REMAINING RELEVANT FOR THE FUTURE

Alexandra Gekas, VP, Marketing & Engagement
Callahan & Associates

Learning Objectives:
1. Examine the state of the industry today and what that means for tomorrow.
2. Review key future credit union issues that are keeping executives up at night.
3. Discuss risk factors with potential to affect future relevancy.
Remaining Relevant For The Future

Alexandra Gekas, Vice President
Callahan & Associates
CALLAHAN IN A ONE-MINUTE NUTSHELL
TODAY’S TOPICS

• Credit Union Trends: Where are credit unions today?

• A Look At The Current Marketplace: Where is the competition today?

• Ways To Remain Relevant: Where do we want to be tomorrow?
CREDIT UNION TRENDS: WHERE ARE WE TODAY?
5,396
US credit unions
THIRD QUARTER CREDIT UNION HIGHLIGHTS

#1
- Mortgage origination fuels lending activity

#2
- Certificates drive positive share growth

#3
- Strong ROA and Net Worth allows for future growth and investment
4.2 MILLION NET NEW MEMBERS ADDED IN LAST YEAR

Membership and Annual Growth
Data as of 09.30.19

Source: Callahan's Peer-to-Peer Analytics
BALANCE SHEET EXPANDING AT SLOWER PACE

Total Loans and Annual Growth
Data as of 09.30.19

<table>
<thead>
<tr>
<th>3Q14</th>
<th>3Q15</th>
<th>3Q16</th>
<th>3Q17</th>
<th>3Q18</th>
<th>3Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>$704</td>
<td>$779</td>
<td>$857</td>
<td>$947</td>
<td>$1,037</td>
<td>$1,099</td>
</tr>
</tbody>
</table>

YOY Growth
- 3Q14: 0.0%
- 3Q15: 10.7%
- 3Q16: 10.1%
- 3Q17: 10.5%
- 3Q18: 9.5%
- 3Q19: 5.9%

Source: Callahan’s Peer-to-Peer Analytics
SLOWDOWN IN AUTO MARKET AFFECTS BALANCE SHEET GROWTH

Annual Growth in Loans Outstanding
Data as of 09.30.19

<table>
<thead>
<tr>
<th>Category</th>
<th>3Q19</th>
<th>3Q18</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Mtg</td>
<td>7.2%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other RE</td>
<td>6.3%</td>
<td>6.5%</td>
</tr>
<tr>
<td>New Auto</td>
<td>2.2%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Used Auto</td>
<td>4.4%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Credit Card</td>
<td>7.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Total</td>
<td>5.9%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

Source: Callahan’s Peer-to-Peer Analytics
SHARE GROWTH RATE RECOVERS FROM 2-YEAR SLOWDOWN

Total Share Balances and Annual Growth
Data as of 09.30.19

- 3Q14: $951 (3.6% YOY Growth)
- 3Q15: $1,005 (5.7% YOY Growth)
- 3Q16: $1,092 (8.6% YOY Growth)
- 3Q17: $1,165 (6.7% YOY Growth)
- 3Q18: $1,223 (5.0% YOY Growth)
- 3Q19: $1,308 (6.9% YOY Growth)

Source: Callahan's Peer-to-Peer Analytics
SHARE CERTIFICATES DRIVE SHARE GROWTH, UP $51.0B YOY

12-Mo. Growth in Shares Segments
Data as of 09.30.19

- Share Certificates: 22.2% (3Q19) vs. 8.7% (3Q18)
- IRA/Keogh: -0.8% (3Q19) vs. 3.6% (3Q18)
- MMA: 2.1% (3Q19) vs. 1.0% (3Q18)
- Share Drafts: 5.8% (3Q19) vs. 7.0% (3Q18)
- Regular Shares & Dep.: 3.1% (3Q19) vs. 5.8% (3Q18)
- Total Shares: 6.9% (3Q19) vs. 5.0% (3Q18)

Source: Callahan’s Peer-to-Peer Analytics
LOAN-TO-SHARE RATIO TICKS UP; BEGINNING TO PLATEAU?

Loan-to-Share Ratio
Data as of 09.30.19

Source: Callahan’s Peer-to-Peer Analytics
ROA APPROACHES 1% THROUGH THE THIRD QUARTER

Data as of 09.30.19

Source: Callahan’s Peer-to-Peer Analytics
STRONG NET WORTH RATIO BODES WELL FOR ECONOMIC SHOCKS

Net Worth and Allowance
Data as of 09.30.19

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Worth</th>
<th>Allowance</th>
<th>Net Worth Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q14</td>
<td>$122.6</td>
<td>$7.1</td>
<td>10.9%</td>
</tr>
<tr>
<td>3Q15</td>
<td>$131.4</td>
<td>$7.2</td>
<td>11.4%</td>
</tr>
<tr>
<td>3Q16</td>
<td>$140.4</td>
<td>$7.7</td>
<td>11.0%</td>
</tr>
<tr>
<td>3Q17</td>
<td>$150.5</td>
<td>$8.7</td>
<td>11.0%</td>
</tr>
<tr>
<td>3Q18</td>
<td>$163.5</td>
<td>$9.2</td>
<td>11.0%</td>
</tr>
<tr>
<td>3Q19</td>
<td>$177.4</td>
<td>$9.6</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

Source: Callahan's Peer-to-Peer Analytics

Net Worth and Allowance, Billions

STRONG NET WORTH RATIO BODES WELL FOR ECONOMIC SHOCKS
<table>
<thead>
<tr>
<th>Category</th>
<th>3Q19</th>
<th>3Q14</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card</td>
<td>17.6%</td>
<td>16.3%</td>
<td>+1.3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.5%</td>
<td>5.4%</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Share Draft</td>
<td>58.6%</td>
<td>53.7%</td>
<td>+4.9%</td>
</tr>
<tr>
<td>Auto</td>
<td>21.3%</td>
<td>17.3%</td>
<td>+4.0%</td>
</tr>
</tbody>
</table>

Penetration rates remain solid even with 21% member growth past 5 years.

Source: Callahan's Peer-to-Peer Analytics

Penetration Rates Data as of 09.30.19
A LOOK AT THE CURRENT MARKETPLACE: WHERE IS THE COMPETITION TODAY?
I’d like to open an account.

Who cares?

INTEREST-FREE CHECKING

BIZARRO.COM
BANKS TOP CREDIT UNIONS IN CONSUMER SATISFACTION FOR THE FIRST TIME EVER

BANKS AND CREDIT UNIONS
12-Year ACSI Trends

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WE’RE COMPETING IN A LAND OF GIANTS & FINTECH DISRUPTION
Bank Market Share, 2006

- Giant Banks: 47%
  - Citigroup: 8%
  - JP Morgan Chase: 9%
  - Wells Fargo: 3%
  - Bank of America: 10%
  - Other Giant Banks: 17%
- Medium Banks & Credit Unions: 13%
- Small Banks & Credit Unions: 15%
- Large Banks & Credit Unions: 25%

Source: FDIC and NCUA
BRANDS LOOK LIKE THIS...
Bank Market Share, 2018

Source: FDIC and NCUA
FINTECH’S GROWING MARKET DISRUPTION
Findings from PwC’s Global FinTech Survey

80% believe their business is at risk
56% have disruption at the heart of their strategy
82% expect to increase FinTech partnerships in the next three to five years
BRANDS NOW LOOK LIKE THIS….
THESE LOGOS ARE MARKETING TO OUR MEMBERS...
AND USING OUR OLD VALUE PROPS...
WE’RE COMPETING WITH THESE LOGOS TOO...
WAYS TO REMAIN RELEVANT: WHERE DO WE WANT TO BE TOMORROW?
2020 PRIORITIES: WHAT CUS ARE THINKING ABOUT

1. Mission
2. Growth
3. Talent Development
4. Digital First
5. Governance
**IMPERATIVE**

n. Of vital importance; crucial.
FOCUS ON THE INDUSTRY IMPERATIVES

PURPOSE

TALENT

MINDSET
**Impact of Purpose**

<table>
<thead>
<tr>
<th>% of leaders confident that company will grow in next year</th>
<th>% of staff fully engaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>82</td>
<td>73</td>
</tr>
<tr>
<td>48</td>
<td>23</td>
</tr>
</tbody>
</table>

- **Companies with a strong sense of purpose**
- **Companies without a strong sense of purpose**

*Source: Deloitte re Beliefs and Culture Survey, 2014, n = 300 executives and 753 employed adults.*
FINANCIAL HEALTH IN AMERICA

59% Of U.S. adults are living paycheck to paycheck. – Charles Schwab

39% Of Americans either cannot or would need to borrow or sell something to cover a $400 unexpected expense. – Federal Reserve

25% Of non-retired Americans have no retirement savings. – Federal Reserve
KEY QUESTIONS REGARDING PURPOSE

• Do you feel your credit union has a clear purpose?
  • Do your members and community know it?

• What’s your unique brand story? How well do you tell it?
TELL YOUR CREDIT UNION STORY

Live your best life, we can help.
IT'S DIFFERENT HERE.

Members feel taken care of.

Hear how Mariah (an Affinity Plus member since 2017) feels like she's joined a community of people who truly care.

Watch Mariah's Video

NOT FOR PROFIT. FOR PEOPLE, WHO LIKE PEOPLE WHO CARE.

And top-rated tech you can use on your own schedule.

Become a Member

Learn About Membership
KEY QUESTIONS REGARDING PURPOSE

- Do you feel your credit union has a clear purpose?
  - Do your members and community know it?

- What’s your unique brand story? How well do you tell it?

- How are you differentiating your credit union?
Better Money Habits® for your financial life

Explore priorities below to get started

- Buy a home comfortably and affordably with these tips
- How does your spending measure up?
- Savings, money market or CD: Which account is right for you?
- Here’s how to help your teen make smart spending trade-offs

Explore more topics and build your financial know-how.

Visit Better Money Habits®
Visa Platinum shines with a bank-beating rate

Enjoy rates as low as 8.15% APR, no balance transfer fees, and 1% cash back.

Real Estate Services
Save time and money by getting connected to the tools to search, buy, or sell a home.

Don’t Tax My CU
Find out how to get involved in preserving the tax-exempt status of credit unions.

Calculators
Need help calculating an auto loan payment? Try our calculators.

Visa Checkout
Make secure online purchases without sharing your full card information.
A healthier financial life. It starts here.

Better rates, fewer fees, and personalized advice you won’t find at big banks.

JOIN US TODAY

“I really feel like they care about me.”

- Deena
Patelco member
KEY QUESTIONS REGARDING PURPOSE

- Do you feel your credit union has a clear purpose?
  - Do your members and community know it?

- What’s your unique brand story? How well do you tell it?

- How are you differentiating your credit union?

- How do you measure your impact?
WE STILL NEED TO MEASURE THIS....
BUT WE NEED TO START MEASURING DIFFERENTLY

- # of Financial Health Programs Offered
- % Employee Diversity
- $ Habitat For Humanity Loans
- # Employee Volunteer Hours
- $ Grants
- # First Time Home Buyer Loans
TALENT
HIRING & RETAINING GOOD TALENT MATTERS

Productivity gap between average performers and high performers, by job complexity, %

<table>
<thead>
<tr>
<th>Complexity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low complexity</td>
<td>50</td>
</tr>
<tr>
<td>Medium complexity</td>
<td>85</td>
</tr>
<tr>
<td>High complexity</td>
<td>125</td>
</tr>
<tr>
<td>Very high complexity</td>
<td>800</td>
</tr>
</tbody>
</table>

AND YET…

% of Fortune 500 executives who agree that their organizations ...

... recruit highly talented people 18
... know who are high and low performers 14
... retain high performers 7
... develop people quickly and effectively 3
... quickly remove low performers 3

KEY QUESTIONS REGARDING TALENT

• How do you find, develop, and retain great employees?
TALENT IN ACTION

Join the team at Directions and be part of something special. We offer a wide range of benefits to both full- and part-time employees.

Open Positions

Building An Effective Retention Program
TALENT IN ACTION

Building An Effective Retention Program

- We’re investing in employees, giving them more depth in what they’re doing, and getting them in front of senior management.
- We’ve developed an end-to-end approach to training, from new hire onboarding to development of senior-level competencies.
- We’re also in the 3rd year of our leadership development program, which offers open enrollment every year for up to 25 participants.
KEY QUESTIONS REGARDING TALENT

- How do you find, develop, and retain great employees?

- Are you evolving your roles to meet the demands of the future?
ROLES, THEY ARE A CHANGIN’

WAYNE KEELS
DIRECTOR OF CONTINUOUS IMPROVEMENT
SAFE FCU

ALISSA SYKES
SENIOR VICE PRESIDENT & CHIEF GROWTH OFFICER,
SUNMARK CREDIT UNION

SEAN VERITY
ETHICAL HACKING MANAGER,
MSUFCU
KEY QUESTIONS REGARDING TALENT

- How do you find, develop, and retain *great* employees?
- Are you evolving your roles to meet the demands of the future?
- How are you incorporating diversity & inclusion into your strategy?
Cooperative 7 Principles
THE RIGHT AND WRONG WAY TO APPROACH D&I

VS.

Source: Jennifer Brown “How To Be An Inclusive Leader”
BUILDING A SUCCESSFUL D&I STRATEGY

1. Commit and cascade
   - Compelling CEO vision
   - Management accountability

2. Link I&D to growth strategy
   - Value drivers
   - Diversity mix
   - Data and analytics

3. Craft initiative portfolio
   - Prioritized initiatives
   - Inclusive culture
   - Metrics and tracking

4. Tailor for impact
   - Local adaptation
   - Cross-industry/sector collaboration

Source: McKinsey&Company, Delivering through Diversity
AT&T Diversity & Inclusion

AT&T is All of Us

At AT&T, we align diversity & inclusion to four pillars – our employees, the communities we serve, our customers and our suppliers.

A Message from our Chairman and CEO

"We stand for equality at AT&T. That commitment guides every interaction with our customers, our communities and one another. Whether our employees are building a better network, creating
MINDSET
KEY QUESTIONS REGARDING MINDSET

• Is innovation a leading component of your culture?
RECIPE FOR INNOVATION

• One part problem solving

• One part problem preventing
INNOVATION COMES FROM ANY LEVEL
KEY QUESTIONS REGARDING MINDSET

• Is innovation a leading component of your culture?

• Are you willing to fail a little to learn a lot?
1.10^{5} = 1.6
1.01^{260} = 13.3
KEY QUESTIONS REGARDING MINDSET

• Is innovation a leading component of your culture?

• Are you willing to fail a little to learn a lot?

• What is the role of collaboration as your credit union evolves?
COLLABORATION IS IN OUR DNA

“There’s more and more to know in the world, and you can only have so much in your head. So the share of stuff you know as an individual is declining in any field.”

- Benjamin Jones, Kellogg School
WAYS TO COLLABORATE

Community

Fintechs

Local Businesses

Innernally

Each other!

CUSOs
OUR MISSION

Credit unions are different and always have been. We never came together with the notion of making money, but with the notion of helping people and improving their lives.

- Ed Callahan
TO BE CONTINUED....

PURPOSE

TALENT

MINDSET
Thank You!

Alexandra Gekas

agekas@callahan.com

Linked.com/in/alexandra-gekas/