CALLAHAN & ASSOCIATES
the credit union company

TRENDWATCH 2Q21

August 11, 2021

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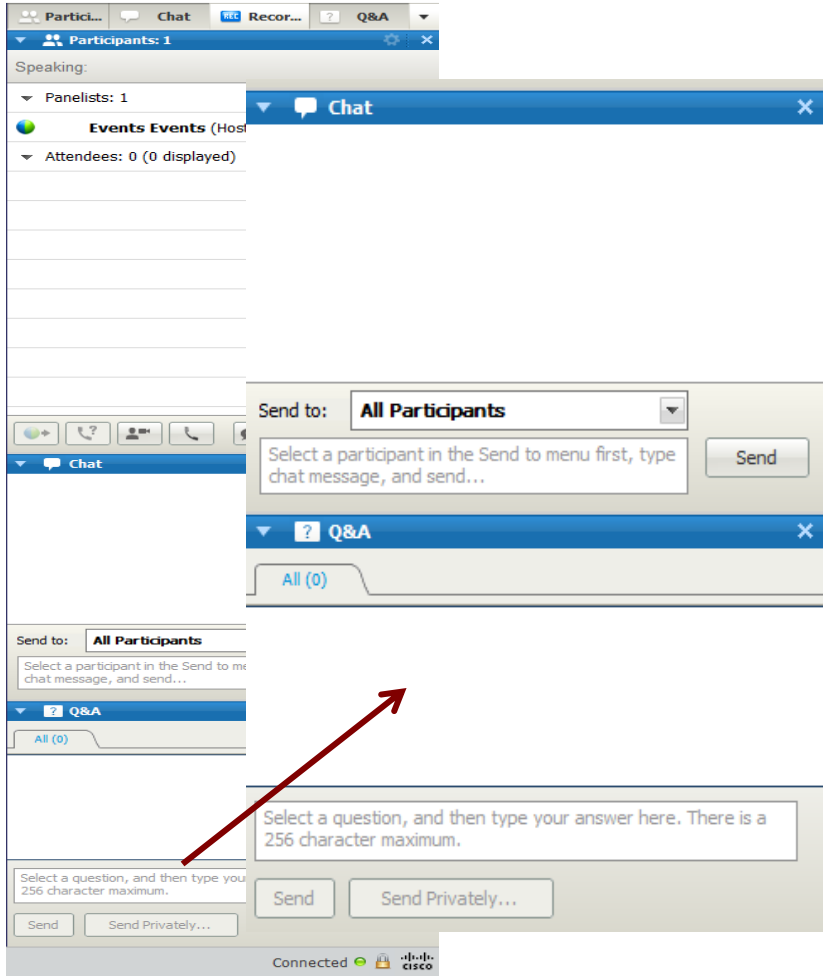
To help you follow along with TrendWatch, earlier today we sent the presentation slides for the event to the email address you used to register for TrendWatch. We will also send you a copy of slides after the event.

Slide Link

Today's slides can be found online at:

http://bit.ly/2Q-2021

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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Share Industry Insights With Your Board In A New Way

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Today's Lineup

Market Update

Mike Ensweiler, Principal, Investment Management Group, ALM First

Hafizan Hamzah, Director, Investment Management Group, ALM First

2Q 2021 Credit Union Results

Jon Jeffreys, Chief Executive Officer, Callahan & Associates

Jay Johnson, Chief Collaboration Officer, Callahan & Associates

William Hunt, Industry Analyst, Callahan & Associates

Building Lifelong Relationships

Karen Church, Chief Executive Officer, ELGA Credit Union



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Callahan Quarterly Trendwatch | August 11, 2021

ALM FIRST MARKET UPDATE

Recent Economic Themes

- **Various factors impacting market confidence in recent weeks**
  - Surge in Delta variant cases is sparking renewed restrictions across parts of the world/U.S. and presenting a risk to economic forecasts
  - Recent economic data have missed relative to expectations
  - Chinese government crackdown on private industry has negatively impact risk sentiment
  - For much of Q2, the predominant economic theme was inflation and whether or not it would be transitory
    - Month-over-month growth in core inflation readings (CPI & PCE) surged to the highest levels in decades beginning in April
    - Y/Y readings well above Fed's target thanks to the base effect
  - Will inflation pressures cause the Fed to act early and threaten the current recovery?

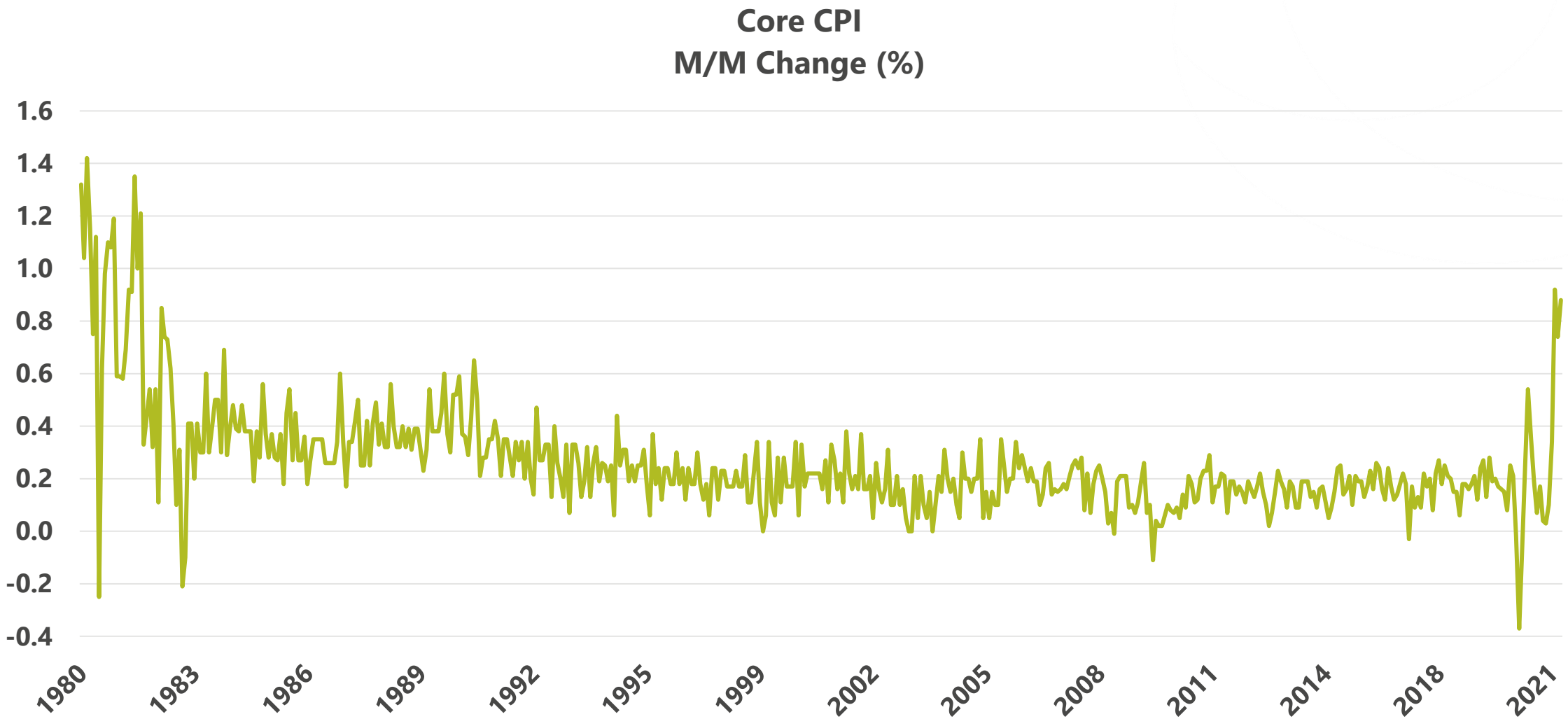
- **Fiscal path forward?**
  - Senate has introduced a $500 billion stimulus plan that does not involve tax hikes
  - Majority Leader Schumer said the Senate would immediately shift focus to pushing through President Biden's larger $3.5 trillion spending initiatives through budget reconciliation (would include tax hikes)

Fed Update

- **June and July FOMC meetings perceived to have modestly more hawkish tone**
  - Fed policy still ultra-accommodative, and changes to the fed funds rates are not expected for some time
  - The economic outlook was upgraded in the July FOMC official statement (OS), and the recent spread of the Delta variant was not mentioned
    - Reference to Covid risks to economy subtly downgraded, suggesting Fed leaders are placing less weight on public health downside risks in its economic outlook
  - Timing and pace of bond purchase tapering the biggest current question mark
    - July FOMC statement acknowledged recent economic progress made but still short of the "substantial further progress" hurdle set for policy adjustments
    - Taper announcement now on the table for any upcoming meeting

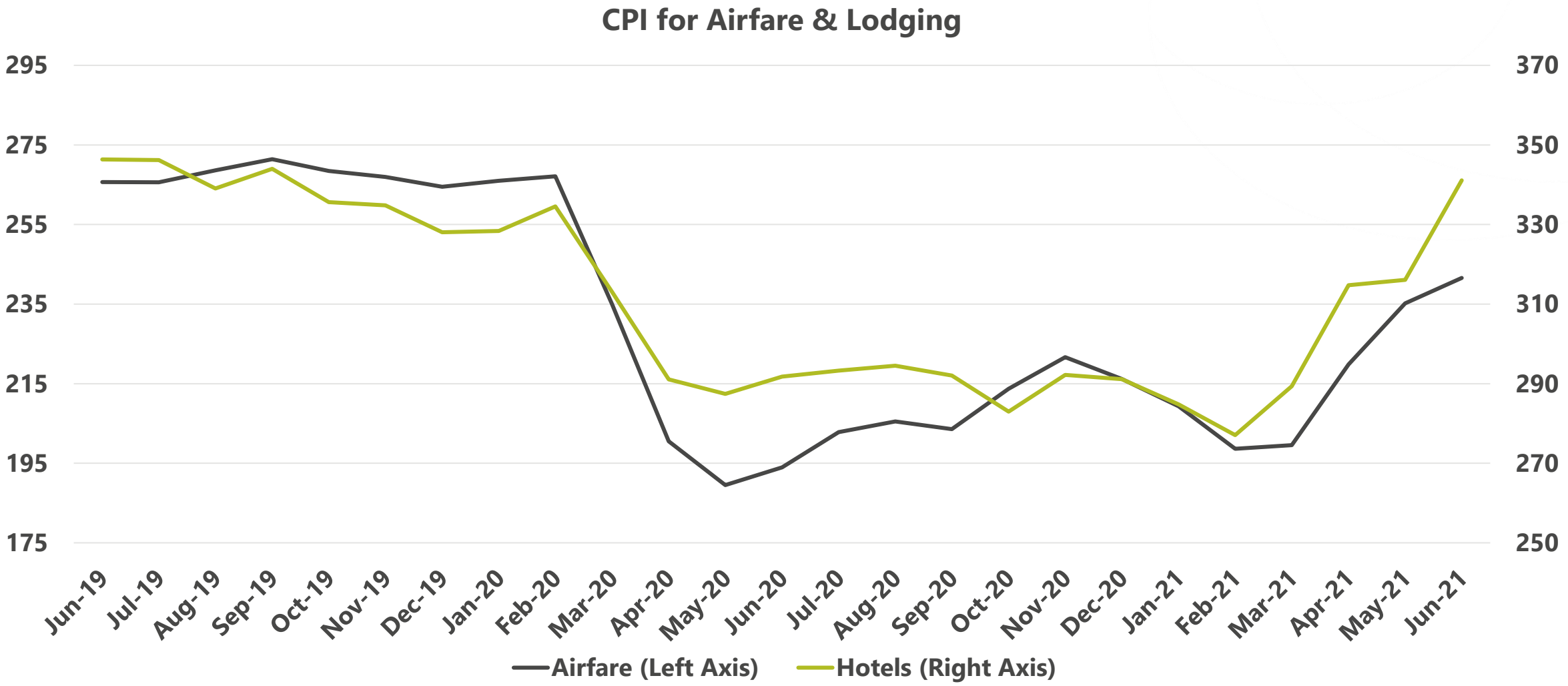
- **What about inflation?**
  - Official company line is still that near-term inflation will be transitory as the economy reopens and stimulus works its way through
  - Market starting to extend more credibility to Fed's new approach to inflation targeting

Inflation



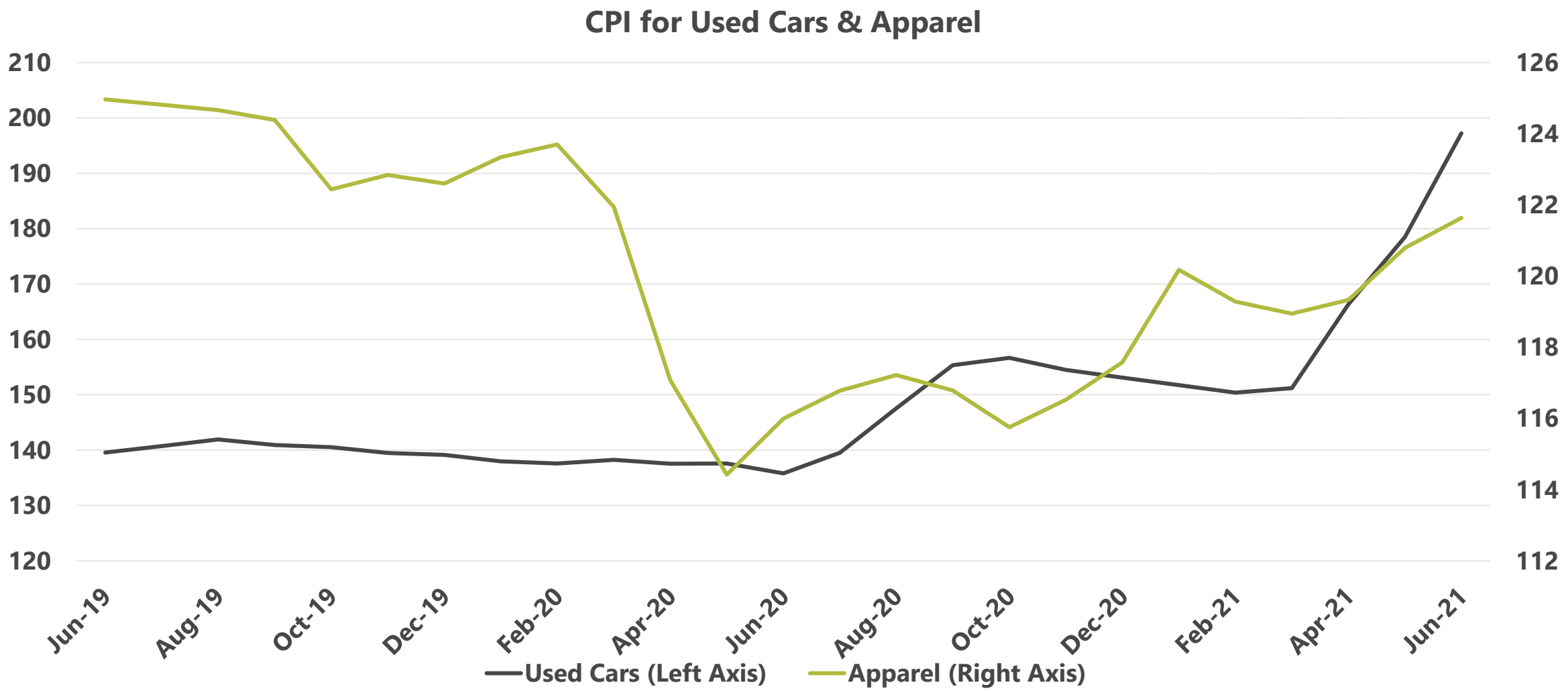
Source: BLS; Bloomberg

Transitory Signs?



Source: BLS

Other Inflation Areas…

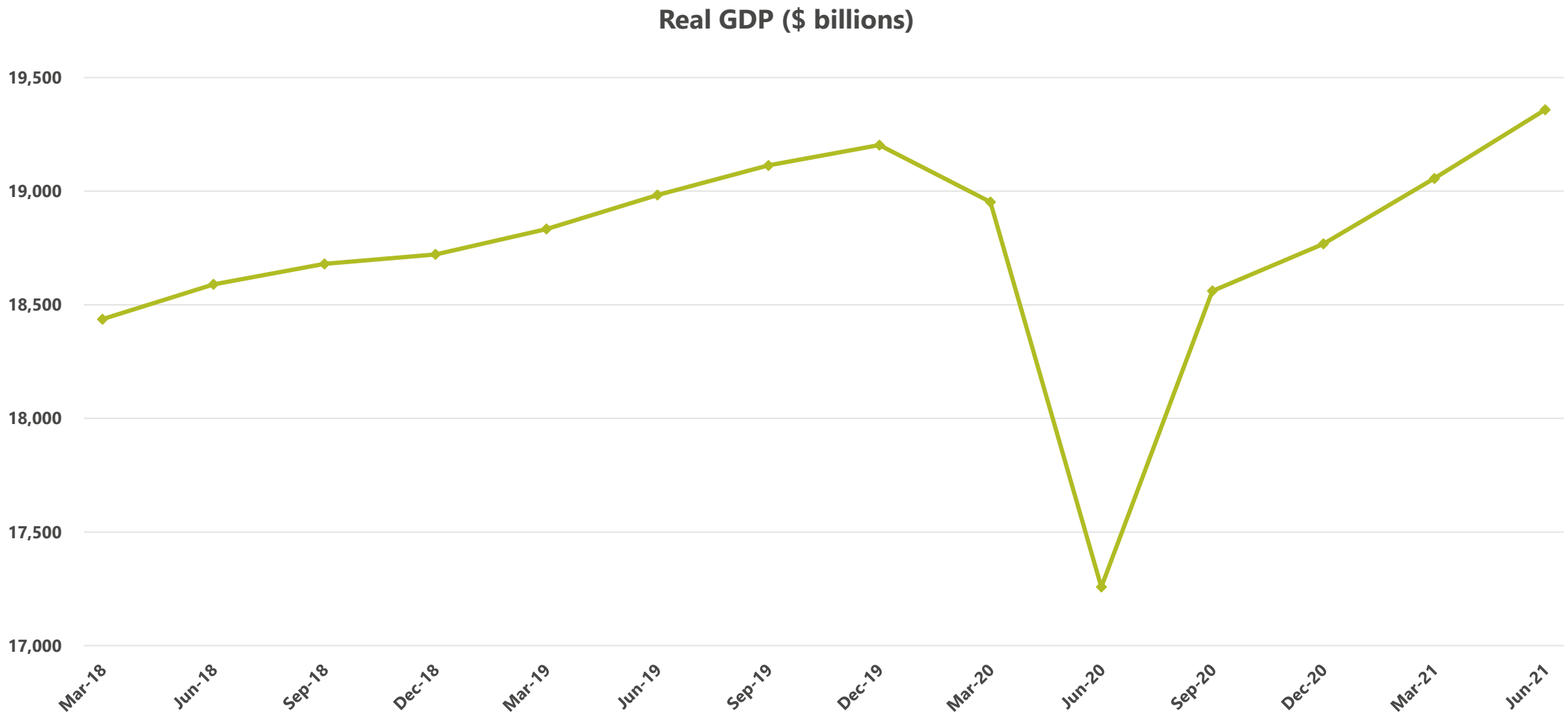


Source: BLS

Economic Fundamentals Still Sound

- **Q2 GDP growth rate misses vs. expectations, but underlying components solid**
  - First estimate of Q2 growth 6.5% q/q (annualized) vs. 8.4% expected
  - Reduction in business inventories shed 1.13 percentage points from topline growth
- **Personal consumption surges higher again**
  - +11.8% q/q vs. 10.5% expected and 11.4% in Q1
  - Third double-digit quarterly increase in the last four quarters
    - 20-year average is 2.4% q/q
- **July Jobs report was strong as employment increased by 943,000**
  - June and May revisions added another 119,000
  - Unemployment rate fell to 5.4% from 5.9%

GDP Has Eclipsed Pre-Covid Peak



Source: BEA; Bloomberg

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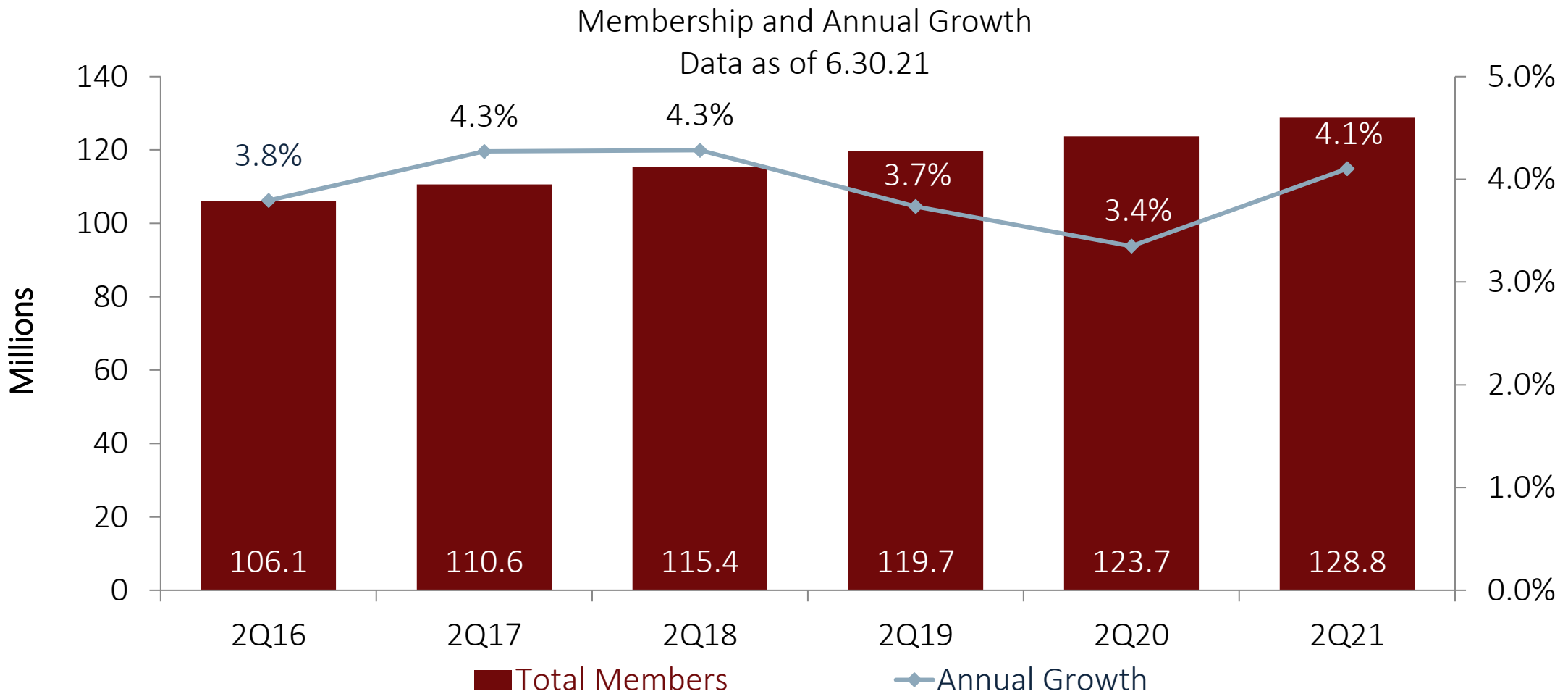
Credit union assets surpass $2 trillion on double-digit growth

	6/30/2021	12-Mo. Growth	6/30/2020	12-Mo. Growth
Assets	$2,001.9B	13.2%	$1,769.1B	15.0%
Loans	$1,207.1B	5.1%	$1,148.9B	6.5%
Shares	$1,736.6B	15.2%	$1,508.0B	16.4%
Investments	$702.0B	31.5%	$533.8B	38.2%
Capital	$213.7B	7.9%	$198.1B	9.5%
Members	128.8M	4.1%	123.7M	3.4%

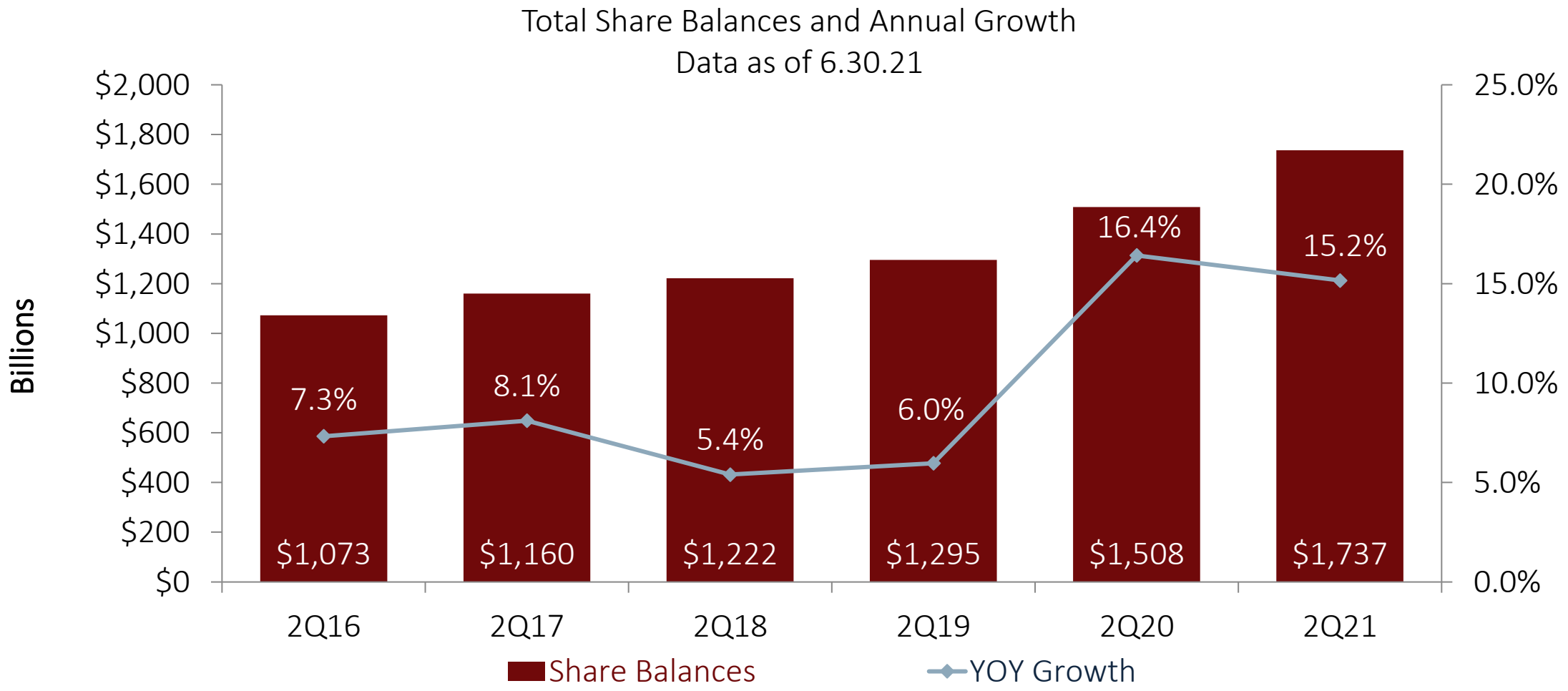
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Source: Callahan's Peer-to-Peer Analytics

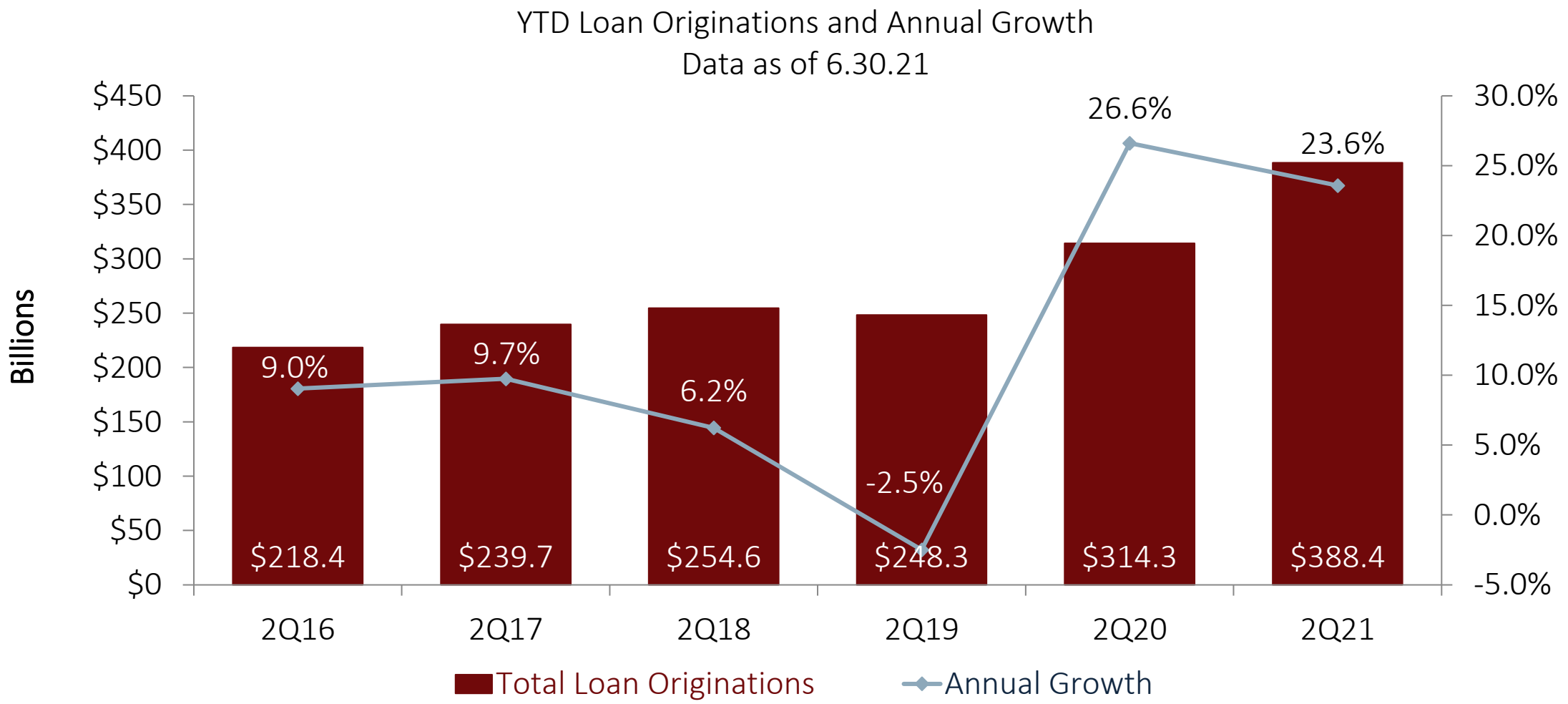
Credit Unions add a record 5.1 million members in 12 months



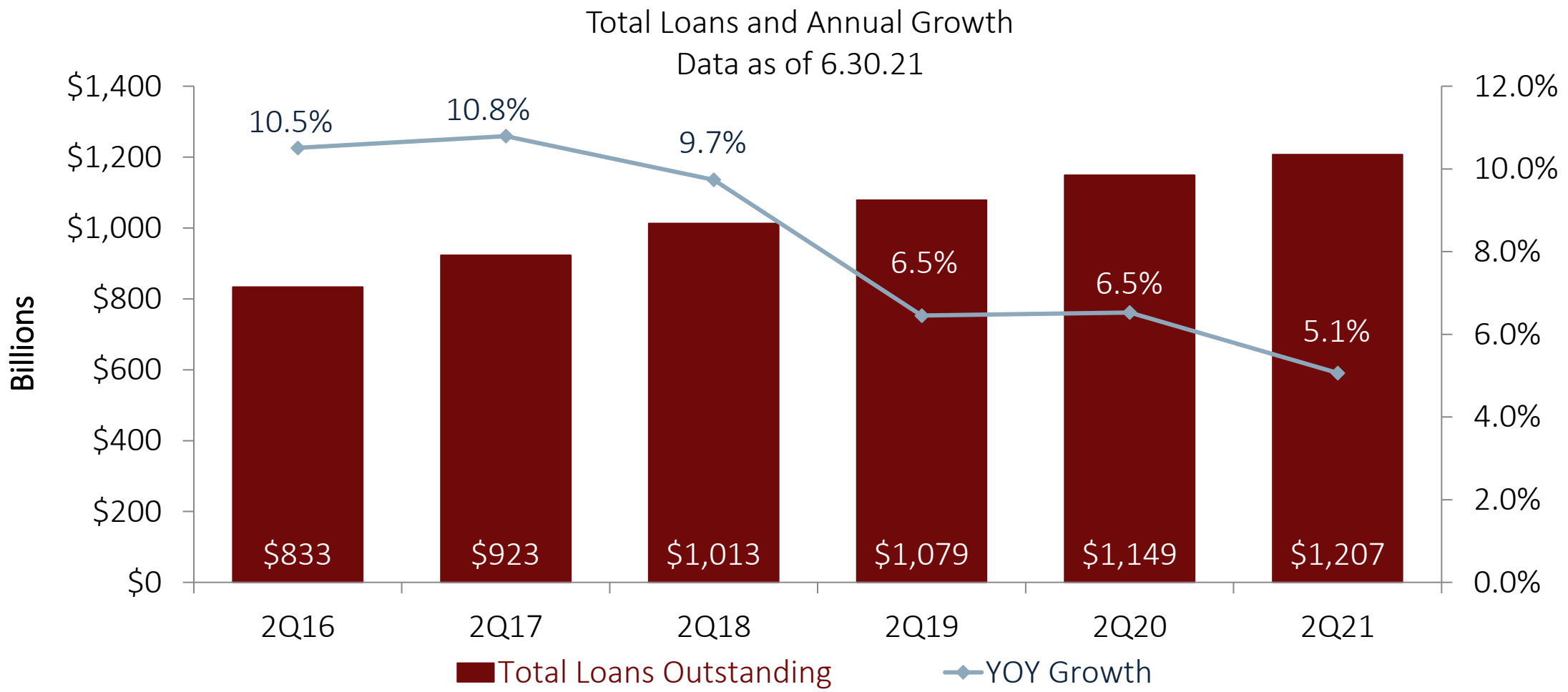
Members have directed over $440 billion in savings to credit unions over the past two years



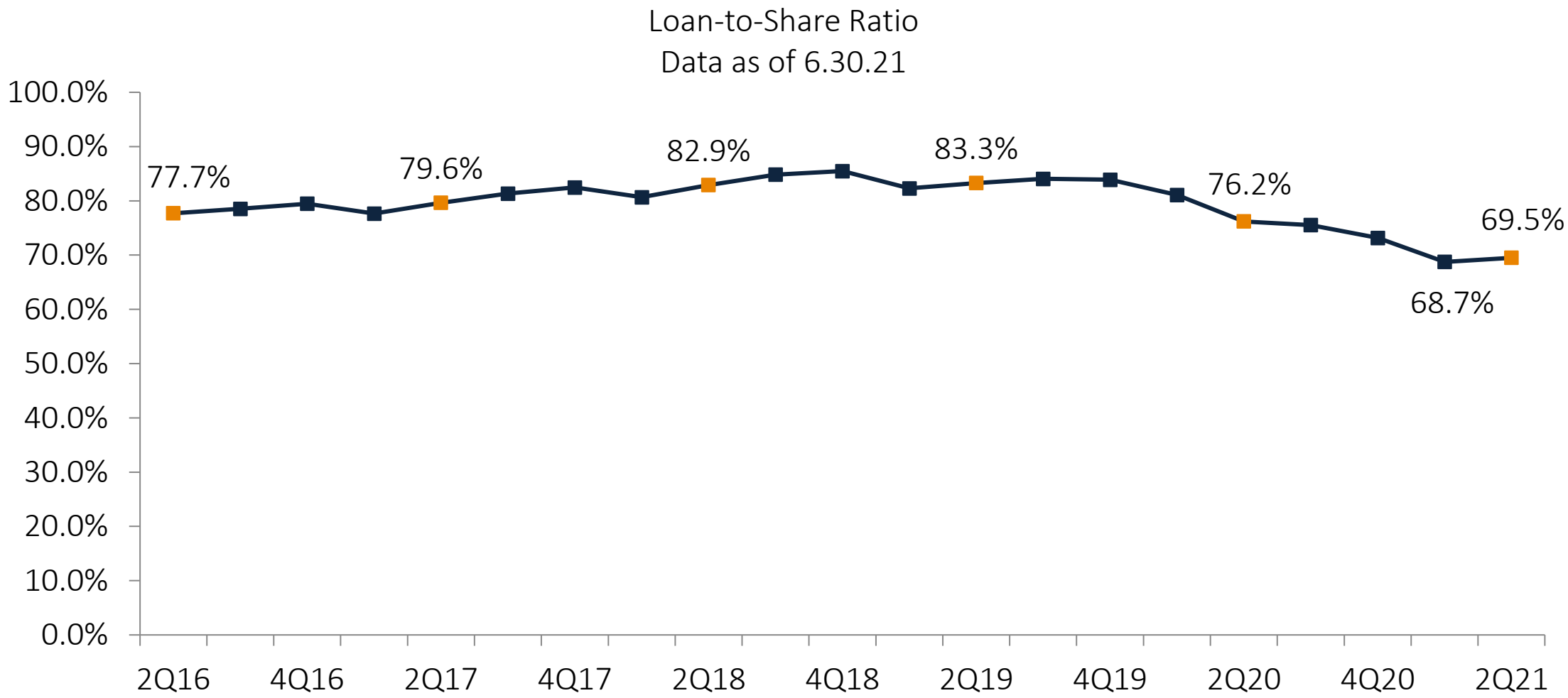
Loan volume growing over 20% for the second consecutive year



Balance sheet loan growth does not reflect the lending surge



The loan-to-share ratio increased quarter-over-quarter for the first time since 3Q19

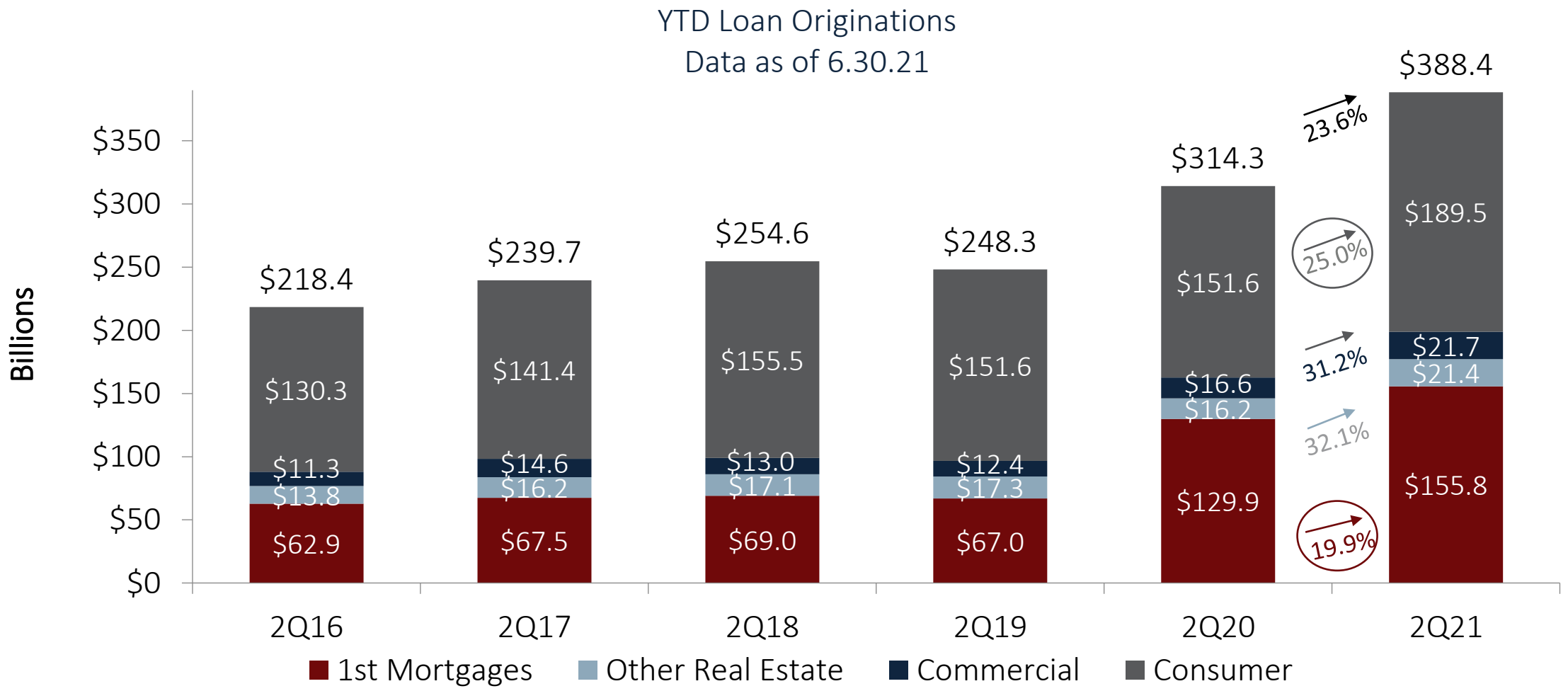


Lending

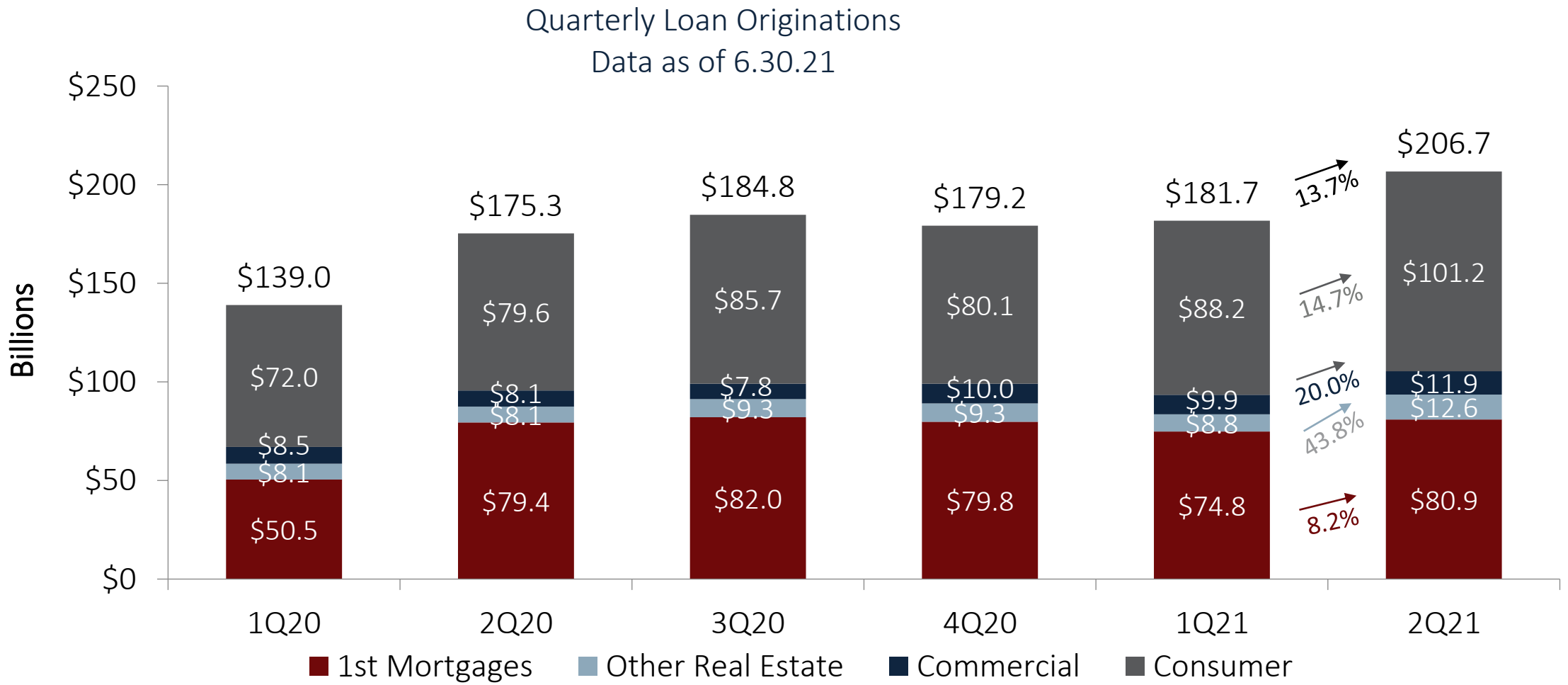
- Credit union lending activity continues at a record pace, granting the most credit ever to members in the second quarter
- Consumer lending is picking up as the economy reopens while mortgage lending remains strong
- Asset quality improves across the board to near record levels as members continue to manage debt



Consumer loan origination growth is outpacing 1st mortgage origination growth through the first six months of 2021

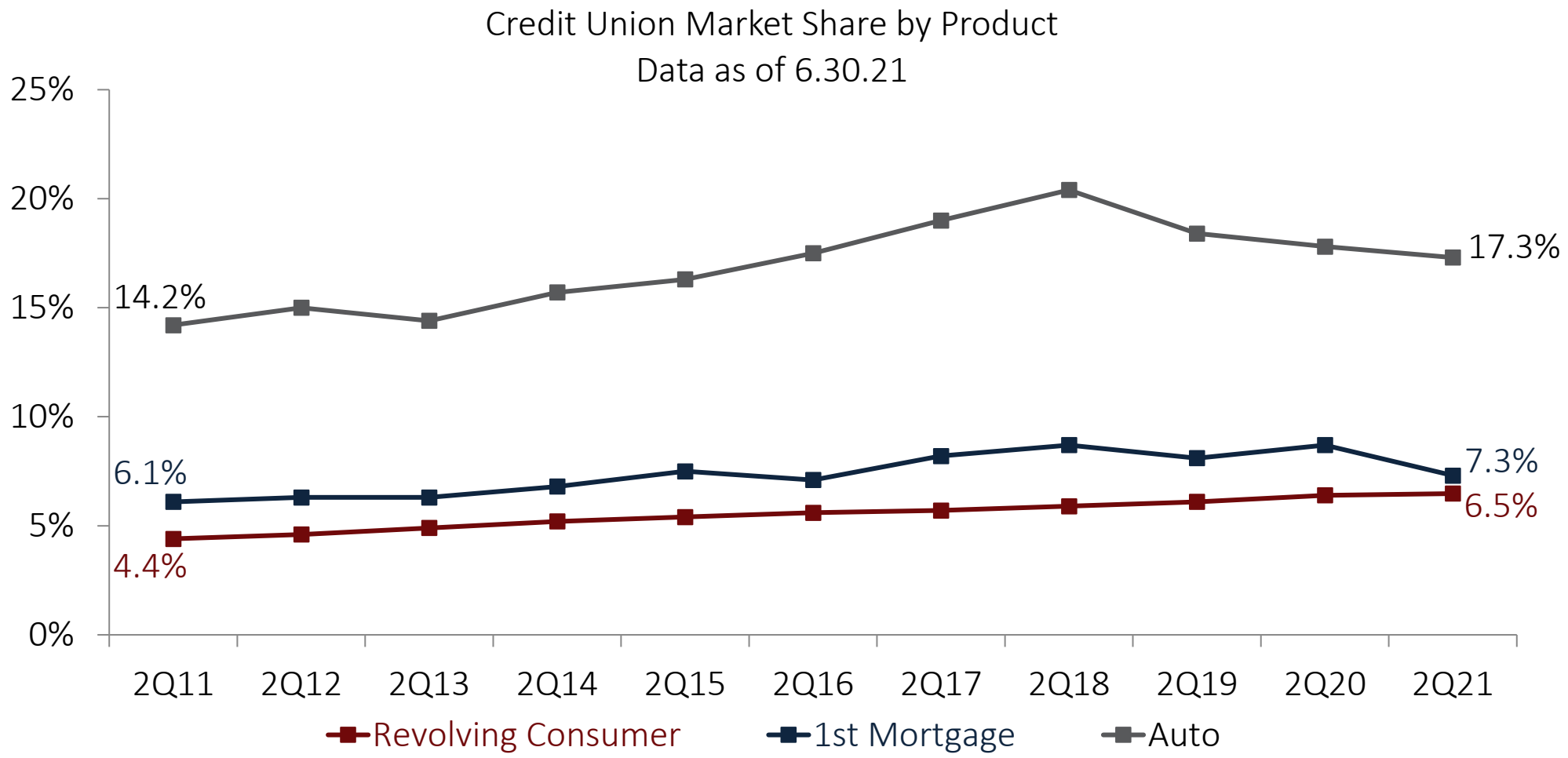


In credit unions' biggest lending quarter ever, all loan products reported quarterly origination increases

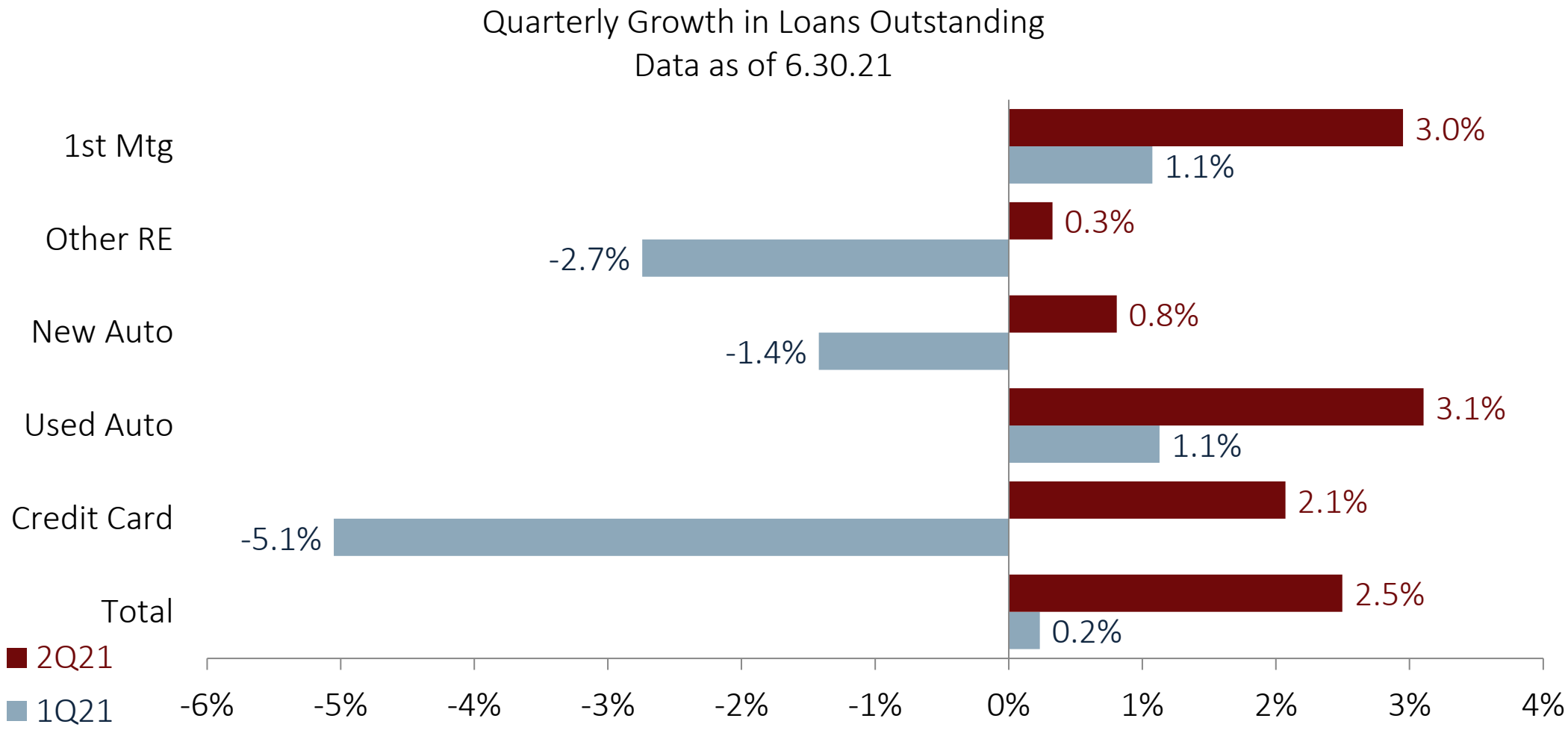


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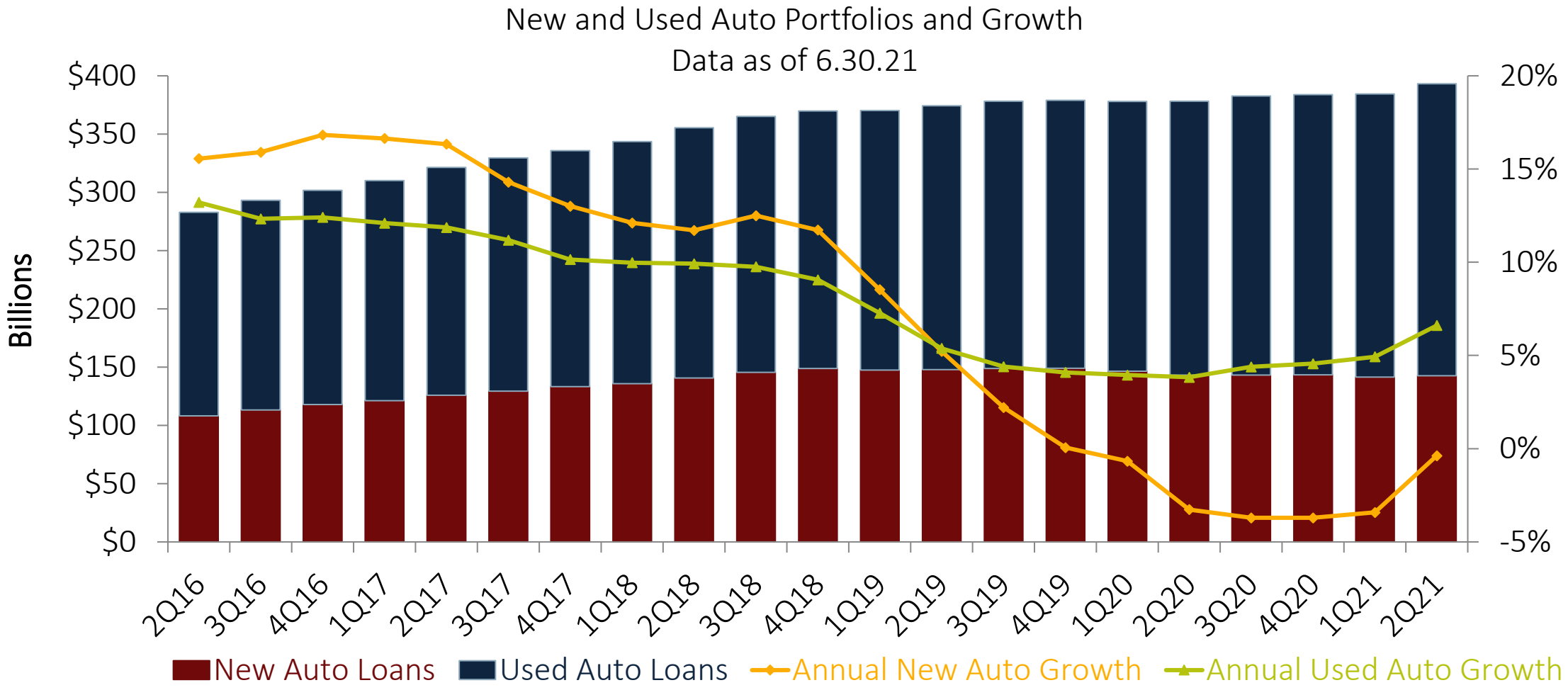
Despite record originations, credit union market share in mortgage and auto lending is declining



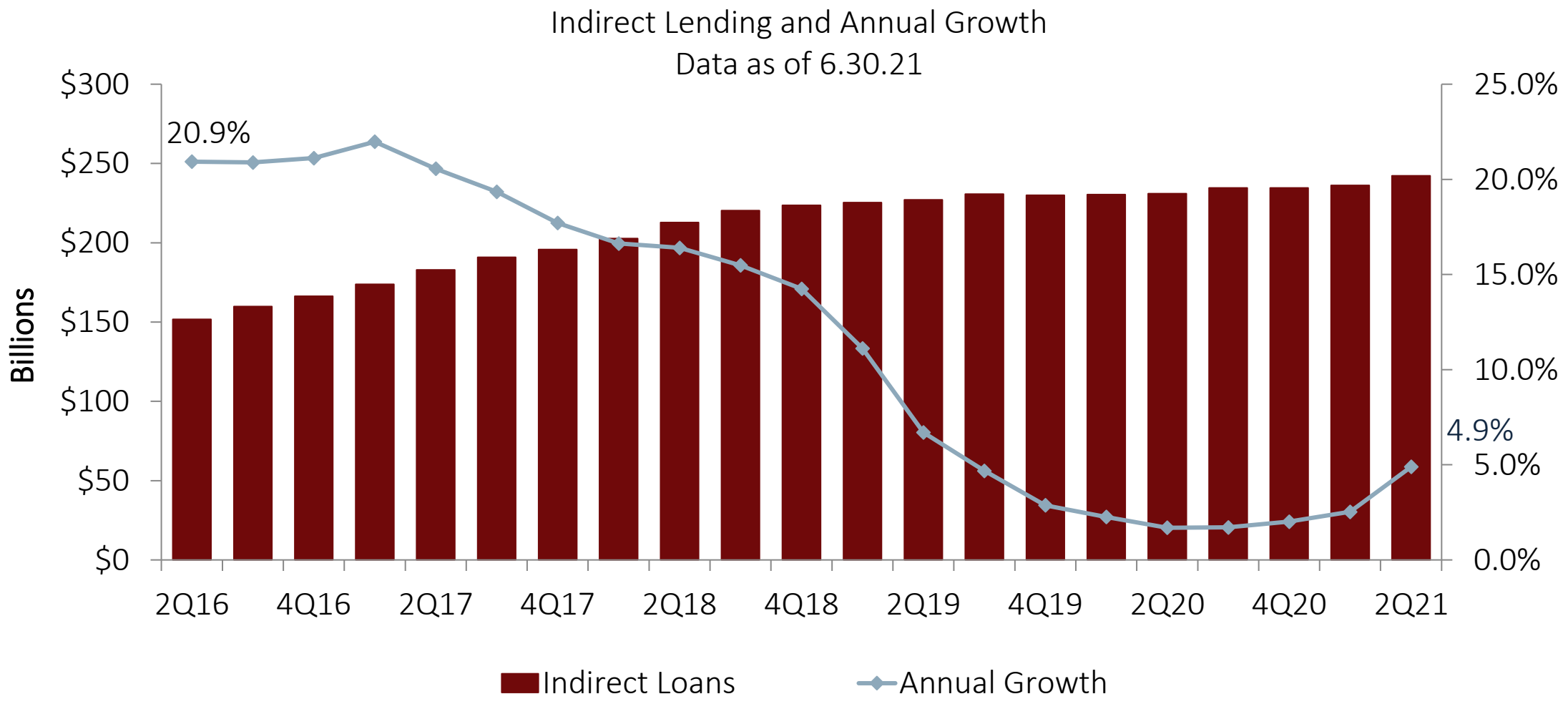
Balances rise in every loan product in the second quarter as dynamics change from first quarter



Auto lending continues to rebound from mid-pandemic lows



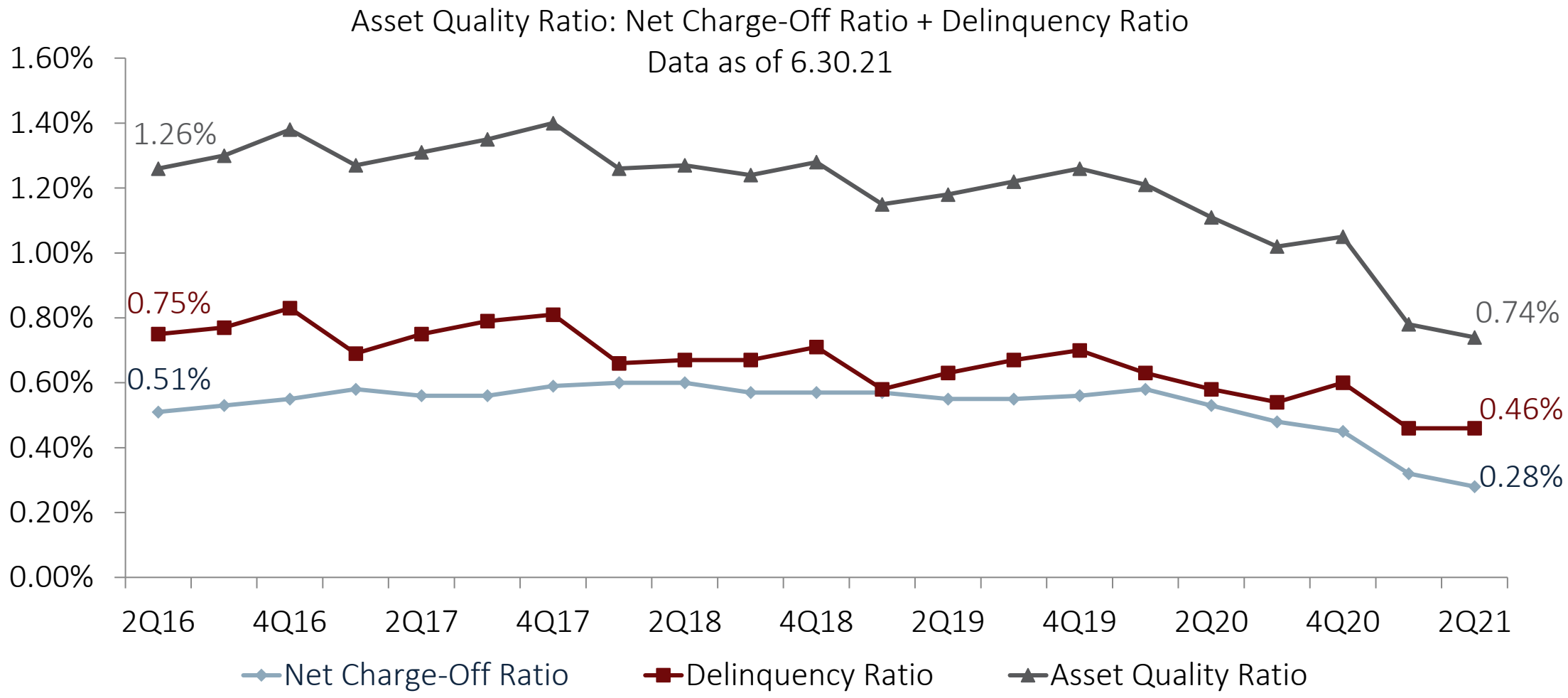
Third-party sources are a key driver of vehicle loan recovery



Loan participation purchases have risen significantly over the past year



Asset quality continues to improve, with delinquencies and net charge-offs combined reaching the lowest level in over 20 years



Delinquency is improving across the board

Annual Change in Delinquency
Data as of 6.30.21



Total
0.46%
↓0.12%



1st Mortgage
0.45%
↓0.07%



Auto
0.31%
↓0.16%



Other RE
0.55%
↓0.05%



Indirect
0.33%
↓0.16%



Credit Card
0.77%
↓0.23%



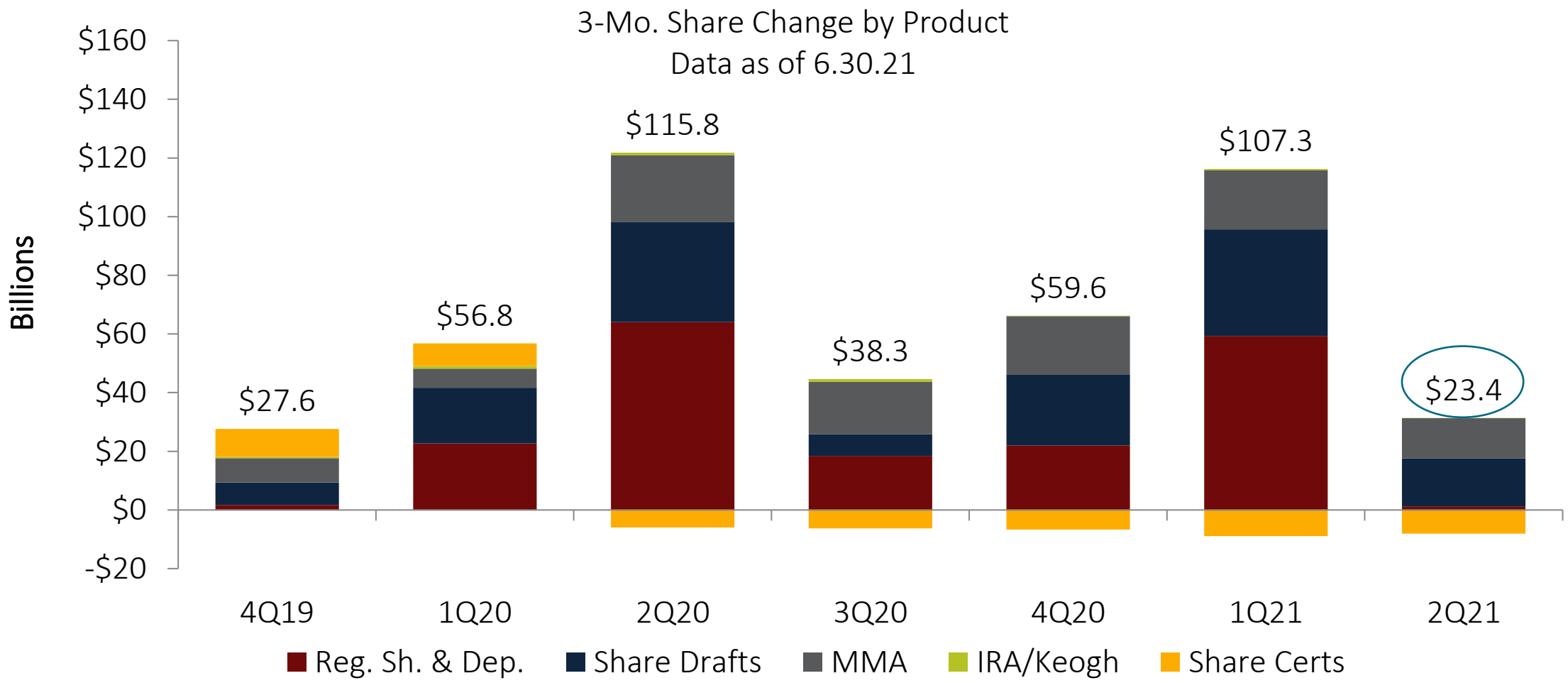
Member Commercial
0.58%
↓0.04%

Savings

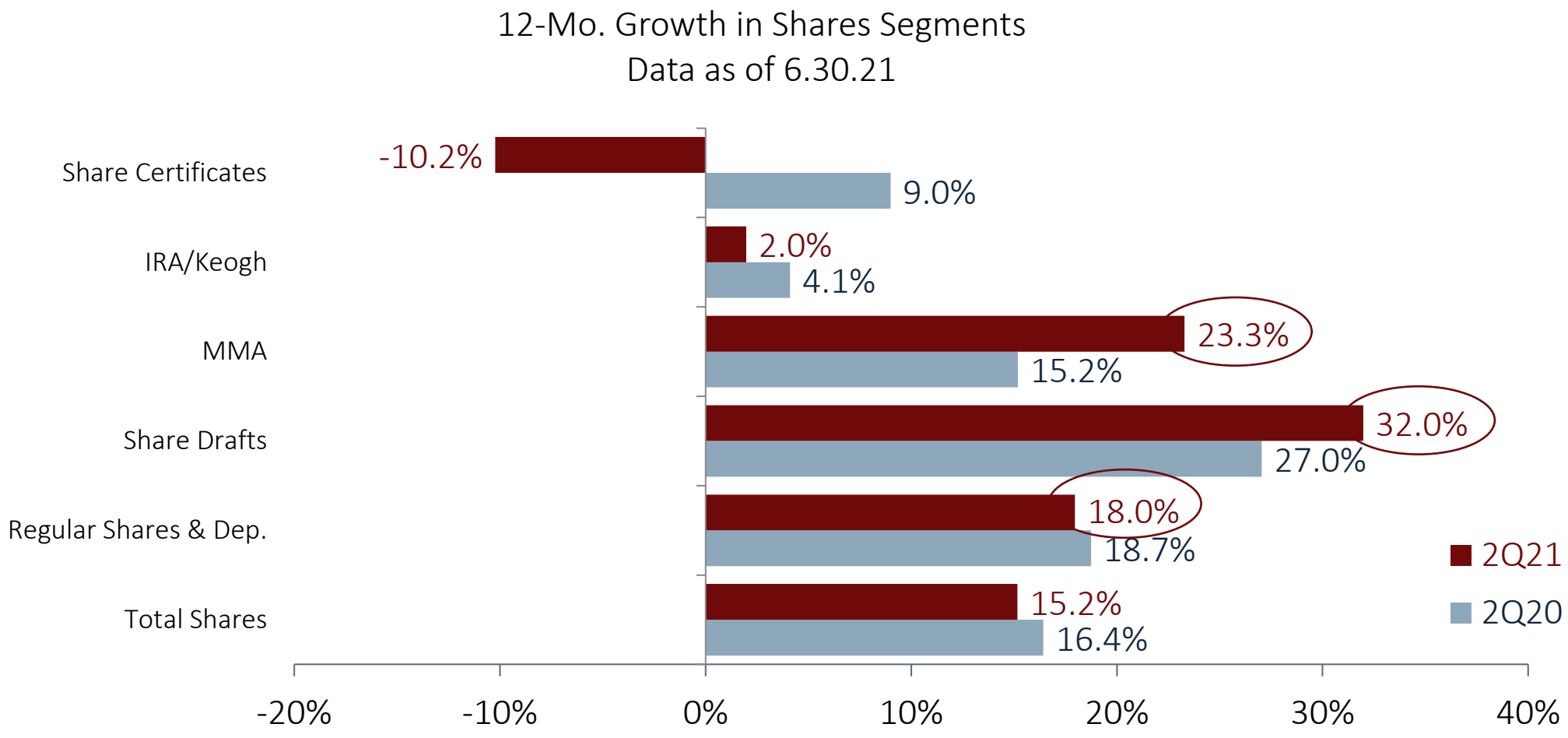
- Share balances rise in the second quarter at the slowest pace since 2019
- Core deposits are driving the increase in savings
- Average member balances are at an all-time high at mid-year 2021



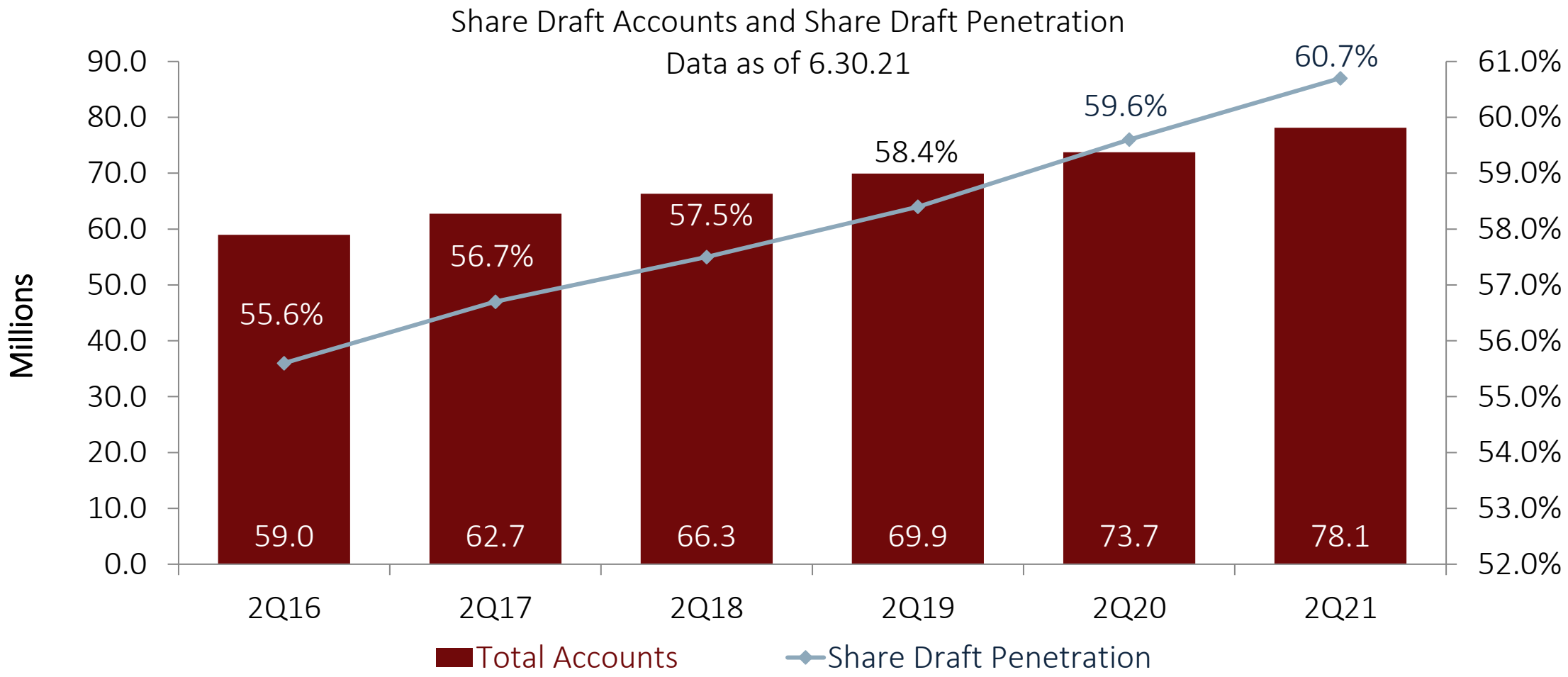
Second quarter share growth is the slowest since 3Q19



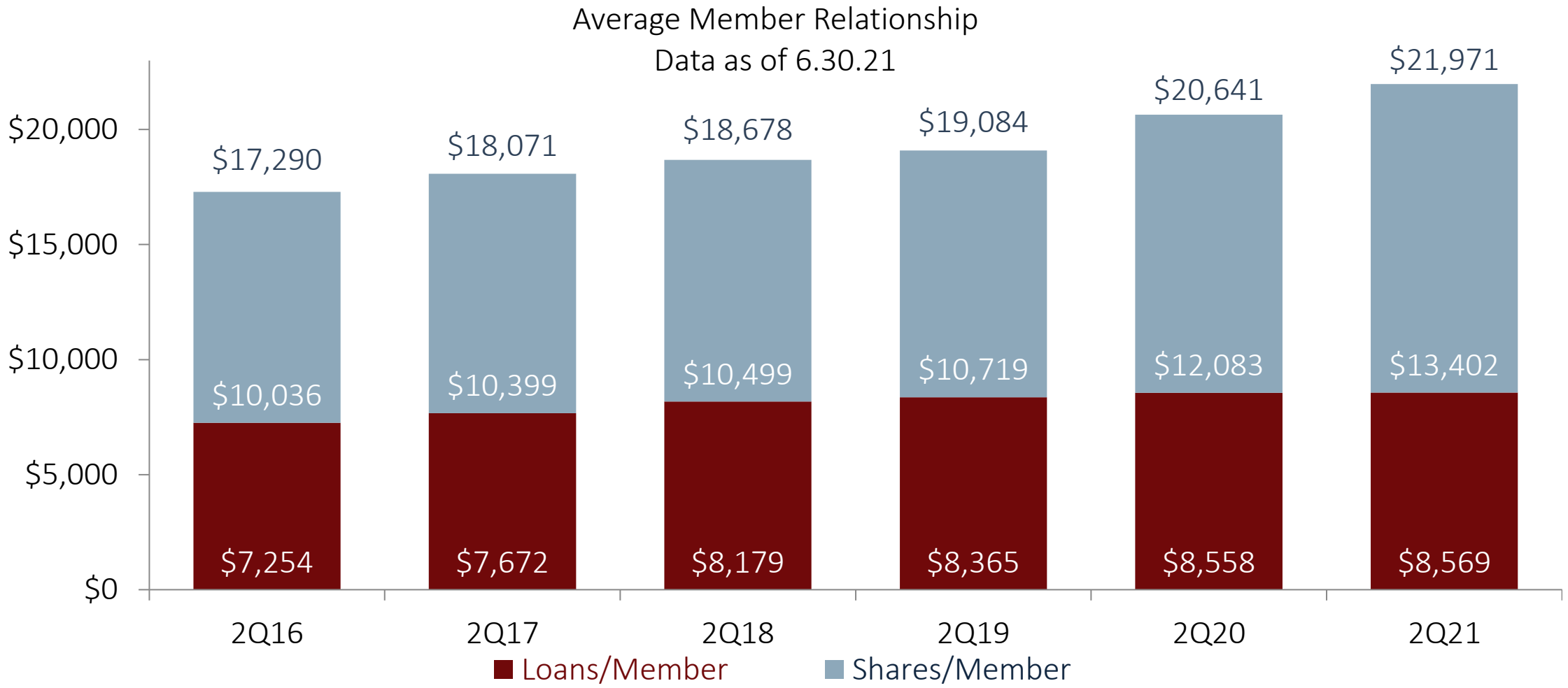
Checking, money market and regular share balances continue to grow at a double-digit pace



Share draft accounts and member usage both hit record highs



The average member relationship grew $1,130 year-over-year driven by unprecedented share inflows



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karen.church@elgacu.com

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Their Families
Expanded Over the Years to SEGs,
Church Congregations, Building
Trades & Multiple Counties
Recently added the State of MI

14 Branches

240 Associates

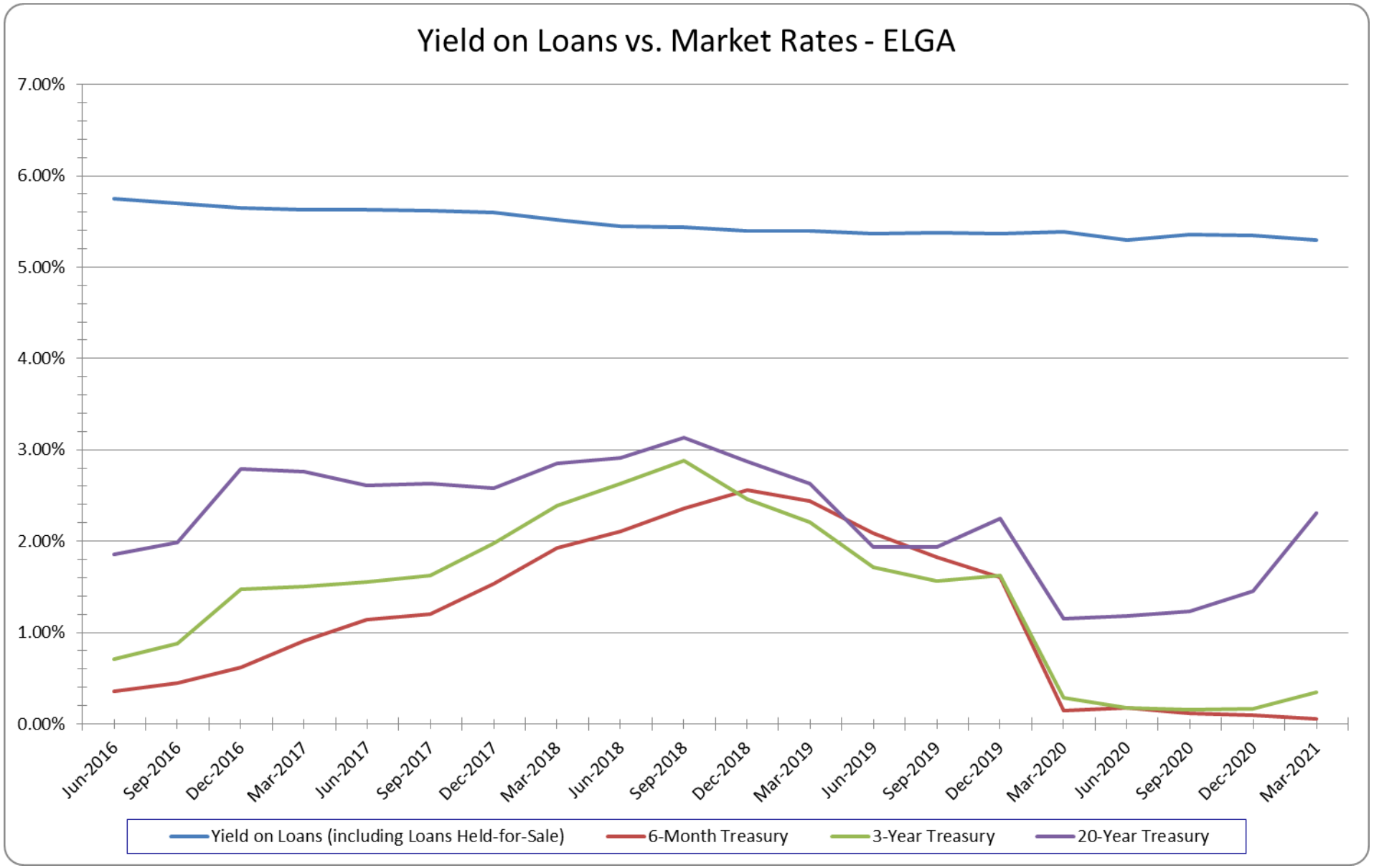


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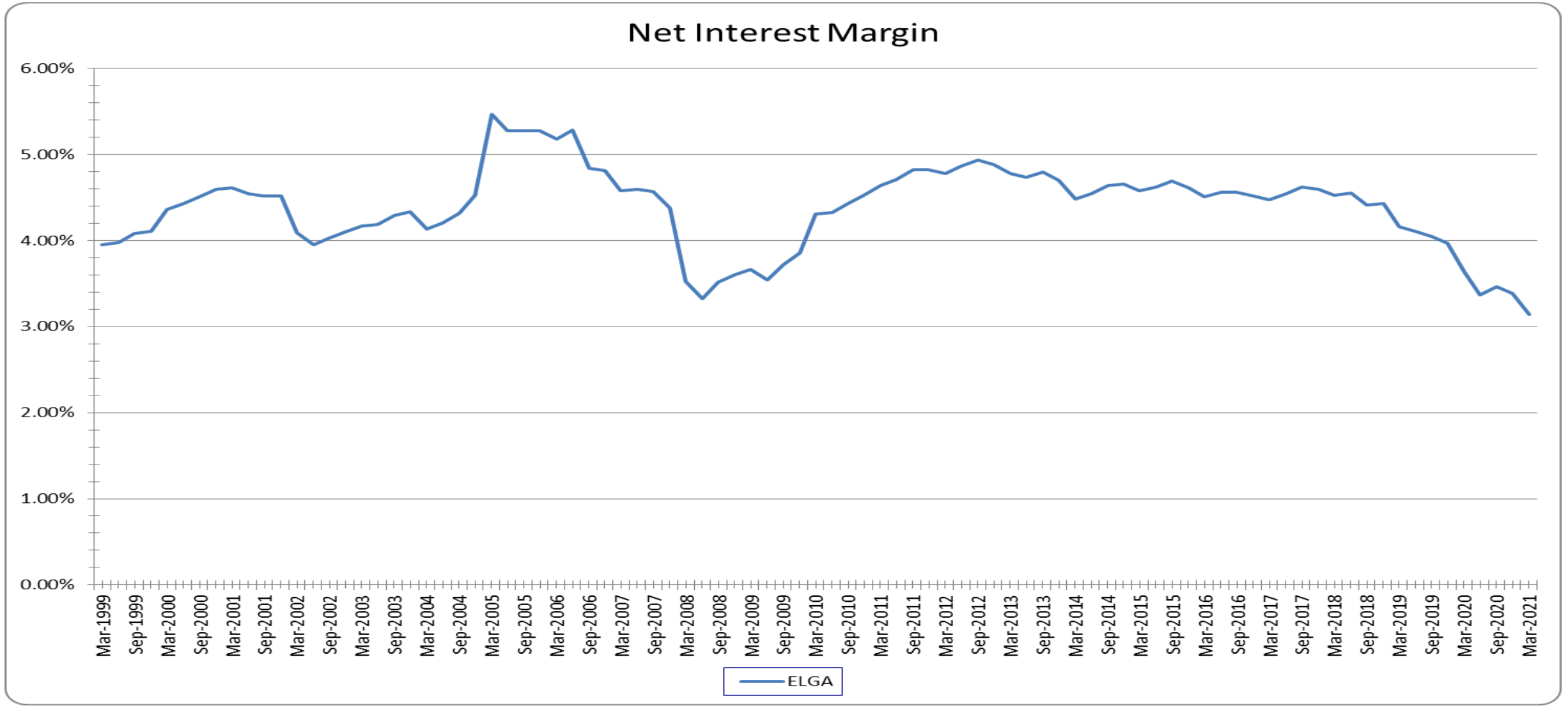
ELGA CU Financial Summary

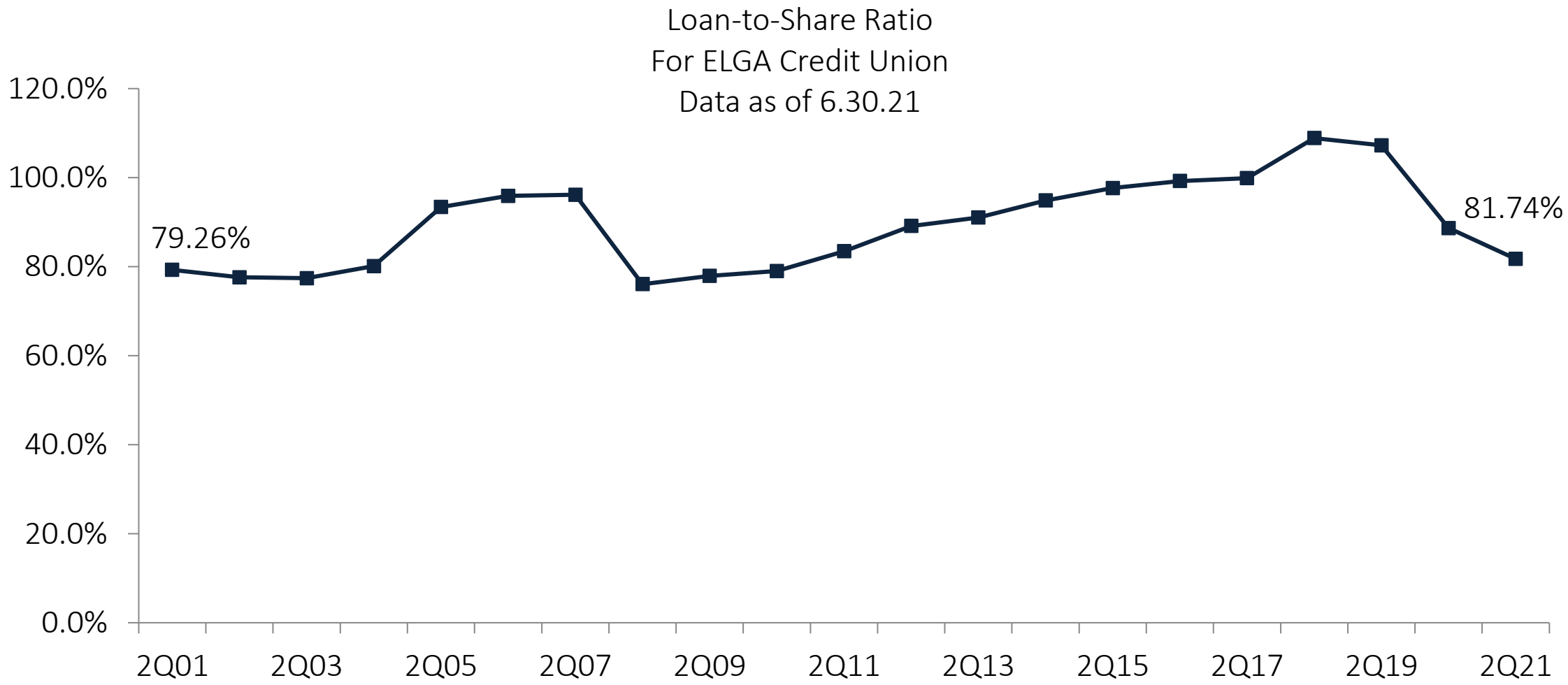
	6/30/2021	6/30/2011	6/30/2001	10-Yr CAGR
Assets	$1,116.0B	$272.4M	$95.3M	15.6%
Loans	$804.1M	$206.6M	$67.7M	14.6%
Shares	$983.8M	$247.5M	$85.4M	14.8%
Members	80,994	44,134	21,390	6.3%
ROA	1.78%	1.10%	2.07%	

Source: Callahan's Peer-to-Peer Analytics

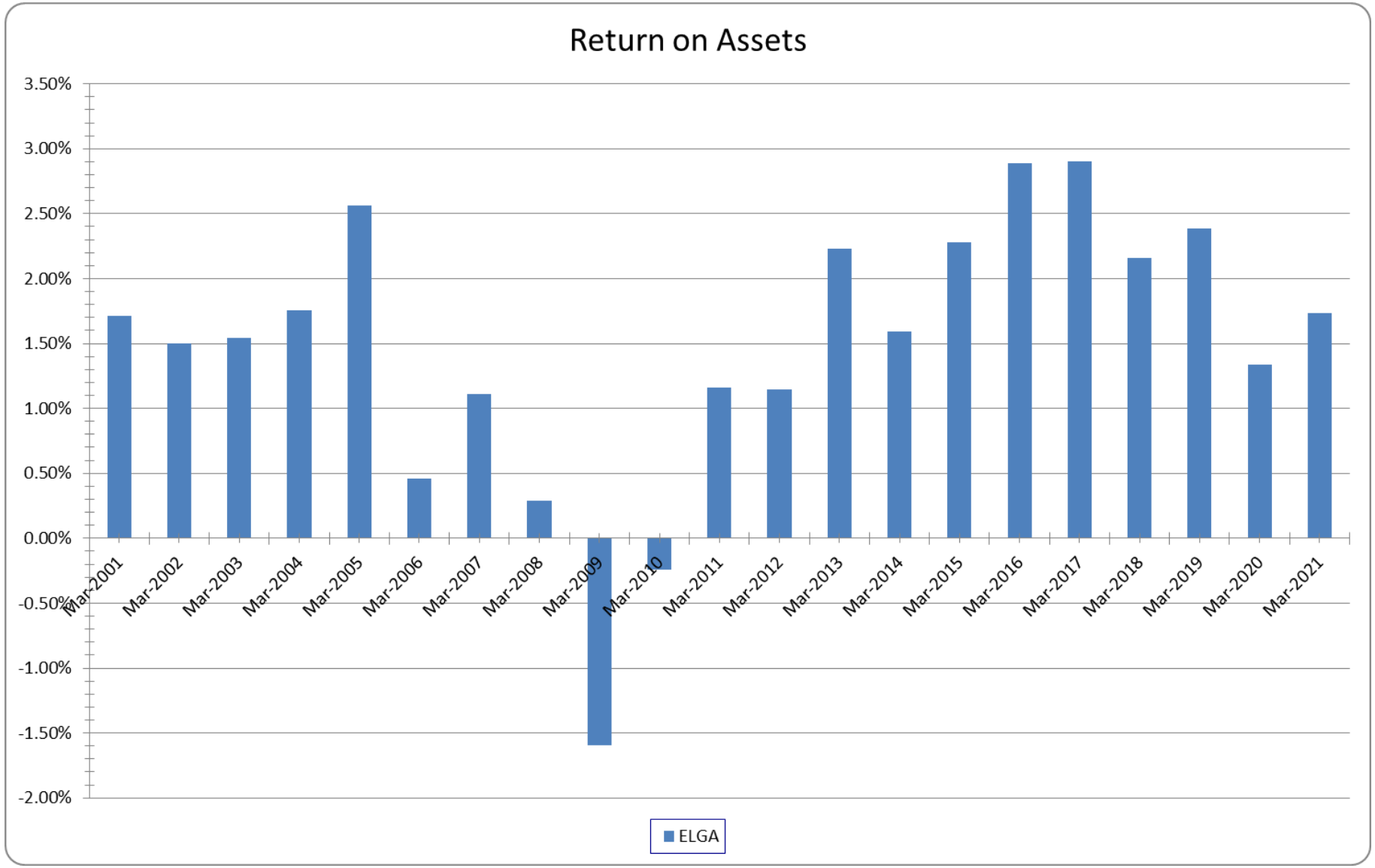

Yield on Loans vs. Market Rates - ELGA
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Jun-2016
Sep-2016
Dec-2016
Mar-2017
Jun-2017
Sep-2017
Dec-2017
Mar-2018
Jun-2018
Sep-2018
Dec-2018
Mar-2019
Jun-2019
Sep-2019
Dec-2019
Mar-2020
Jun-2020
Sep-2020
Dec-2020
Mar-2021
Yield on Loans (including Loans Held-for-Sale)
6-Month Treasury
3-Year Treasury
20-Year Treasury

ELGA CU Net Interest Margin 1999-2021

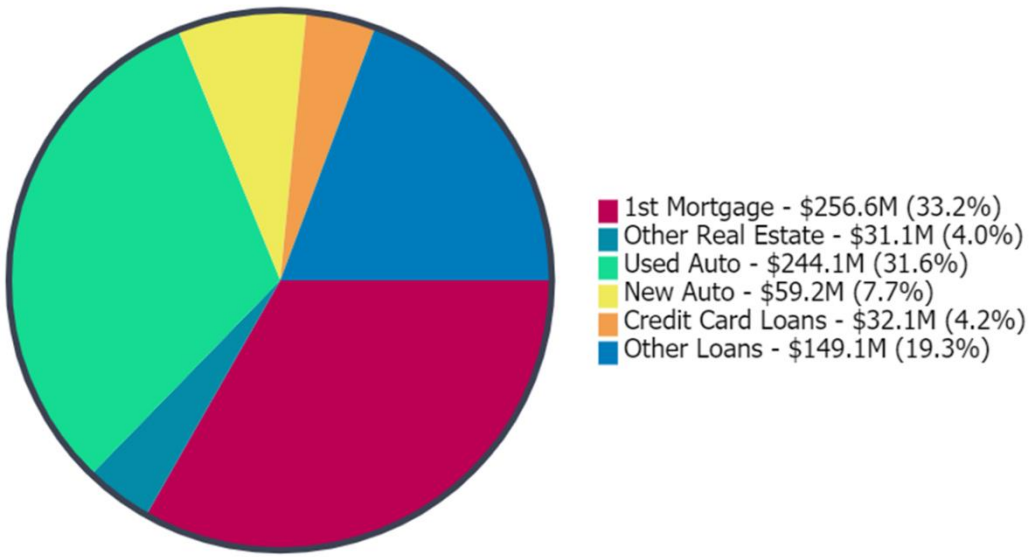



Loan-to-Share Ratio
For ELGA Credit Union
Data as of 6.30.21
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
79.26%
81.74%
2Q01
2Q03
2Q05
2Q07
2Q09
2Q11
2Q13
2Q15
2Q17
2Q19
2Q21

ELGA Credit Union ROA 2001-2021

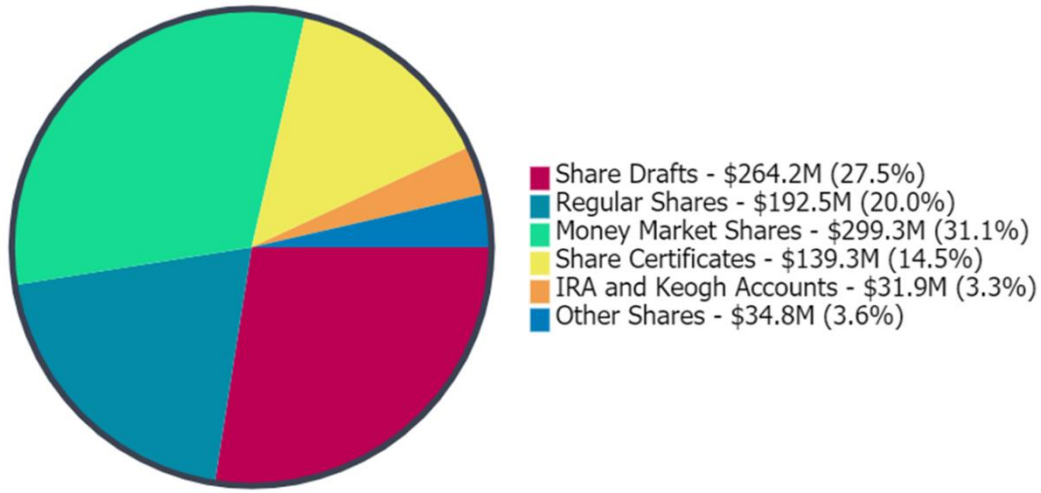


Loan Composition - ELGA



Source: Callahan & Associates

Share Portfolio Composition - ELGA



Source: Callahan & Associates





One of the reasons ELGA Credit Union is successful is because of the associates.

Over 3,200 Volunteer Hours Each Year







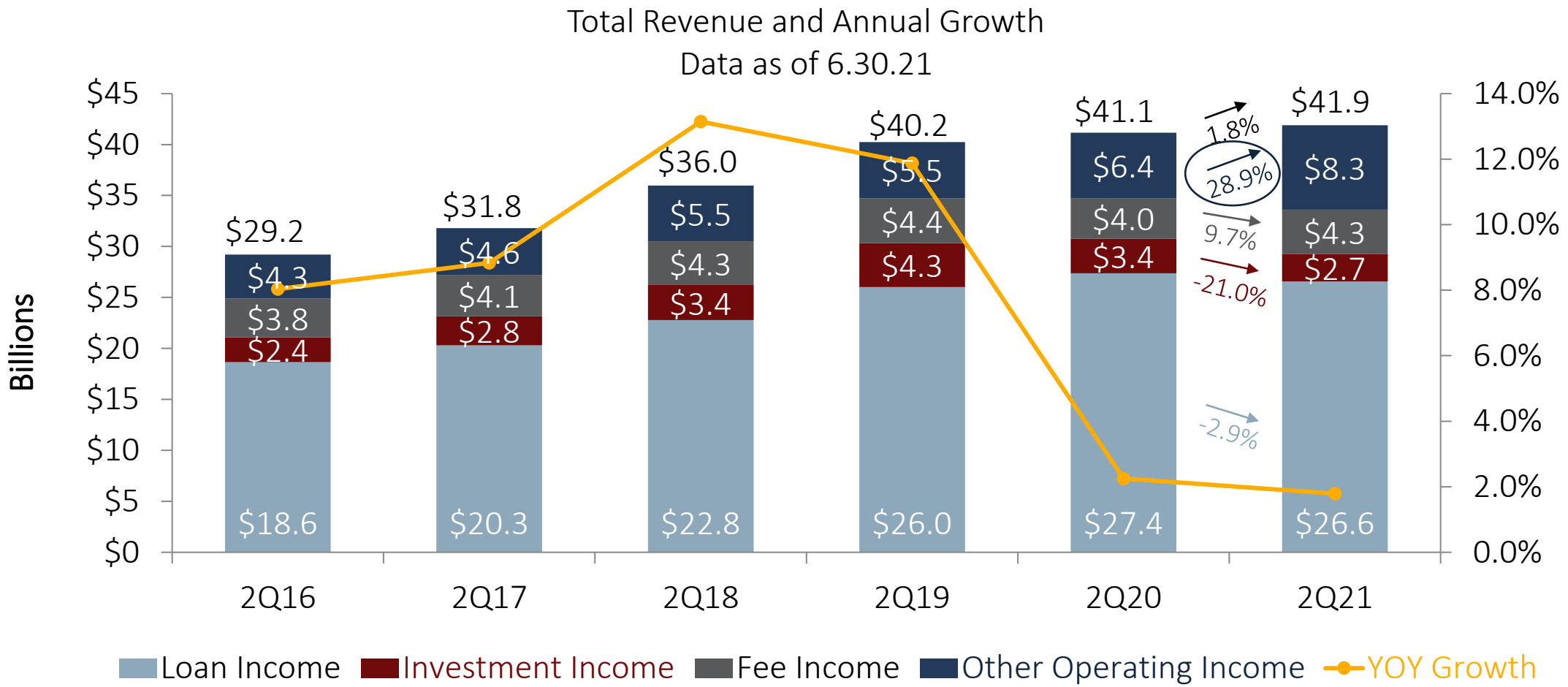


Earnings & Capital

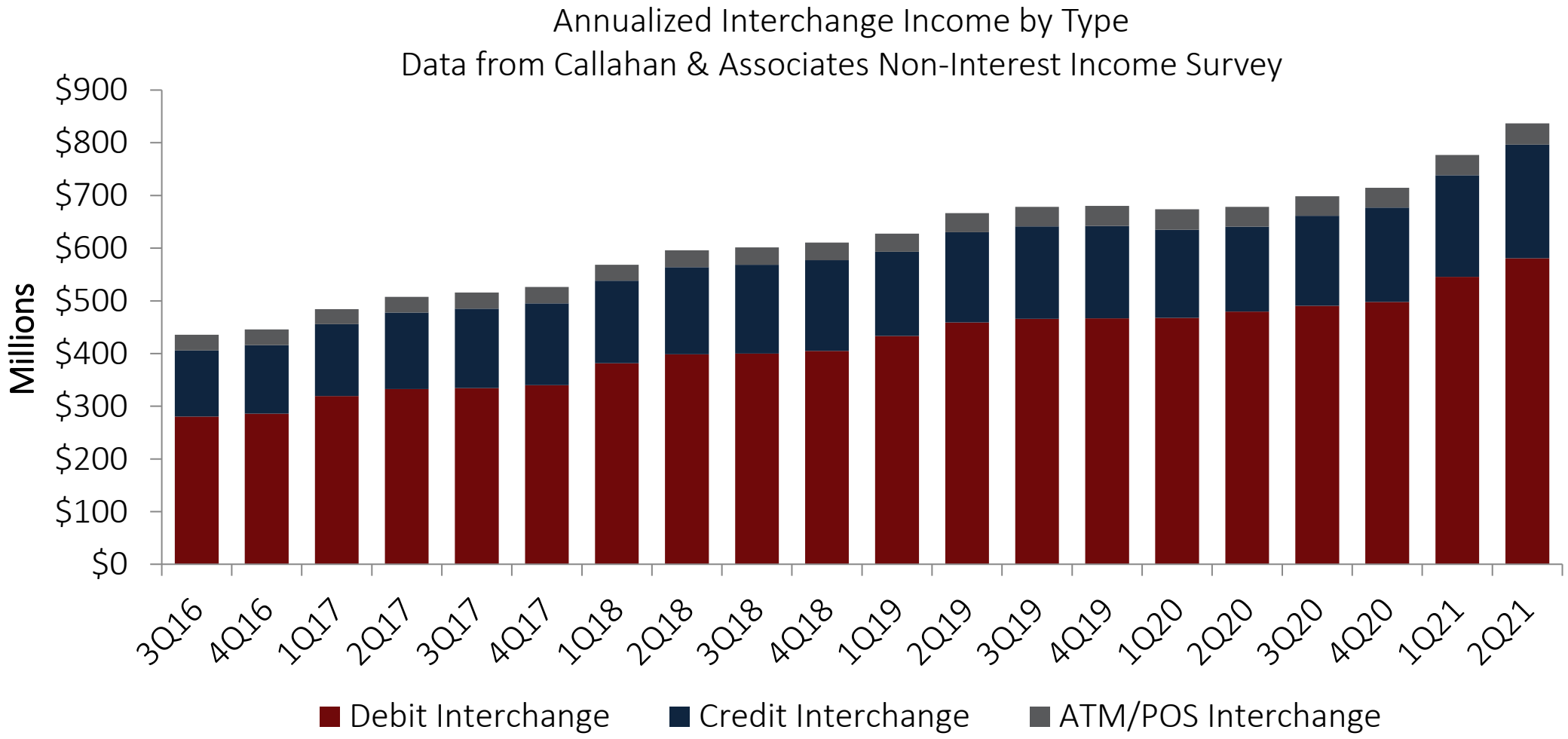
- Credit unions post the highest ROA in over 20 years through mid-year
- Revenue rises versus the first half of 2020, driven by non-interest income
- Net worth ratio rises slightly in second quarter as balance sheet growth slows



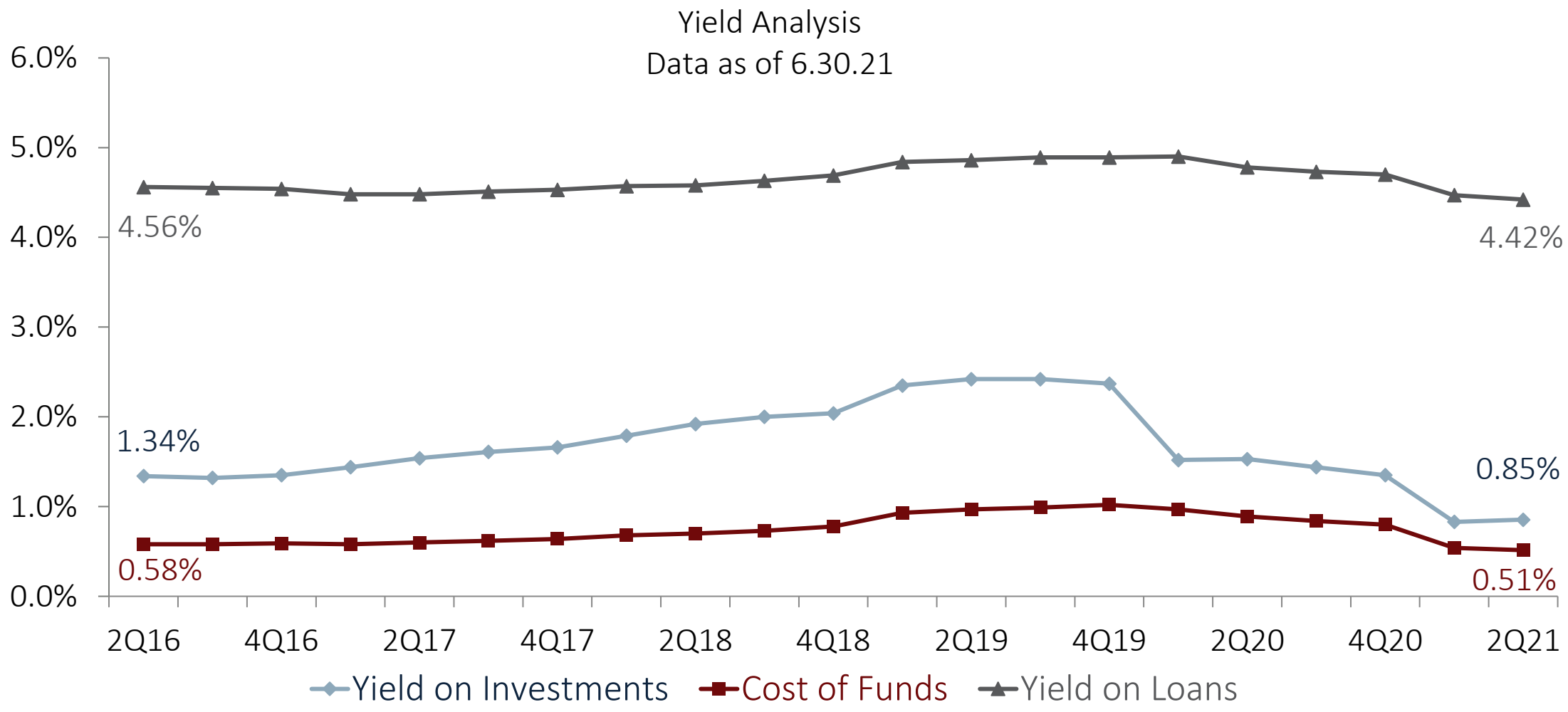
Revenue rises 1.8% despite a continued slowdown in interest income streams



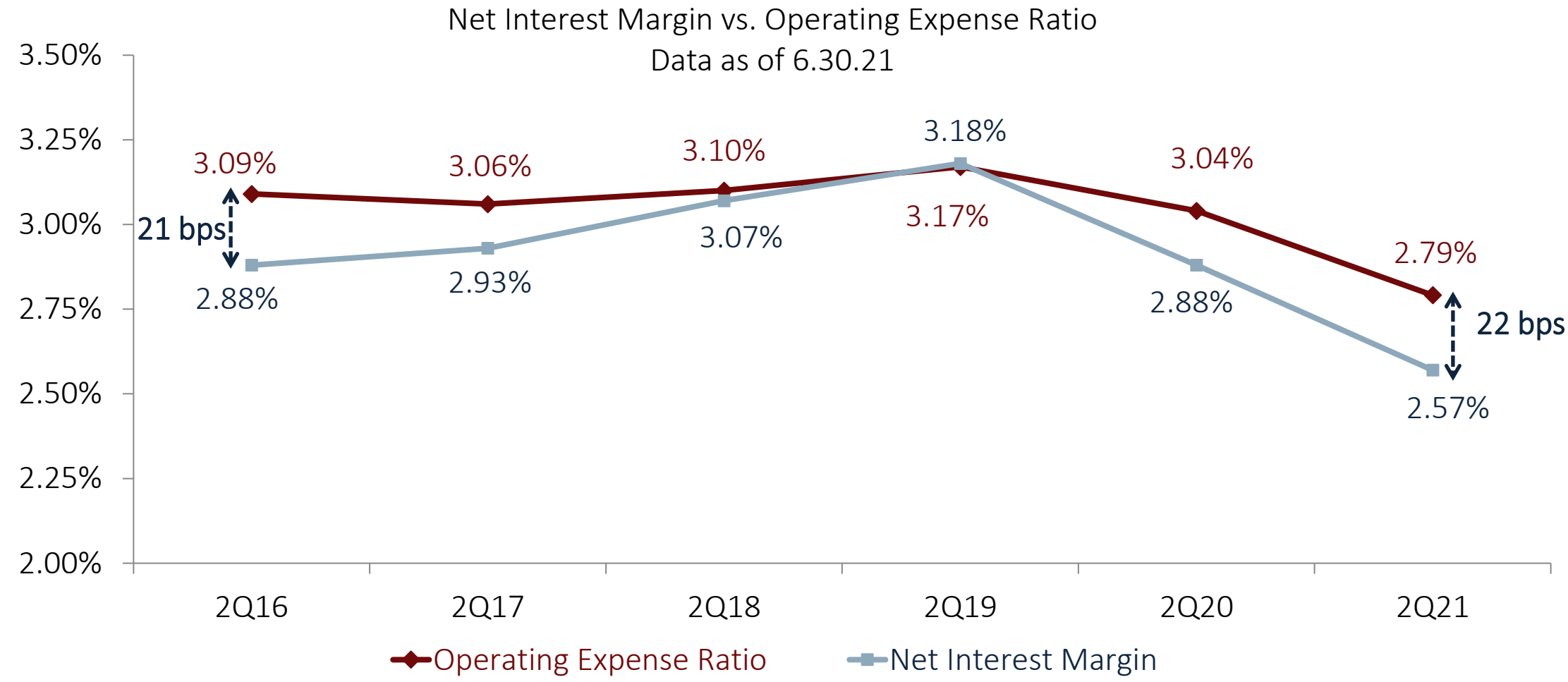
Interchange income picked up substantially in the first half of 2021 as economies reopen



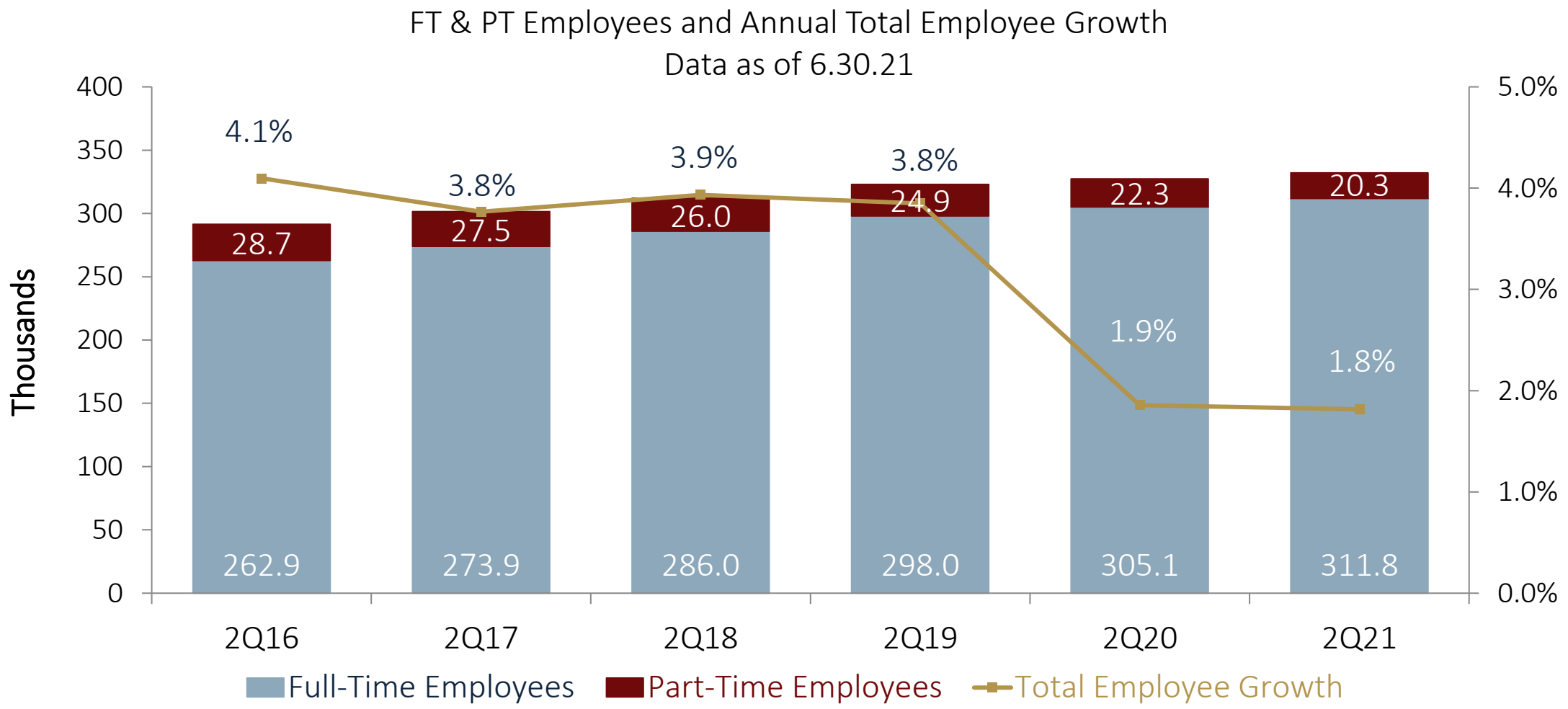
Loan yield and cost of funds are trending down at a similar pace



The gap between the net interest margin and operating expense ratio is expanding



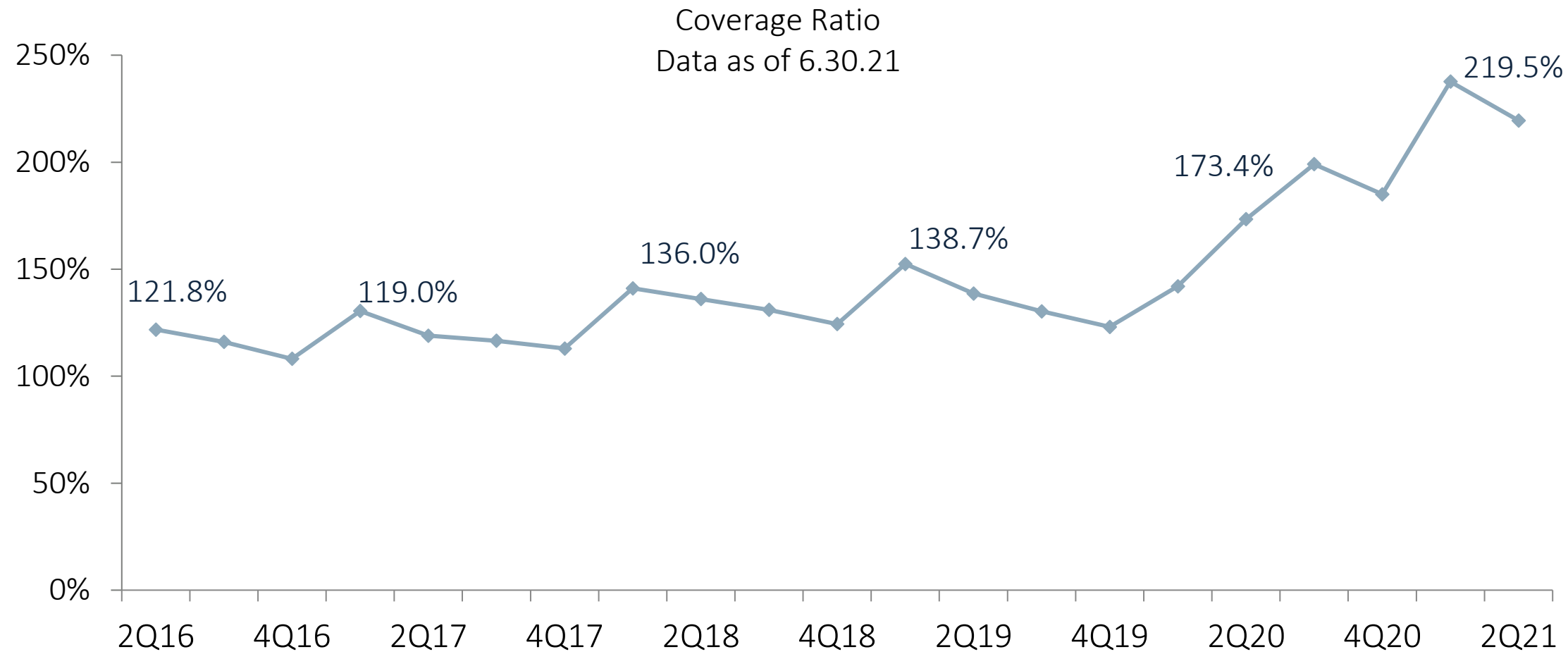
Credit unions are investing in full-time staff as the industry grows



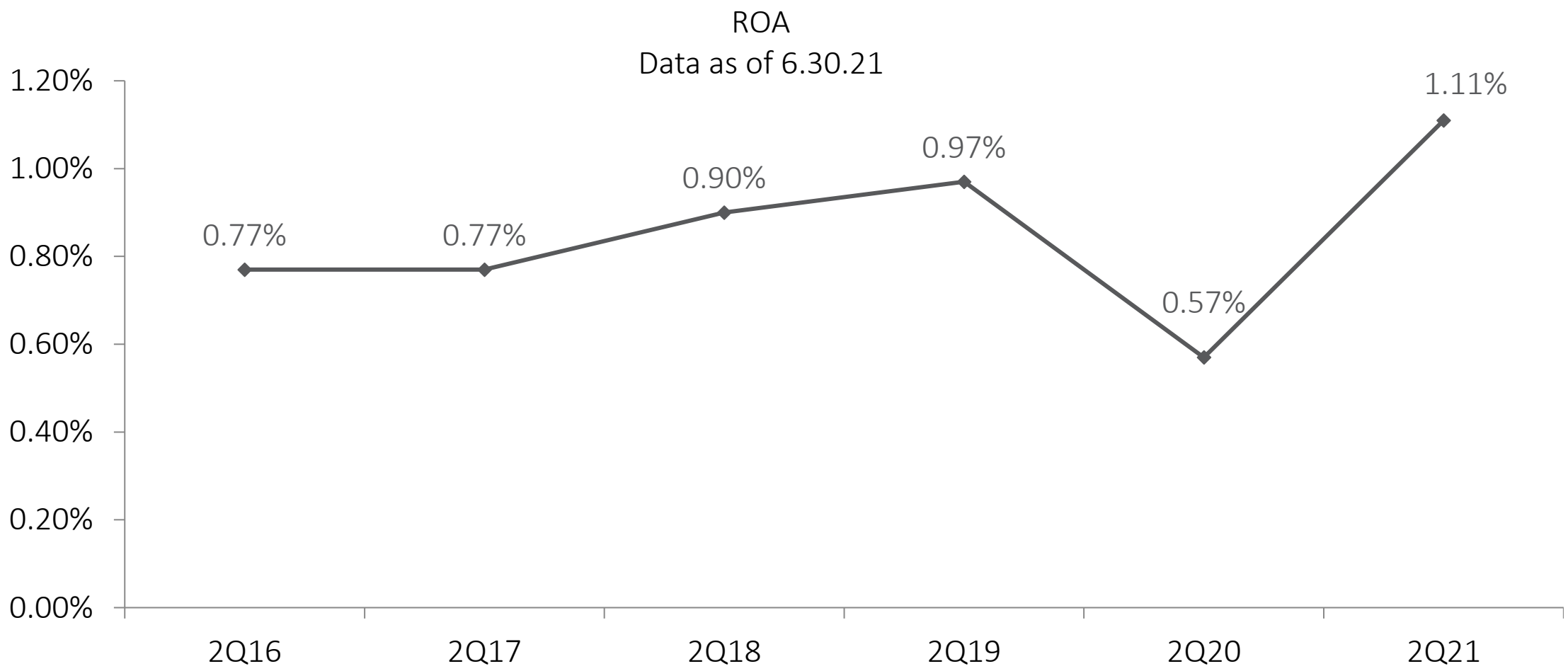
For the first time on record, credit unions recorded a negative quarterly provision expense



Credit unions have $2.19 reserved for every $1 of delinquent loans



At 1.11%, credit union ROA is at the highest level in over 20 years

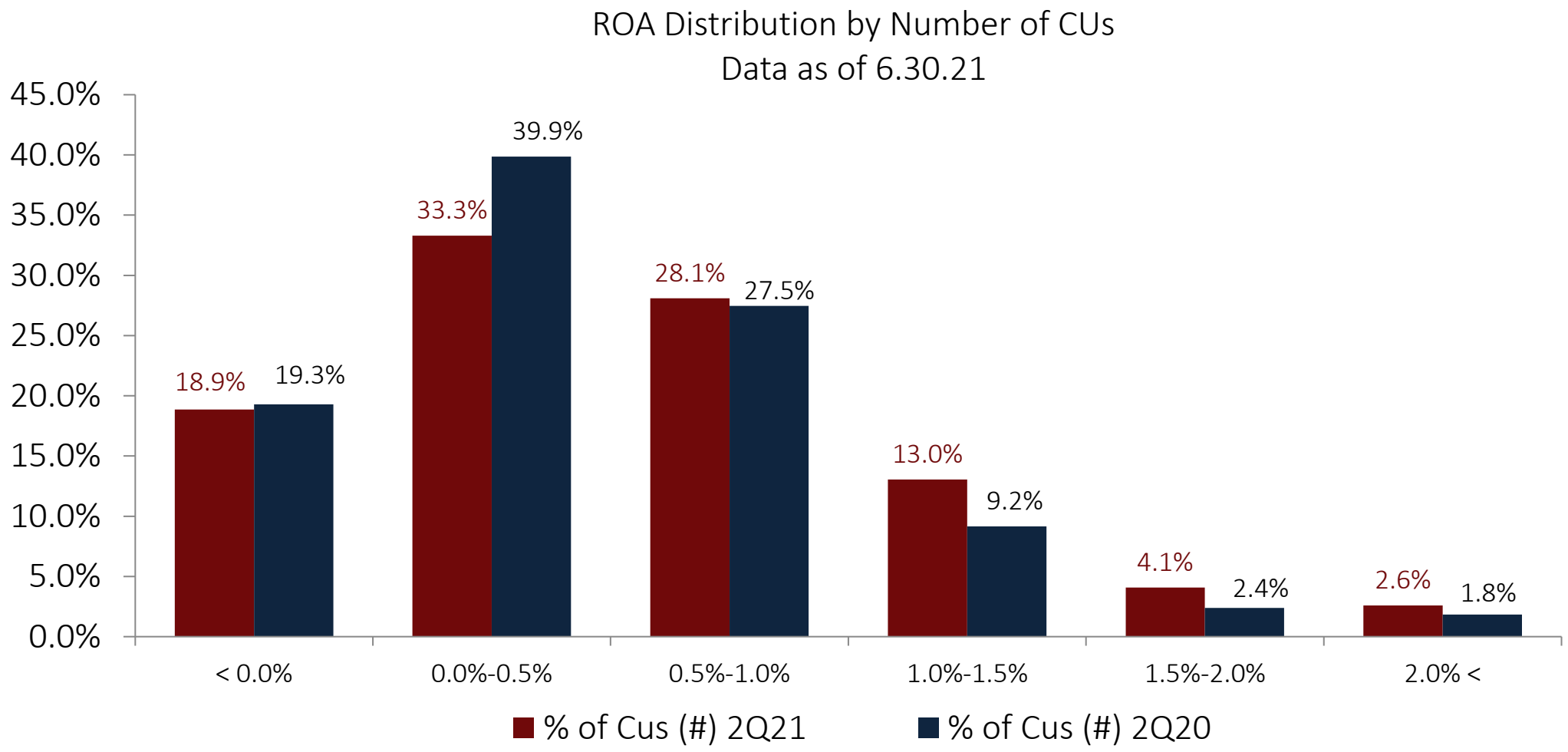


Expense savings a key factor in record earnings

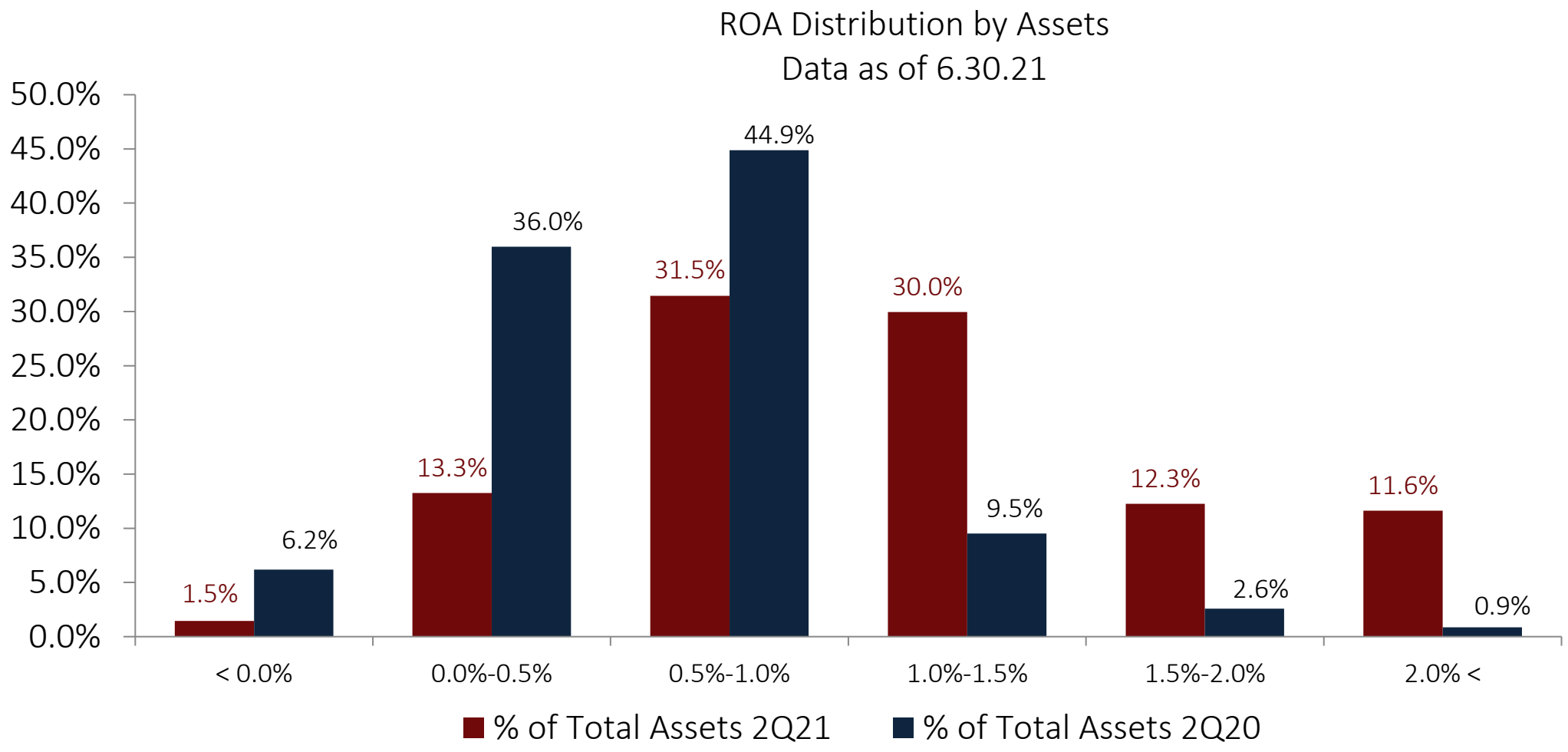
	As of 6.30.2021	As of 6.30.2020	As of 6.30.2019	12-mo. Change (bps) 6.30.2021
Interest Income/Avg. Assets	3.03%	3.67%	4.03%	-64
Interest Expense/Avg. Assets	0.46%	0.79%	0.85%	-33
Net Interest Margin	2.57%	2.88%	3.18%	-31
Non-Interest Income/Avg. Assets	1.40%	1.30%	1.38%	+10
Non-Interest Expense/Avg. Assets	2.79%	3.04%	3.17%	-25
Provision for Loan Losses	0.07%	0.58%	0.43%	-51
ROA	1.11%	0.57%	0.97%	+54

Source: Callahan's Peer-to-Peer Analytics

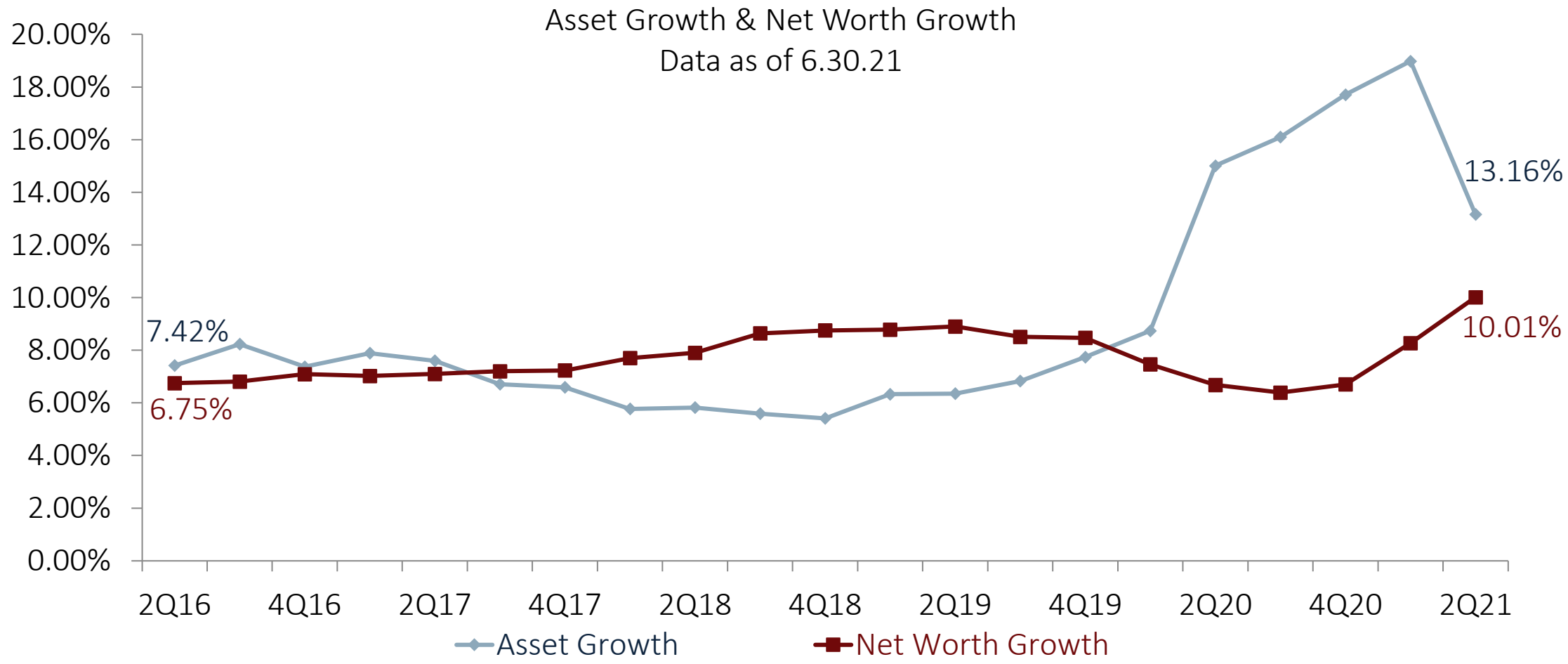
20% of credit unions post an ROA of 1% or higher at mid-year



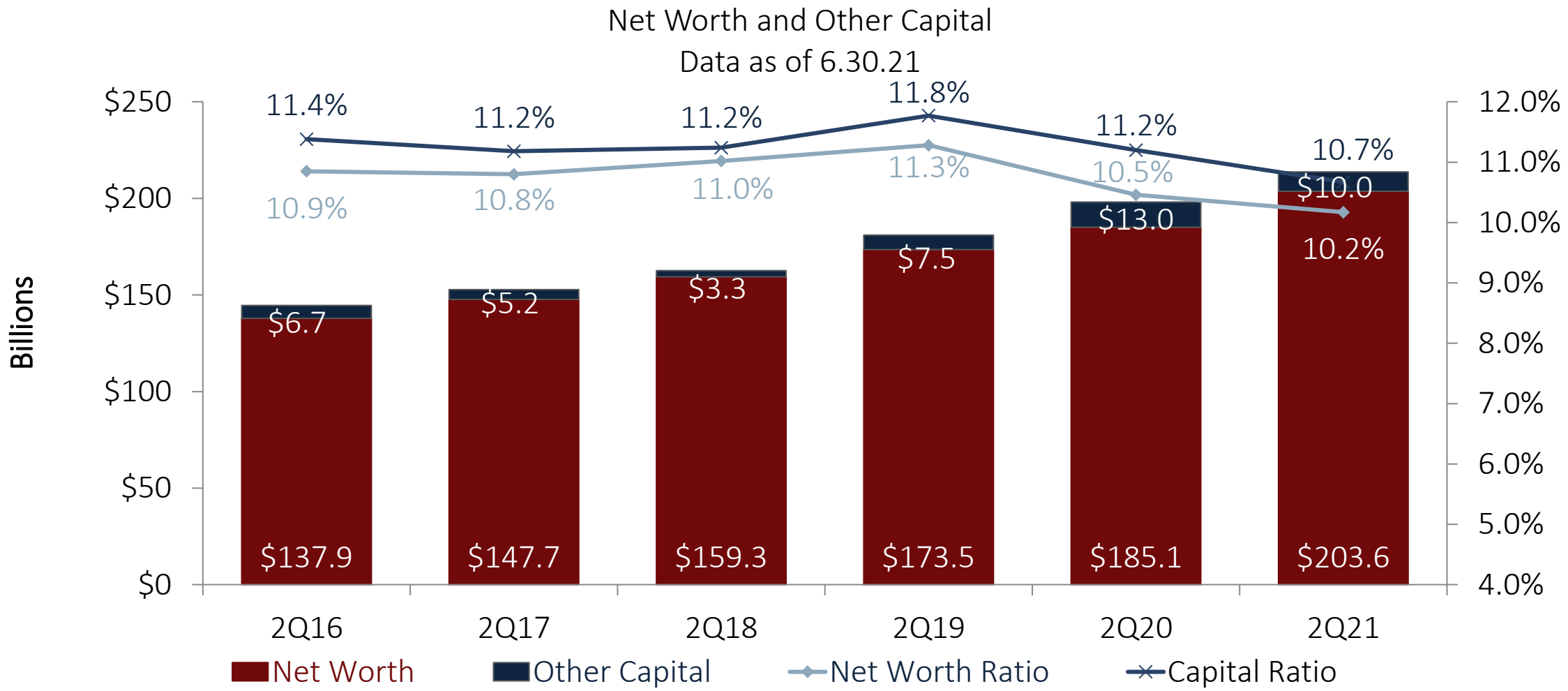
54% of credit union assets post an ROA of 1% or greater at mid-year



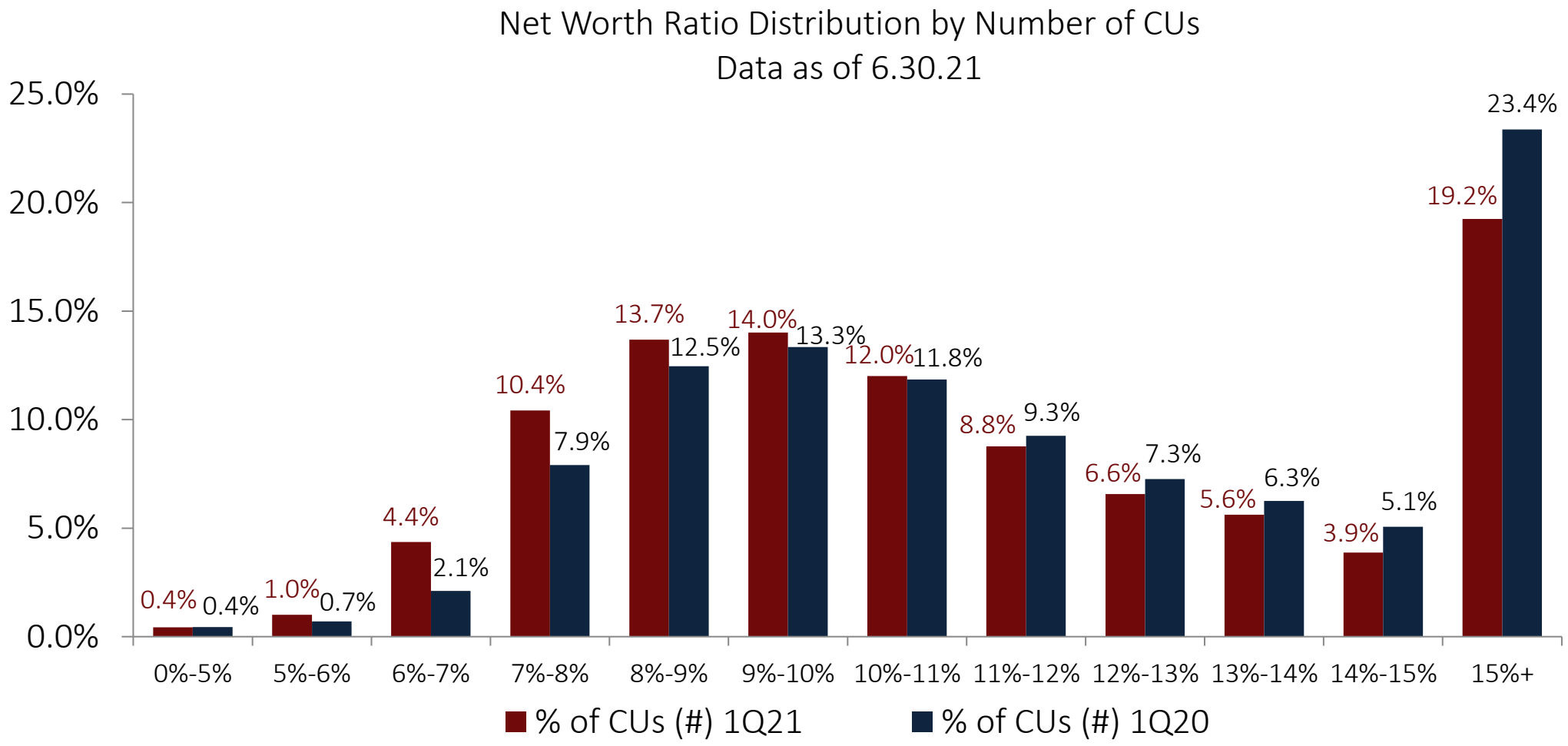
Asset growth continues to outpace net worth growth



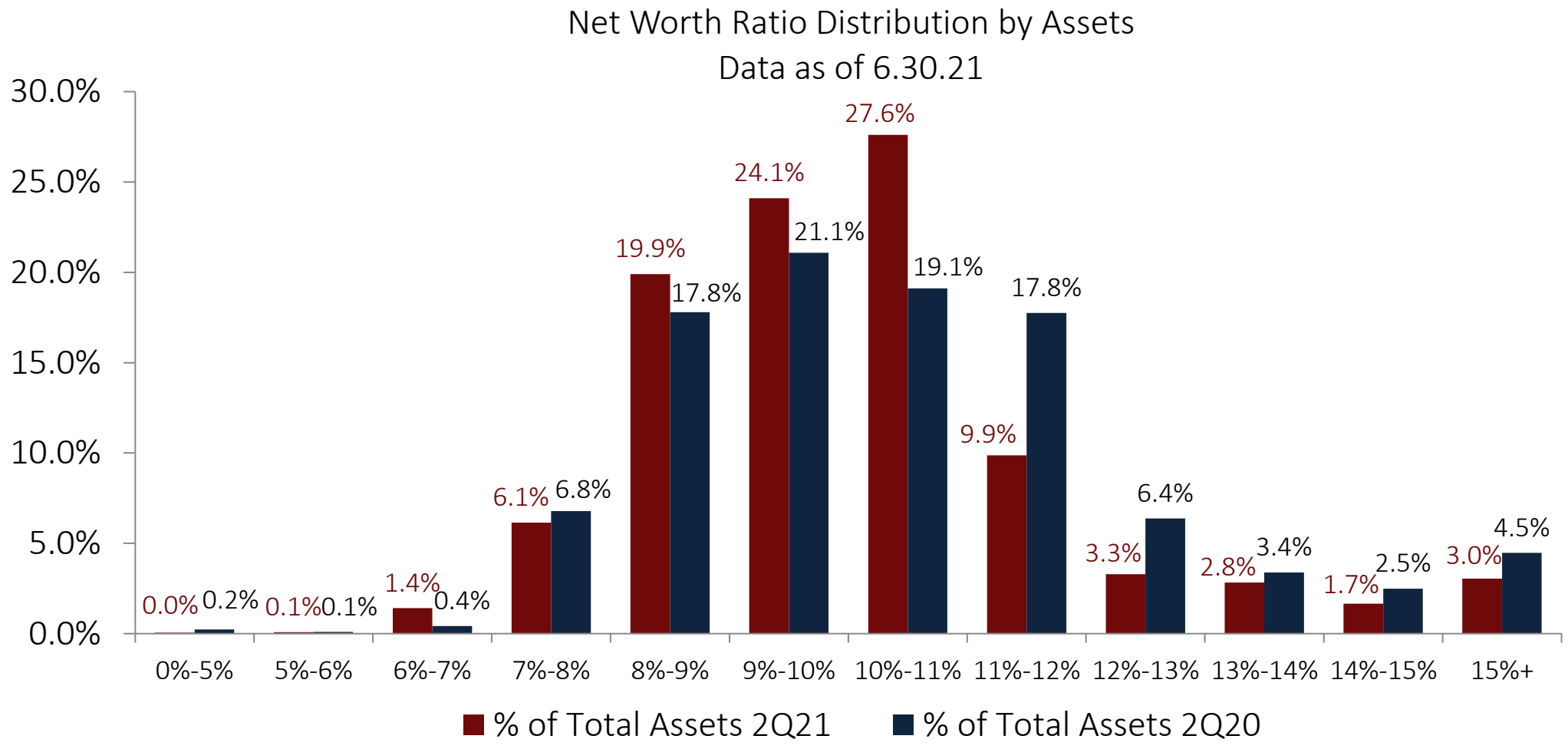
The net worth ratio has declined for the past two years but remains well above the NCUA's 7% threshold



Over 94% of credit unions remain “well capitalized”



98.5% of industry assets are “well capitalized”



Lessons & Looking Forward

- As cooperatives, credit unions are different – do we do enough to distinguish ourselves in a crowded market?
- Operating in a constant COVID status has caused stress for employees and members. Proving that you care about their well-being is essential.
- Digital transformation will accelerate. How can this be used to amplify purpose. Purpose drives innovation!



THANK YOU
FOR WATCHING



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