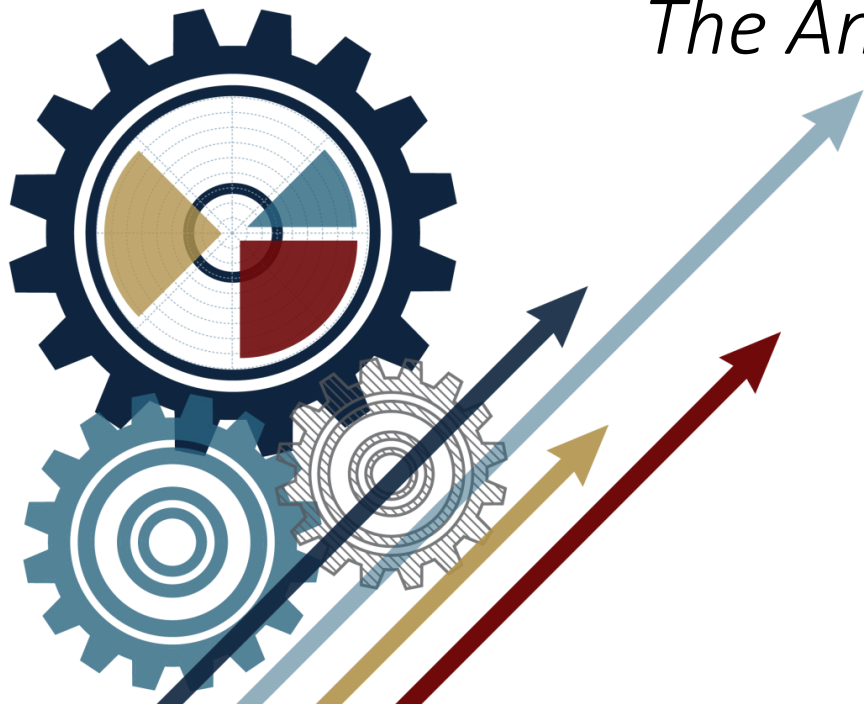


Trendwatch Year-End 2017

The Annual Report for the Industry

Data for December 31, 2017

Call Dates: February 14 & 15, 2018



Welcome!



When you join the event, you should automatically be connected to the audio broadcast with your computer. To listen by phone, please dial **+1-415-655-0003**, then input the access code **669 756 245**.



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:

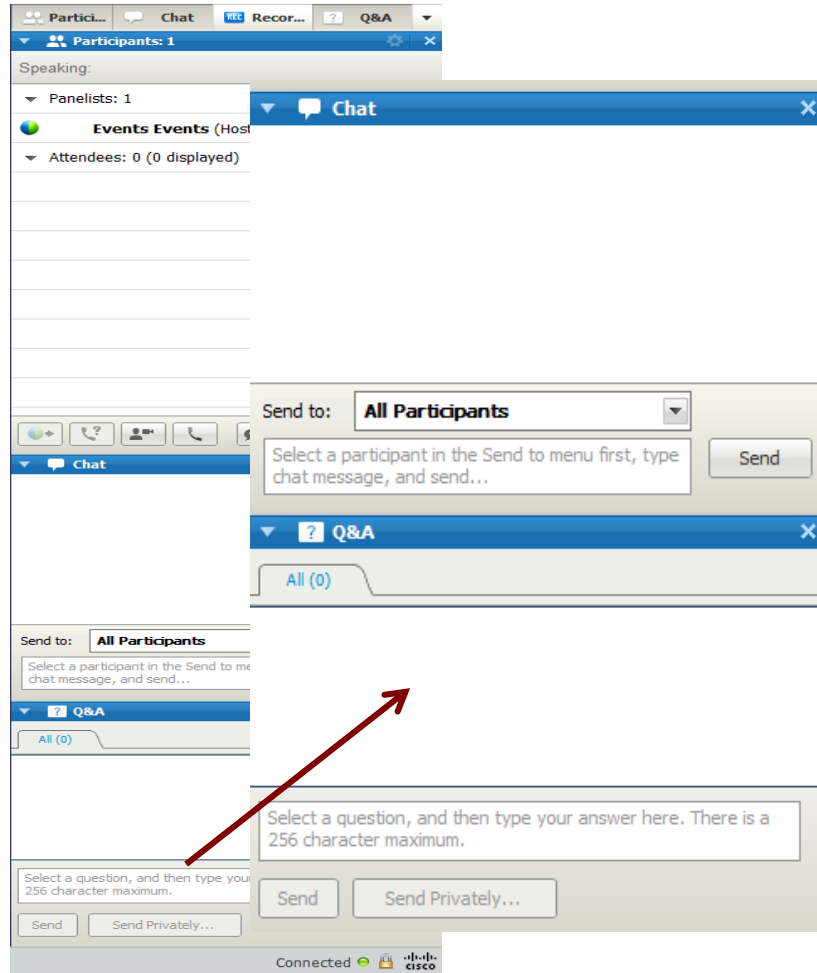
<http://bit.ly/4Q17-Day-2>

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We Encourage Questions!!!



Use the **Q&A box** located on the right side of the screen to type your comments or questions.



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Local
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Visit www.callahan.com/cubrandmonitor to learn more.

The logo features the letters 'CU' in a light green color, with a yellow lightbulb icon above the 'U'. To the right of 'CU' is the word 'BRAND' in a dark blue, serif font. Below 'CU BRAND' is a horizontal line, and underneath that line is the word 'MONITOR' in a larger, dark blue, serif font.

CU BRAND
MONITOR

Come see us at GAC

Stop by **Booth 539** to visit with the Callahan team, and enter to win a **Google Home!**





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Growth percentiles in major lending categories highlight opportunity and success in the credit union loan portfolio.

Tell us what you thought!



Please answer our post-event survey.

One lucky survey respondent will win a Starbucks gift card.

Agenda

Market Update

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

Year-End 2017 Credit Union Trends & Key Issues

“Market Momentum Heading into 2018”

Jay Johnson, Partner, Callahan & Associates

Sam Taft, AVP, Analytics & Business Development, Callahan & Associates

The Lightning Jar

Rob Miller, CEO, Vermont State Employees Credit Union

ALM FIRST MARKET UPDATE

Callahan Quarterly Trendwatch | February 14, 2018



Jason Haley

Managing Director, Investment Management Group

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

- Equity market volatility exploded last week
 - VIX Index eclipsed 50 last week for first time since financial crisis
 - S&P 500 down more than 10% from Jan. 26 – Feb. 8
- Anxiety in risk markets attributable to:
 - Expectations for higher wages/inflation
 - Rising federal deficits
 - Higher Treasury yields
 - Tighter monetary policy
- Congress agreed to federal budget that would significantly increase government spending
 - When combined with tax reform, some have noted the uniqueness of adding fiscal stimulus prior to a recession



Economic Update (cont...)

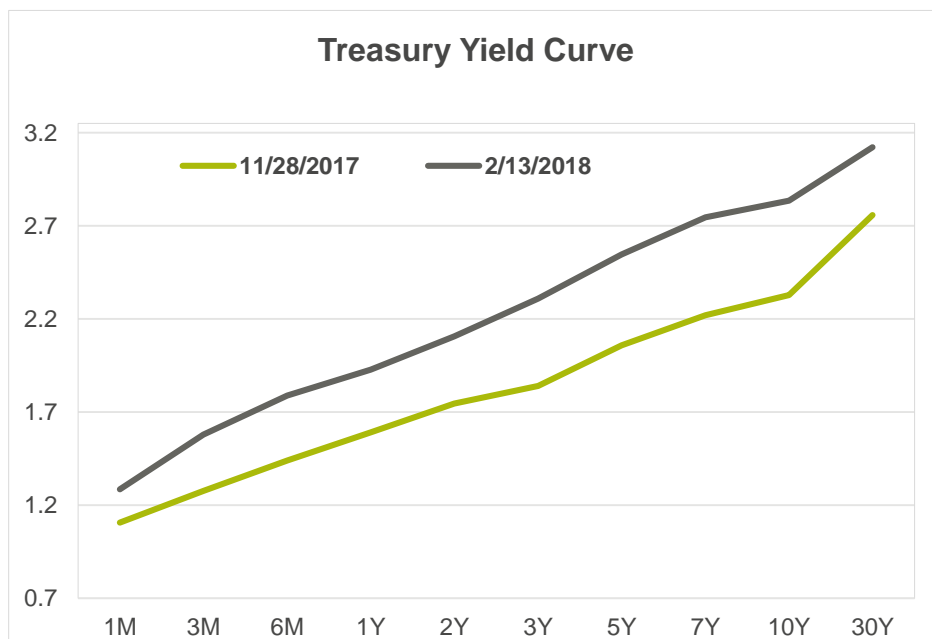
- Will the Fed alter its tightening plans?
 (“Greenspan/Bernanke put”)
 - Bill Dudley said last week that the stock sell-off was “small potatoes” relative to growth and inflation considerations
- Economic data trend remains solid
- Strong January jobs report included robust wage data
 (2.9% y/y average hourly earnings following 2.7% in December)
- Employment Cost Index (ECI) rose 0.6% in Q4, and the 2.6% y/y increase is the highest in the current expansion
- Core PCE rose 1.9% annualized in Q4
- Small Business Optimism Index up 2 points in January, including a record number of participants suggesting the current environment is a “good time to expand”



Current Market Themes

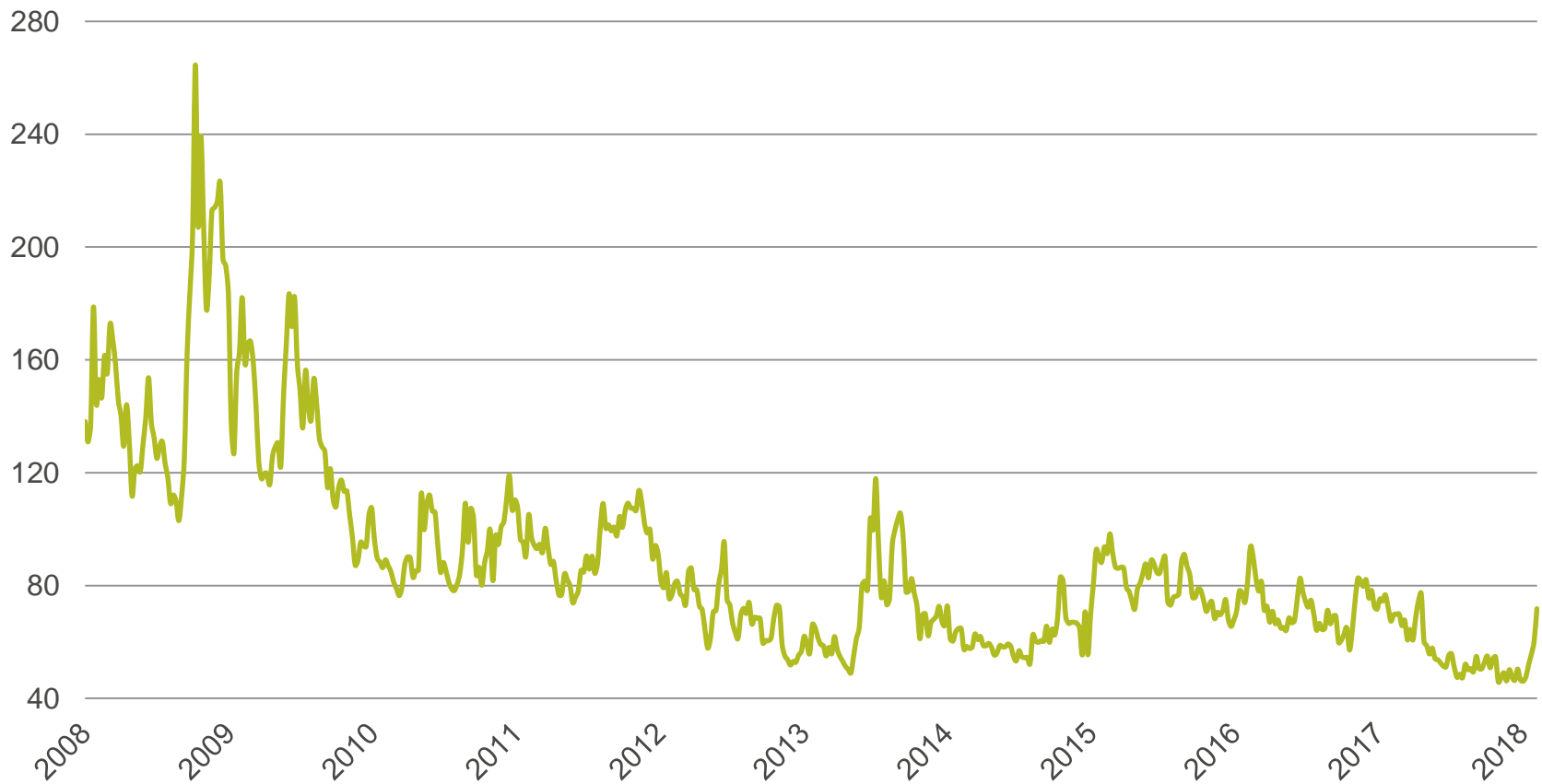
- Higher long-end yields have been major theme of 2018, and the slope of the curve has steepened 17 bps over the last week
- Implied rate volatility surged higher last week from historic lows, but still way below 2013 levels (and no where near crisis range)
- Fixed income spreads have remained relatively stable despite recent weakness in risk markets

Tenor	2/13/2018 (%)	11/28/2017 (%)	Change (bps)
3-Months	1.58	1.28	0.30
6-Months	1.79	1.44	0.35
1-Year	1.93	1.59	0.34
2-Year	2.11	1.75	0.36
5-Year	2.55	2.06	0.49
10-Year	2.84	2.33	0.51
30-Year	3.12	2.76	0.36
Curves			
2yr-5yr	0.44	0.31	0.13
2yr-10yr	0.73	0.58	0.15
2yr-30yr	1.02	1.01	0.01
5yr-10yr	0.29	0.27	0.02



Implied Rate Volatility

Merrill Lynch Option Volatility Estimate (MOVE) Index



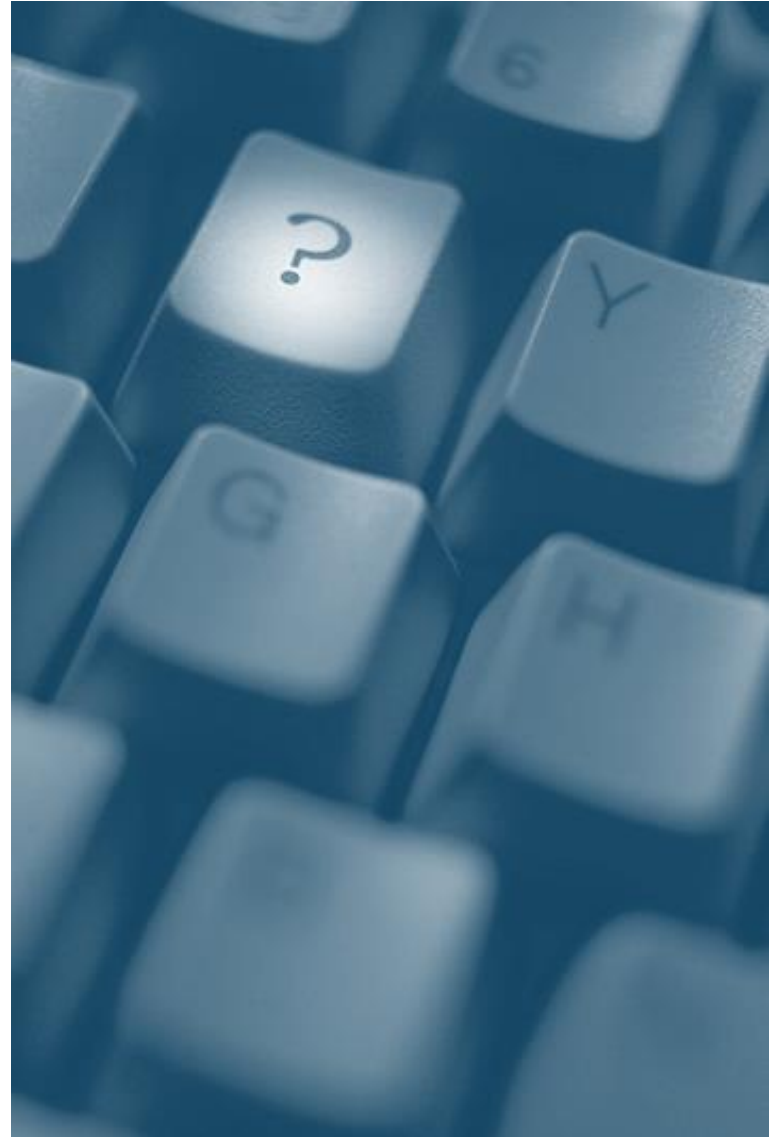
Source: BAML; Bloomberg



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2017 in 5 Slides

Fourth consecutive year of double-digit loan growth as consumers continue to turn to credit unions

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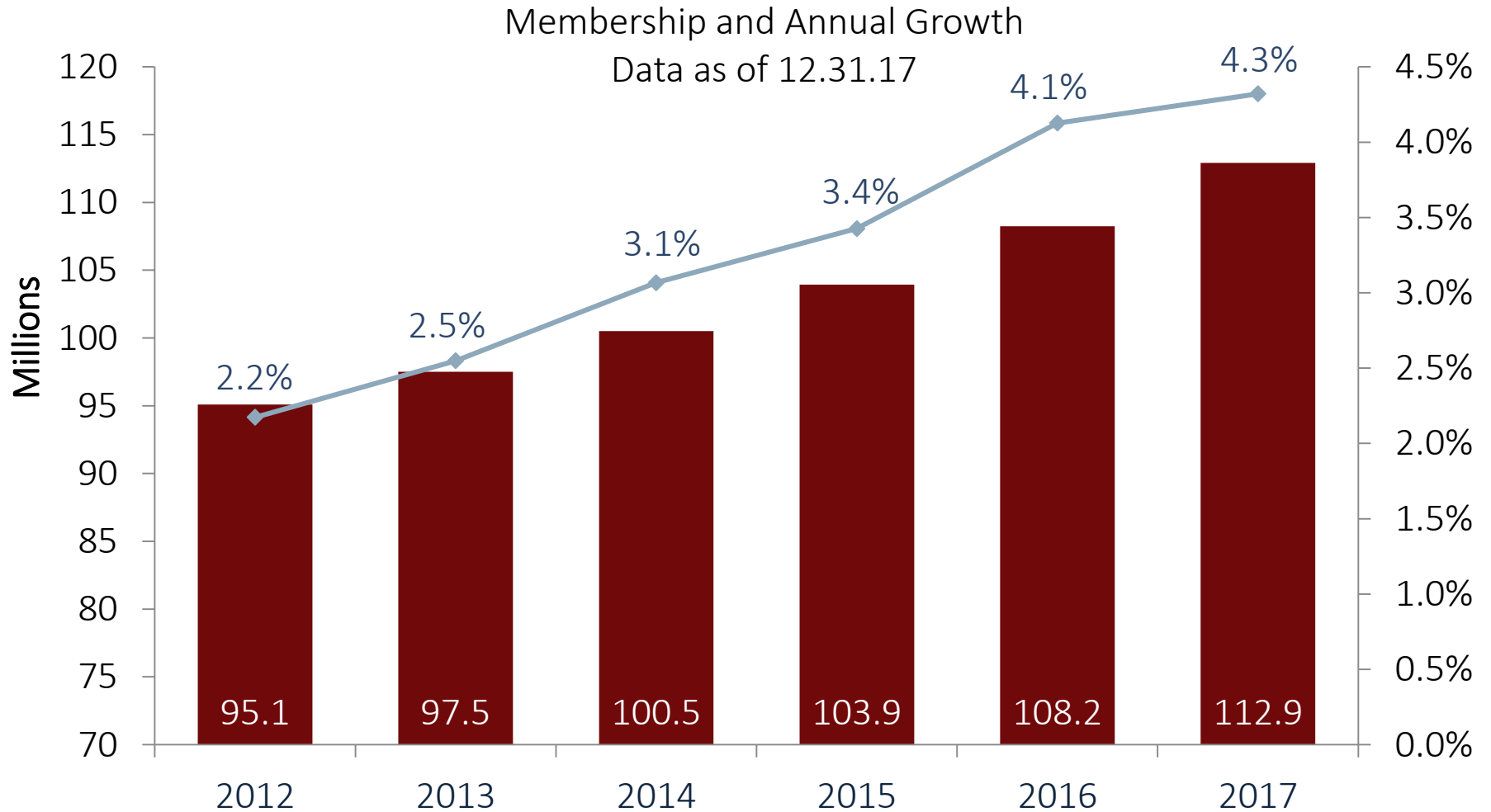


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The U.S. Credit Union Industry as of December 2017

	As of 12/31/2017	12-mo. Growth 2017	12-mo. Growth 2016
Assets	\$1.4T	6.7%	7.4%
Loans	\$969.5B	10.2%	10.5%
Shares	\$1.2T	6.2%	7.6%
Investments	\$354.1B	-2.2%	-0.1%
Capital	\$158.4B	8.1%	6.6%
Members	112.9M	4.3%	4.1%

Membership growth continues to accelerate



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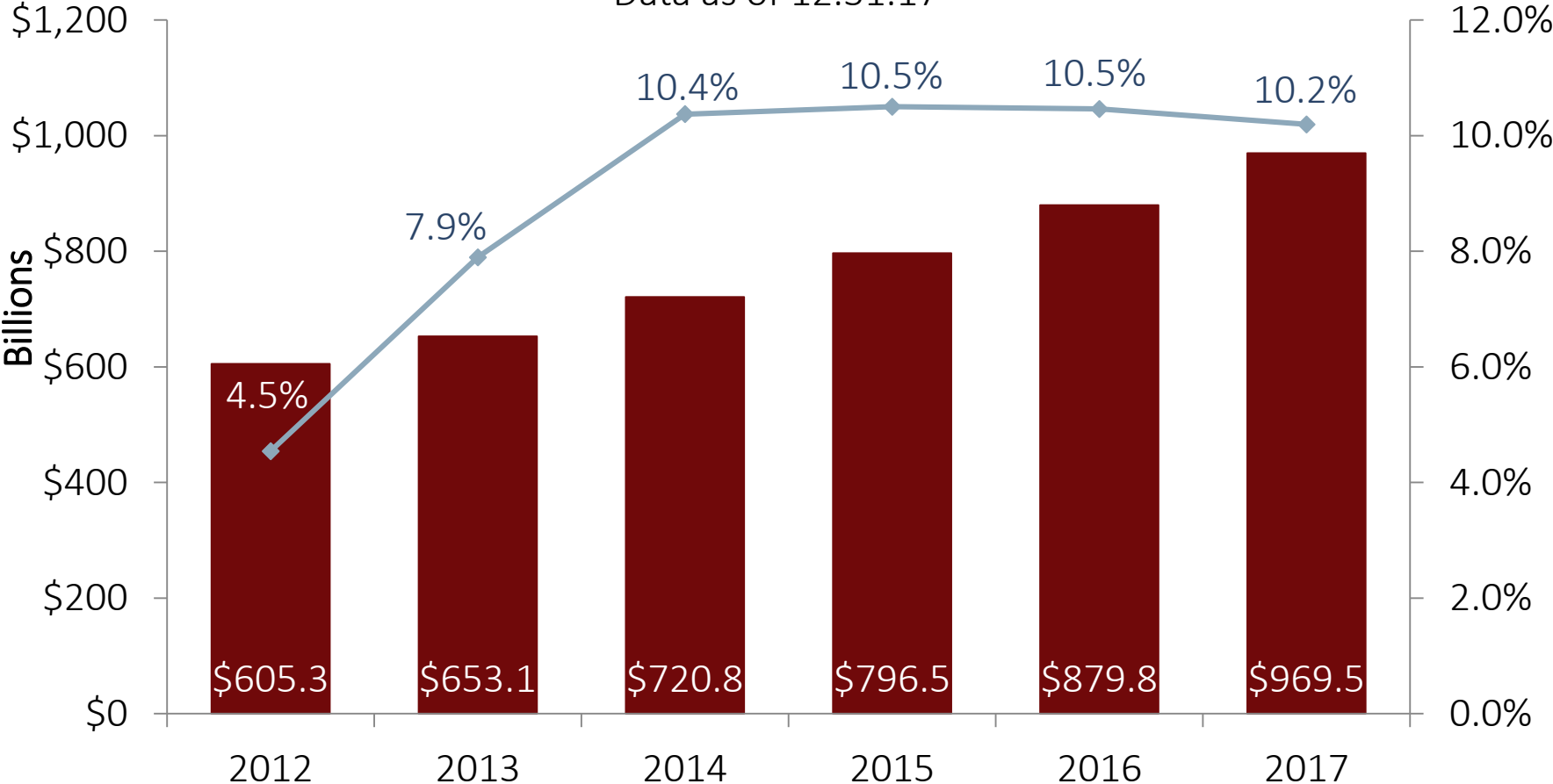


Source: Callahan's Peer-to-Peer Analytics

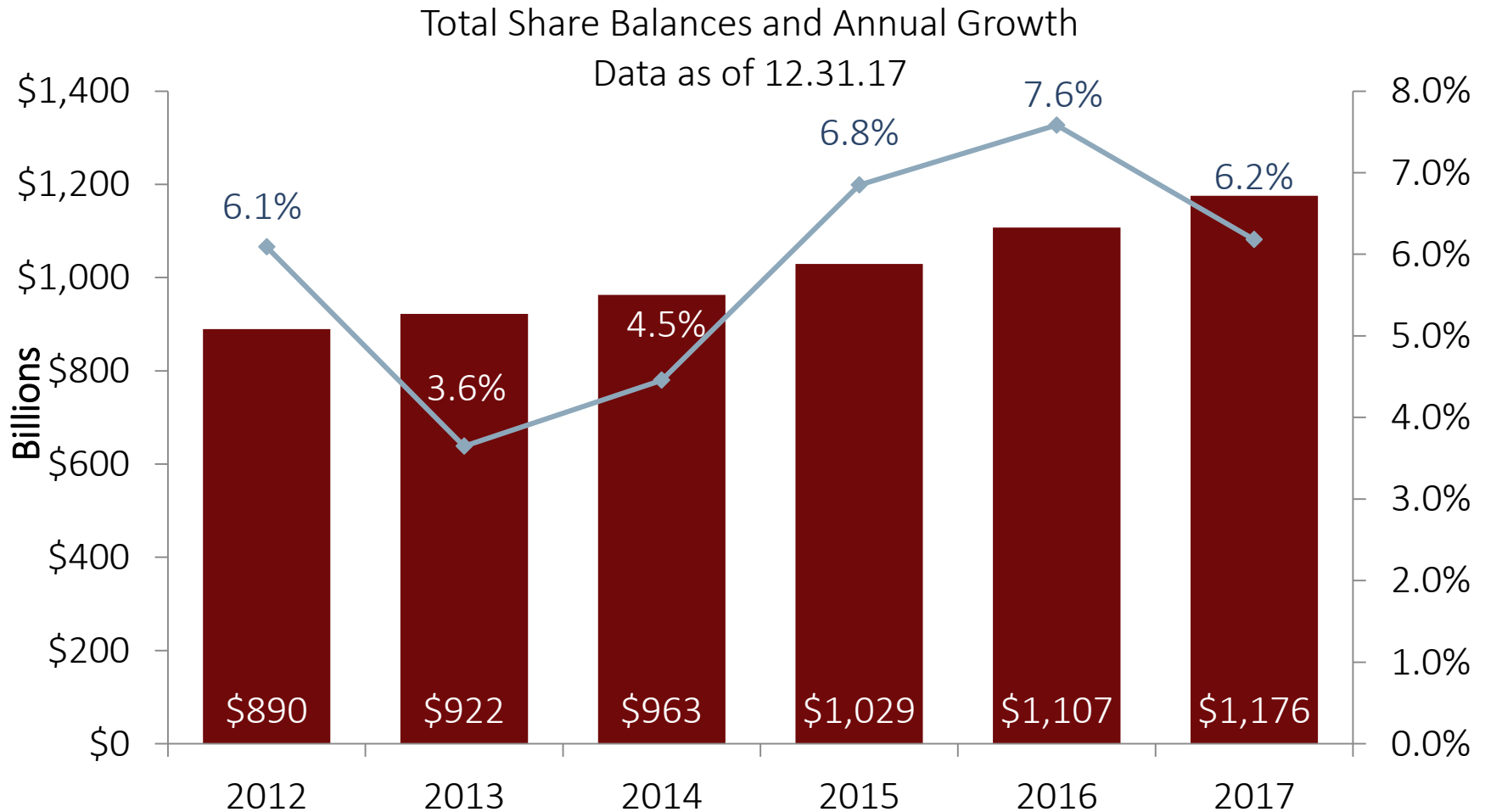


Four consecutive years of double-digit loan growth

Total Loans and Annual Growth
Data as of 12.31.17



Share growth slows following 3 years of increases



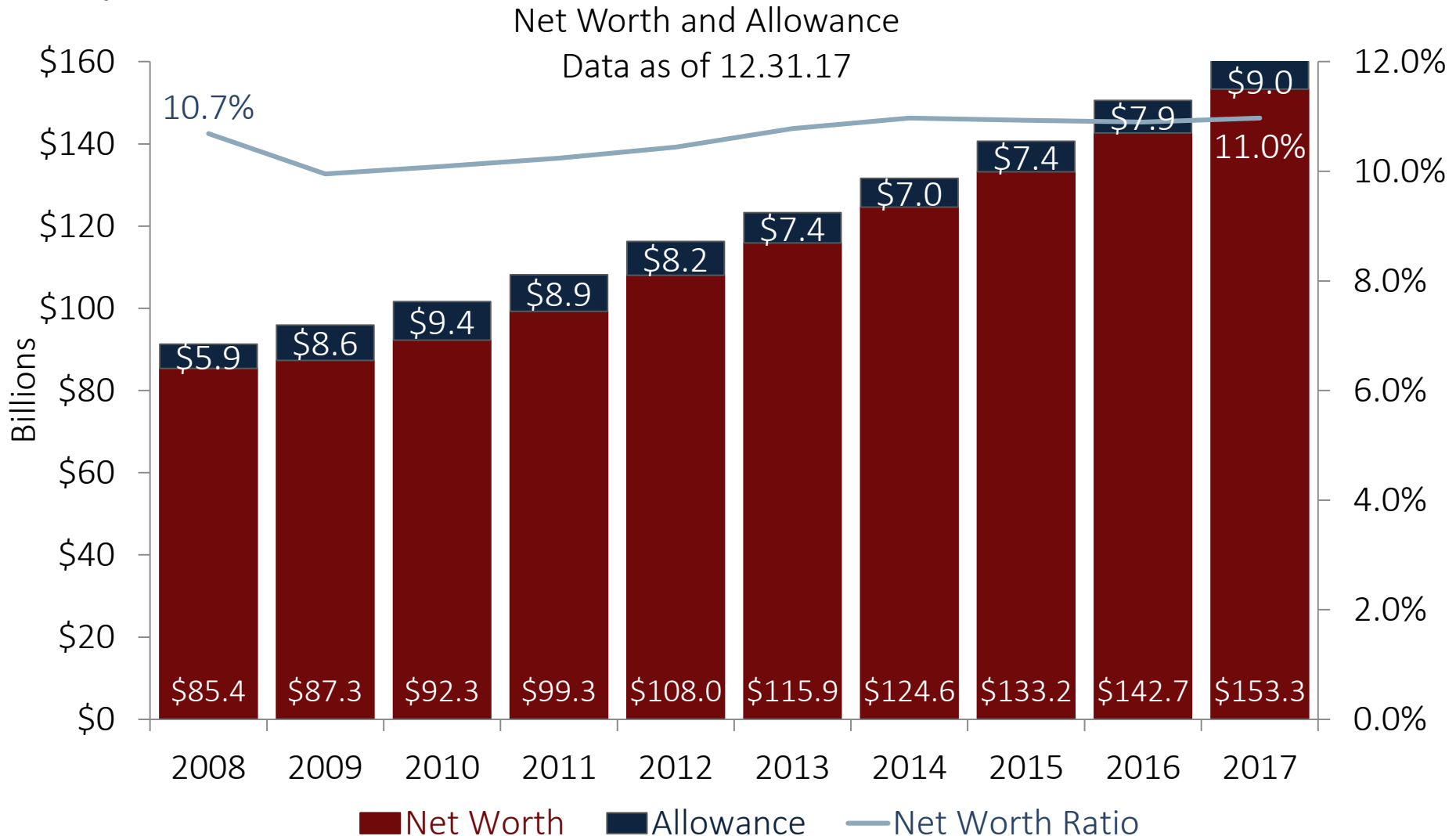
Sponsored by:



Source: Callahan's Peer-to-Peer Analytics



Net worth ratio remains steady as industry is “well capitalized”



Sponsored by:



Source: Callahan's Peer-to-Peer Analytics



Market Share and Member Impact

Consumers' increasing use of credit unions is evident in key lending categories

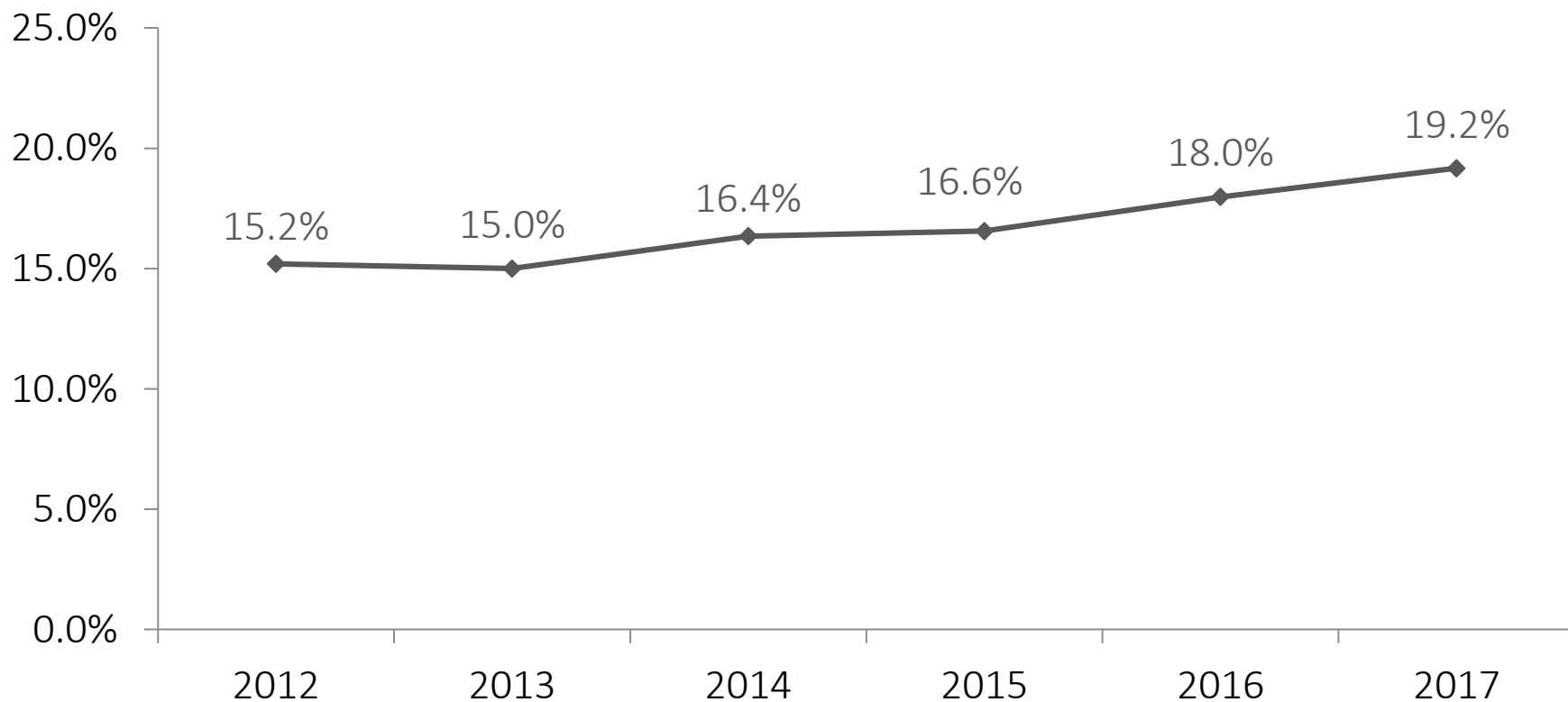
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More consumers choose credit unions to finance their auto purchases

Credit Union Auto Finance Market Share
Data as of 12.31.17



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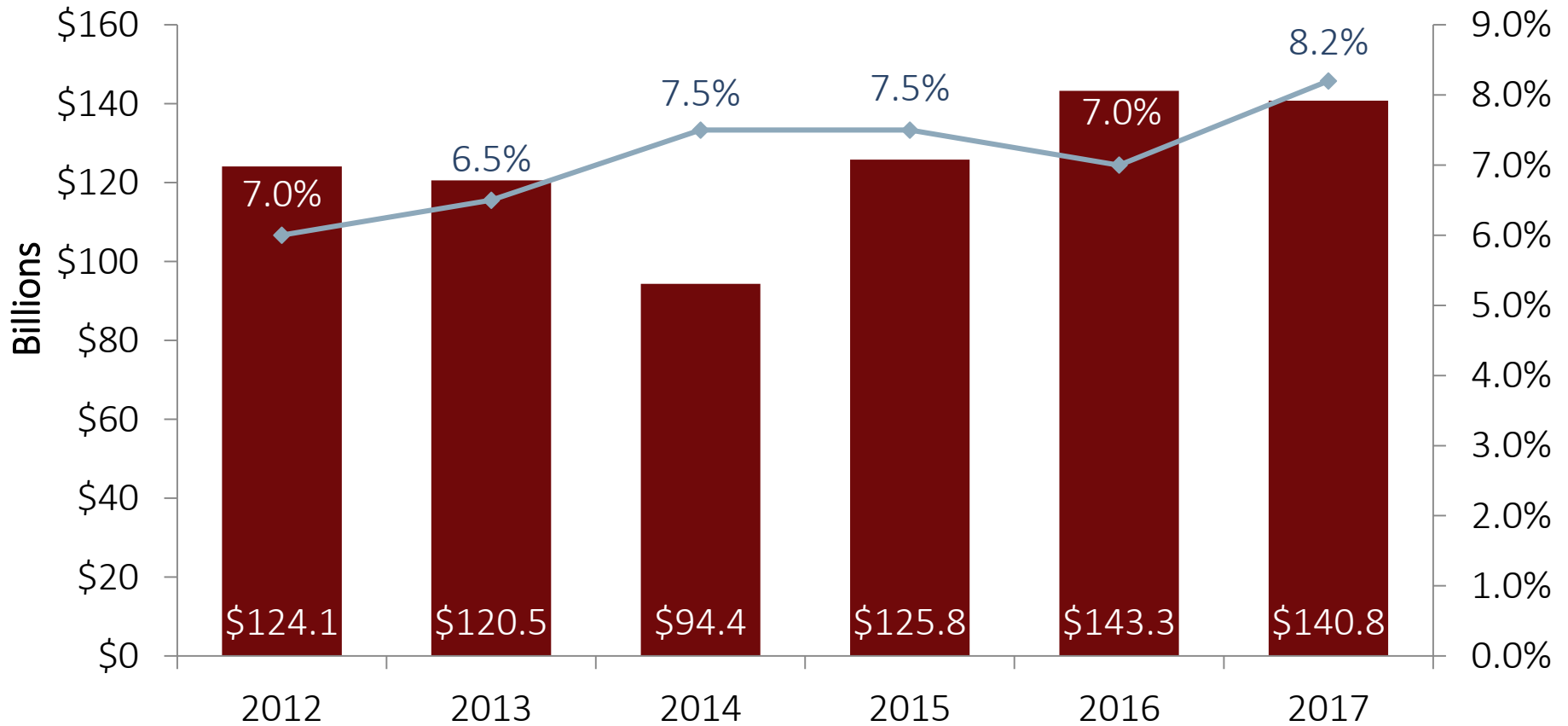


Source: Callahan's Peer-to-Peer Analytics
AutoCount Data from Experian Automotive



1st mortgage originations decline slightly; market share up

First Mortgage Originations & Market Share
Data as of 12.31.17



Lewis Clark CU (ID, \$98.5M) grows mortgages



MORTGAGE LOANS

Great News!

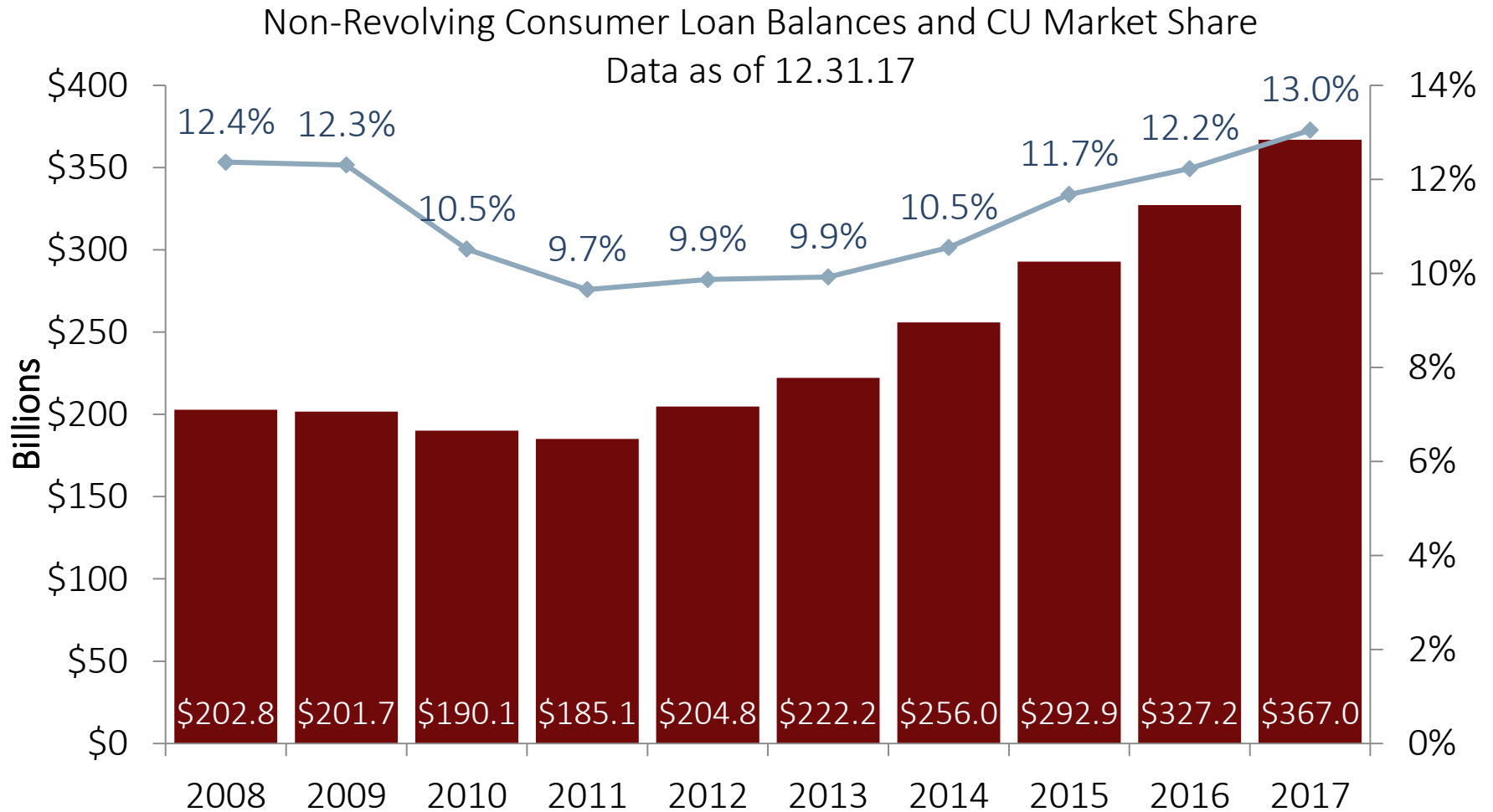
LCCU is now offering mortgage loans! With mortgage rates at some of the lowest we have seen in years, there are a number of reasons for you to consider LCCU, including:

- Simple, easy application process
- Fixed and adjustable rates & a variety of repayment terms
- FHA and First-Time Buyer Programs
- Jumbo & VA loans
- Investment properties (up to 4 units)

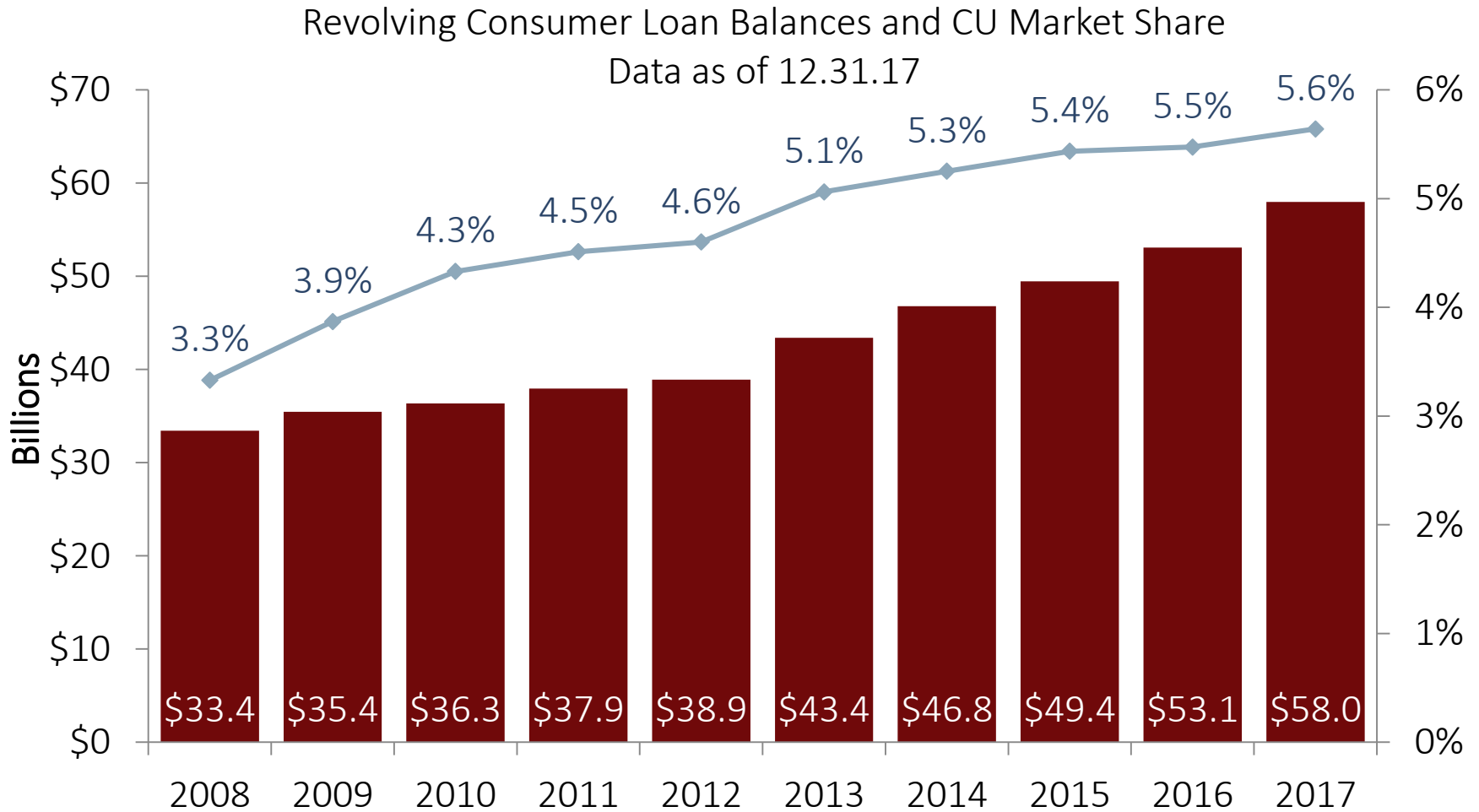
So if you are considering purchasing a new home, or refinancing an existing mortgage, give us a call and speak with one of our experts today!

[APPLY NOW](#)

CU's share of non-revolving loans growing since 2012



CU's share of revolving consumer credit continues to expand



Penetration rates increase as members use more credit union offerings



Credit Card



Real Estate



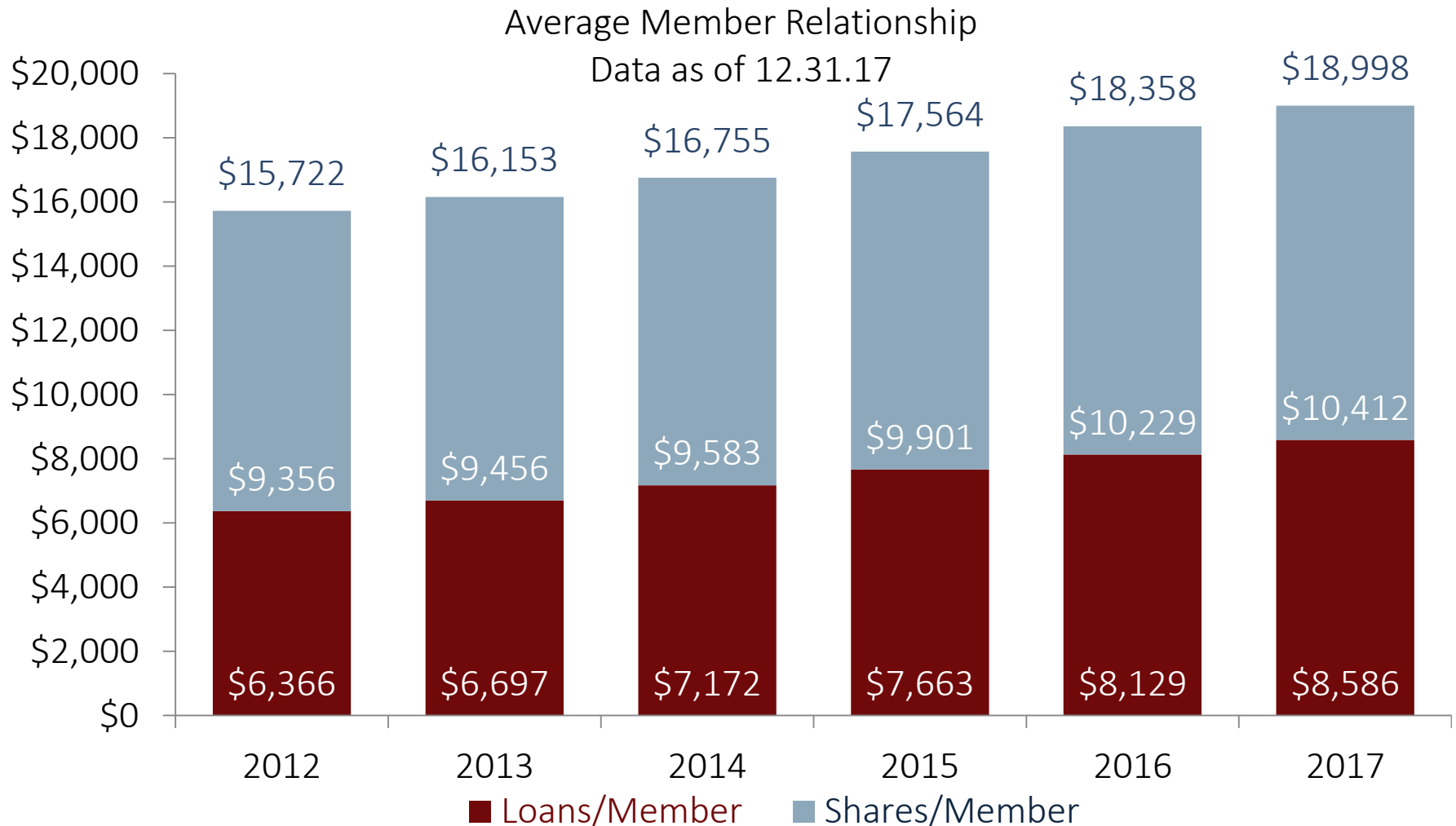
Share Draft



Auto

2017	17.4%	4.4%	57.1%	20.5%
2012	15.3%	4.4%	51.4%	16.1%
Change	+2.1%	0.0%	+5.7%	+4.4%

Members continue to add to their loan and savings balances at their credit union



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Source: Callahan's Peer-to-Peer Analytics



Savings

Share balances rise but growth is slower in most products

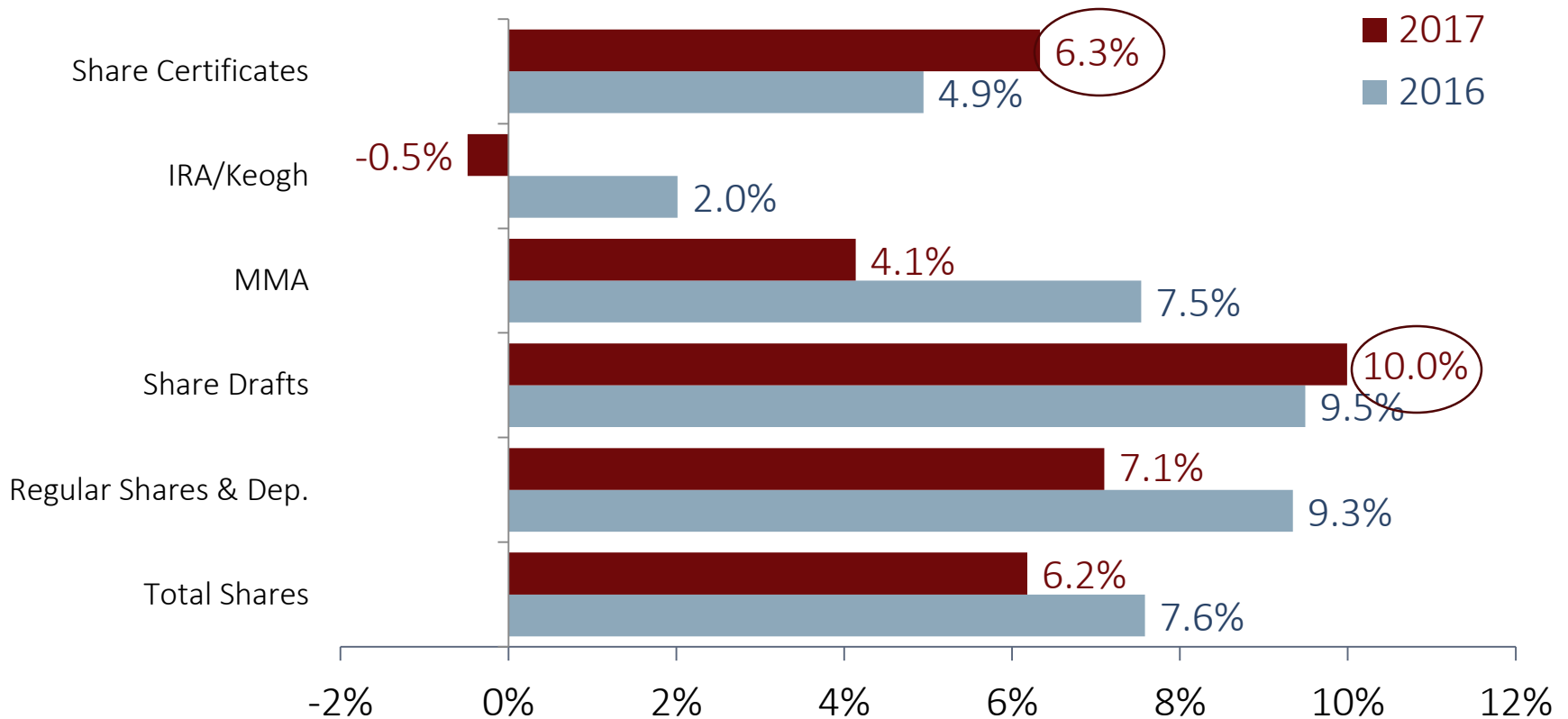
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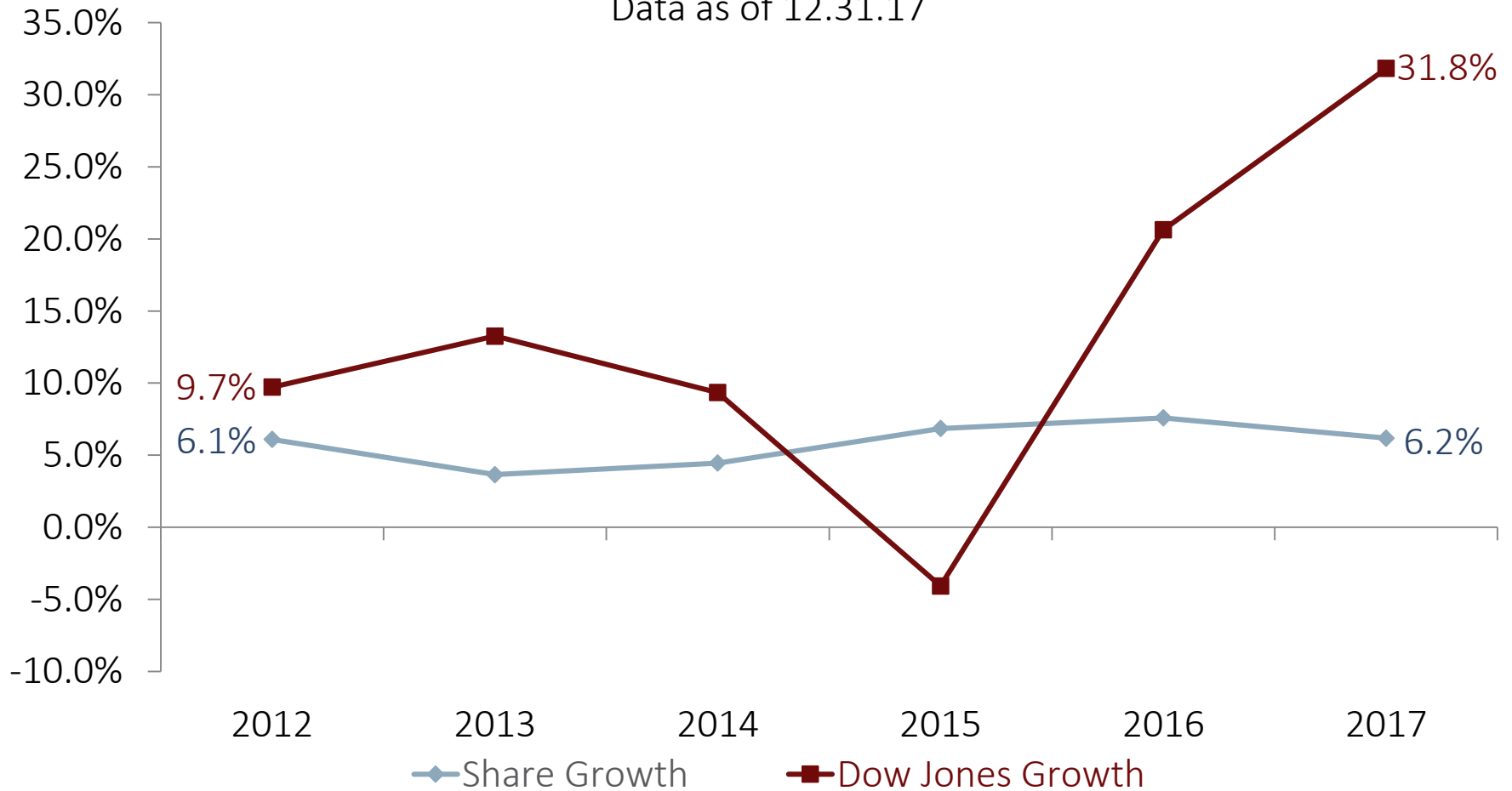
Growth in checking and certificate balances accelerate but share growth slows overall

12-Mo. Growth in Shares Outstanding
Data as of 12.31.17



Credit union share growth typically moves opposite the stock market

CU Annual Share Growth vs. Dow Jones Annual Growth
Data as of 12.31.17



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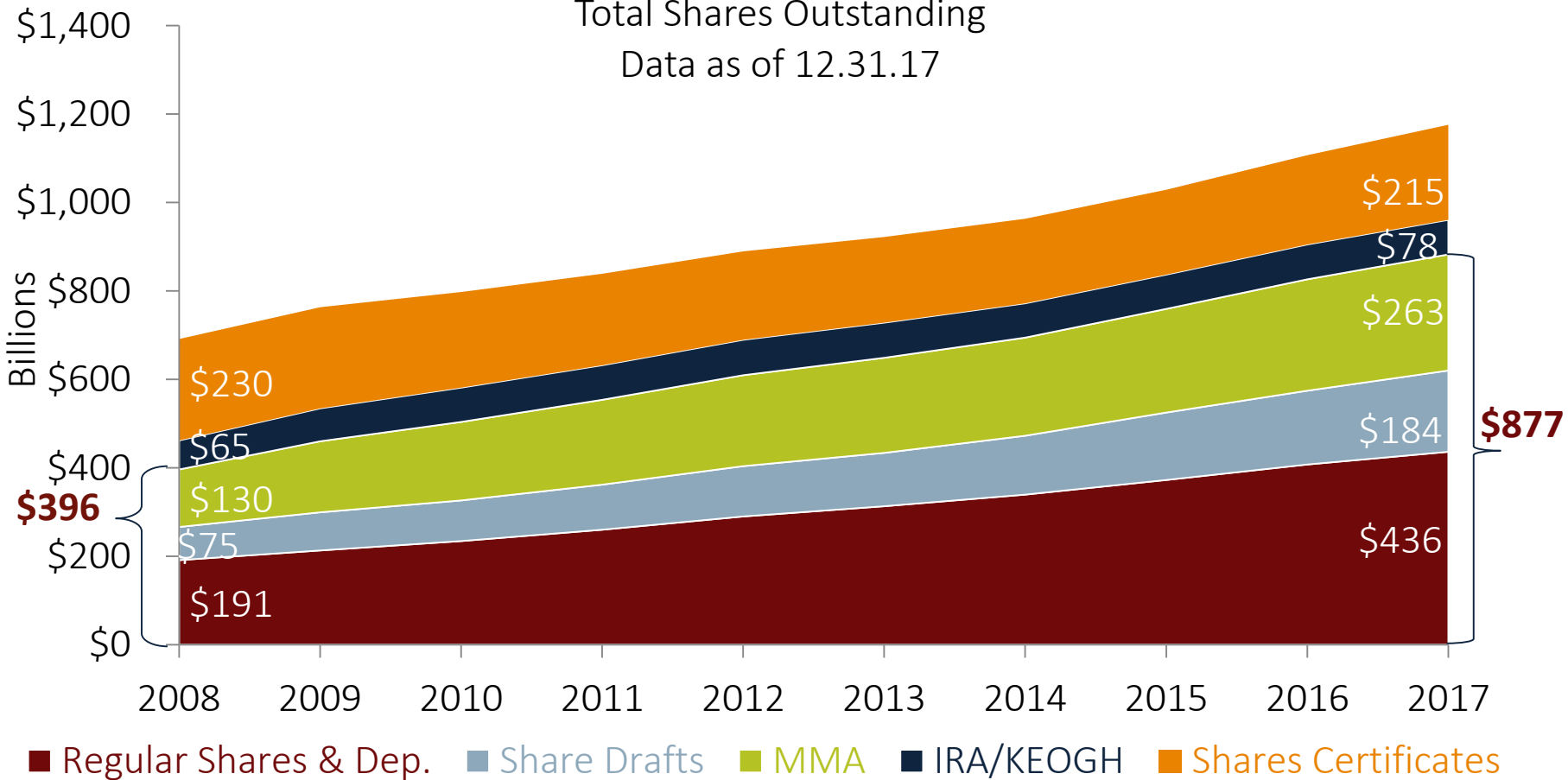


Source: Callahan's Peer-to-Peer Analytics



Core deposit growth has outpaced the rest of the share portfolio

Total Shares Outstanding
Data as of 12.31.17



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- **EARN**S Dividends
- **FREE** ATM Transactions**
- MasterMoney Debit Card
- 24 HR Hotline

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Mobile Banking

Text Banking

Mobile Deposit



Checking

NO minimum balance requirements, **NO** annual, monthly or per item fees, **FREE** standard checks and more.

[More about checking](#)



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Savings accounts and options to help you save and earn interest.

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Youth accounts that help your child get a head start on learning the importance of saving.

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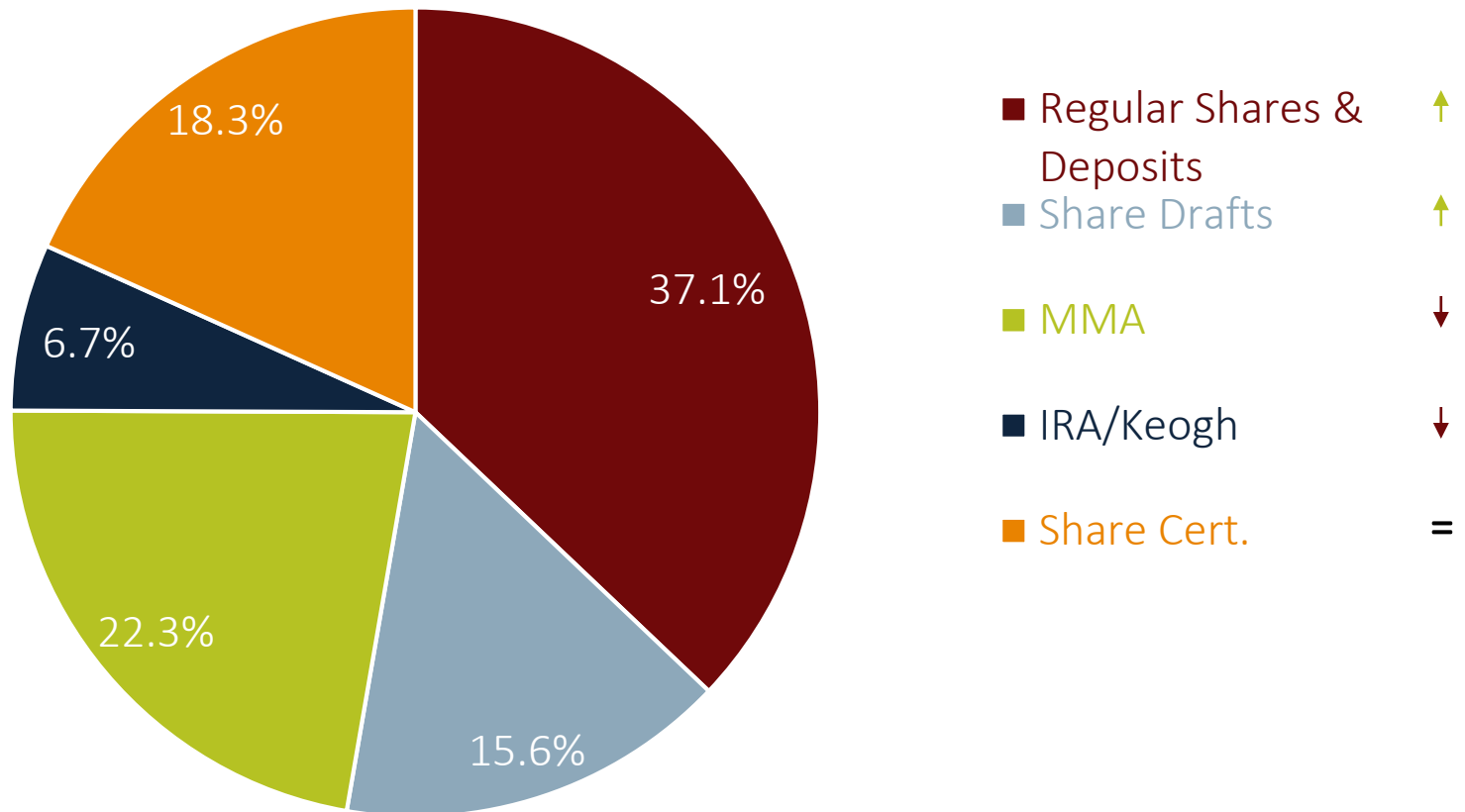


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Core savings and checking balances account for nearly 53% of share balances

Share Composition
Data as of 12.31.2017



Credit Union Executive Outlook Survey: Savings

“Deposits will continue to be hard to attract ” – \$1B Oregon CU

“Our local market will be similar to 2018, but more competitive as we are starting to see some niche players working to gain market share of deposits.” - \$200M Louisiana CU

“Share rates will continue to rise which will put increased strain on the bottom line due to loan re-pricing being historically lagging behind shares.” - \$400M New Jersey CU

“A priority in 2018 is to grow core deposits to fund asset growth.” - \$1B+ Virginia CU

Lending

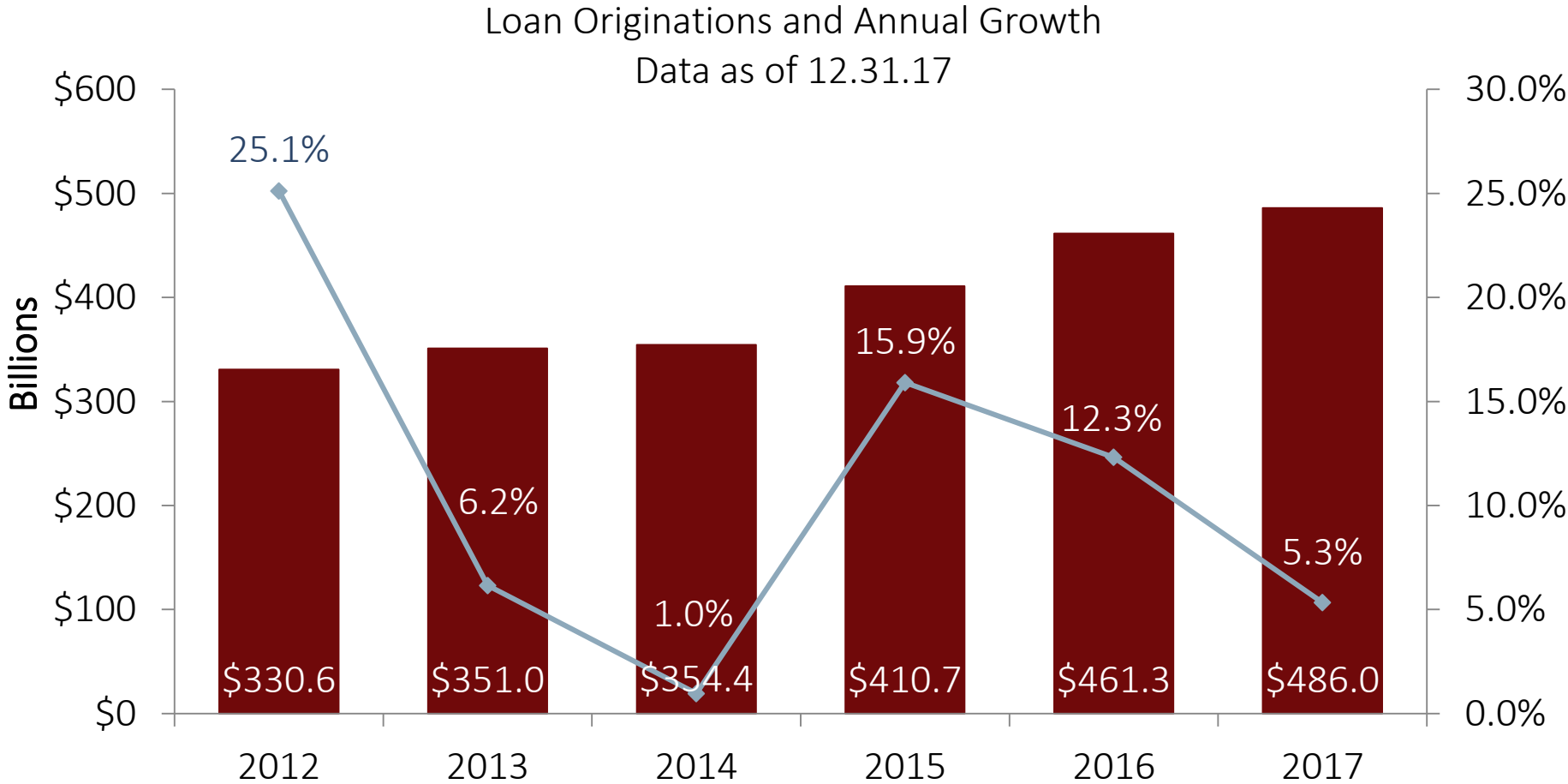
Loan growth maintains double digit pace but shows signs of slowing

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Origination growth rate slows for the second straight year



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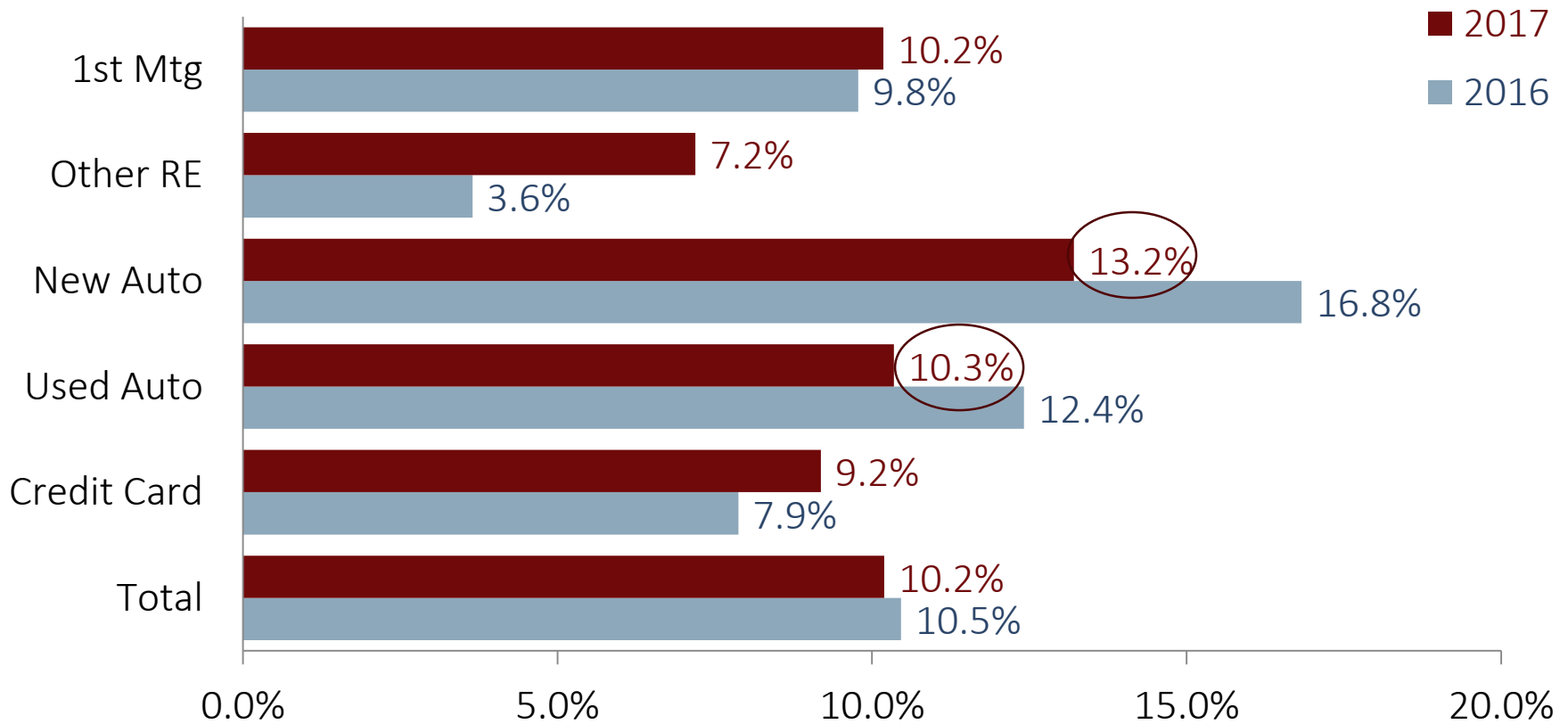


Source: Callahan's Peer-to-Peer Analytics

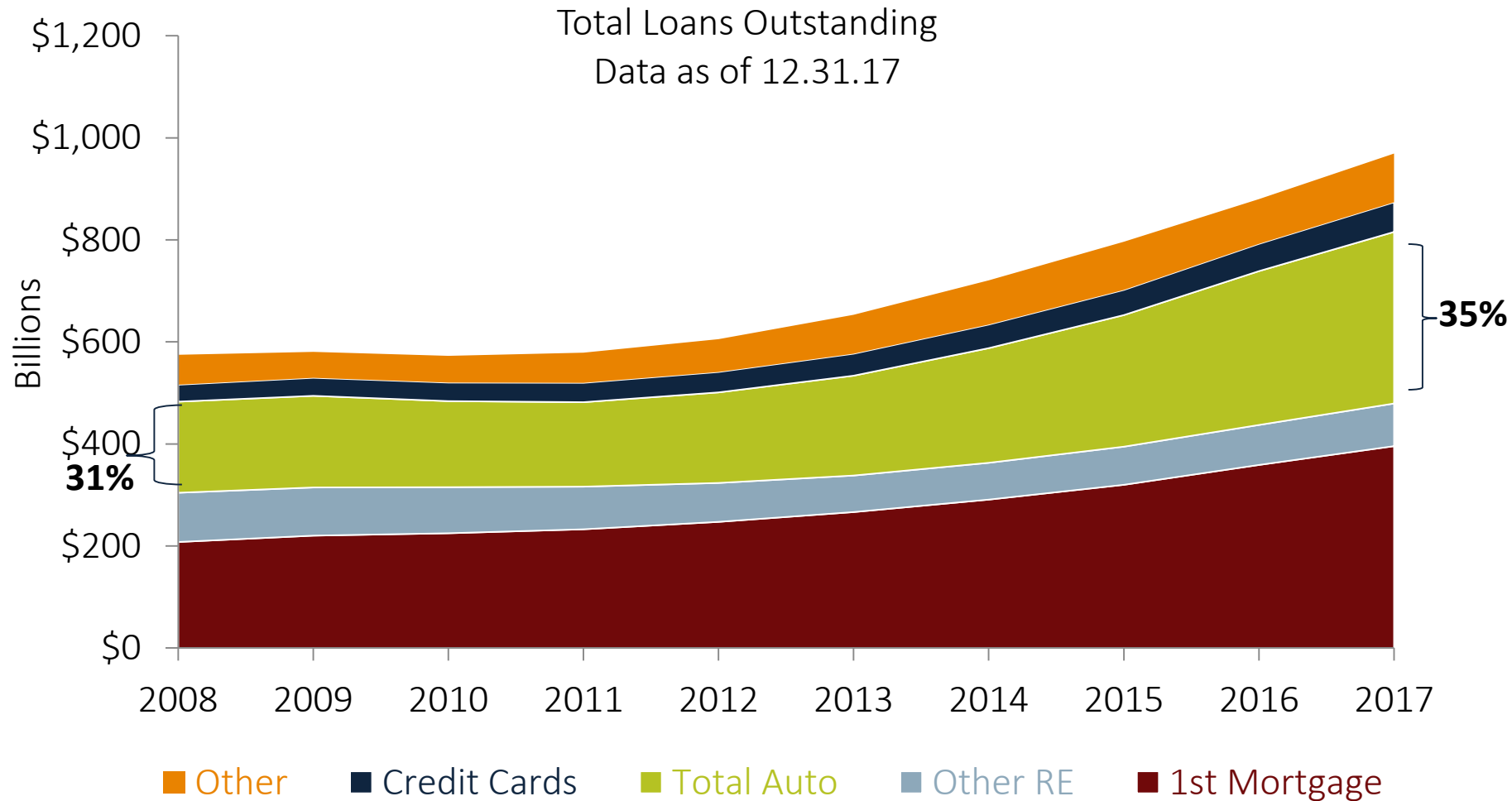


Balances are rising across all loan products

Annual Growth in Loans Outstanding
Data as of 12.31.17

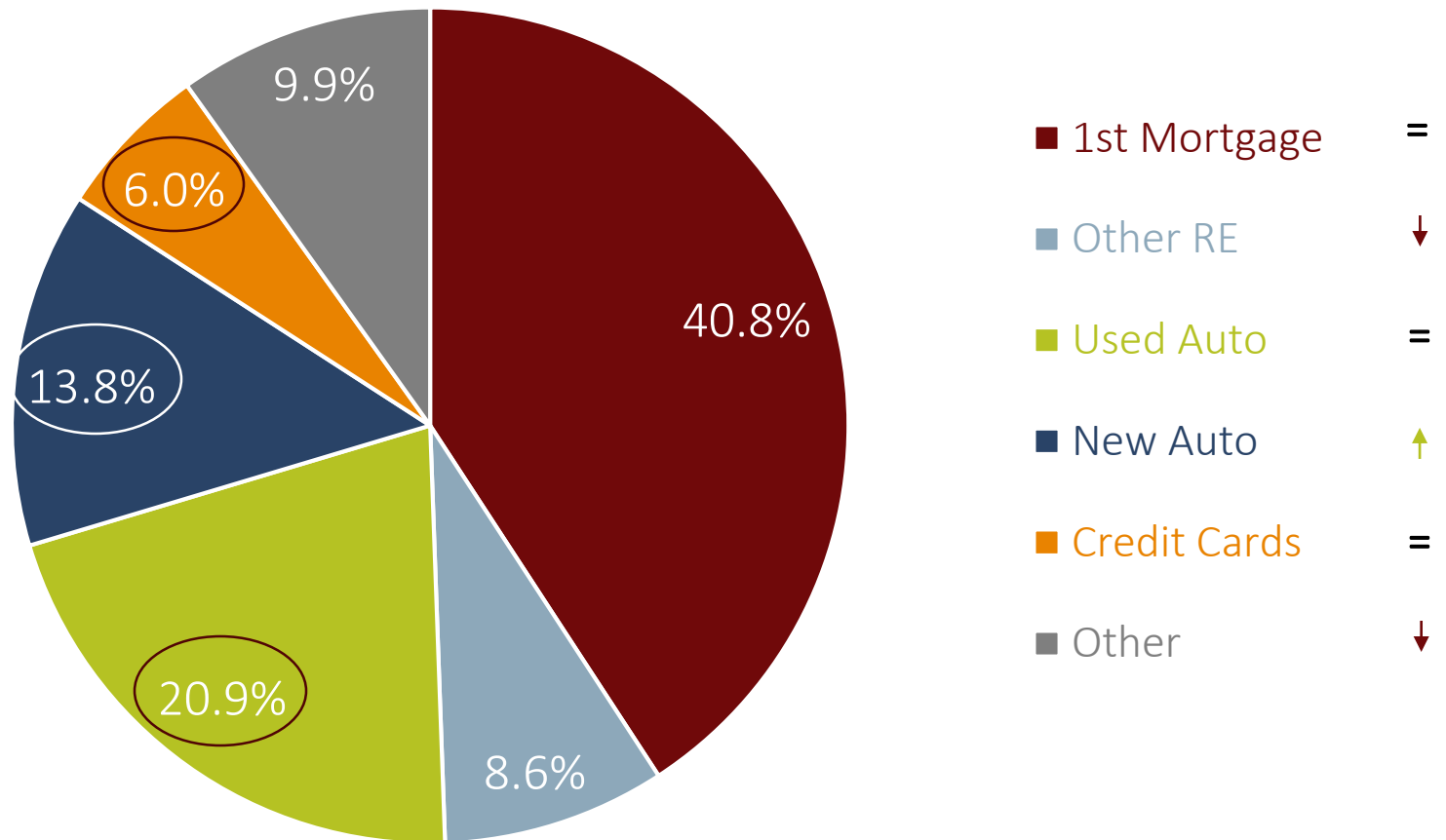


Auto lending has become a larger component of the industry's loan portfolio

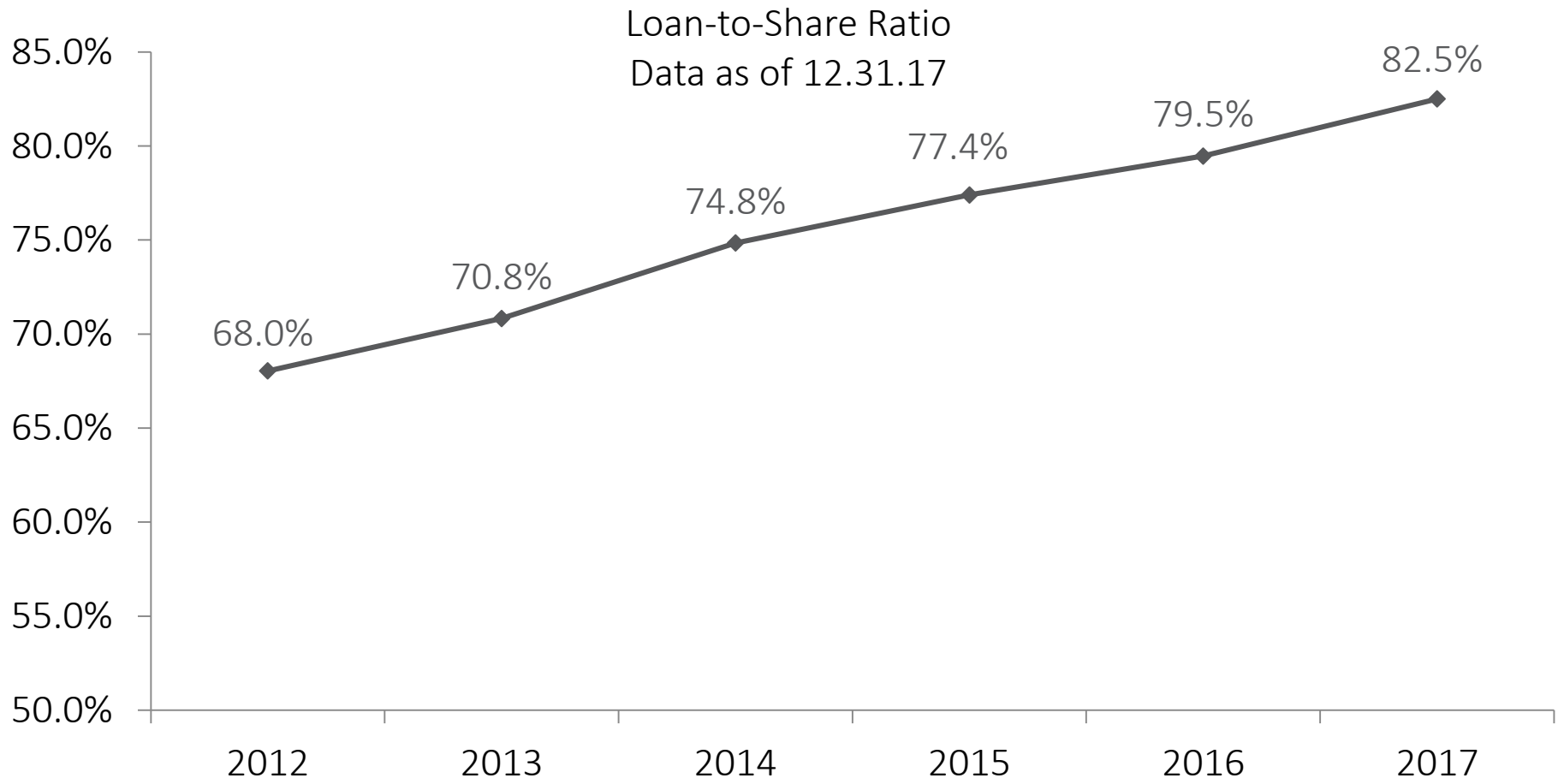


Consumer lending remains credit unions' focus

Credit Union Loan Portfolio
Data as of 12.31.17



Loan-to-share ratio hits highest level since 3Q 2008



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Source: Callahan's Peer-to-Peer Analytics



Credit Union Executive Outlook Survey: Lending

“We believe that conditions of our local market in 2018 are favorable to continue expanding our loan portfolio” – \$900M Illinois CU

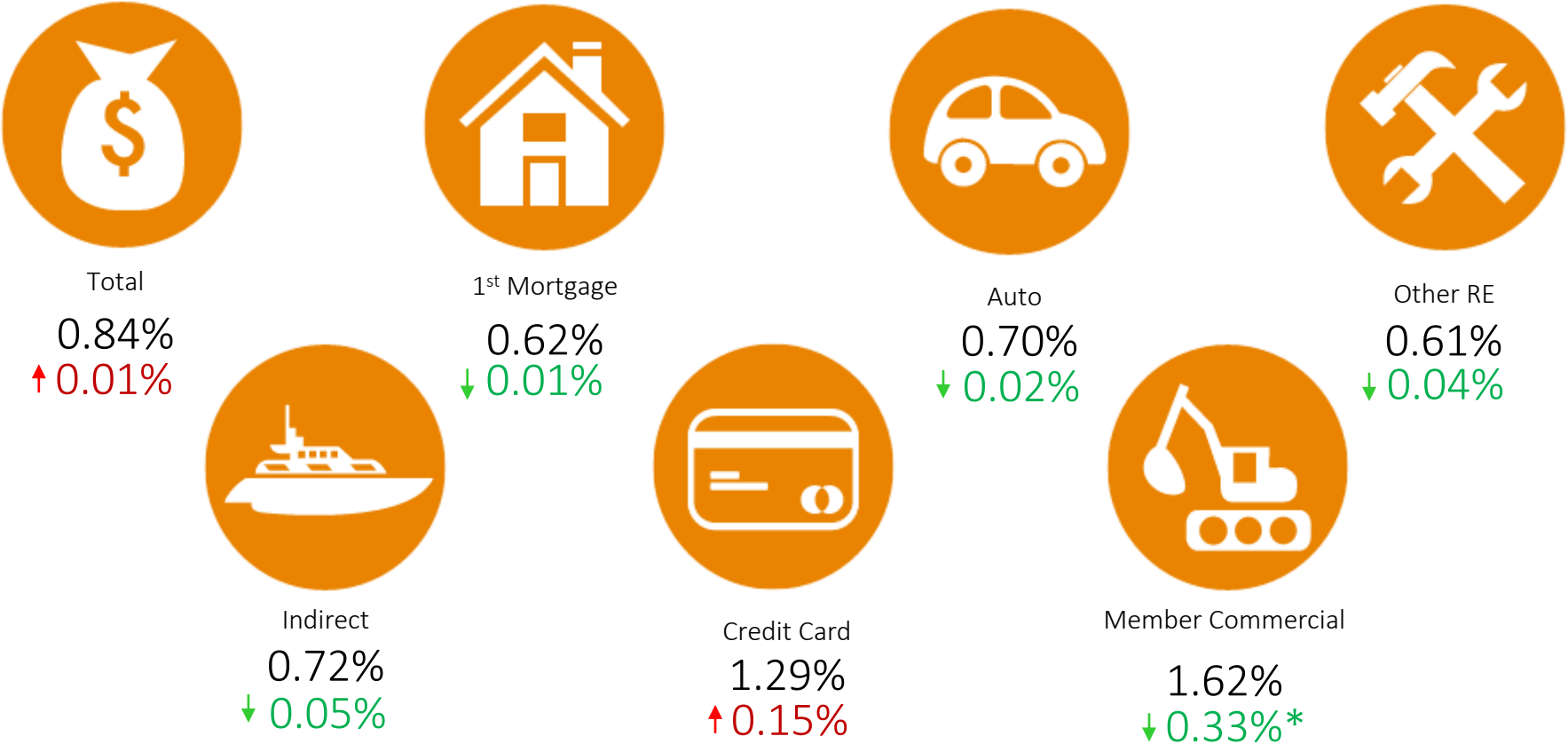
“More economic growth in our area. Consumer Confidence is up. Effects of recent tax cuts will give the member more money to spend.” - \$60M Texas CU

“Tax Reform may slow down the real estate market.” - \$200M Connecticut CU

“Housing demand is high and the number of homes available is low driving up the cost of homes. I anticipate strong loan growth in both Mortgages and Autos.” - \$70M Utah CU

Delinquency remains in line with historical norms

Annual Change in Delinquency Data as of 12.31.17



“The Lightning Jar”

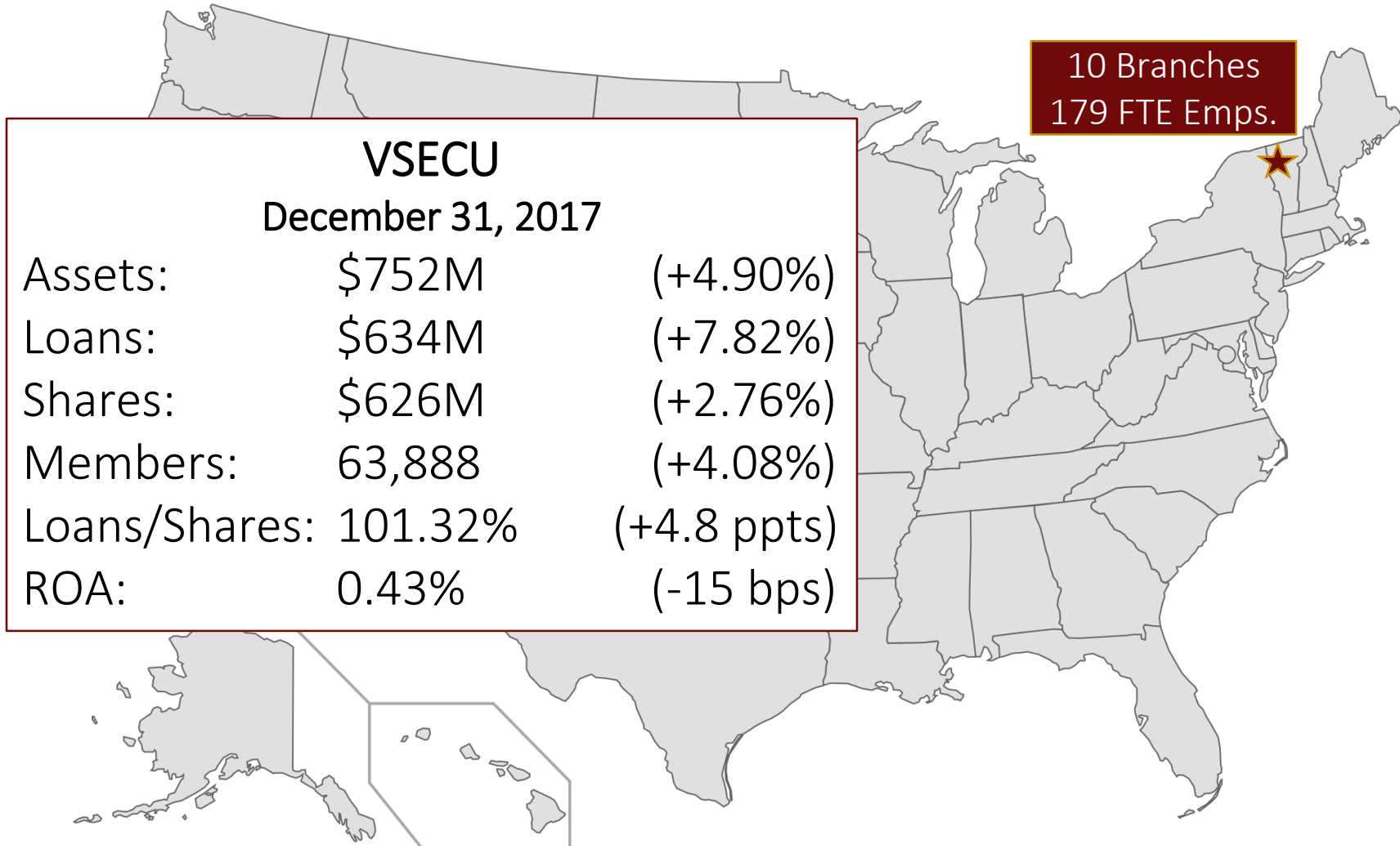


\$752M, Montpelier, VT

Rob Miller, CEO
Vermont State Employees Credit Union



Vermont State Employees CU at a glance



10 Branches
179 FTE Emps.

VSECU		
December 31, 2017		
Assets:	\$752M	(+4.90%)
Loans:	\$634M	(+7.82%)
Shares:	\$626M	(+2.76%)
Members:	63,888	(+4.08%)
Loans/Shares:	101.32%	(+4.8 pts)
ROA:	0.43%	(-15 bps)

What is the Lightning Jar?

- A **collaborative coworking space** for entrepreneurs, students and professionals.
- A true collaboration of **business, non-profit, community, and government leaders** from Bennington and across Vermont.
- VSECU is a **key sponsor** and hosts the coworking space within our *Bennington retail branch*.
- We believe this will **forward our shared principles** of *membership participation, autonomy, independence, education, cooperation, and community sustainability*.

What's with the Name?

- The space was, historically, the home of **Henry W. Putnam**, *one of Vermont's greatest entrepreneurs*.
- Much of Putnam's business success came from manufacturing one product *a small mason jar with a easy-to-close lid that used a clasp which he patented early in his career*.
- He called the product: **The Lightning Jar**.



The Space



- 950 sq ft Open Coworking Space
- Dedicated and non-dedicated workspaces
- Meeting Room with video presentation capabilities
- Shared Kitchenette/ Breakroom, and Restroom
- Flatscreen TVs, Whiteboards, Power, and Internet Connectivity
- *Peers, Collaborators, Innovators*

The Membership Model

- Affordable monthly membership options
- A-la-carte (*Pay as You Go*) pricing
- Corporate memberships & sponsorships

Standard Membership

\$150 per month
24/7 access!

- Includes full use of the Coworking space and services, including:
- Unlimited 24/7/365 access to casual, non-dedicated workspaces
- Access to Private Meeting Room (seats 6 to 8 people) - scheduled based on availability
- Printing, Fax, Scanning, and Wifi Internet services
- Kitchenette/Break Room, coffee, tea, water, etc.
- Free entry to most Social and Professional events (some events may require a nominal fee for things like workshops, facilities, etc.)
- Perfect for full-time or part-time working professionals, looking for a workspace alternative to a home office or coffee-shop surfing, in a casual, collaborative and dynamic environment.
- No minimum commitment required. See below for pre-pay discounts.

Premium Membership

\$200 per month
Full-time Dedicated Workspace

- Includes all of the services and benefits of the Standard Membership, plus:
- A full-time dedicated work desk, dedicated just to you. Convenient for full-time use, no need to move your equipment every day.
- Perfect for full-time professional workers looking for an alternative to an isolated home office, or a stuffy and expensive corporate office.
- Premium memberships are limited based on availability of workspaces.
- No minimum commitment required. See below for pre-pay discounts.

Lite Membership

\$50 per month
Workspace access 5 times per month

- Includes limited use of the Coworking space and services:
- Daytime access to casual, non-dedicated workspaces up to 5 times in a month
- Access to Private Meeting Room (counts towards limited 5 uses of space) - scheduled based on availability
- Printing, Fax, Scanning, and Wifi Internet services
- Kitchenette/Break Room, coffee, tea, water, etc.
- Free entry to most Social and Professional events (some events may require a nominal fee for things like workshops, facilities, etc.)
- Perfect for professionals, who are in need of an occasional work or meeting space.
- No minimum commitment required. See below for pre-pay discounts.

Social Membership

\$25 per month
After-hours Coworking, Meeting Rooms, and Events

Don't need daytime access to a workspace, but still want to enjoy the benefits of The Lightning Jar after-hours and enjoy full access to our social and professional events? Our Social Membership is perfect for you:

- Includes access to all Standard Membership services during evenings and weekends
- Includes free entry to most Social and Professional events (some events may require a nominal fee for things like workshops, facilities, etc.)
- Provides after-hours access (before 8am and after 5pm weekdays and anytime weekends and holidays) to meeting spaces and working spaces
- Perfect for young (or experienced) professionals looking to collaborate with other professionals in a dynamic setting
- No minimum commitment required. See below for pre-pay discounts.

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The Events & Networking Opportunities

Upcoming events

 [Switch to Calendar View](#)

Leading with Love: An Evening With Mary Powell

 **When** Thursday, February 22, 2018
5:30 PM - 7:00 PM

Location Bennington Museum,
75 Main Street,
Bennington, VT

REGISTER



Join us for an evening with Mary Powell, President & CEO of Green Mountain Power.

Named 2015 Vermonter of the Year by *The Burlington Free Press* and one of the Top 25 Most Influential Women of the Mid-Market by CEO Connection in 2017, Powell is revolutionizing the power industry from within. Her emphasis on workplace culture, leadership, and customer satisfaction continues to guide Green Mountain Power through an industry landscape undergoing massive disruption.

Doors open at 5pm, talk starts at 5:30. Cash bar and light fare will be available.

[Show details >>](#)

Past events

- Thursday, January 18, 2018 [Professional Development: How To Network](#)
- Monday, October 23, 2017 [Ice House Entrepreneurship Program - 8-week Workshop](#)
- Thursday, September 14, 2017 [An Evening with VTDigger.org's Anne Galloway](#)

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Looking Toward the Future



Powered By VSECU

Our vision is to inspire a movement that brings people together to empower the possibilities for greater financial, environmental and social prosperity. As part of fulfilling this vision, we partner with organizations and businesses that share our mission to improve the quality of Vermonter's lives.

VSECU is powering the possibilities of others and creating opportunities for Vermonters by partnering with the organizations listed below. These initiatives represent innovative efforts to stimulate social and economic opportunities through collaboration and cooperation. We are passionate about supporting these initiatives and more in the future. In doing so, we hope to inspire other organizations to focus more on the commitment to impact, purpose and people.



The Lightning Jar
powered by VSECU



milk money
powered by VSECU



Fuel Your Neighbors
powered by VSECU

VERMONT
WORKS



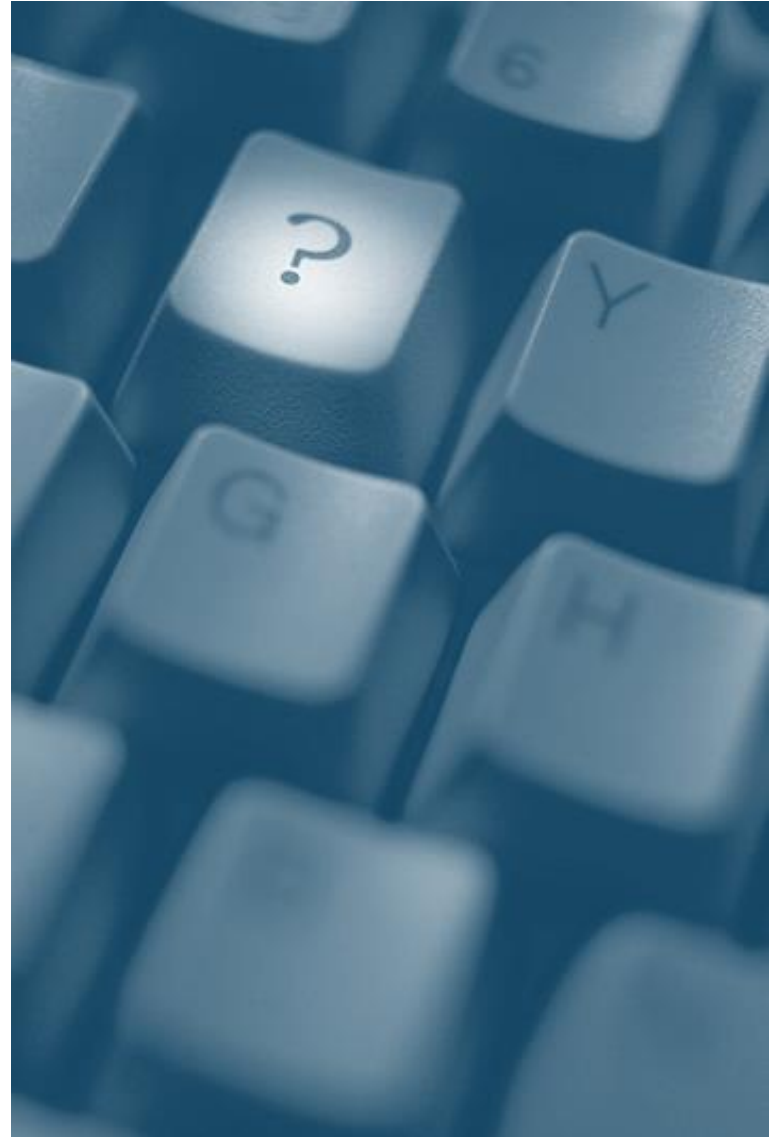
ShareYourself

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Questions?



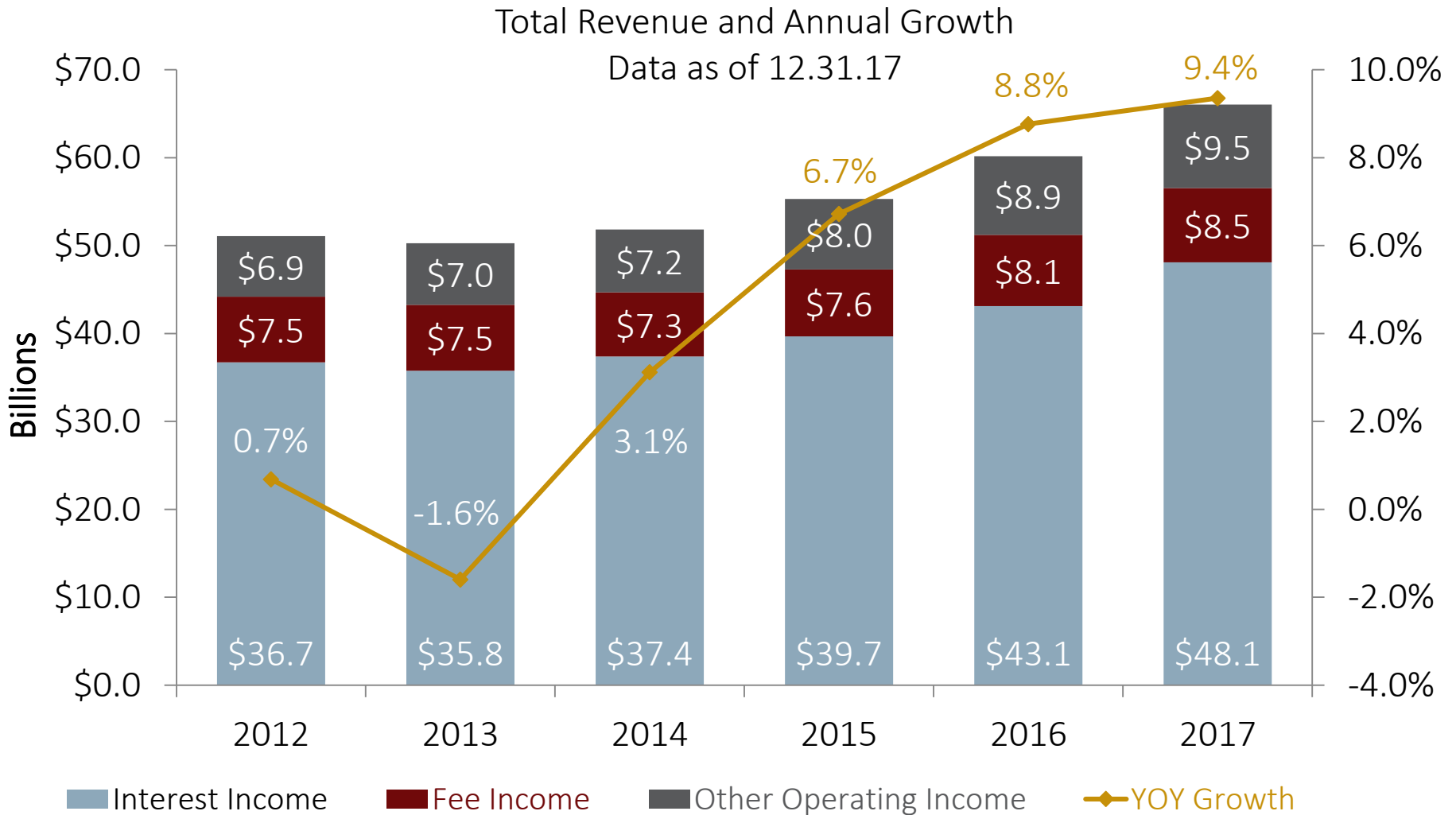
The Bottom Line

Revenue and ROA rise. Credit union capital levels remain strong.

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Interest income growth drives revenue growth



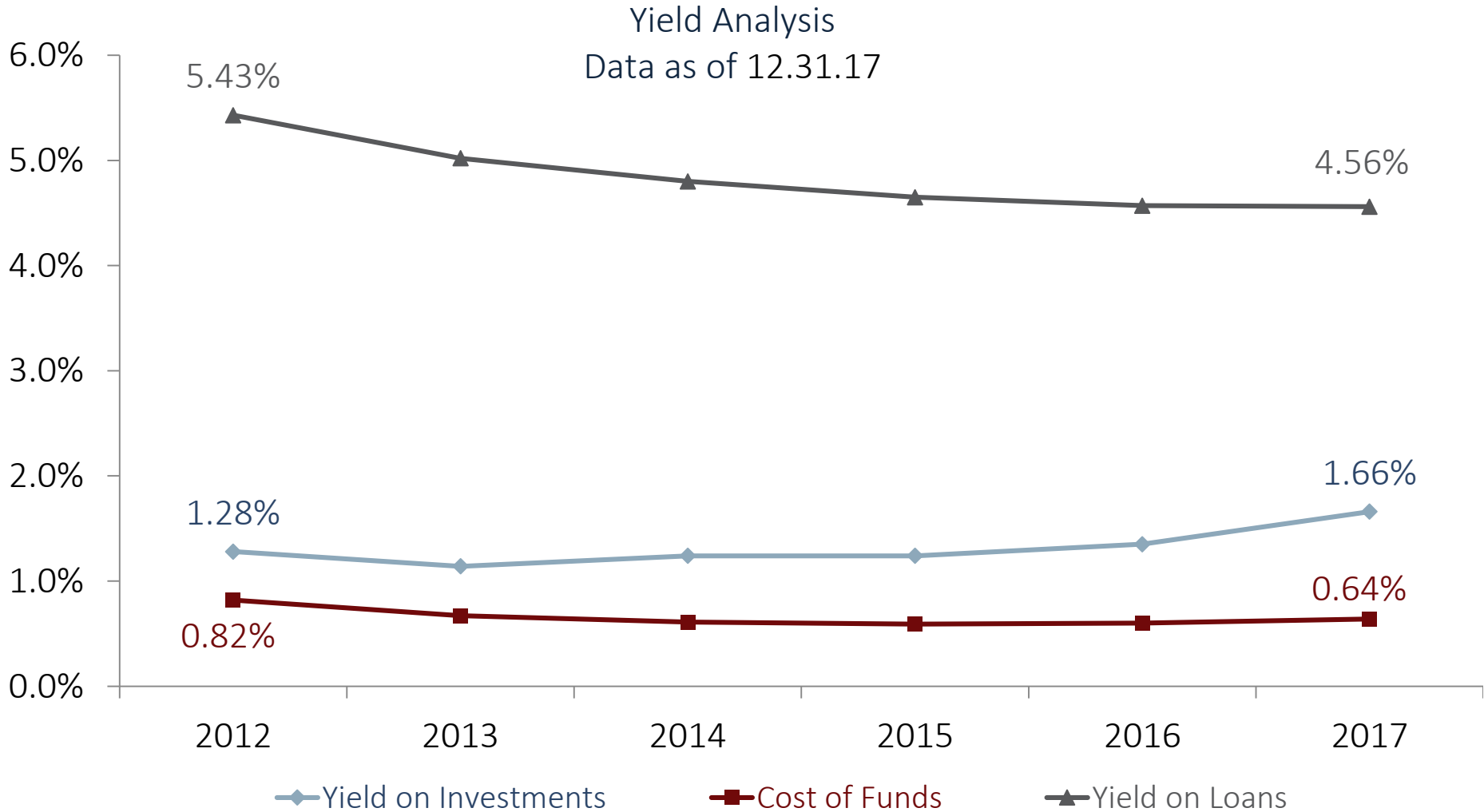
Sponsored by:



Source: Callahan's Peer-to-Peer Analytics



Yield on investments improves; cost of funds rises



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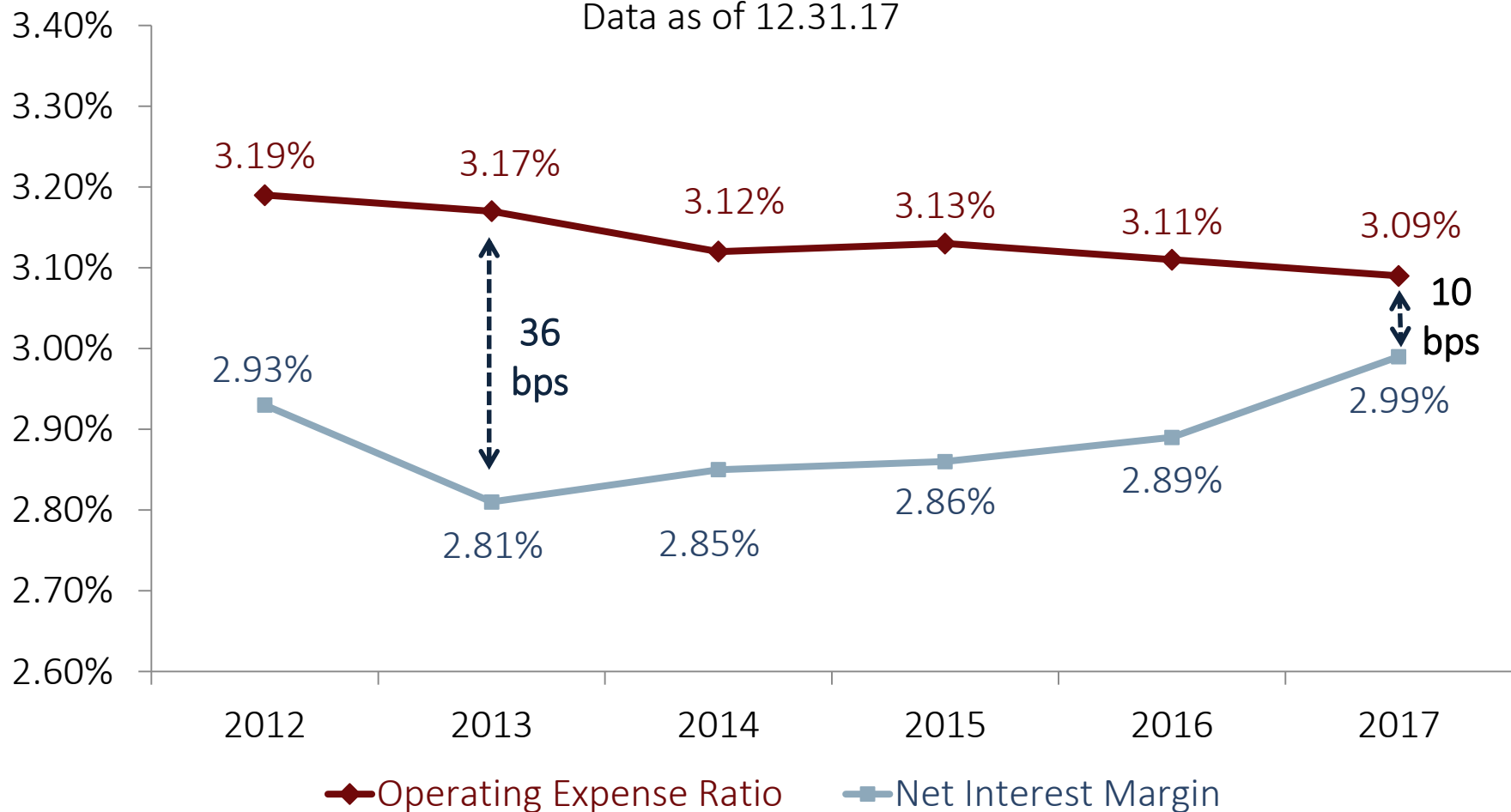


Source: Callahan's Peer-to-Peer Analytics



Net interest margin - operating expense gap continues to shrink. Lowest year-end spread since 2004.

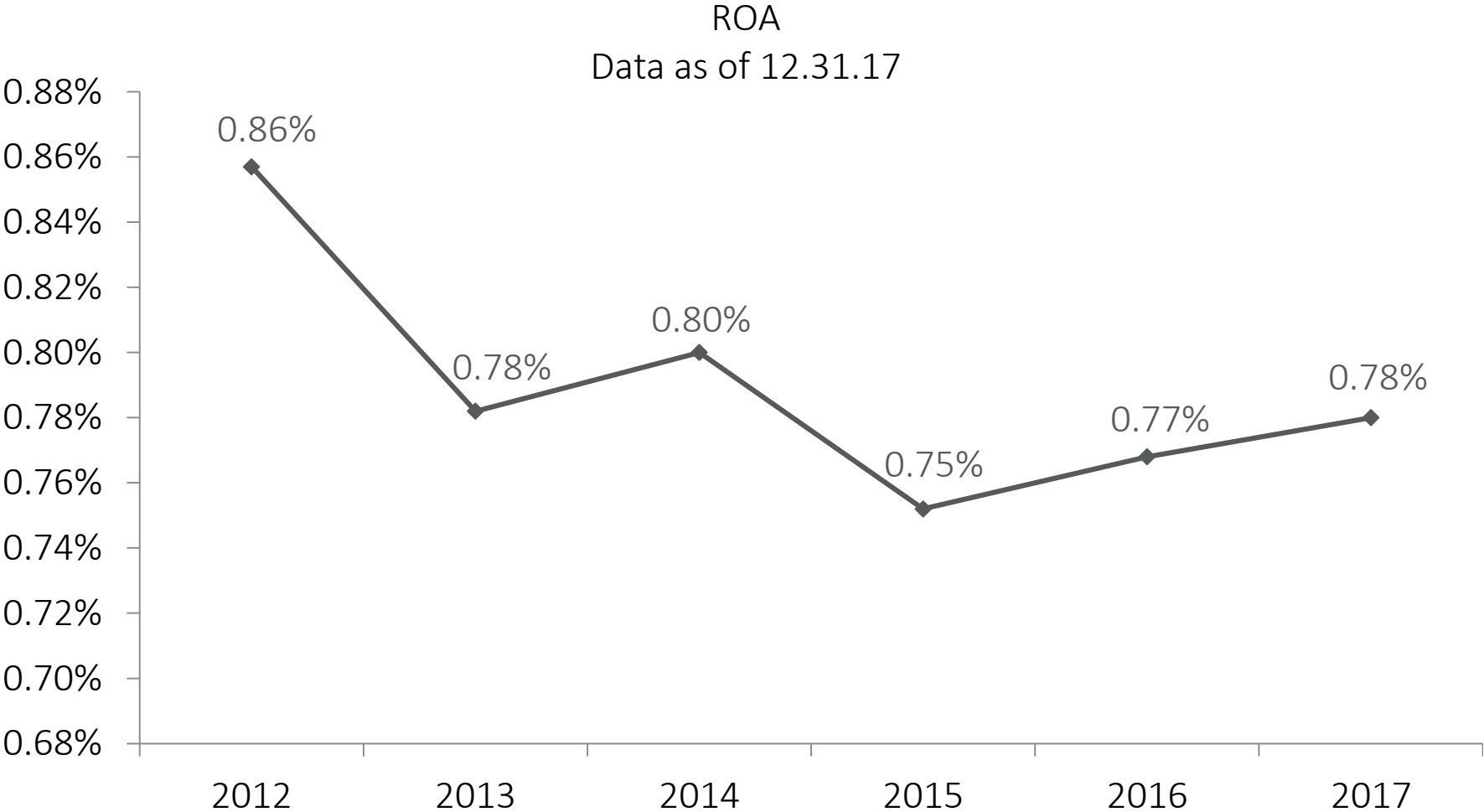
Net Interest Margin vs. Operating Expense Ratio
Data as of 12.31.17



Interest components rise in 2017

	As of 12.31.2017	As of 12.31.2016	12-mo. Change (bps)
Interest Income/Avg. Assets	3.55%	3.42%	+13
Interest Expense/Avg. Assets	0.56%	0.53%	+3
Net Interest Margin	2.99%	2.89%	+10
Non-Interest Income/Avg. Assets	1.36%	1.39%	-3
Non-Interest Expense/Avg. Assets	3.09%	3.11%	-2
Provision for Loan Losses	0.48%	0.40%	+8
ROA	0.78%	0.77%	+1

ROA remains in a narrow range





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SENTRY CREDIT UNION'S COMMITMENT TO OUR MEMBERS IS REFLECTED IN OUR MISSION STATEMENT AND OUR VALUE STATEMENTS:

MISSION STATEMENT

Our mission is to deliver safe, competitive and convenient personal banking products, with exceptional service, while actively encouraging membership from the Sentry Insurance community. As a trusted partner, our solid financial strength ensures members can rely on us to assist them toward attaining their financial goals while creating a highly valued benefit.

Indexed (Variable) Loan Rate Changes

Effective January 1, 2018

Loan Type	Variable Rate APR ¹
Share Secured Loans	3.00%

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Credit Union Executive Outlook Survey: Top Goals in 2018

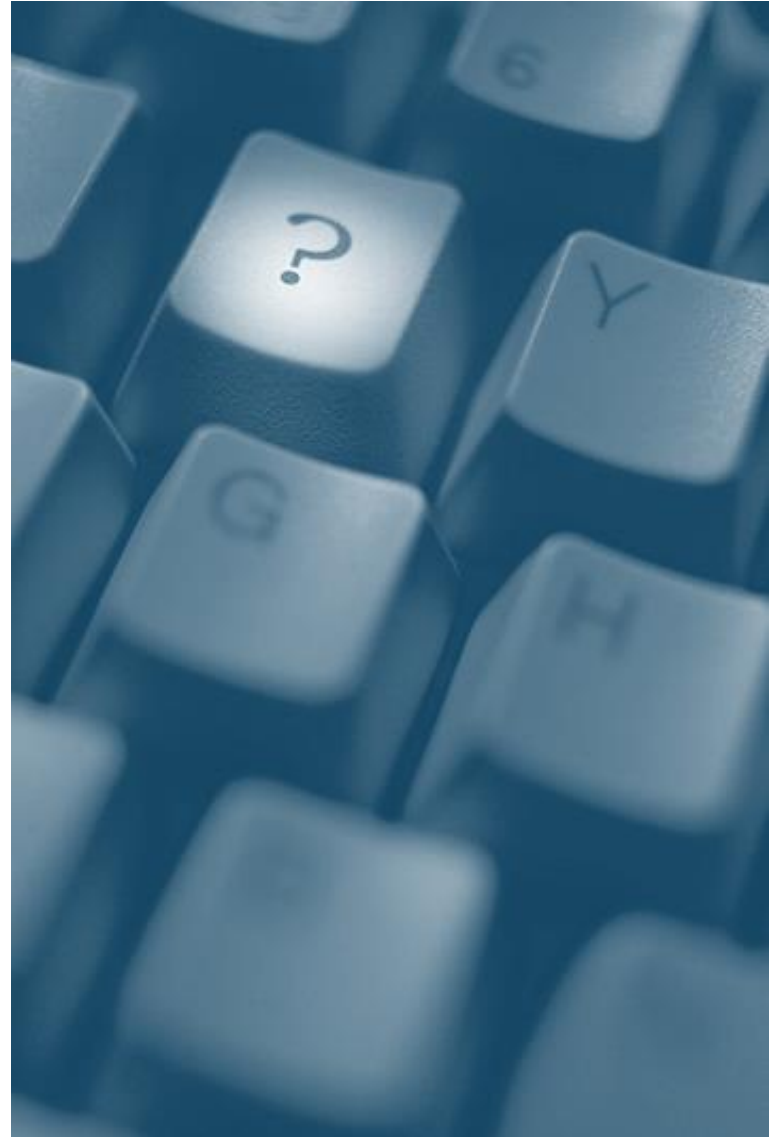
“Deposit growth. Create more yield in loan portfolio. Convert more members to electronic banking. Grow specialized services (commercial, residential mortgage, and investment division).” – \$1B Indiana CU

“Digital digital digital. Trying to become best of breed.” - \$600M Texas CU

“To complete our technology platform; serving members through mobile services. To educate our members on credit development, budgeting, car buying, and paying down debts..” - \$15M California CU

“Offer innovation solutions that make meaningful difference in members’ financial lives. Take better care of members than anyone else can or will and provide hassle-free delivery.” - \$1B+ Ohio CU

Questions?





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