as opposed to betting on rates

Concluding Thoughts

- The post-election market euphoria has faded in most markets, and expectations for major fiscal/regulatory reforms have fallen
- Labor market data remains solid, including measures of wage inflation, but overall data trend has disappointed relative to expectations in recent weeks
- Headwinds to growth include lack of progress in Washington, geopolitical risks, and impact of Chinese market reforms
- The Fed appears motivated to continue with policy normalization, but recent weakness in core inflation has to be a concern for the doves of the FOMC
- Manage interest rate risk at a balance sheet level

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Starting The Year Off Right

- Growth accelerates in all major balance sheet components
- Financial soundness evident in revenue, earnings and capital growth
- Member relationships are stronger

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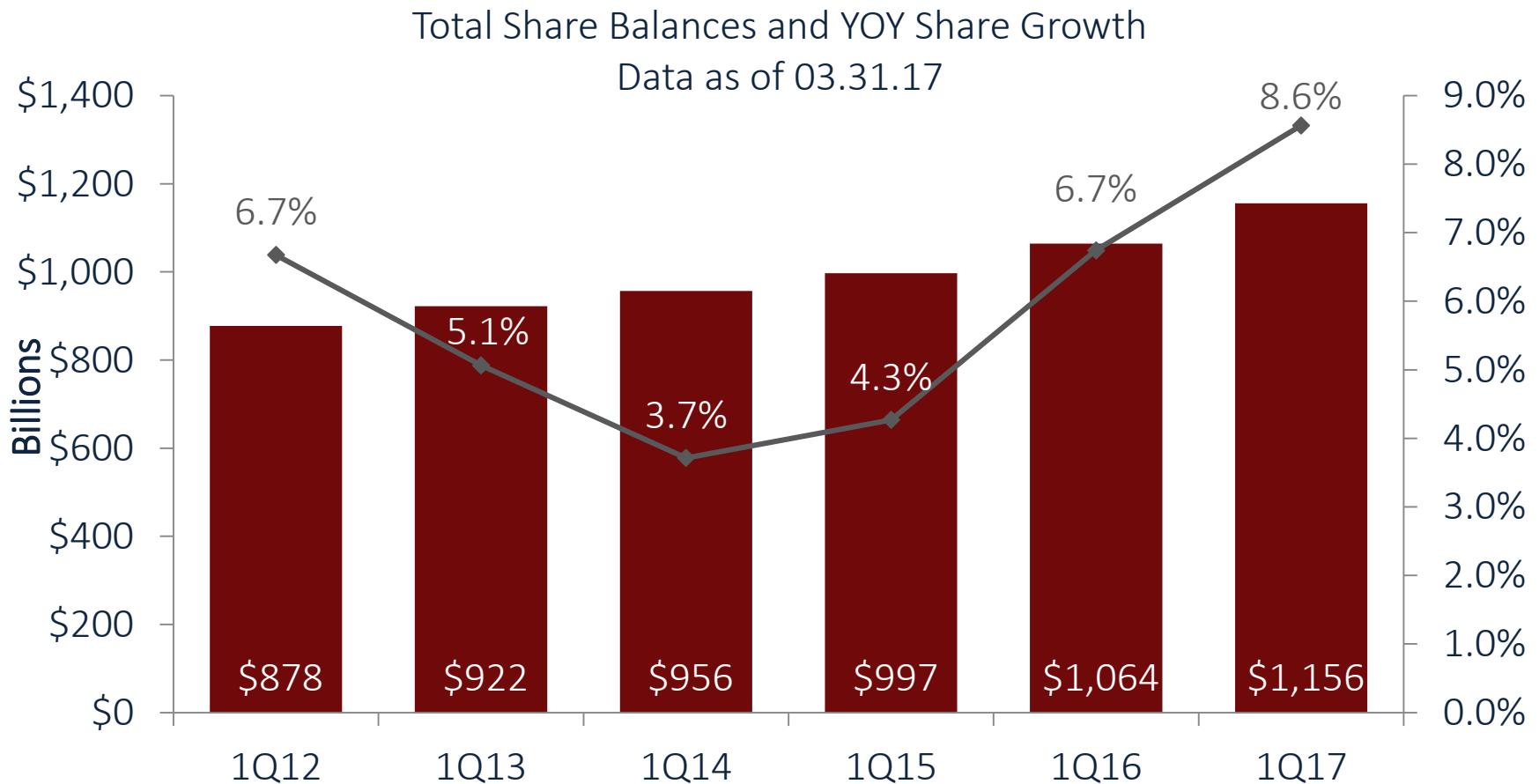
The U.S. Credit Union Industry as of March 2017

	As of 03/31/2017	12-mo. Growth 1Q 2017	12-mo. Growth 1Q 2016
Assets	\$1.4T	8.1%	7.1%
Loans	\$897.1B	10.9%	10.8%
Shares	\$1.2T	8.6%	6.7%
Investments	\$397.4B	8.4%	-0.3%
Capital	\$149.6B	5.9%	6.6%
Members	109.6M	4.4%	3.8%

Strong share growth to kick off 2017

- Shares grow at fastest 1Q pace since 2012
- All share categories growing at faster pace than a year ago
- Growth is recorded across the country

Fastest 12-month share growth rate since 2003



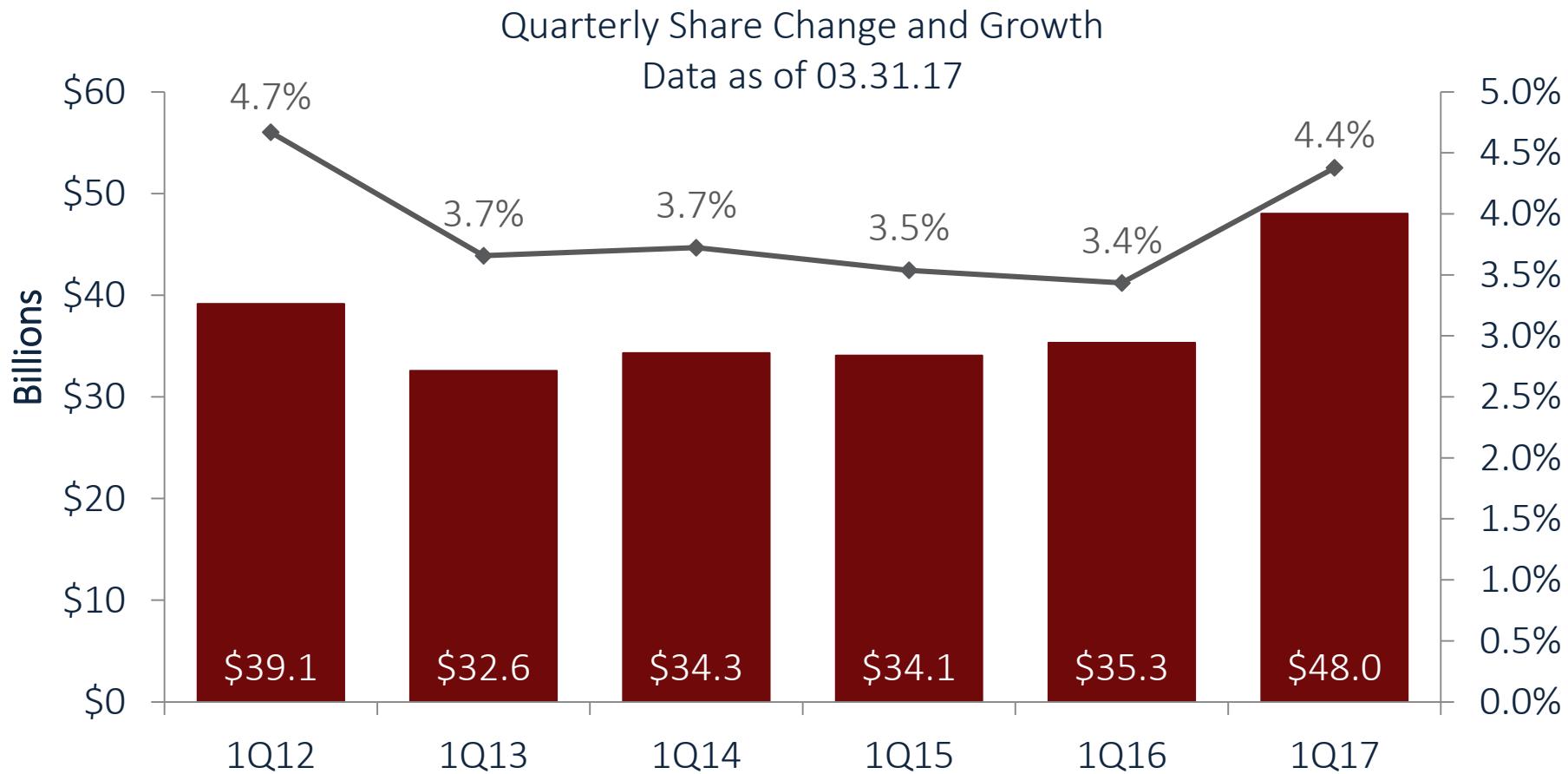
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First quarter share growth posts highest rate since 2012



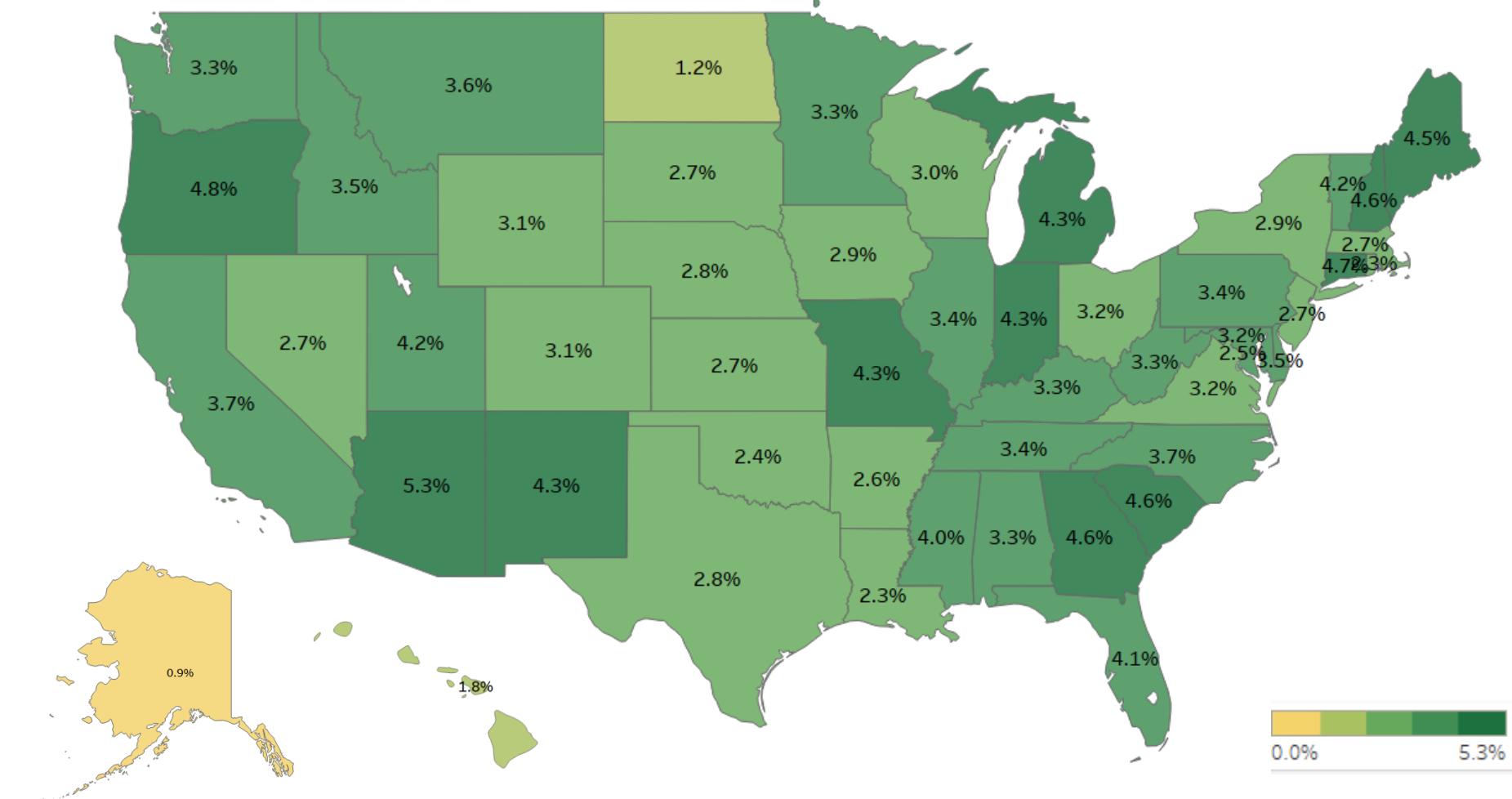
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Quarterly share growth positive across all states, Arizona leads



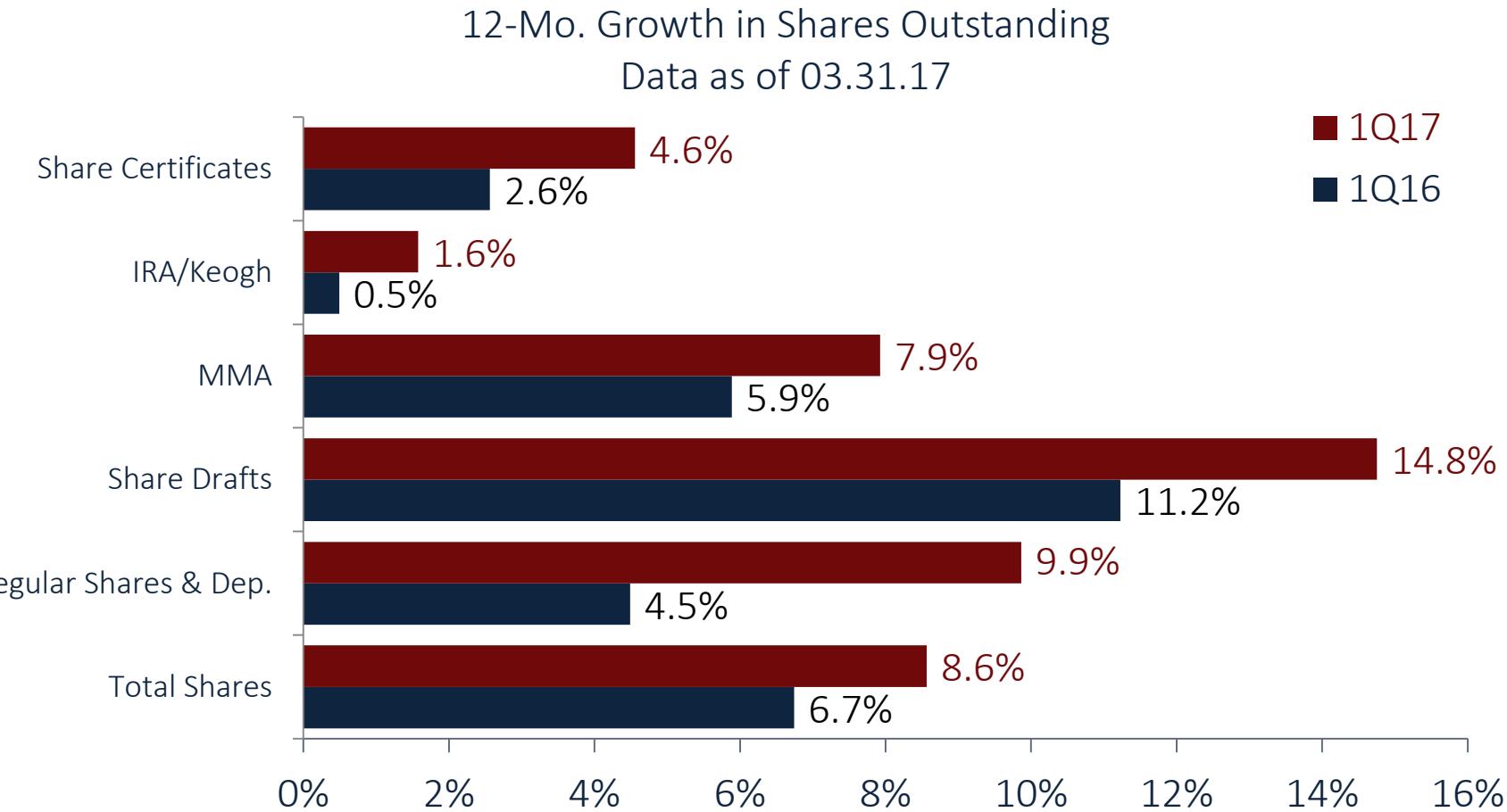
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Share growth is up in all categories, led by share draft balances



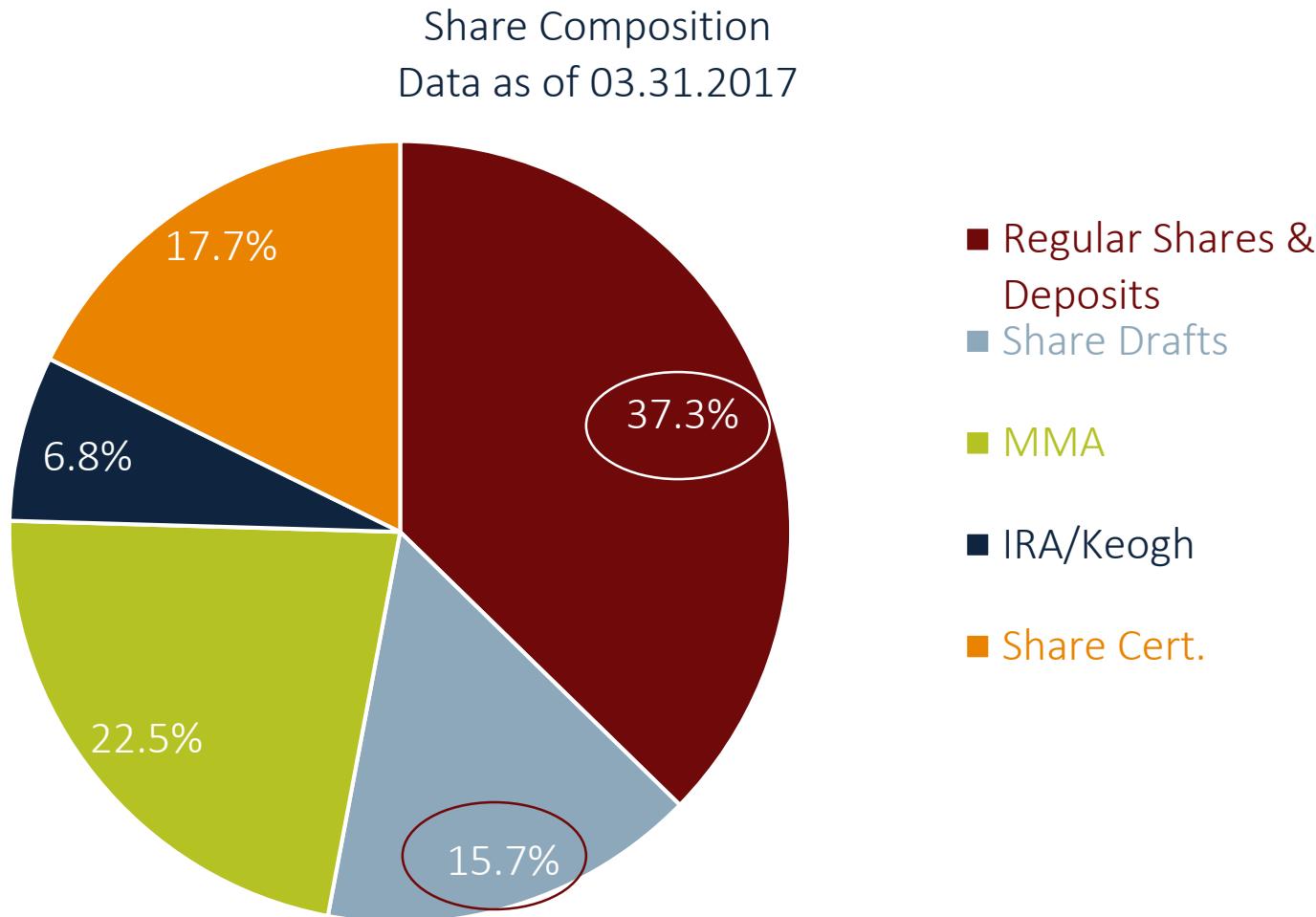
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Regular shares and checking balances account for 51.3% of industry share portfolio, up 1.2 percentage points since last year



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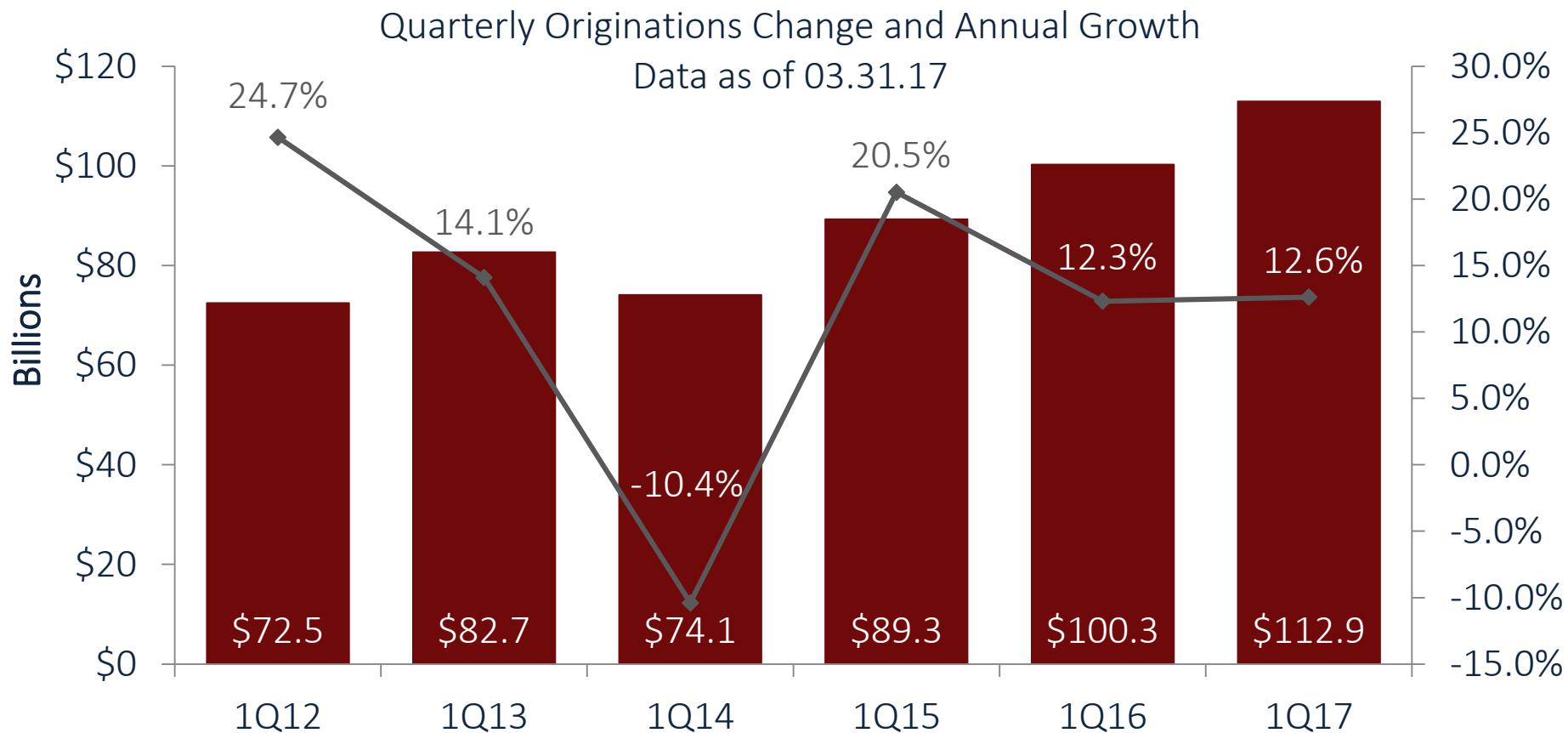
Source: Callahan's Peer-to-Peer Analytics

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Lending off to a record start

- 1Q loan originations are highest ever
- National market share in auto and mortgage lending is rising
- Portfolio posting balanced growth

Record loan origination volume to start 2017



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Source: Callahan's Peer-to-Peer Analytics

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Originations rise at double digit pace across the board

Year-To-Date Originations
Data as of 03.31.17



	Consumer	First Mortgage	Other RE	MBL
YOY Growth	+ 10.8%	+ 15.9%	+ 17.2%	+ 29.2%
YTD Orig.	\$69.4B	\$30.9B	\$7.2B	\$6.2B

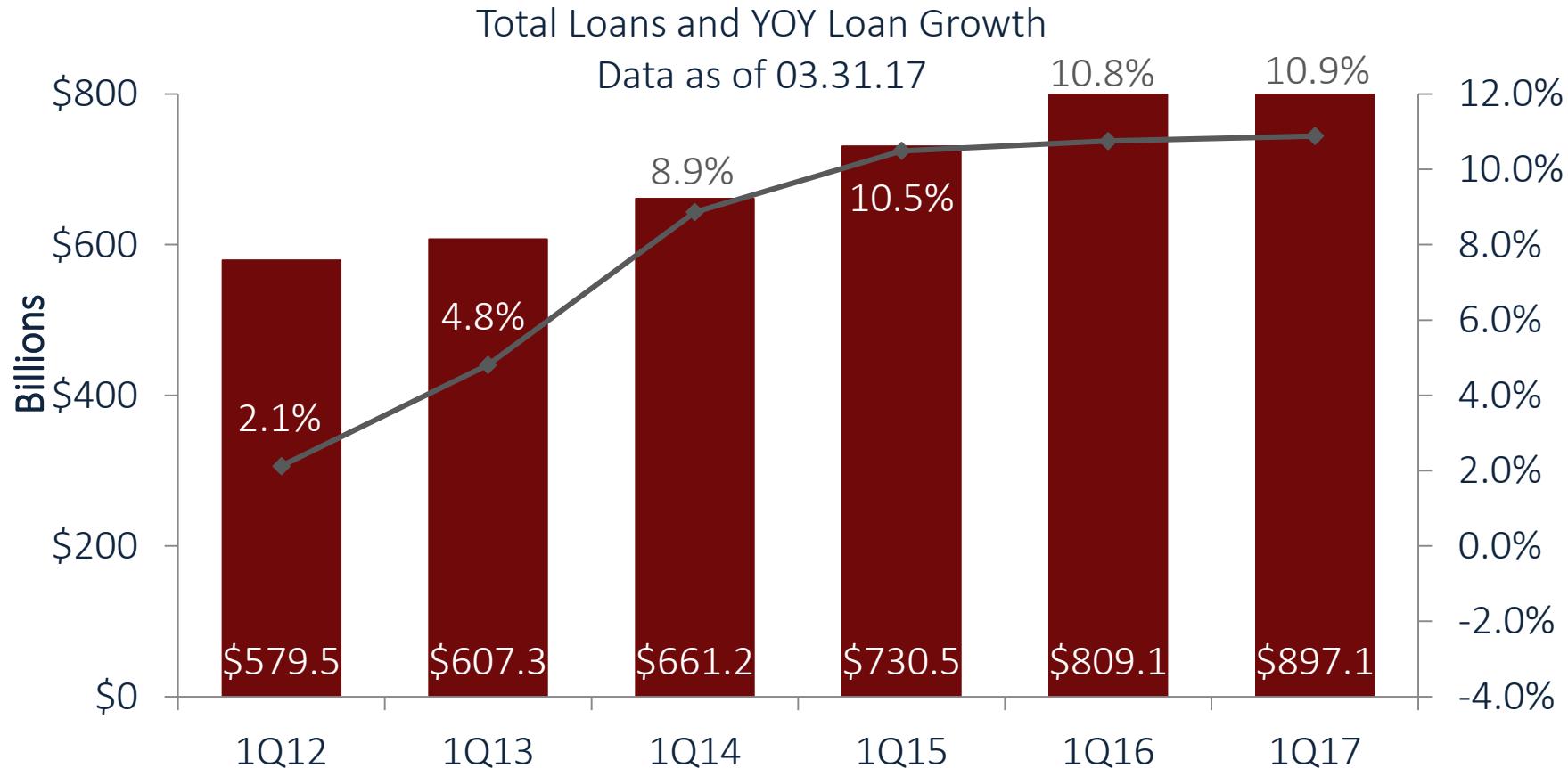
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Double digit growth puts the loan portfolio close to \$900B



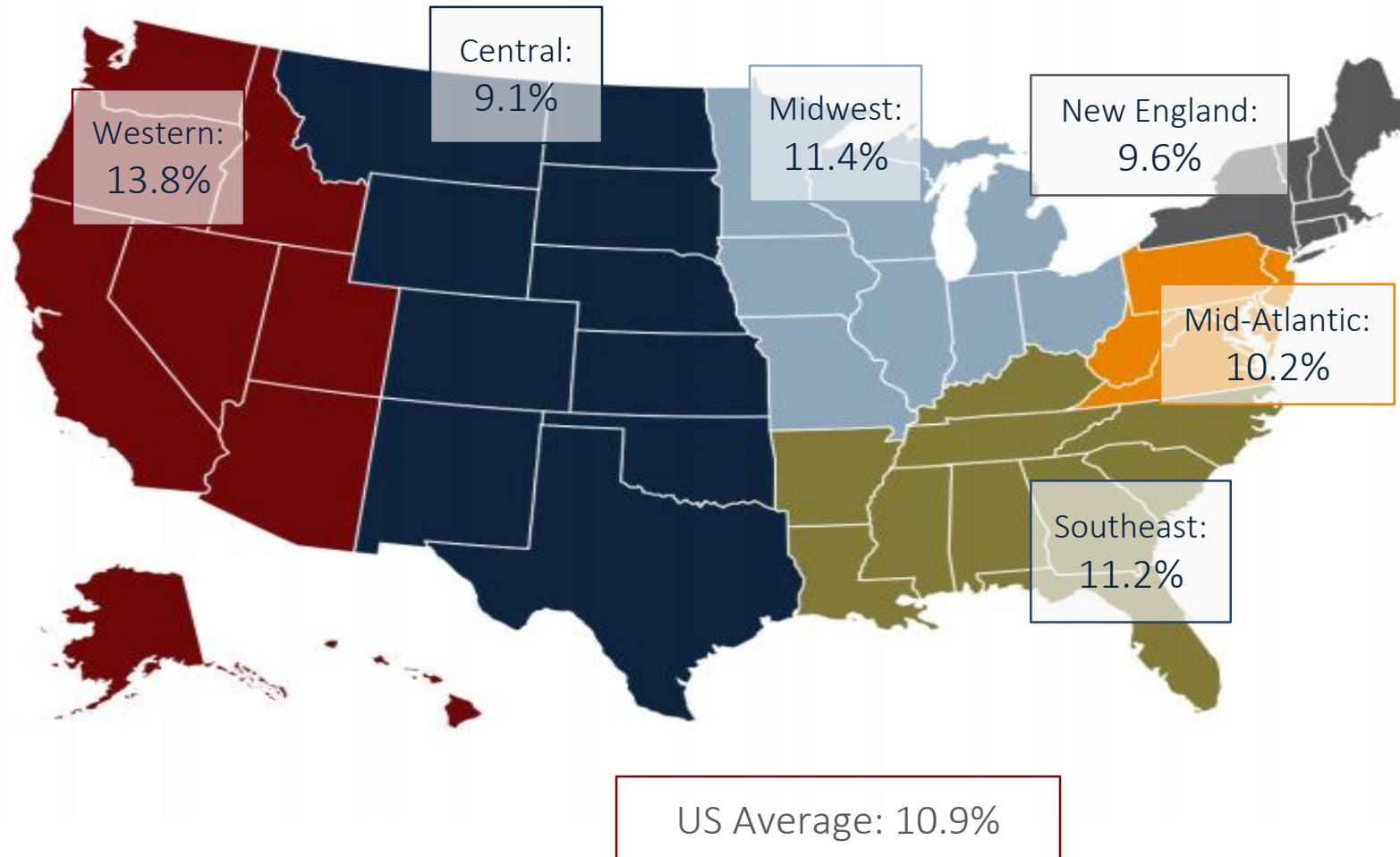
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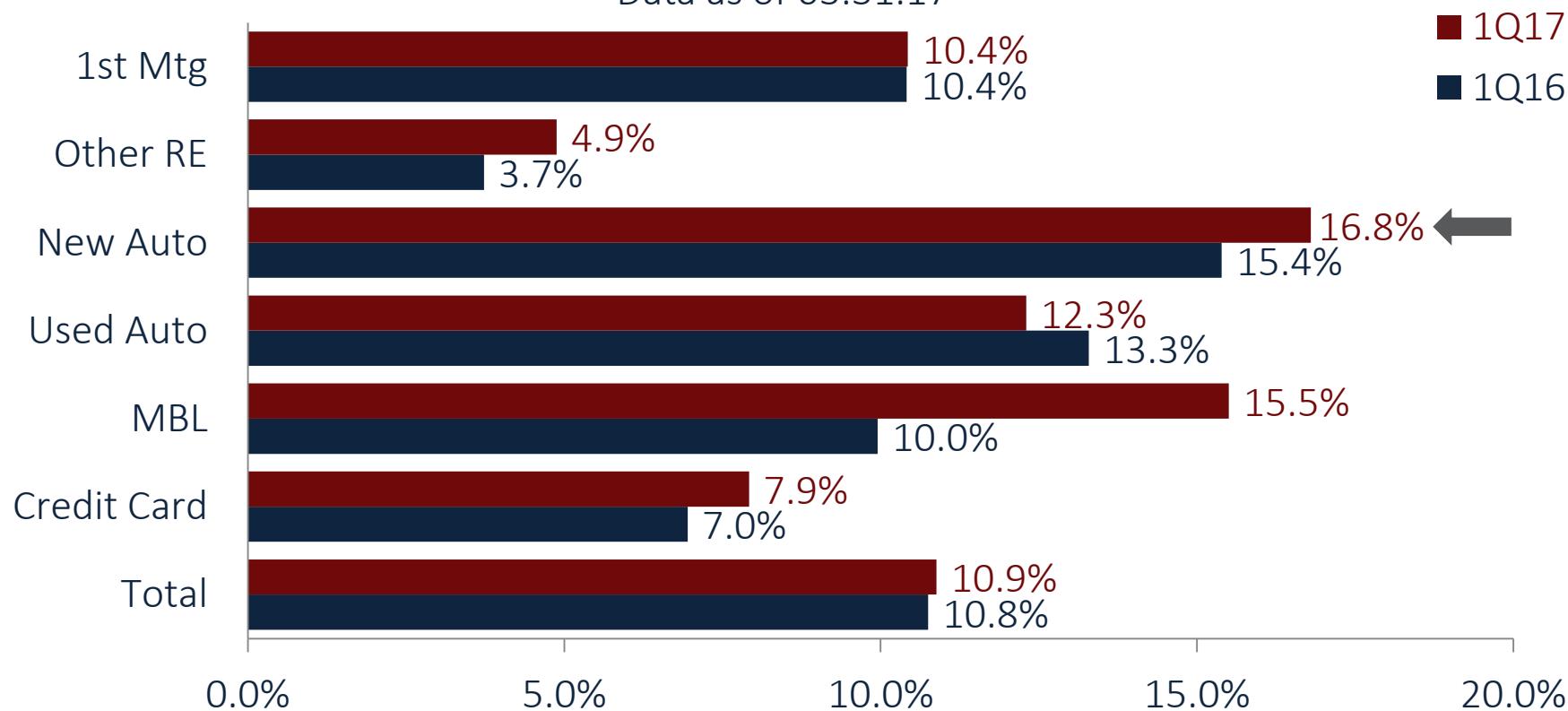
Mid-Atlantic, Midwest, Southeast, and Western regions post double-digit loan growth



Loan portfolio growth led by autos and mortgages

12-Mo. Growth in Loans Outstanding

Data as of 03.31.17



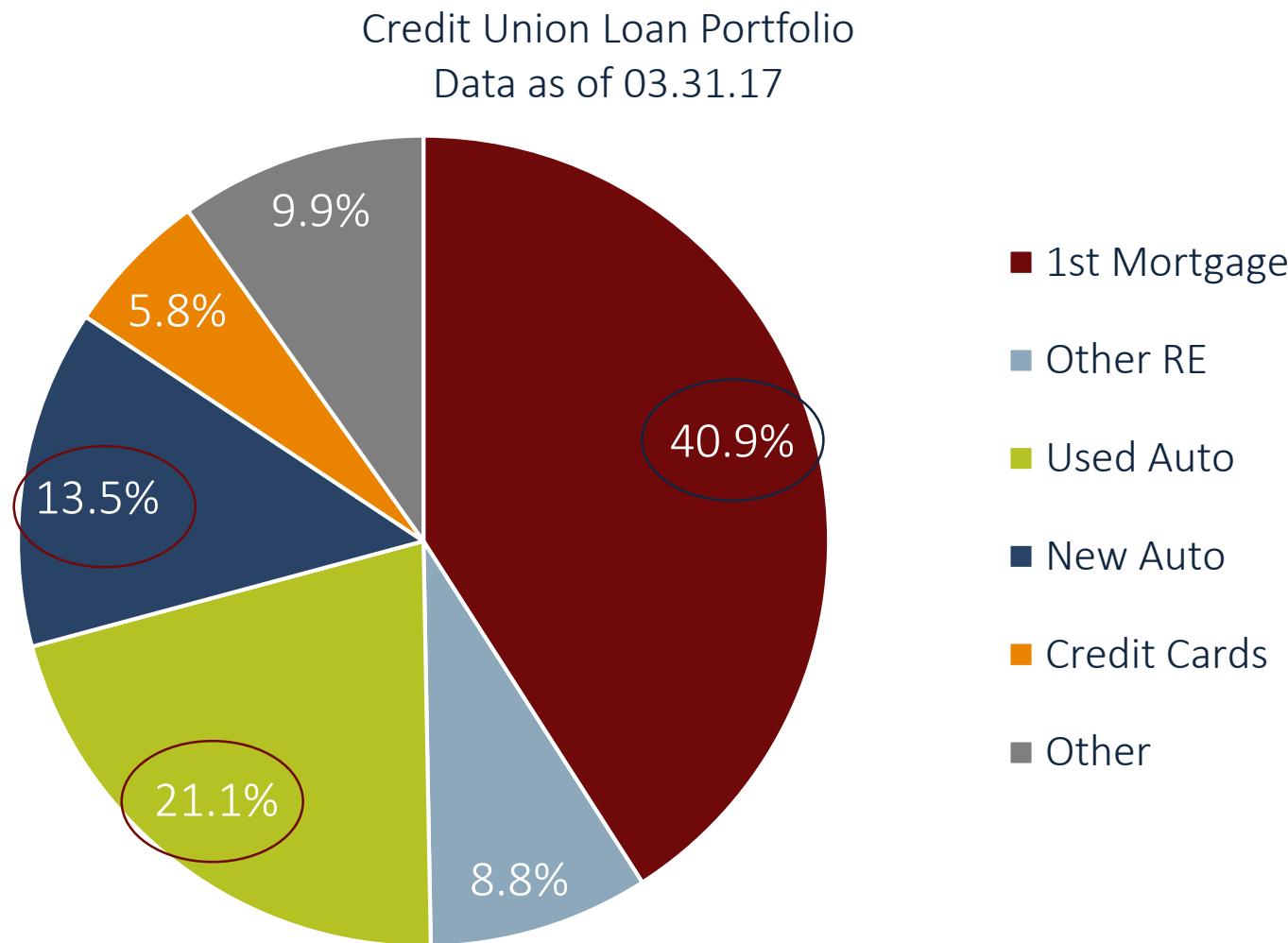
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1st mortgage and auto loans continue to dominate the industry loan portfolio



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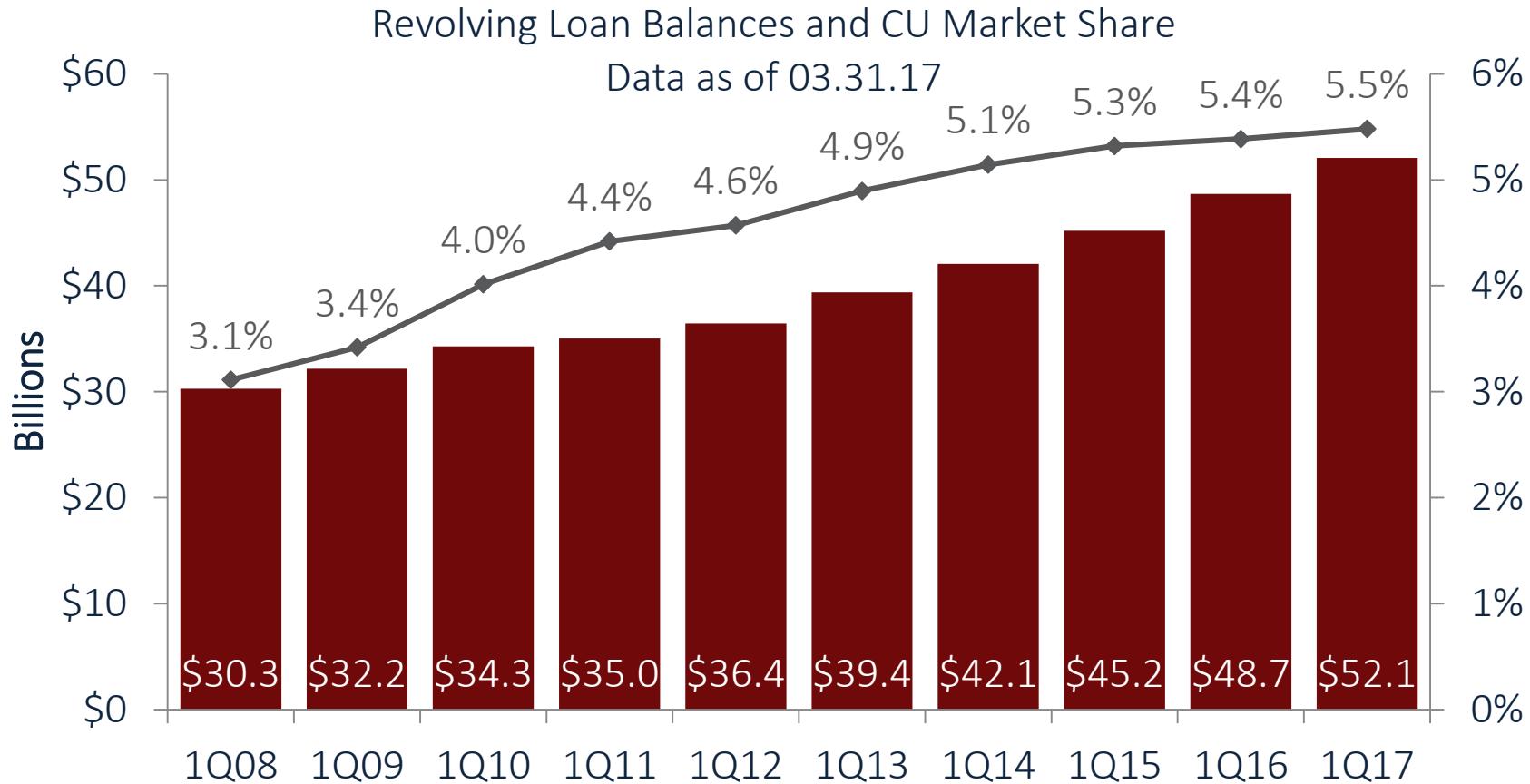
Source: Callahan's Peer-to-Peer Analytics

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Credit Union Lending Today

“My first task was to evaluate the policies and procedures to identify areas where we could make more loans in a more efficient manner without requiring the borrower to give blood.” – *Suzie Kisslan, CLO, Credit Union of Southern California on her credit union’s first steps in moving to a centralized lending environment.*

Credit union share of revolving consumer credit reaches highest level on record



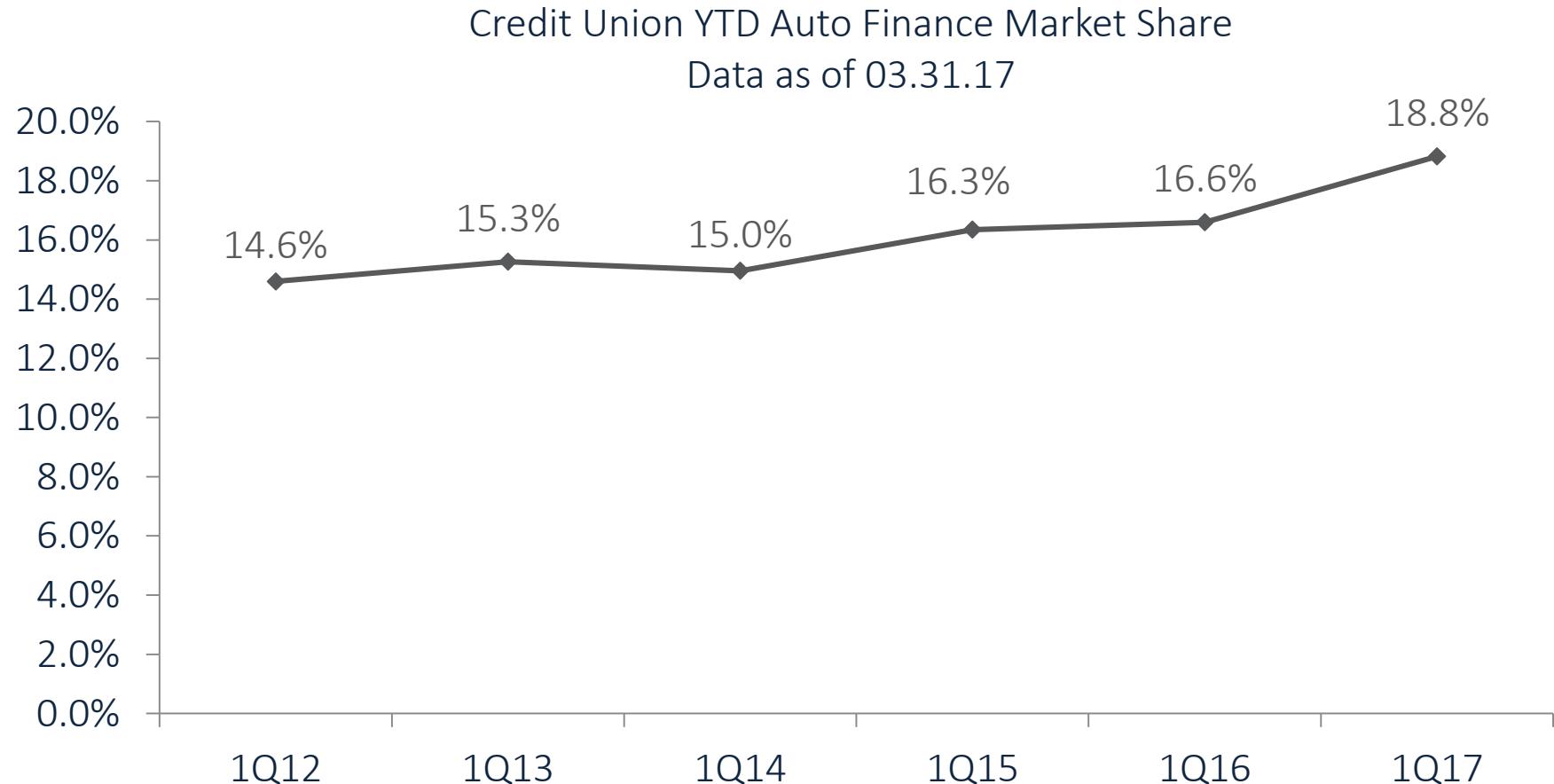
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Source: Federal Reserve

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Credit union auto finance market share reaches highest level since the Great Recession



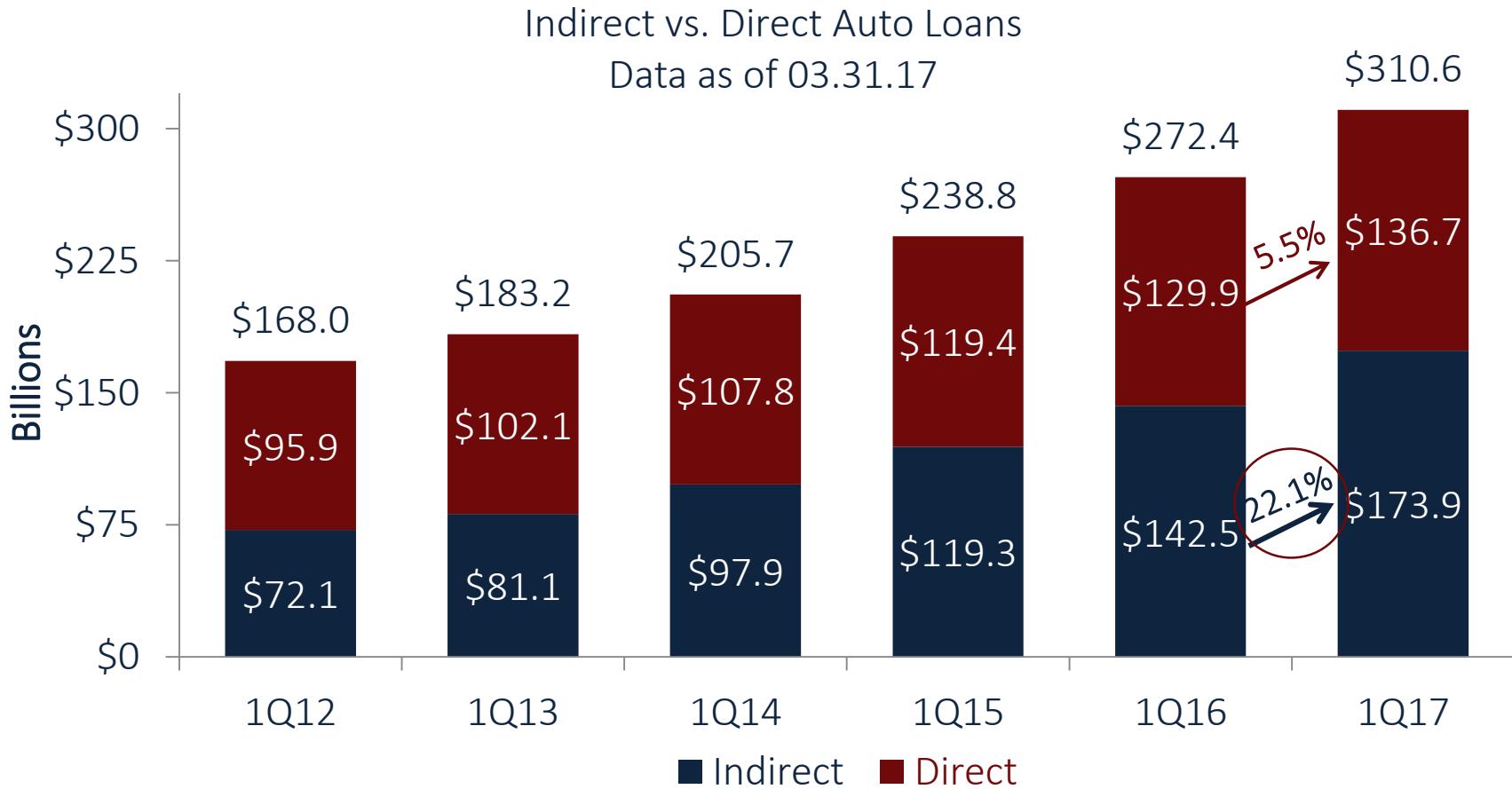
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Source: Callahan's Peer-to-Peer Analytics
AutoCount Data from Experian Automotive

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Indirect lending continues to be a significant contributor to auto loan growth



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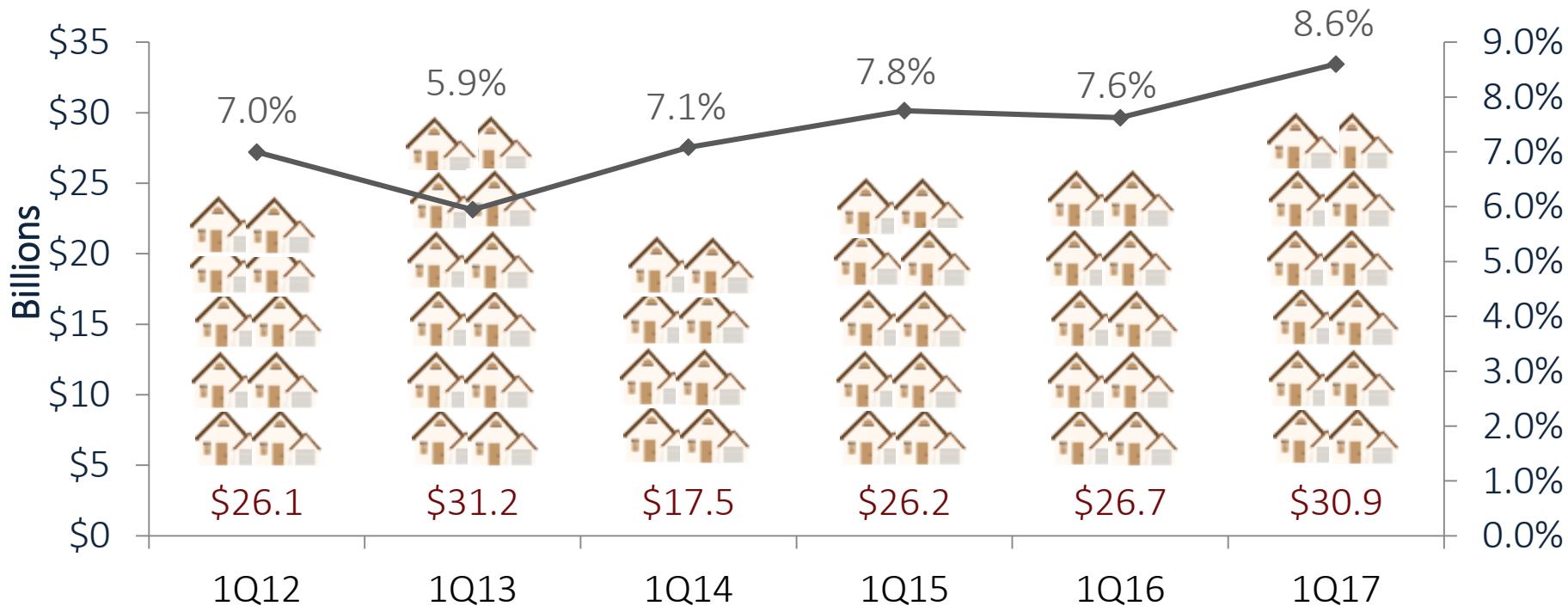


Source: Callahan's Peer-to-Peer Analytics

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Credit union first mortgage U.S. market share hits new high

YTD First Mortgage Originations & Market Share
Data as of 03.31.17



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Source: Callahan's Peer-to-Peer Analytics
Mortgage Bankers Association

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Delinquency remains manageable

Year-Over-Year Change in Delinquency
Data as of 03.31.17



Total

0.69%
-0.02%



1st Mortgage

0.44%
-0.15%



Auto

0.57%
+0.03%



Other RE

0.55%
-0.10%



Indirect

0.60%
+0.03%



Credit Card

1.08%
+0.14%



MBL

1.50%
+0.08%

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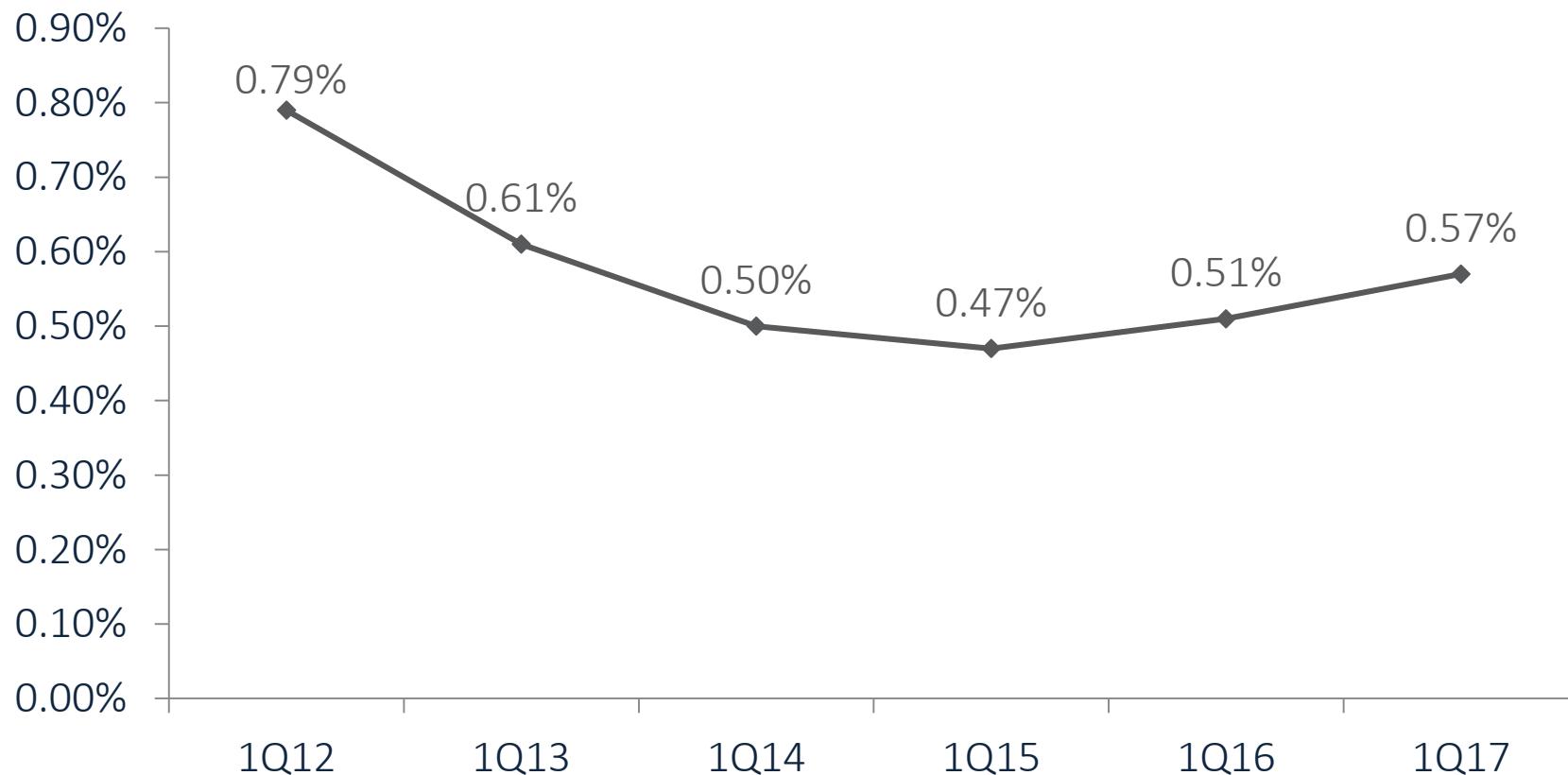


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Net Charge-Offs are rising in the first quarter of 2017

Net Charge-Off Ratio
Data as of 03.31.17



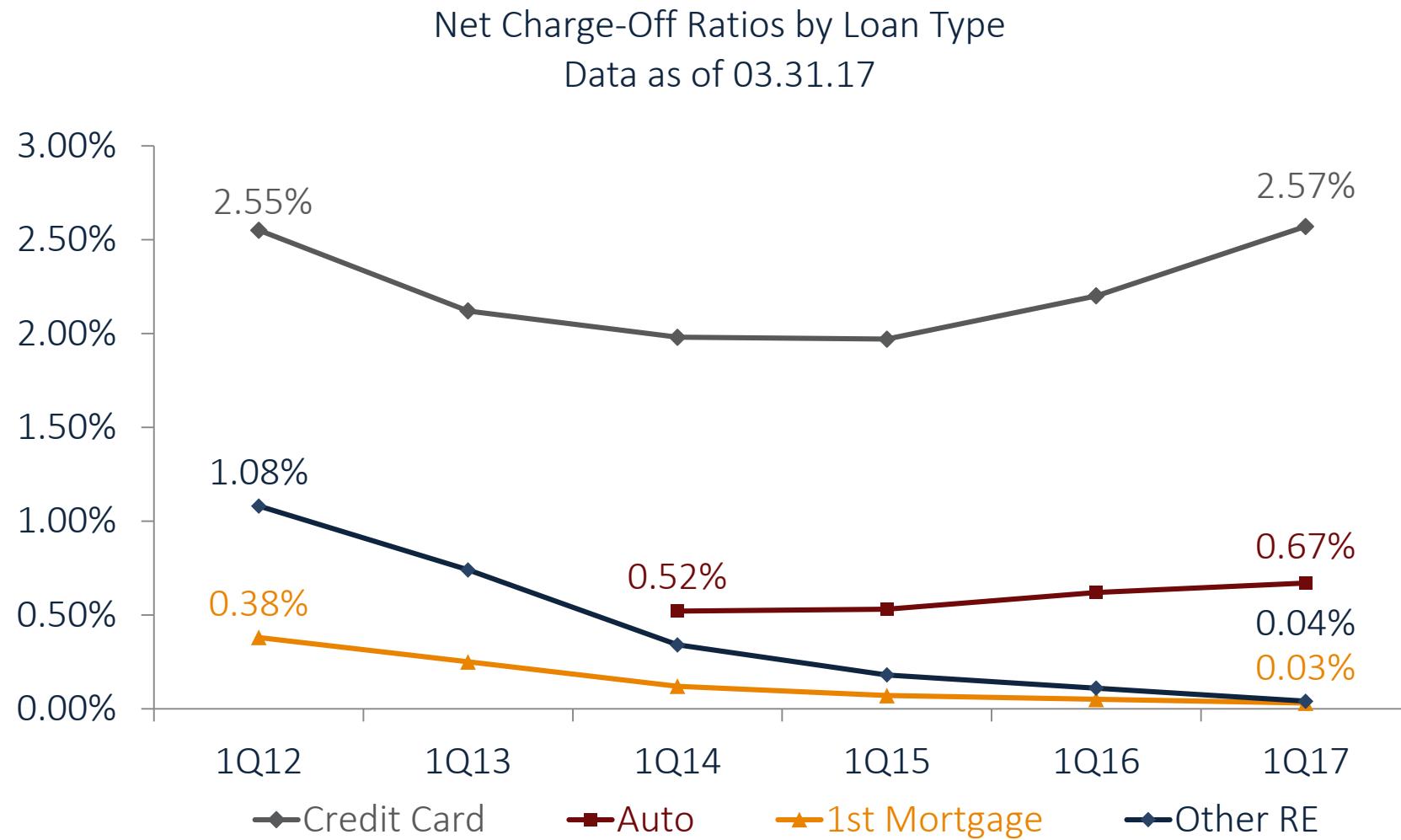
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Consumer loan net charge-offs continue gradual climb, real estate falls



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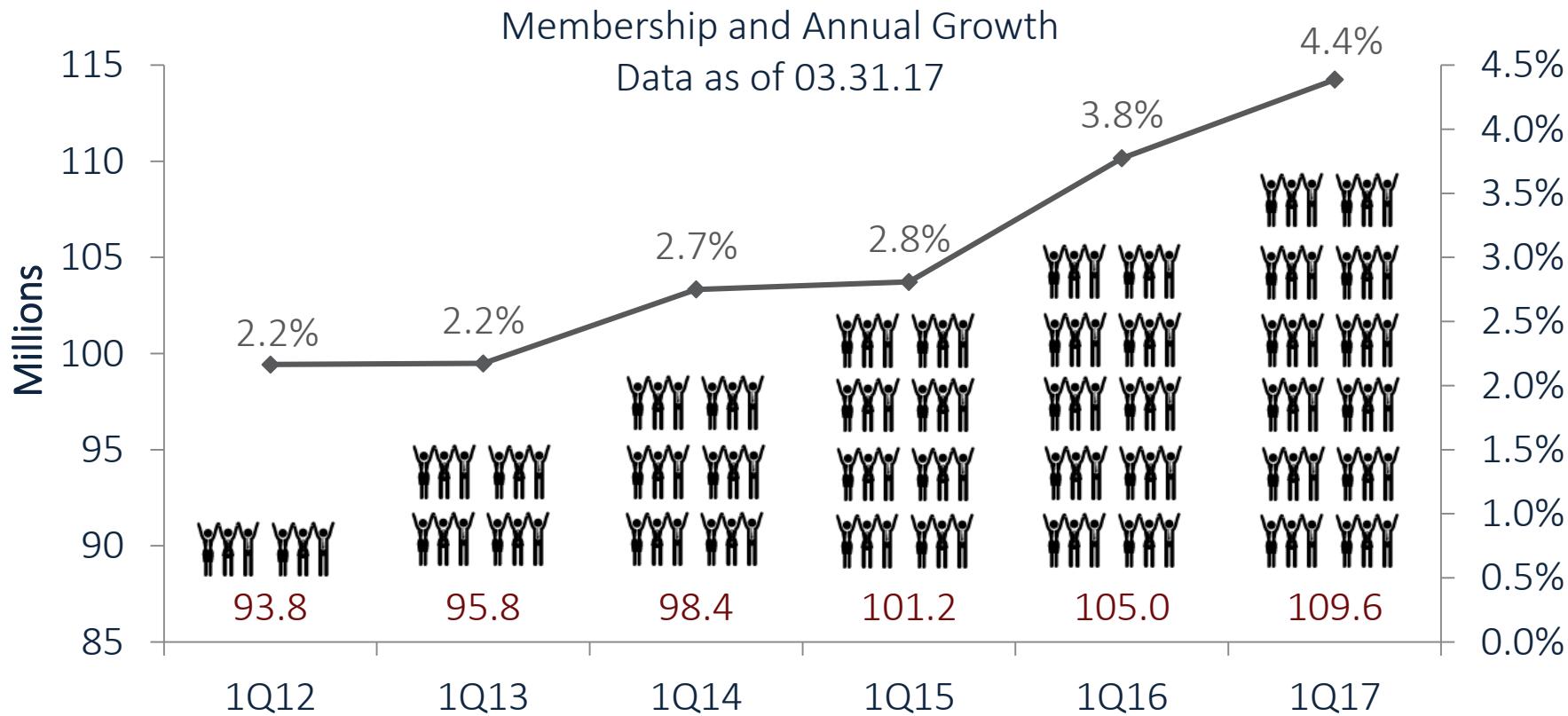
Source: Callahan's Peer-to-Peer Analytics

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Membership growth continues to accelerate

- Largest 1Q increase in members on record
- Members are increasing their usage of credit union products
- Credit union employment continues to expand

Membership annual growth rate doubles from 2012



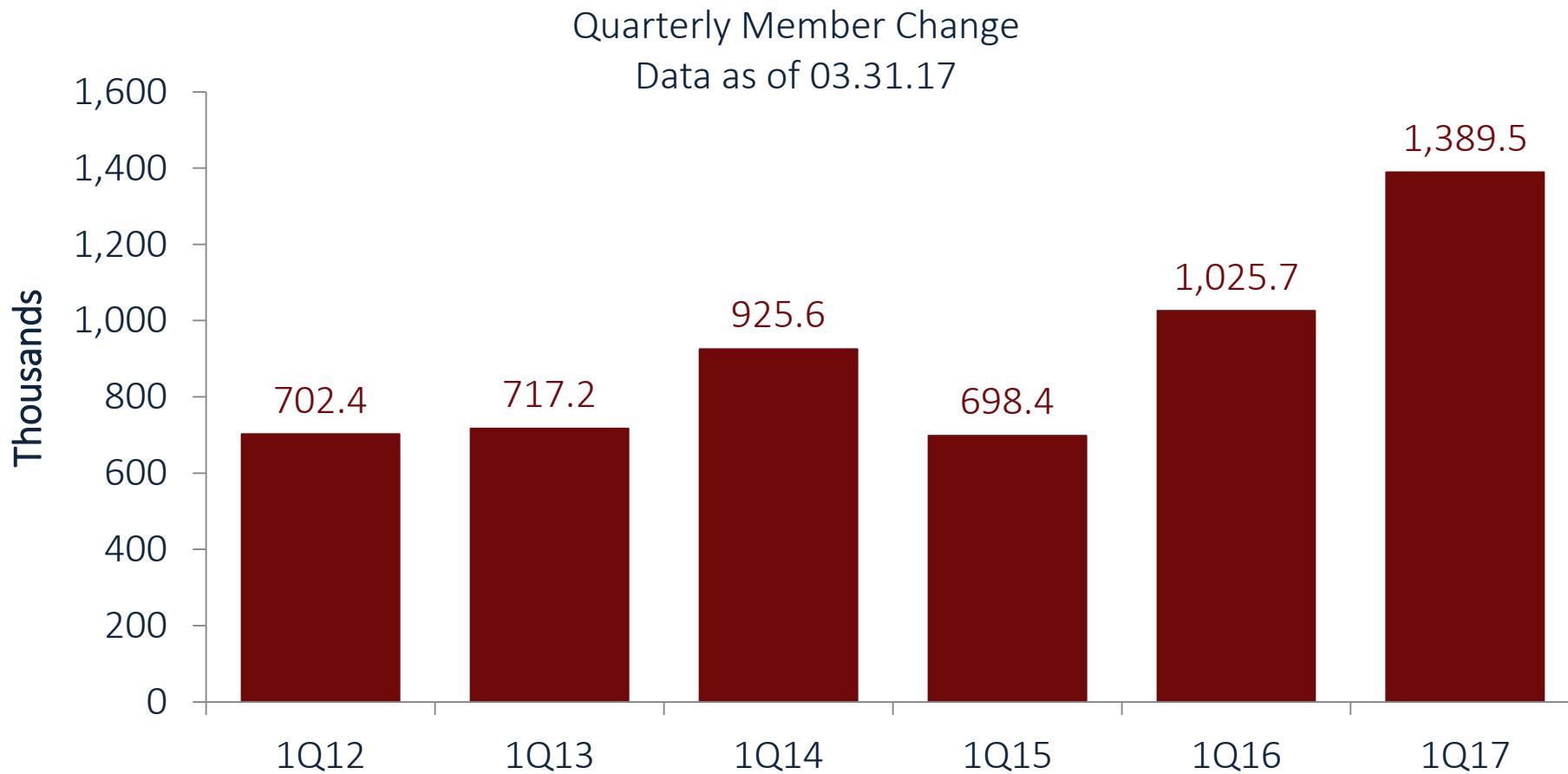
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Highest 1Q membership growth ever recorded



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Membership

“If credit unions took a step back and looked at their SEGs, especially the strong and healthy ones, they would see opportunity there.” – *Bernie Winne, CEO, Boston Firefighters Credit Union*

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Members are increasingly turning to credit unions as their primary financial institution



	Credit Card	Real Estate	Share Draft	Auto
1Q17	17.2%	4.4%	56.5%	19.6%
1Q12	14.7%	4.5%	50.0%	15.8%
Change	+2.5%	-0.1%	+6.5%	+3.8%

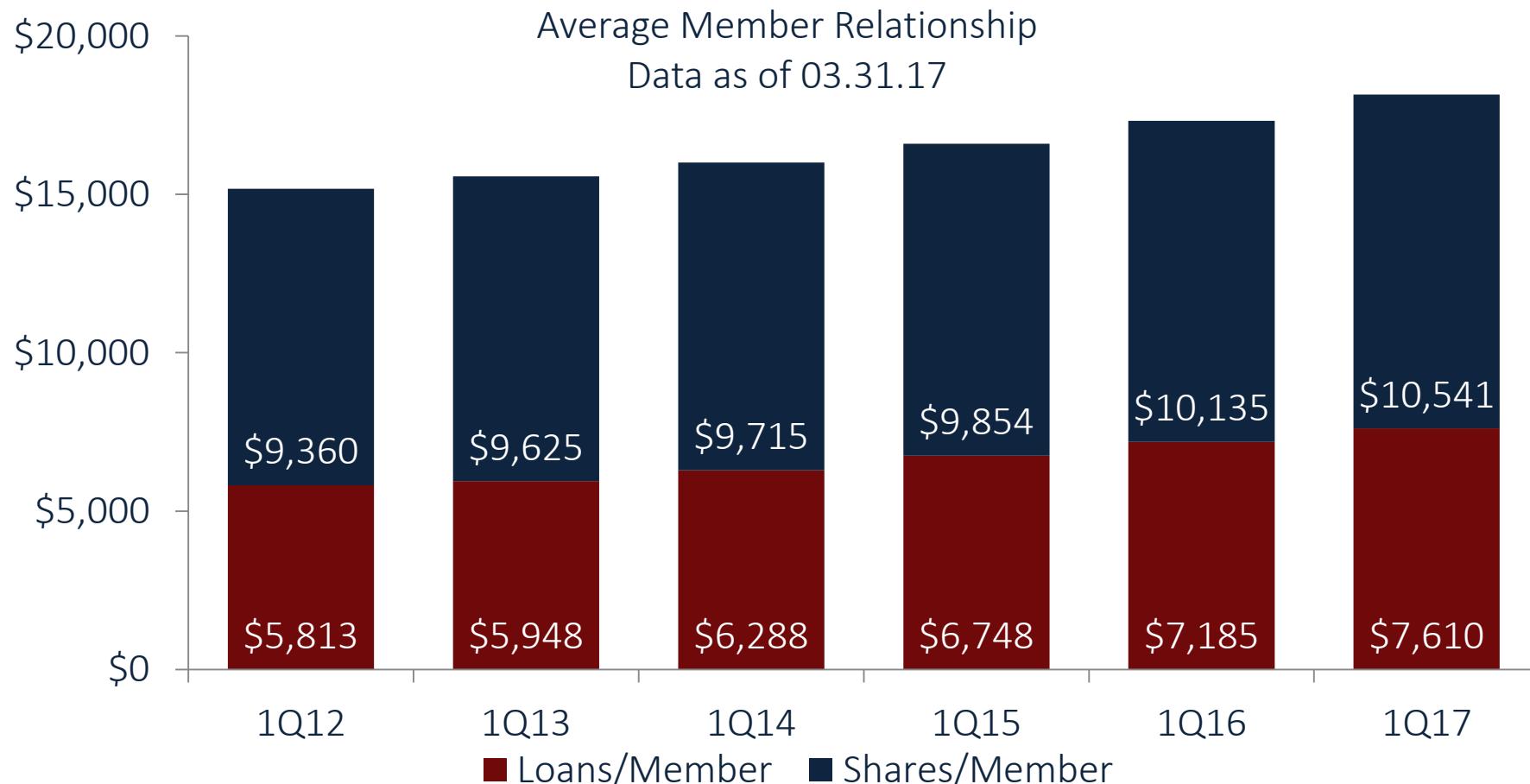
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Members are expanding their credit union relationships



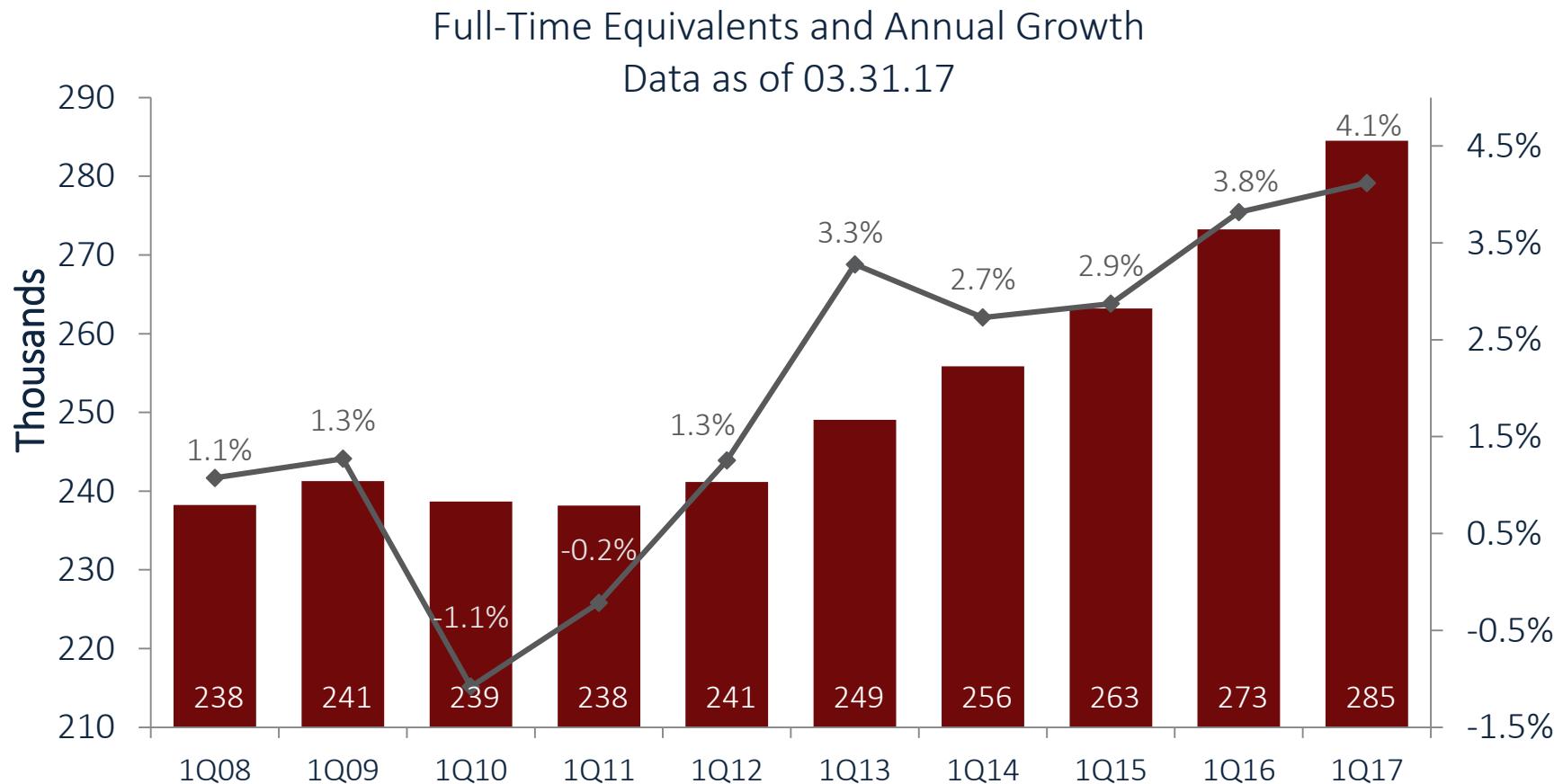
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Employee base keeping pace with growing membership



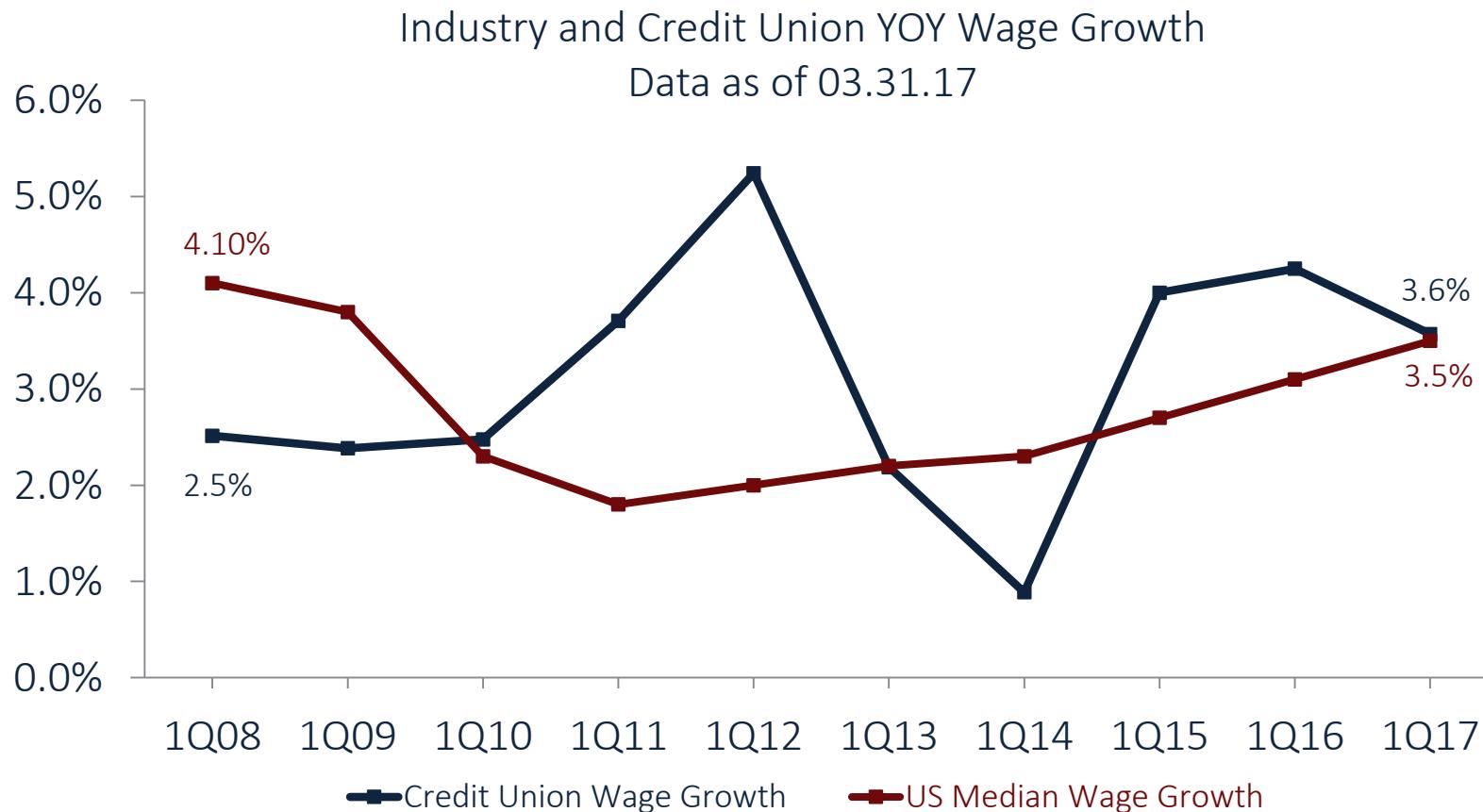
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Although gap narrows, credit union wage growth continues to outperform national average



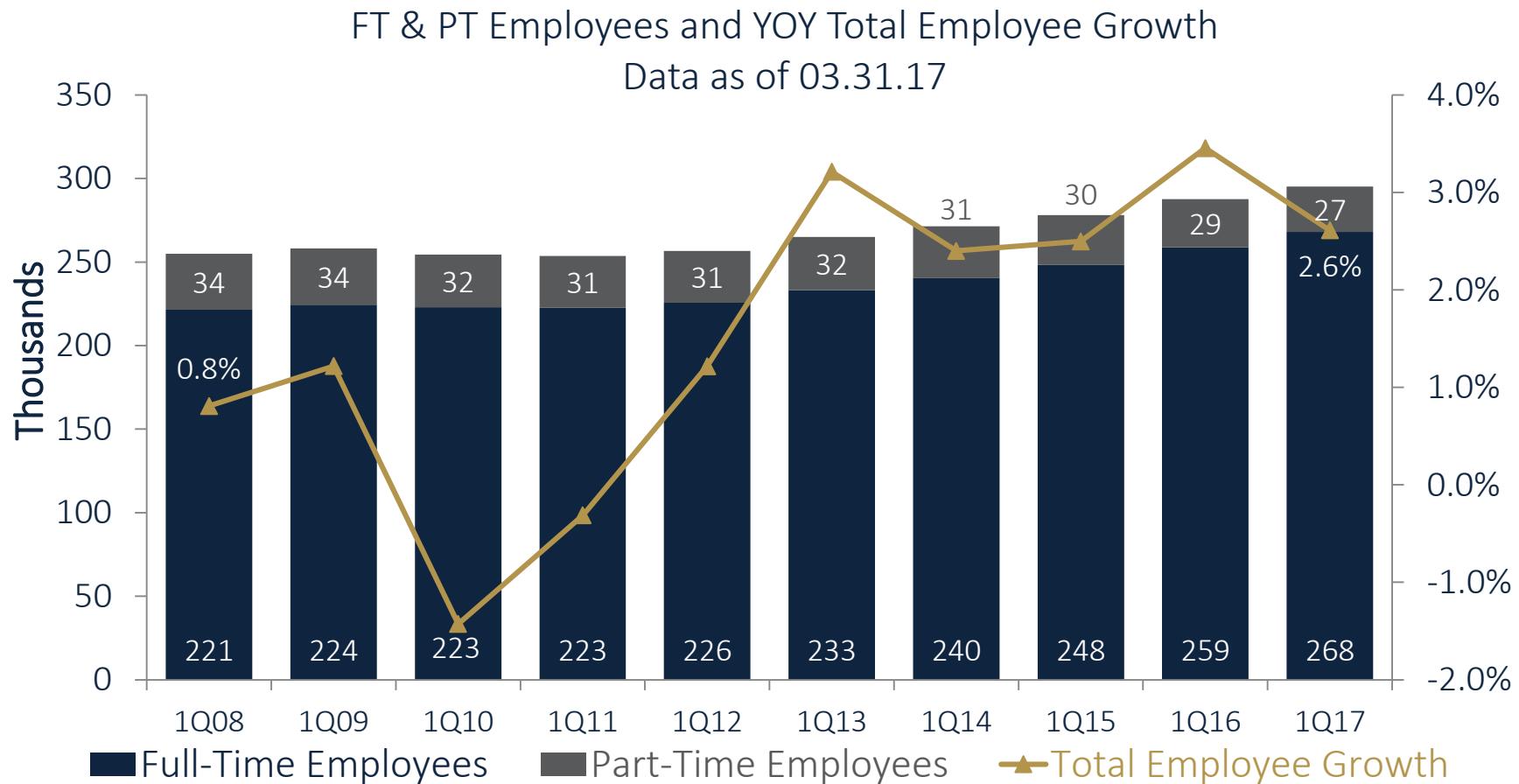
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Source: Callahan's Peer-to-Peer Analytics & FRB Atlanta

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Full-time employment expanding across credit unions



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Remote Department Design

\$270.4M, Arlington, VA

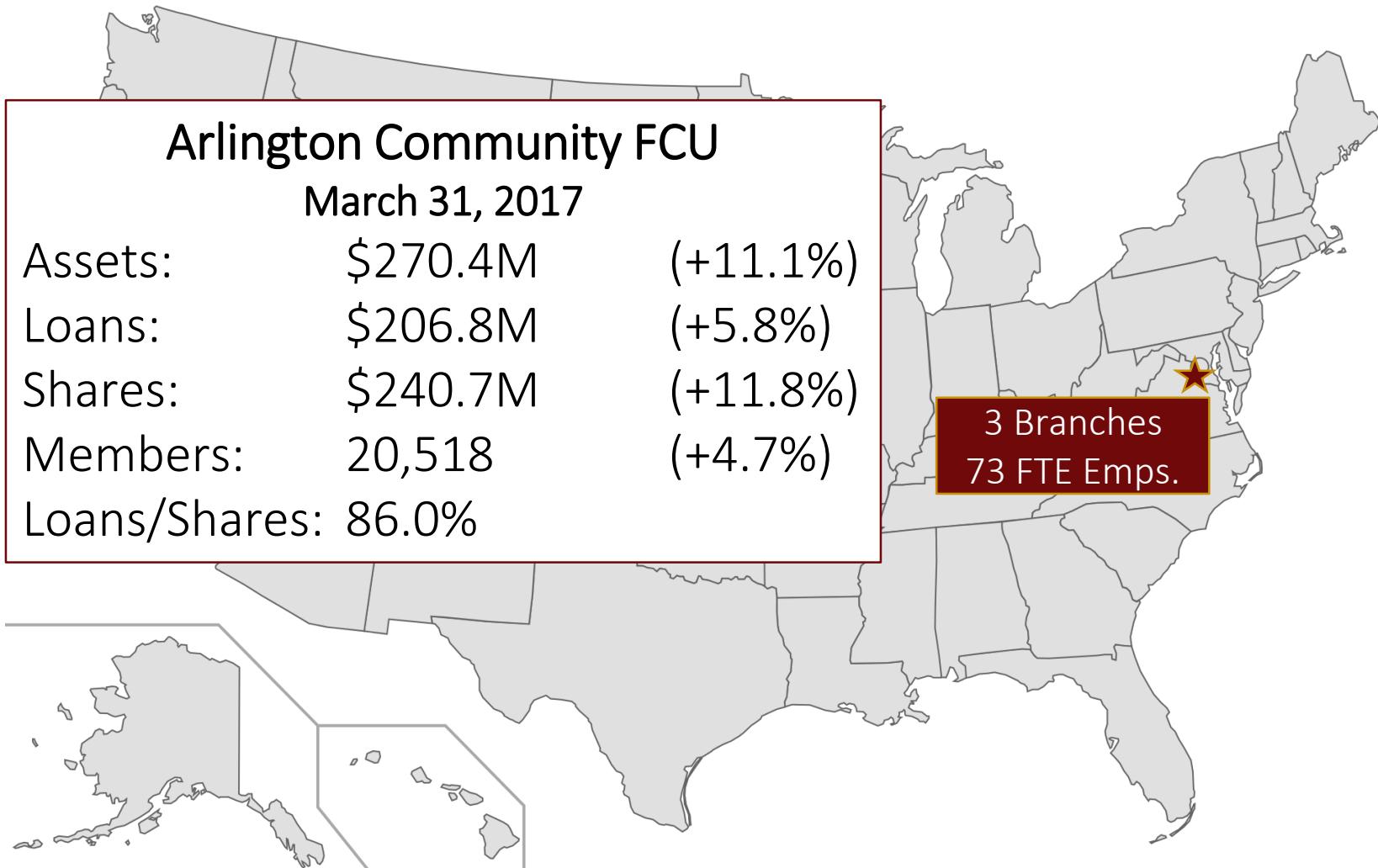
Karen Rosales
Chief Executive Officer



Sara Hunter
Director of Enterprise Solutions



Arlington Community FCU at a glance



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Source: Callahan's Peer-to-Peer Analytics



Remote Department Design

- Origin Story and Vision
- Current Composition of Team
- Benefits and Challenges:
 - From Organizational Perspective
 - From a Leadership and Team Culture Perspective
- Future Applications and Lessons Learned

Origin Story

- Need: Technical project management skills
- Need: Efficiency and innovation
- Need: Out of the box thinking

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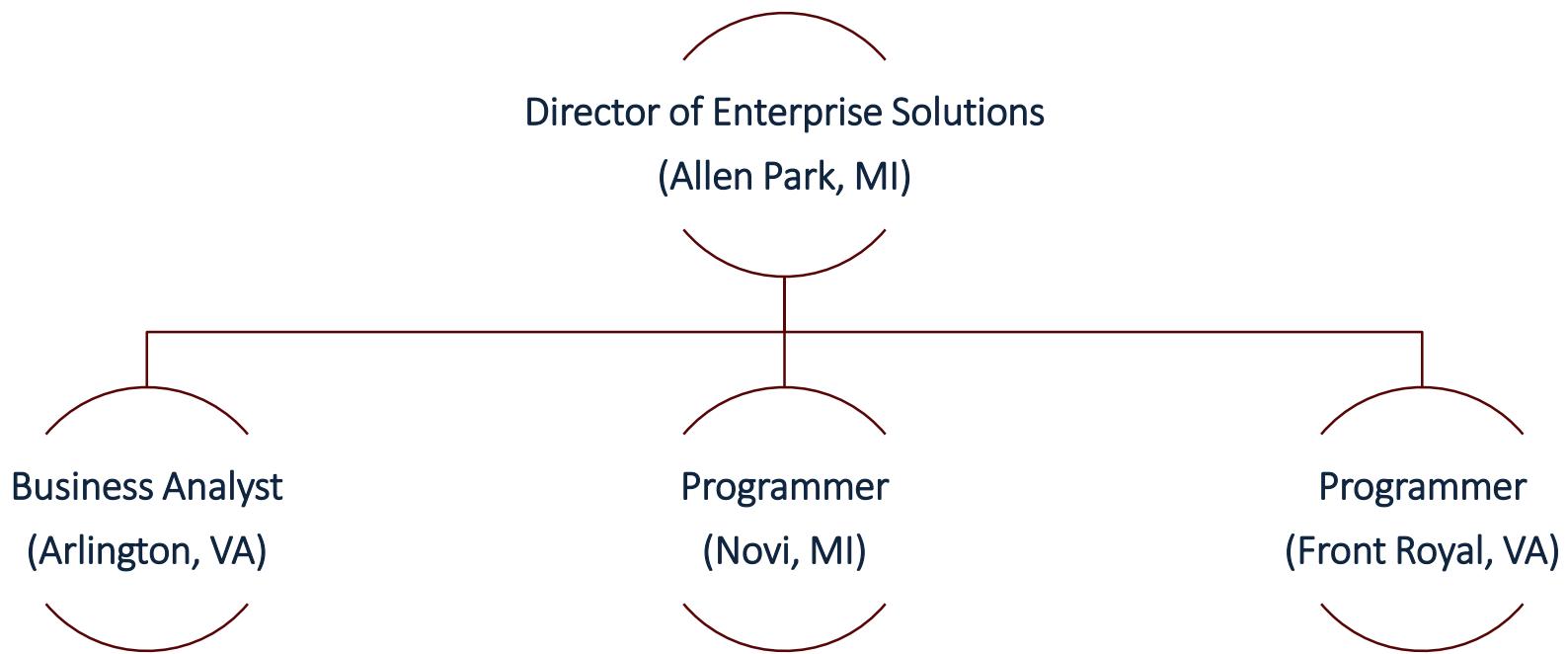
The Vision

- What would it look like if?
- How can we?

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Team Composition



From an Organizational Perspective

- Benefits:
 - Not limited by geography for talent
 - Been able to be just as nimble
 - Cost effectively allowed ourselves to be more self-reliant
 - Applied what we've learned for future potential
- Challenges:
 - Organizational acceptance
 - Technology
 - Organizational culture via iPad
 - Leading a remote team

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Leading a Remote Team - Challenges

- Connectedness to culture
- Out of “site”, out of mind
- Remote meeting norms and the technology to support

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Leading a Remote Team - Successes

- Home is work and work is home
- Access to different people/different networks
- Efficiency

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Future Applications and Lessons Learned

- Organizational culture tweaks
- Future technology – not iPads
- Adaptation encourages adoption
- Other departments

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Revenue continues to rise on strong lending

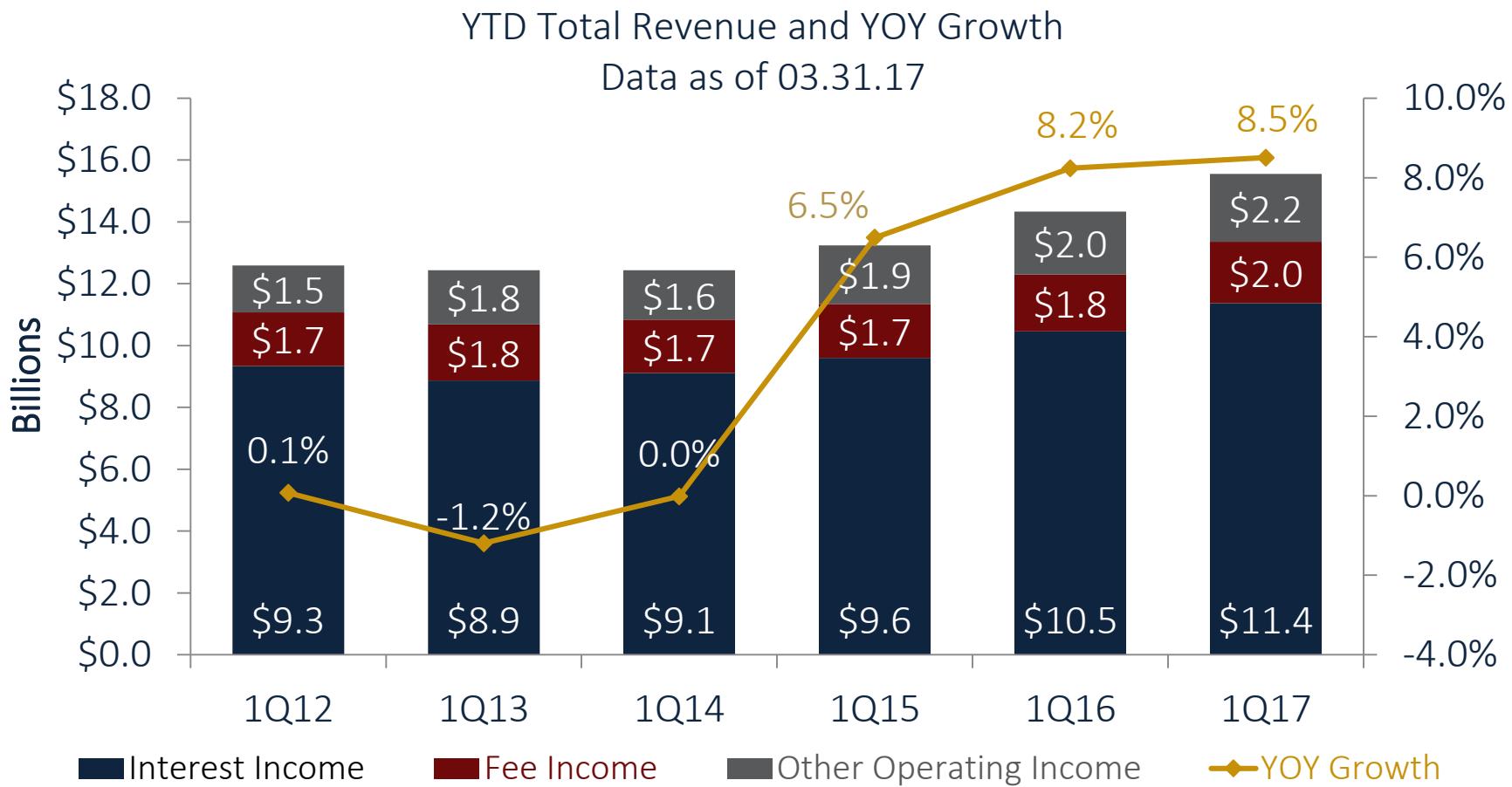
- Total revenue rises to \$15.6 billion as interest income from loans increases
- ROA declines 4 basis points
- Capital balances continue to reach new highs, topping \$145 billion

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All revenue components higher than 1Q16



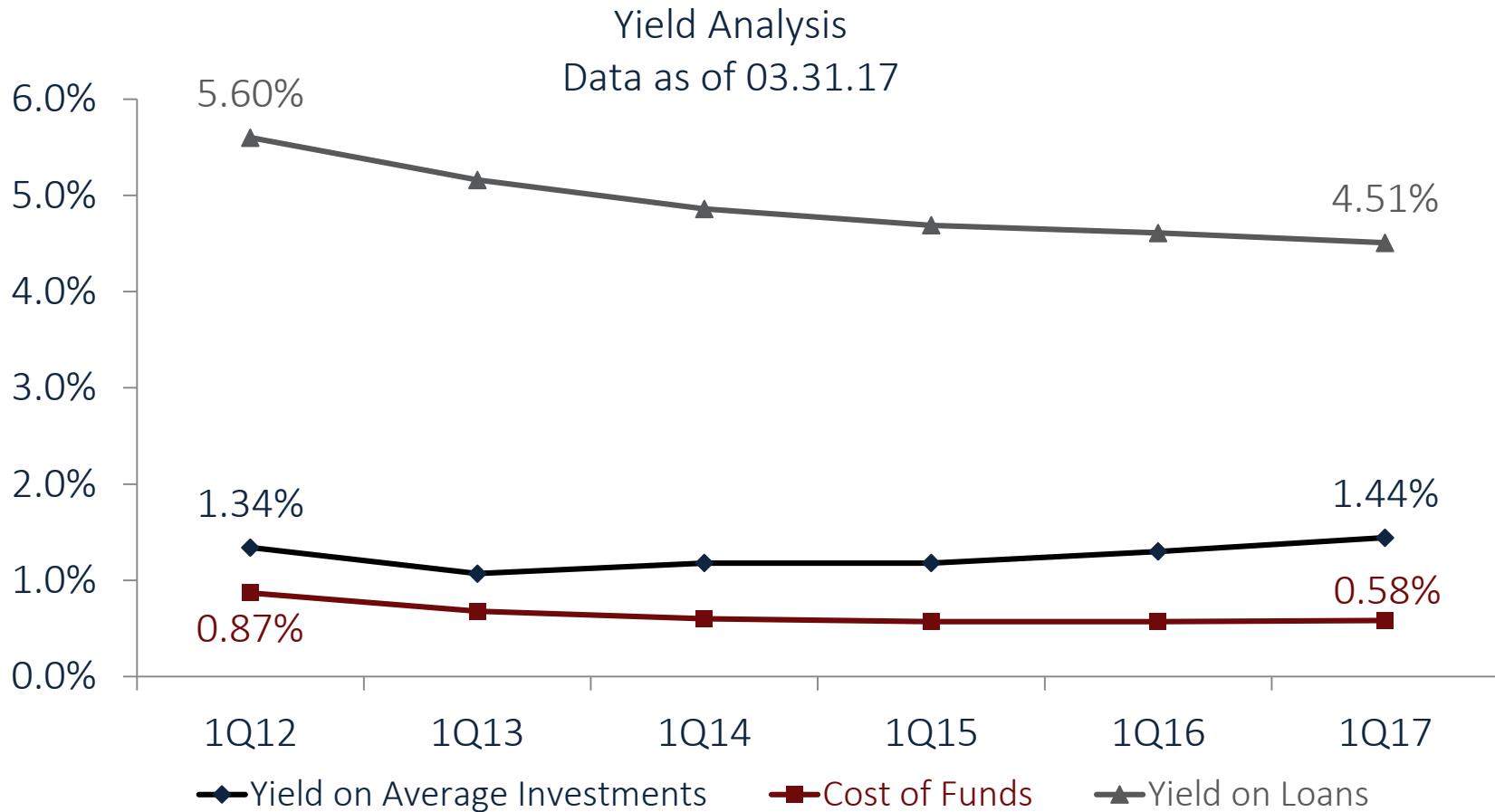
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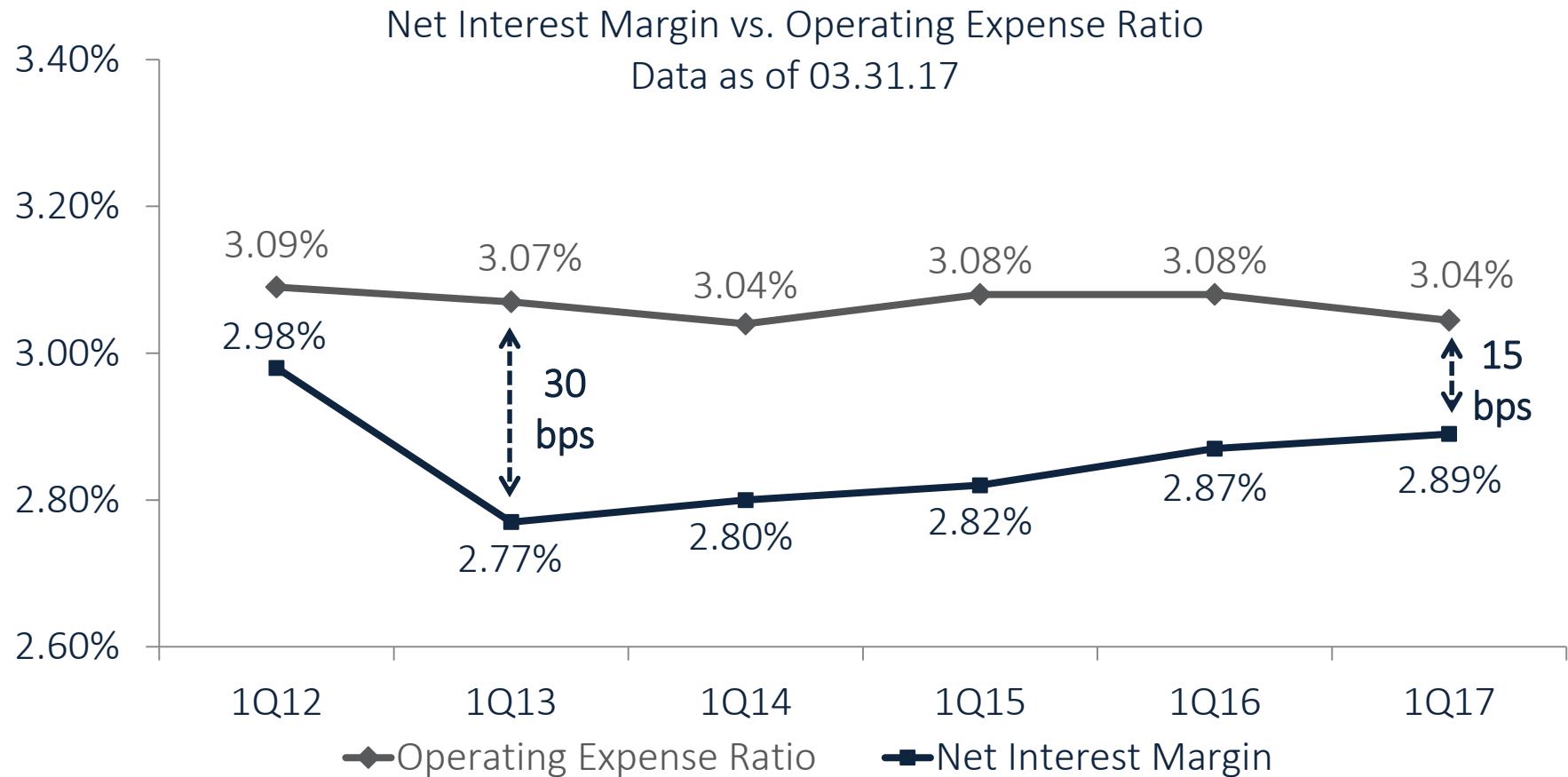
Source: Callahan's Peer-to-Peer Analytics

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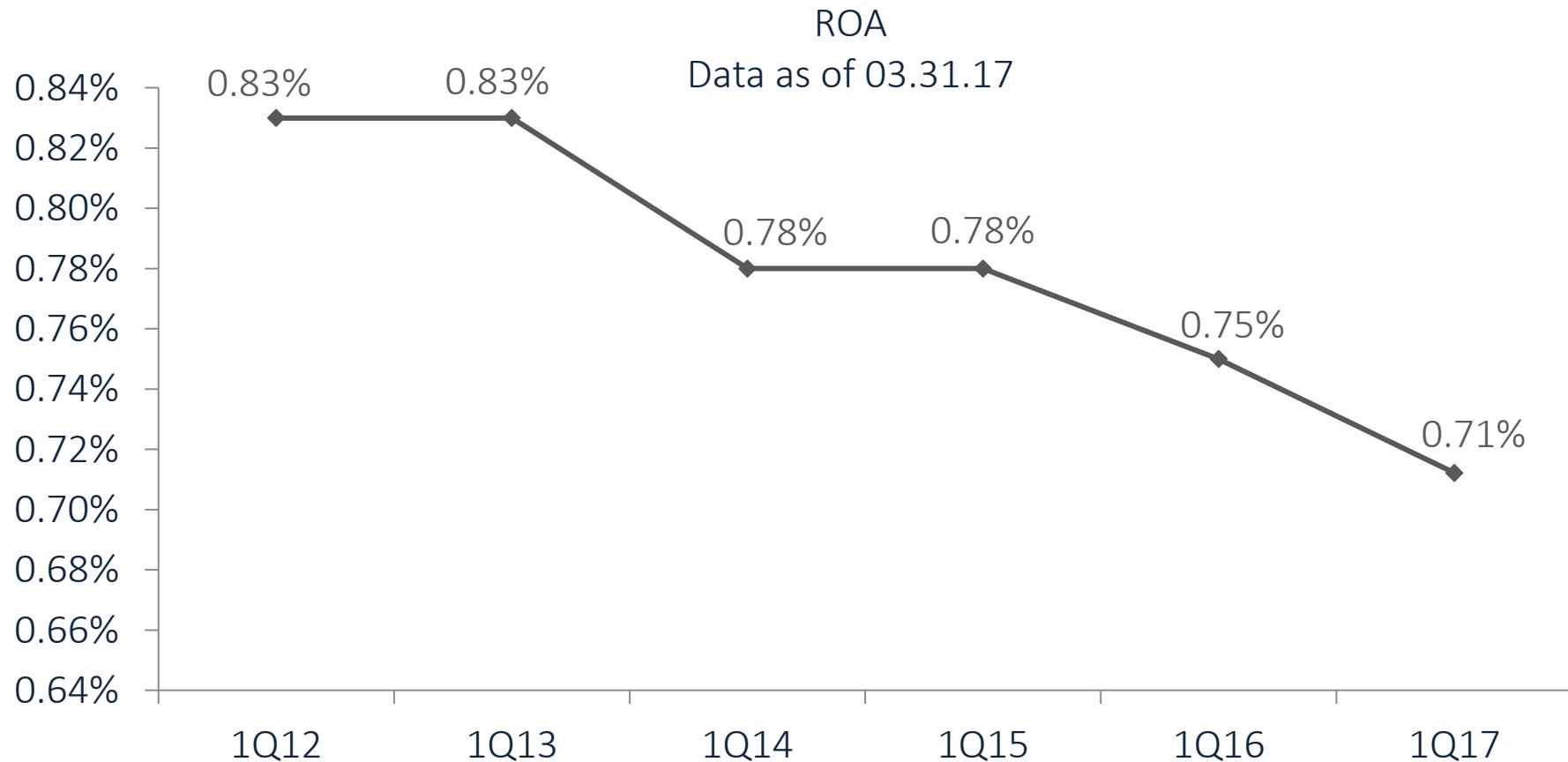
Loan yields have continued to decline as investment yields rise; Steady cost of funds



The gap between net interest margin and operating expense ratio is narrowing



ROA has been steadily declining since 2012...



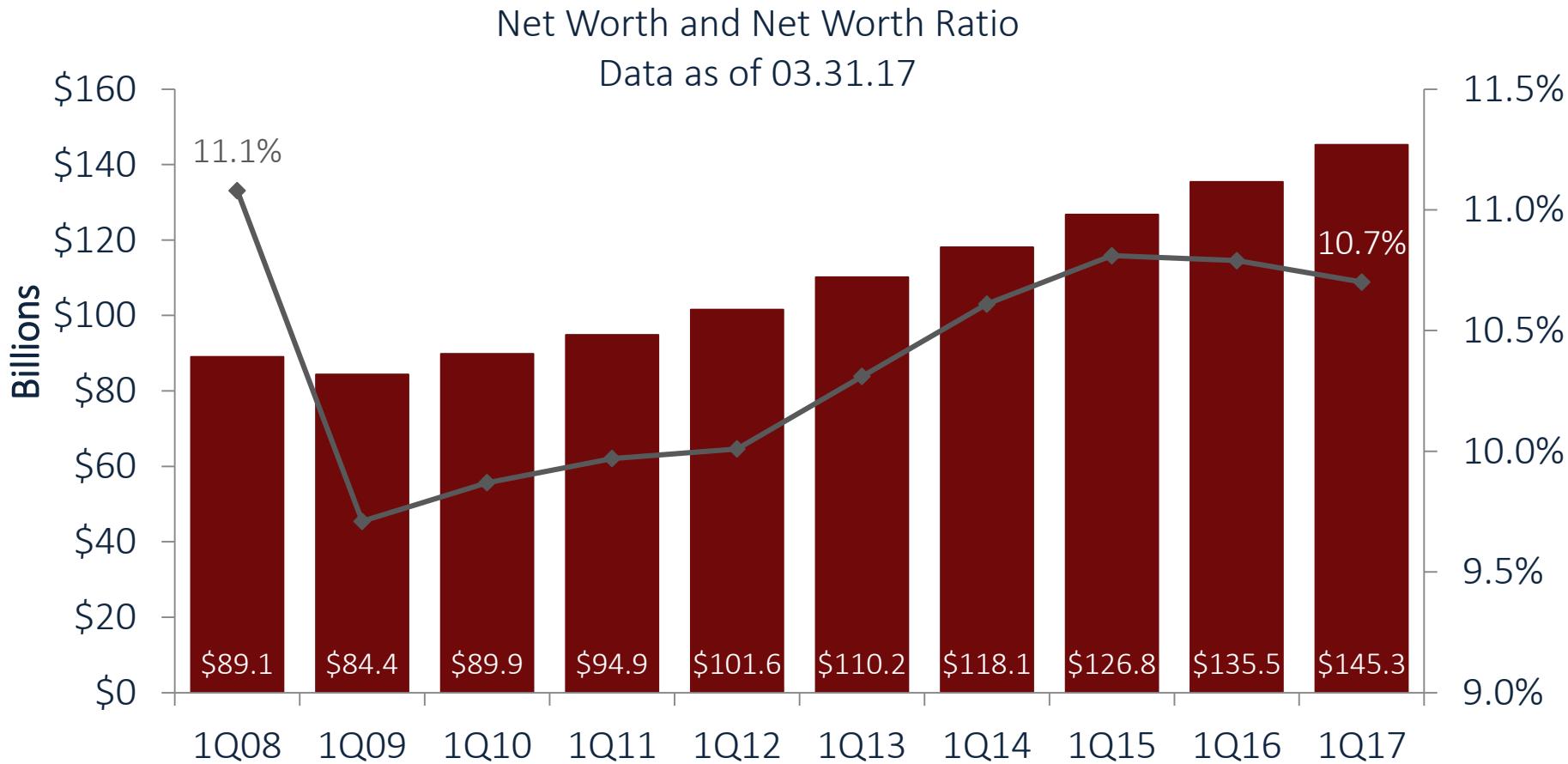
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But net worth continues to rise and credit unions remain well capitalized



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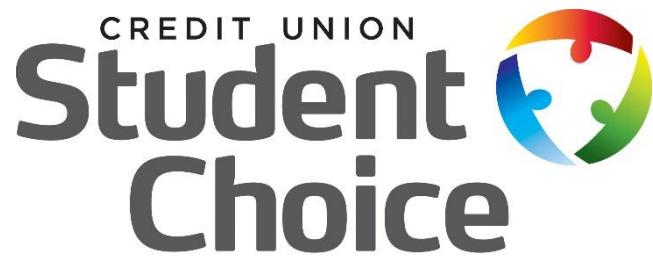
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Investing for the long term

“There’s no quick fix. It takes effort. It takes time. It takes work. And it takes dedication to a cause.” – *Dennis Herricks, VP of Real Estate Services, Altra FCU*

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