



CEO ROUNDTABLE

Focusing on CEO-to-CEO Brainstorming

2015

CEO Strategies

Welcome to the 2015 CEO Roundtable

A NEW FORMAT AND A NEW CHANCE TO TAKE OUR NETWORKING UP A NOTCH

Today's Agenda

- Welcome message from our new CU*Answers Board Chair, Scott McFarland
 - Changes on the CU*Answers Board of Directors
 - Hint at the 2015 dividend checks
 - Kicking off the 2016 business year
- Introducing today's Roundtable event, Randy Karnes, CEO
 - Discuss the format
 - Introduce the scribes
 - Ready the teams to make group presentations for each topic
- Wrapping up 2015 CEO Strategies Week



Your 2015 Board of Directors



Congratulations, Chris Butler!

We wish you the best of luck with your new
position at Verve, a Credit Union



Served on the Board since 2001
Served as a Chairman of the Board since 2004

CU*ANSWERS

The 2016 Board
election next June
will now include 3
open seats

Memo

DATE: September 23, 2015
TO: CU*Answers Stockholders
FROM: Dean Wilson, CU*Answers Board Member and 2015 Nominating Committee Chair
SUBJECT: **REVIEWING THE RESULTS FROM OUR 2015 ANNUAL MEETING BYLAWS ELECTION**

Recently a few shareholders expressed surprise at hearing from colleagues that Chris Butler is no longer eligible to serve on the CU*Answers Board due to Community CU's merger with Verve, A Credit Union. It seems they either didn't see the June 23, 2015, posting on the Board Elections site (<http://elections.cuanswers.com/>), or didn't connect the dots from that posting about the results of the vote to amend the CU*Answers Bylaws at the Annual Meeting in June. In any case some of our owners asked that we send out a more direct announcement about the bylaws changes. That is why I am writing to you now.

Results of the 2015 Annual Stockholders Election

At the 2015 CU*Answers Annual Meeting a proposed bylaws amendment was presented to the owners. The amendment had three parts: Changes to streamline electronic notification and voting procedures, new language to comply with NCUA Rule 712.3 ("The CUSO Rule"), and a change to broaden the pool of candidates eligible for the CU*Answers Board.

The first two measures were passed by a simple majority of owners. The third measure, broadening the Board member candidate pool, required a super-majority (84 of our 128 shareholders). Because we fell short of the required number of overall owners who participated by voting, that amendment could not pass.

Where do we go from here?

As a cooperative, our structure is only as strong as our member-owners and we hope that in 2016 we can elicit a stronger engagement around the voting process at the Annual Meeting. The Board of Directors and leadership at CU*Answers continues to see value in broadening the set of credit union leaders who are eligible to participate as Board members.

Throughout 2016 we will work with our shareholders to understand whether this amendment failed simply because we were unsuccessful at getting out the vote, or whether it was an indication that shareholders did not agree with the proposed amendment. Was the lack of a vote the same thing as a no vote? Based on what we learn, the Board does believe we will either propose another amendment for Board member qualifications in the near future (2016 or 2017), or drop the subject altogether.

Filling the Vacant Seat on the CU*Answers Board

Along with Scott McFarland and Don Mills, Chris Butler did win reelection for a new term to begin on October 1, 2015. Because of the Community CU merger, Chris Butler will resign at the October Board meeting. According to the "Appointing Directors to Fill Unexpired Terms" procedures in our Board Handbook, because his remaining term is more than 12 months CU*Answers will be filling this board seat at the 2016 Annual Stockholders Meeting on June 22, 2016. Therefore the 2016 election will include filling three (3) open seats on the Board of Directors.

Your 2016 Board of Directors

Congrats to Scott
McFarland, our new
Board Chairperson



A Hint on This Year's Numbers

THE BOARD'S INSTRUCTIONS TO OUR CPA FOR CLOSING THE YEAR

❑ Declared 2015 Patronage Dividends:

\$ 1,000,000 Standard Patronage Dividend

\$ 1,500,000 Bonus Patronage Dividend

\$ 2,500,000

\$ 560,000 Ownership Dividend

\$ 3,060,000

Year #5 for a Bonus Patronage Dividend

❑ Projected Stock Dividend: **4.00%**

❑ Projected Increase in Stock Equity: **7.12%+**



All are **projections** to be finalized by our CPA in December...then look for a check!

It's Been a Great Year...

...NOW ON TO 2016!

- In August, the BOD approved the 2016 Business Plan and Budget
 - This marked the end of our 2016 planning season, and now we're on to executing the plan – our new year started 10/1/2015
- Today's event is the first in our planning season for 2017
 - Think about 2017 planning when you are in your roundtable group discussions throughout the day today
 - There are many more events planned for 2016, as part of our 2017 planning season – from our Board meetings to focus groups to all of our education contacts
- The next major event is our Leadership Conference
 - **June 21-23, 2016** – mark your calendars!



We truly appreciate your participation, and respect your dedication in leading this cooperative



Time for some roundtable brainstorming...

Here's how it will work:

Topic **1**

Consider this question...

What is your approach to...

- ... This nuance?
- ... That nuance?
- ... Another nuance?
- ... And one more?

RK says, "..."

RK says, "..."

RK says, "..."

RK says, "..."

These are intended to
spur conversation . . .
Randy's not always
right!



Get ready to switch
tables after lunch



4 questions: 1 hour each

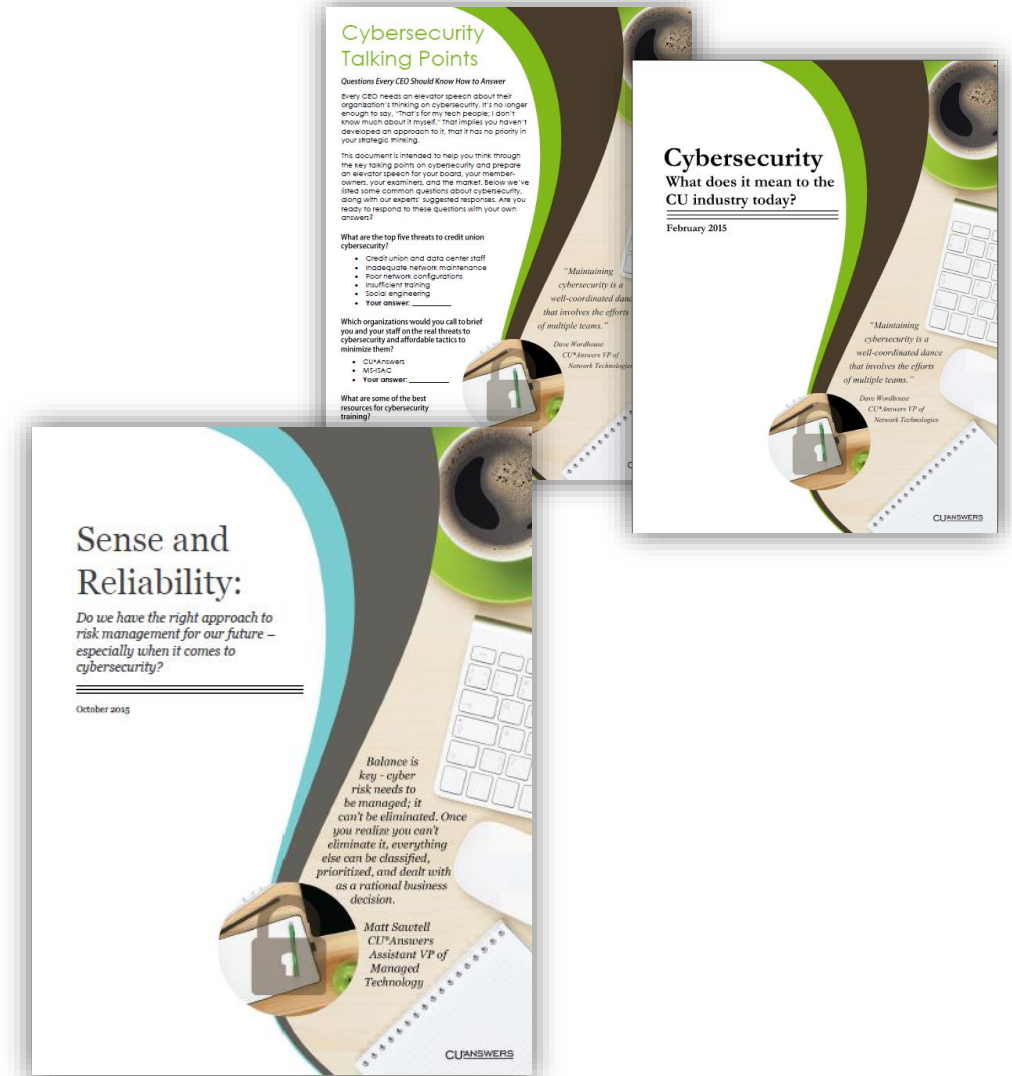
Introduction by Randy	10 minutes
Brainstorming with group	30 minutes
Recap / summary report from 1-3 groups	20 minutes

- Topics 1, 2 & 3 will be before lunch (12:30p), then Topic 4 after lunch (1:30p)
- Scribes will take notes for your group
 - Notes from all groups will be posted by Nov. 20th on the CEO Strategies website
- Choose a spokesperson from your group to give a summary report



Taking the Lead in Assuming More Cybersecurity Risk

- The majority of CU prognosticators predict that for credit unions to be successful in the future, they must become more active as online retailers
- This means credit union leaders will have to navigate even more cybersecurity risk in the future
- What keeps you up at night as you plan to take your credit union into a new, more hostile environment?



Taking the Lead in Assuming More Cybersecurity Risk

1

Let's discuss the leadership quandary in pushing an organization to take more risk for its success:

- How do you balance the compelling need to operate in a hostile environment against all of the commentators who think you have other options?
- Can you balance the need to be proactive in the cyber marketplace against the risks? Will people follow you?
- Can you afford to ensure against the risk (risk mitigation), and can you inspire the confidence to move forward?
- Will the expense for the perceived risk doom the opportunity?

RK says, "By striving for a perfect world with no perceived holes in your plan, will you price yourself out of business?"

RK says, "Necessity is the mother of invention. A CEO has to find the middle ground between members who are totally unaware and the security nuts that would have us do nothing."

RK says, "It's not hard to imagine that this generation of consumers will follow you. But how do you hedge against examiners and risk managers who go off to big, scary trade events preaching doom and gloom?"

RK says, "What is the difference between insure and ensure? How do you keep up and give your organization the confidence it needs to find in your grasp of the situation?"

Self-service vs. Online Retailing

- For years, CUs have thought of virtual channels as the place for convenience, where members can take advantage of self-service options that fit their lives
- Self-service concepts have dominated the designs on online banking and mobile solutions: quick, down and dirty, no fuss, no muss
- But as CUs look to the future and they have to make a buck via virtual channels, how will you rethink your goals for earning from online members?



Self-service vs. Online Retailing

2

Discuss the chance to build a robust virtual branch network for your credit union: virtual opportunity sites that reach out and sell your capabilities beyond the brick and mortar of old networks.

- Can you wrap your head around the fact that you might need 25 websites or landing pages in the future, to speak to 25 virtual communities like you serve physical ones today?
- Can you envision collecting mobile apps and building a suite of offerings, instead of a single one? Can you see yourself like Amazon.com, stuffing your shelves with the things people want, as much as the things you feel compelled to sell directly?
- Do you see the need for a help desk to build a different future?

RK says, "You have the chance to build a 10+ virtual branch network for yourself where you could never have built 10+ physical branches. Will you act?"

RK says, "Today's consumer has a try-it-then-throw-it-away attitude about mobile apps. Is that the future for financial service apps as well? How many products will you sell in your virtual channels on the way to being your own version of Amazon.com?"

RK says, "Your employees are used to calling CU*Answers as users. If you go crazy in building a virtual store, what kinds of service responses will you need from cuasterisk.com?"

The Transformation of In-Person Service Models

- It's not enough just to talk branch transformation, even though that's huge
- It's really about how you deal with members when you're not present, face to face (opening memberships, completing a loan application, cash services, etc.)
- How do you plan to redesign your member service processes for the future?
 - Document transfer, remote closings, following up with leads, web chat, text, FaceTime, Skype, telepresence...everything seems to be screaming for new skills and new approaches
 - Do you have a timeline for getting started?



Discuss how person-to-person service is changing in your world. Can you be a retailer of solutions and a capturer of virtual opportunity?

- The problem with transformation is the need to be half in the old game and half in the new one. How do you afford it?
- Sometimes what is “cool” is not profitable. Sometimes what is popular doesn’t end up paying the bills. How can we afford to transition to new models that don’t appear to have good financial foundations?
- It’s quickly becoming a call center world, and not for answering questions but for closing the deal and fulfilling a member’s needs in a new way. Do you have the plan to transition your investments? When will you begin?

RK says, “It can be tricky when you don’t have enough repetition to burn in new processes – like electronic signature closings. How are you training your staff for the new things that still don’t happen often enough to create good habits?”

RK says, “In a ‘you must do everything’ world, some new services are simply so scale-dependent that you can only do them cooperatively, in a network. How do you tell your team you have to go outside the CU to fulfill a new service?”

RK says, “Everybody talks about transitioning old investment models so they can use those funds to build new solutions. Easier said than done. Do you have a game plan?”

Be back at 1:15pm – and
remember to choose a
different table!



Time for lunch!

Rate Shock: Are Members Ready?

- It's been almost a decade since consumers even had to consider what rising interest rates might mean to them – are consumers ready for loan rates and mortgage rates to actually play into the decision of when to get a new car or buy a home?
- More than economics, how do you see your members reacting to the realities of a new, more active rate environment?
- More importantly, is your financial modeling ready to shift into gear after such a long, stagnant, ho-hum rate landscape?
- Liquidity looms large, quick increases in cost of funds could be a reality – do you expect 2016 to be materially different from the last five years?

The screenshot shows the CNBC website interface. At the top is the CNBC logo and navigation links. Below the navigation bar is a banner for 'THE PROVEN LEADER IN MUNICIPAL BOND INSURANCE'. The main content area features an article titled 'Rising interest rates: What you need to know' with social media sharing icons and a comment count. Below the article is a video player for 'MARKETS NOW'. To the right of the video player is a section titled 'Today's Mortgage Rates' displaying a 2.97% APR and a table of various mortgage rates.

Today's Mortgage Rates		
2.97% APR		
Calculate New Payment		
30 Year Fixed	3.63%	3.75% APR
15 Year Fixed	2.75%	2.78% APR
5/1 ARM	2.63%	2.97% APR

Rate Shock: Are Members Ready?

Discuss the possibility that the psychology for members facing a rising interest rate marketplace might be more of an issue than dealing with the financial realities for your credit union.

- “I have to pay WHAT for a loan?!? I can’t remember the last time I even thought about the interest rate when considering if I could afford something.”
- “I thought rates were going up. Why are savings rates still so flat? I hear about reward checking – why don’t you have it? How about bumping the rate on my certificates?”
- How are you going to market your products in a transitioning financial environment? Are you ready to dust off specialty products like variable rate loans and creative savings rate models? How are you going to sell when the price of things is going the wrong way?

RK says, “We all talk about rate increases as professionals, but what do you do with a generation of members that cannot remember a 12% mortgage?”

RK says, “Advertising a great savings or loan rate is an imperative in a rising interest rate market. But increasing rates across the board will put you out of business. How are you going to effectively market products for a rate-sensitive membership?”

RK says, “Don’t suffer narrowing margins because you won’t get creative and market specialty products. Expand your offerings before you have to tighten your belt to transition new expectations.”

WRAP-UP



Redefining Yourself Only Takes the Will to Do So

- On one hand, it seems like the world is changing at the speed of light
- On the other, if you just hang with the same members, doing the same things every day, it all feels pretty much the same
- You can fool yourself into thinking the world is changing everywhere else, just not here at home – until you wake up and figure out you're standing pretty much alone in an empty room
- This week we've been in crowded rooms, talking with a lot of people about how they see the need for change, and at what pace
- Don't go home and fall right back into that groove that makes you think you can put off tough decisions, challenging projects, and facing the future as an enthusiastic leader

Is our industry's consolidation a dynamic, positive solution to tough challenges, or simply the result of too many people waiting too long to reengineer a model for the future?





THANKS FOR THE DAY!

...and for the week!