

Engaging the Builder's Soul

It was the first problem for our founders, and it's the best clue we have on how to sustain our future

CU*ANSWERS
A CREDIT UNION SERVICE ORGANIZATION

Annual Stockholders Meeting
June 22, 2016

WELCOME!

Agenda

◆ Call to Order

- ◆ Review 2015 Minutes

◆ Chairman's Comments

- ◆ How do we engage the builder's soul?

◆ Election

◆ CFO Report

- ◆ Review the 2015 financial reports

◆ CEO Report

- ◆ Engaging the builder's soul: The key to solving a riddle is identifying the tricky part

◆ Election Results

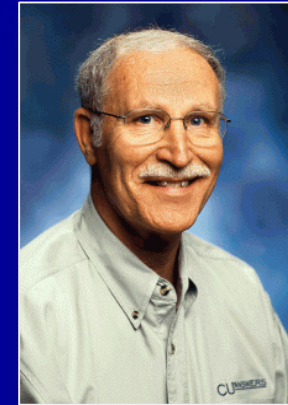
◆ Adjourn



How do we engage the Builder's Soul?

Are the answers to this problem
different in this generation?

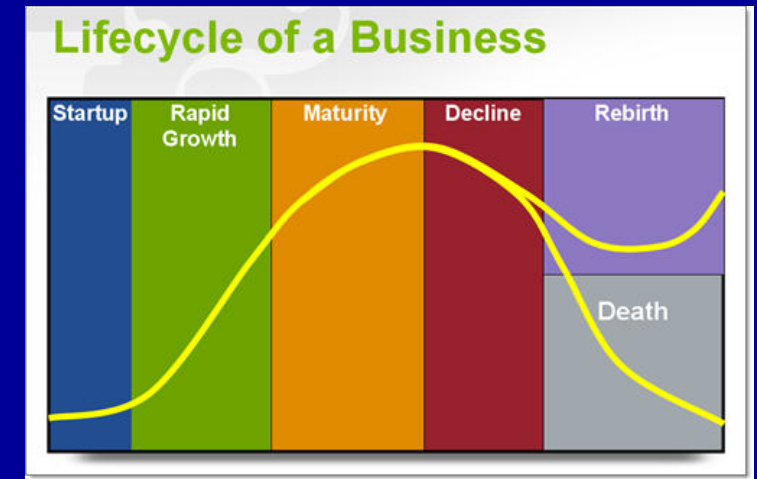
Past and future



- ◆ The CU*Answers founders had to find a way to inspire their peers to want to build their own solutions
- ◆ They knew that CU*Answers would never be successful at selling solutions, unless its stakeholders had a passion for building their own
- ◆ They had a “rad” idea (or whatever the 70s equivalent) that there was an advantage in igniting a builder’s soul in their peers
- ◆ Today, Randy reminded us that our ongoing success relies on the fact that as peers, we can still foster the builder’s soul
 - ◆ We can count on ourselves to create the advantage that will sustain our organizations

Why we might be considered founders to the next generation of CU*Answers stakeholders

- ◆ Rebirth of a business, or even an industry, requires some key people to understand how to disrupt the path they're on
 - ◆ They might even need to ignore what they've learned, in search for new paths forward
- ◆ "Burning it down" means we challenge ourselves to remove barriers and consider new possibilities for our success
- ◆ "Revolution for evolution" is simply a call for the effort it will take, the energy required, and what we must risk



As CEOs, we have to do more than just ponder what ifs, we have to pick which ones to act on

We have to vest in building new realities...we have to be the founders of the future

Your 2015-2016 Board of Directors



Scott McFarland, Chairman
CEO, Honor Credit Union
Berrien Springs, Michigan
Board Member since August 2009



Linda Bodie
CEO, Element Federal CU
Charleston, West Virginia
Board Member since October 2013



Don Mills, Director
CEO, Alpena Alcona Area CU
Alpena, Michigan
Board Member since June 2010



Jeff Jorgensen, Director
CEO, Sioux Empire Federal CU
Sioux Falls, South Dakota
Board Member since December 2009



Dean Wilson, Director
CEO, Focus Credit Union
Wauwatosa, Wisconsin
Board Member since January 2008



**Vickie Schmitzer,
Secretary/Treasurer**
CEO, Frankenmuth Credit Union
Frankenmuth, Michigan
Board Member since October 2007

Thank you!

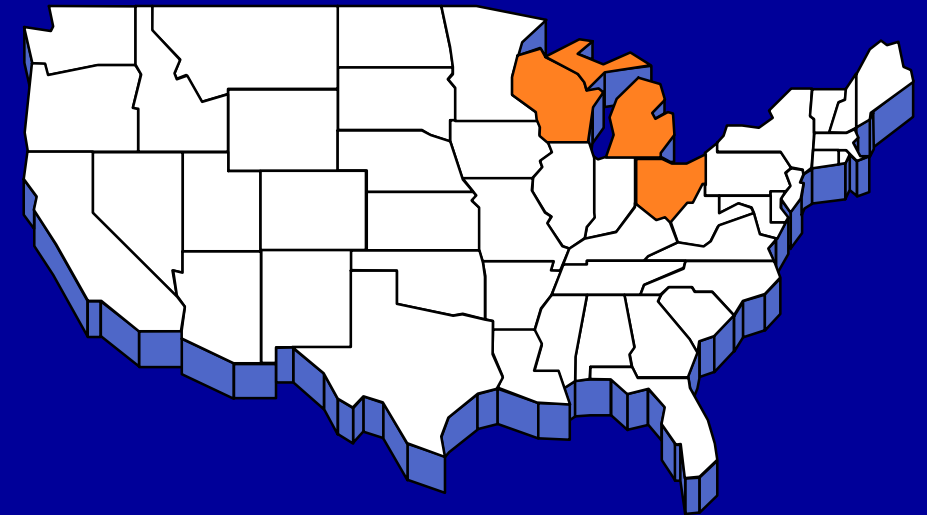
As always, I want to thank my fellow Board members for another great year, and for all their hard work

Speaking of thank you...

Welcome to **6** new owners in **3** states!

- ◆ Allegan Community FCU
(Allegan, MI)
- ◆ Cincinnati Police Federal CU
(Cincinnati, OH)
- ◆ First General CU
(Muskegon, MI)
- ◆ Glacier Hills CU
(West Bend, WI)
- ◆ Post Community CU
(Battle Creek, MI)
- ◆ Shoreline CU
(Manitowoc, WI)

Thank you!



Member size range: 6,500 to 14,500 members

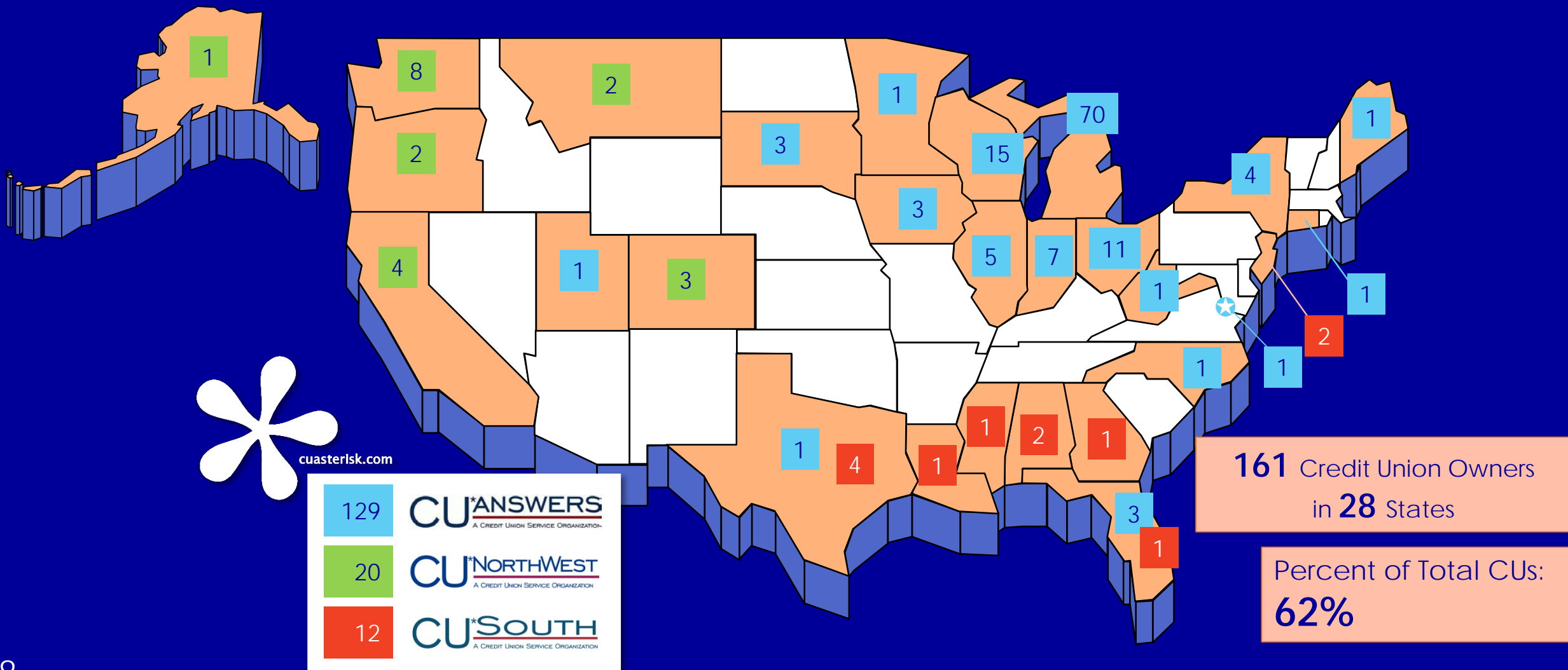
Average size: 10,050 members

Challenges: Unlimited

Ideas: Priceless

Potential: To be the customer owner that changes everything

Our Community of Owners



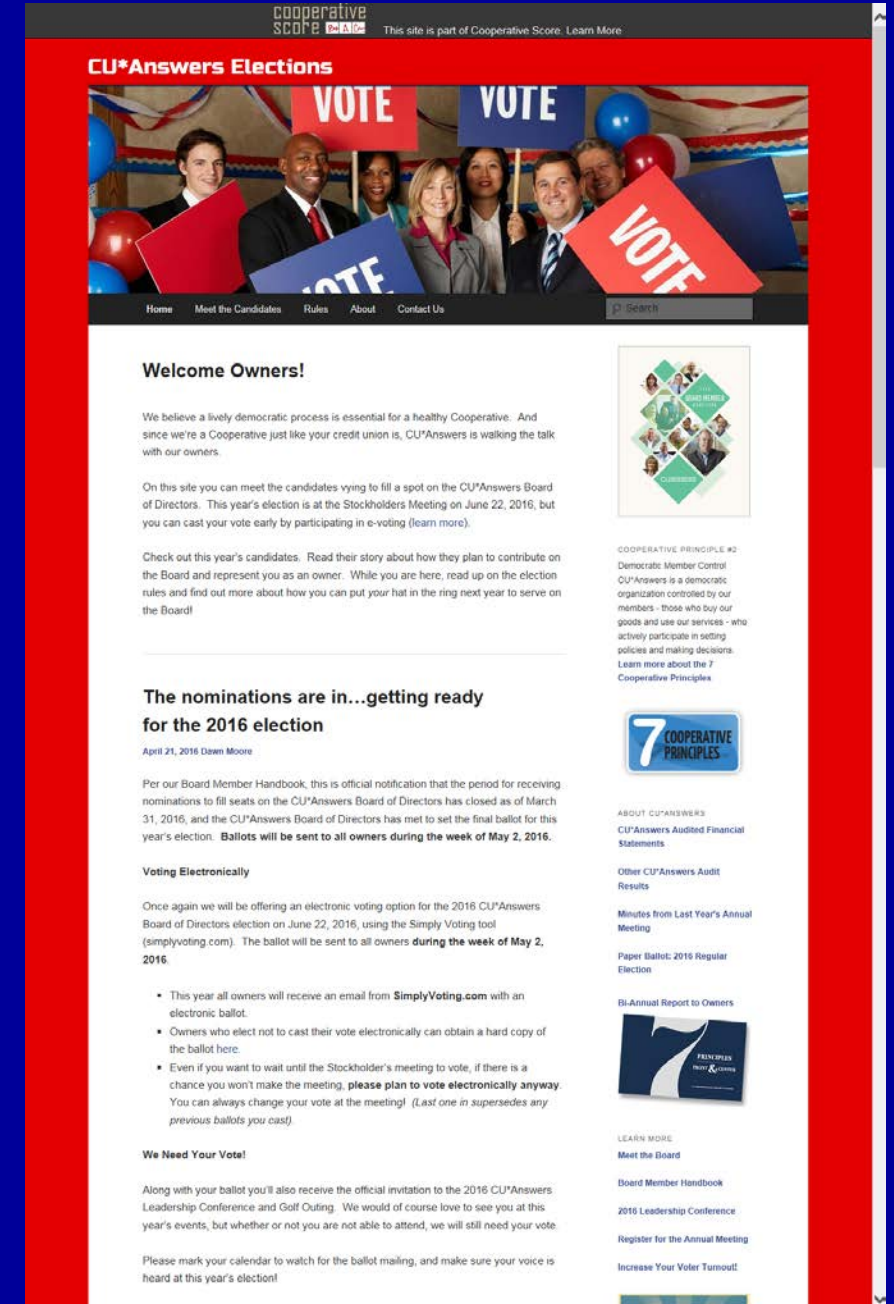
2016 Board Elections

Representing the 2016 Nominating
Committee: Dean Wilson

LET'S VOTE!

Elections Market the Power of Ownership

- ◆ A lively democratic process is essential for a healthy cooperative
- ◆ Your participation in choosing Board members and volunteering for leadership means we're walking the talk ... THANK YOU for participating as owners
- ◆ Year 4 for the CU*Answers Elections website (*did you visit?*)
- ◆ Year 4 for the e-Voting option



cooperative score This site is part of Cooperative Score. Learn More

CU*Answers Elections

VOTE VOTE VOTE

Home Meet the Candidates Rules About Contact Us

Welcome Owners!

We believe a lively democratic process is essential for a healthy Cooperative. And since we're a Cooperative just like your credit union is, CU*Answers is walking the talk with our owners.

On this site you can meet the candidates vying to fill a spot on the CU*Answers Board of Directors. This year's election is at the Stockholders Meeting on June 22, 2016, but you can cast your vote early by participating in e-voting (learn more).

Check out this year's candidates. Read their story about how they plan to contribute on the Board and represent you as an owner. While you are here, read up on the election rules and find out more about how you can put your hat in the ring next year to serve on the Board!

The nominations are in...getting ready for the 2016 election

April 21, 2016 Dawn Moore

Per our Board Member Handbook, this is official notification that the period for receiving nominations to fill seats on the CU*Answers Board of Directors has closed as of March 31, 2016, and the CU*Answers Board of Directors has met to set the final ballot for this year's election. **Ballots will be sent to all owners during the week of May 2, 2016.**

Voting Electronically

Once again we will be offering an electronic voting option for the 2016 CU*Answers Board of Directors election on June 22, 2016, using the Simply Voting tool (simplyvoting.com). The ballot will be sent to all owners **during the week of May 2, 2016.**

- This year all owners will receive an email from **SimplyVoting.com** with an electronic ballot.
- Owners who elect not to cast their vote electronically can obtain a hard copy of the ballot here.
- Even if you want to wait until the Stockholder's meeting to vote, if there is a chance you won't make the meeting, **please plan to vote electronically anyway.** You can always change your vote at the meeting! (Last one in supersedes any previous ballots you cast).

We Need Your Vote!

Along with your ballot you'll also receive the official invitation to the 2016 CU*Answers Leadership Conference and Golf Outing. We would of course love to see you at this year's events, but whether or not you are able to attend, we will still need your vote.

Please mark your calendar to watch for the ballot mailing, and make sure your voice is heard at this year's election!

7 COOPERATIVE PRINCIPLES

ABOUT CU*ANSWERS
CU*Answers Audited Financial Statements

Other CU*Answers Audit Results

Minutes from Last Year's Annual Meeting

Paper Ballot: 2016 Regular Election

Bi-Annual Report to Owners

LEARN MORE
Meet the Board

Board Member Handbook

2016 Leadership Conference

Register for the Annual Meeting

Increase Your Voter Turnout!

Special thanks to this year's Nominating Committee

- ◆ Each year we work from a well-documented process
 - ◆ Helps us dot all the i's and cross all the t's
 - ◆ Ensures we keep our promise to keep ownership participation alive and well in our Cooperative



Dean Wilson, Director
CEO, Focus Credit Union



Don Mills, Sec./Treas.
CEO, Alpena Alcona Area CU



Vickie Schmitzer, Vice Chair
CEO, Frankenmuth Credit Union



Let's hear from the candidates



◆ Linda Bodie

- ◆ CEO, Element FCU (Charleston, West Virginia)
- ◆ *Incumbent*



◆ Bill Burke

- ◆ CEO, Day Air Credit Union (Kettering, Ohio)



◆ Tom Gryp

- ◆ CEO, Notre Dame FCU (Notre Dame, Indiana)



◆ Jeff Jorgensen

- ◆ CEO, Sioux Empire FCU (Sioux Falls, South Dakota)
- ◆ *Incumbent*



◆ Nick Montie

- ◆ CEO, Thunder Bay Area CU (Alpena, Michigan)

Let's hear from the
candidates

Tom Gryp

Home FCU
(Indianapolis, Indiana)



Empire FCU
(Dakota)

Let's vote!

Bill Burk

◆ CEO, Kalamazoo Union

Nick

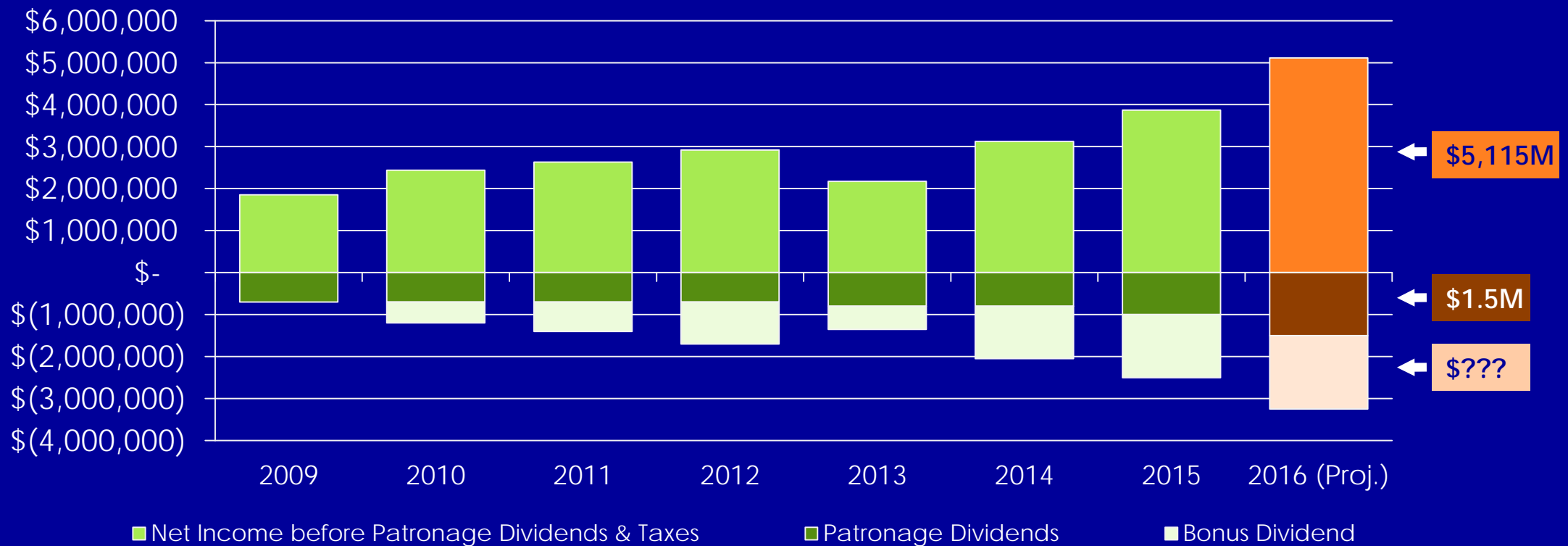
◆ CEO, Inland Empire Bay Area CU
(Alpena, Michigan)



A Look at The Numbers

Net Income & Patronage Dividends

What do shareholders get, and what are we putting away for our future?



2015 Numbers Worth Celebrating

Detail	YE 2014	YE 2015	2015-2014 % Change	2014-2013 % Change	2013-2012 % Change
Total Assets	\$26,862K	\$27,739K	3.2%	3.1%	13.5%
Total Liabilities	\$14,344K	\$14,802K	3.1%	(8.2%)	5.9%
Total Equity	\$12,518K	\$12,937K	3.2%	19.9%	27.1%
Retained Earnings	\$2,125K	\$2,442K	14.9%	7.4%	1.33%
Book Value of Class A Stock (\$ per share)	\$488.99	\$521.64	6.3%	10.5%	14.2%
Book Value of Ownership	\$97,799	\$104,327	6.3%	10.5%	14.2%

Year-end 2015 Dividend Payments

These numbers can flex, and I predict they will again in the future

Detail	YE 2014	YE 2015	2015-2014 % Change	2014-2013 % Change	2013-2012 % Change
Patronage Dividend (\$)	800,000	1,000,000	20.0%	0.0%	14.3%
Bonus Patronage (\$)	1,250,000	1,500,000	16.7%	127.3%	(45.0%)
Ownership Dividend Rate	4.0%	4.0%	0.0%	0%	(10.1%)
Ownership Dividend (\$)	502,829	529,117	5.0%	23.7%	11.5%
Book Value of Class A Stock (\$ per share)	488.99	521.64	6.3%	10.5%	14.2%
Price to Purchase CUSO Ownership	225,000	245,000	8.2%	25.0%	20.0%

At yesterday's Board meeting, I reported 2016 Net Earnings of \$1,745,000 as of May 2016,
(after adjustments for \$1,000,000 Patronage Dividends and \$1,228,000 Taxes)

(Projected to be \$2,167M by 9/30/16)

2015 Return on Investment

2015 Gross Income Submitted by Owners to CU*Answers **\$ 21,688,292**
(Excludes all vendor pass-throughs)

2015 Patronage Dividends Paid	\$ 2,500,000
2015 Class A Stock Dividends Paid	529,117 (4.0%)
2015 Interest Paid Credit Unions on Loans	<u>193,700</u> (~5.1%)

Total Revenue Returned to Credit Unions **\$ 3,222,817**

Return Per Total Dollars Received: **\$0.1486**

$\$3,222,817 \div \$21,688,292$ (excludes vendor pass-throughs) = 14.86% return per CU*A \$ received

Understanding this formula is important to how we set the boundaries for our future

2013 Return Per Total Dollars Received: **\$0.1280**

$\$2,117,353 \div \$16,539,398$ (excludes vendor pass-throughs) = 12.80% return per CU*A \$ received

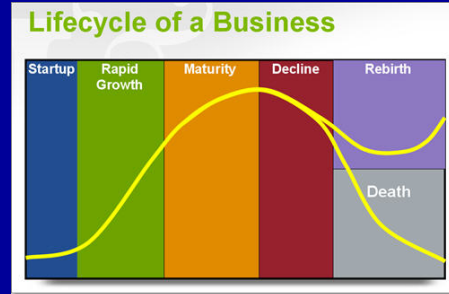
2014 Return Per Total Dollars Received: **\$0.1489**

$\$2,907,759 \div \$19,517,845$ (excludes vendor pass-throughs) = 14.89% return per CU*A \$ received

2015 Return Per Total Dollars Received: **\$0.1486**

$\$3,222,817 \div \$21,688,292$ (excludes vendor pass-throughs) = 14.86% return per CU*A \$ received

Fueling a Rebirth



2005 Return Per Total Dollars Received: \$0.080

$\$554\text{K} \div \$6,926\text{K}$ (excludes vendor pass-throughs) = 8.0% return per CU*A \$ received

2015 Return Per Total Dollars Received: \$0.1486

$\$3,222,817 \div \$21,688,292$ (excludes vendor pass-throughs) = 14.86% return per CU*A \$ received

Success can lead to wanting
more and more of a good thing

But picking the right thing at the right time
might mean disrupting the path we're on

Thinking About 2016 Year-End

cuasterisk.com network revenue numbers continue to impress

- ◆ CU*Answers direct revenues continue to evolve

- ◆ Projected for 2016: **\$51.86M**



Grand Total: \$67.66 million

- ◆ CU*Answers' influence continues to grow through partnering with other networks and investing in new initiatives

- ◆ eDOC projected for 2016: **\$4.2M**
- ◆ CU*NW projected for 2016: **\$3.9M**
- ◆ Xtend projected for 2016: **\$3.2M**
- ◆ CU*S projected for 2016: **\$3.3M**
- ◆ BuffaloPacific projected for 2016: **\$0.5M**
- ◆ Site-4 projected for 2016: **\$0.5M**
- ◆ ChatterYak projected for 2016: **\$0.2M**

Visit www.cuasterisk.com to keep up with network partners, products and services

Investing in a Community and Building a Network



15%
ownership stake



1.2%
ownership stake



48%
ownership stake



1%
ownership stake



1.18%
ownership stake



20%
ownership stake



5%
ownership stake



A convertible
debt investment

Projecting Shareholder Value

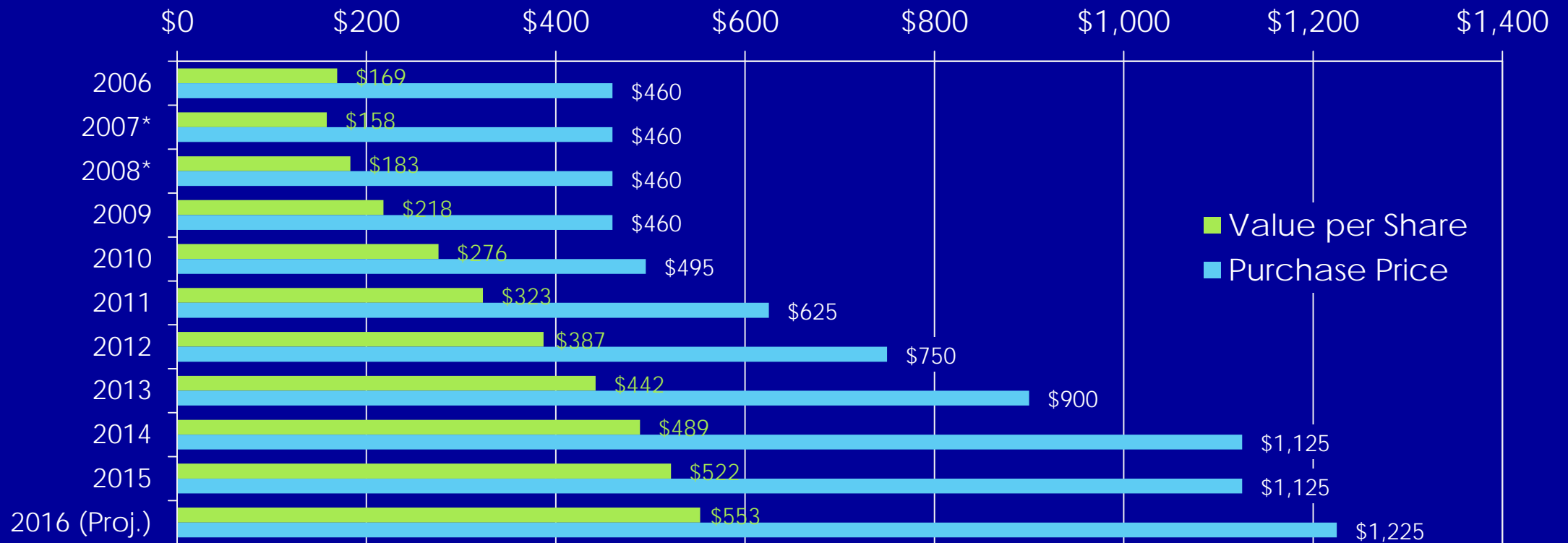
Depending on when you bought in, your perspective is different

Ownership price 1991: **\$59.31**, 2000: **\$176**, 2005: **\$460**, 2010: **\$495**, 2015: **\$1,125**; 2016: **\$1,225**



The importance of our per-share price

Balancing today's payback against the value of your equity



*Restated 9/30/08

Let your Board know how you hope they vote:
Current year dividends to help your operation, or
shareholder value for the long term

What a CFO might consider “burn it down” barriers



What do we need to burn down?

- ◆ “Customers should pay for what you’ve built” (legacy)
- ◆ “Equity is the fuel for your future”
- ◆ “The only ROI that matters is measured in hard dollars”
- ◆ “Chasing the customers with the widest profit margin will secure your future”
- ◆ “Cashing out at your highest value optimizes your owners’ interests”



Where do we need to be revolutionists?

- ◆ Build a firm where people pay for what you’re doing today, not what you did yesterday
- ◆ Today’s patronage is far more valuable than yesterday’s residual
- ◆ With every dollar earned, you pay a tax; with everything learned, your future is secured
- ◆ Be careful – good companies abandon more markets than find big whales
- ◆ Optimizing of the value of our firm is not more important than sustainability and the agenda of our customer-owners



The key to solving a riddle is
identifying the tricky part

Engaging a Builder's Soul

The key to solving a riddle is identifying the tricky part

- ◆ Riddles are at the center of any lifetime work worth doing
- ◆ Business school prepares you for the easy answers
- ◆ Life teaches you to look for the tricky part before you answer
 - ◆ Capital is not the tricky part, **earning is**
 - ◆ Technical skills are not the tricky part, **user engagement is**
 - ◆ Ideas (templates) are not the tricky part, **fitting a credit union ROI model is**
 - ◆ Competition is not the tricky part, **finding your own path is**
 - ◆ Buying solutions is not the tricky part, **fitting them to your condition is**

Q: Who's
buried in
Grant's
tomb?

Cooperatives count on working with customers
who are constantly facing the tricky parts

That's why cooperatives give customers the power of ownership

The key to solving a riddle is identifying the tricky part

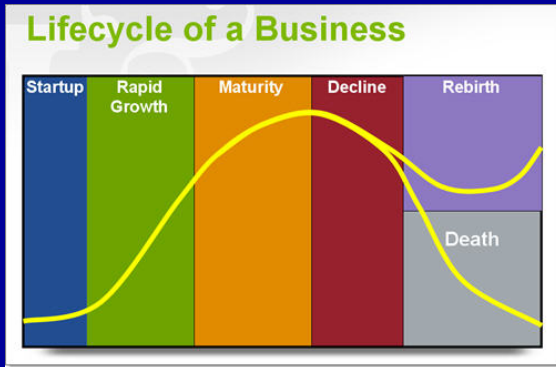
What they teach you in business school	What customer-owners taught me
The tricky part is earning...	...in a cooperative community
The tricky part is user engagement...	...with the customer who built the company to engage
The tricky part is fitting a credit union ROI model	Slim margins, diverse opinions, local is everything
The tricky part is finding your own path	Second-to-market tactics for a unique situation
The tricky part is fitting solutions to your condition	Take the customer-owner's specification

Our network came together because of a
unique understanding of its own needs

It anticipated the tricky parts, and was stubborn
about building solutions that would fit those needs

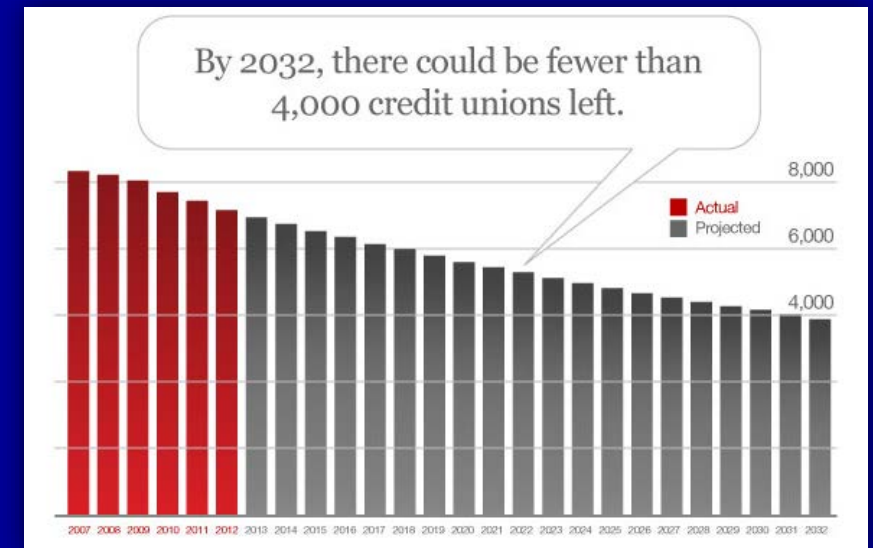
It ignited a community of builders

Why I believe we need to be builders together



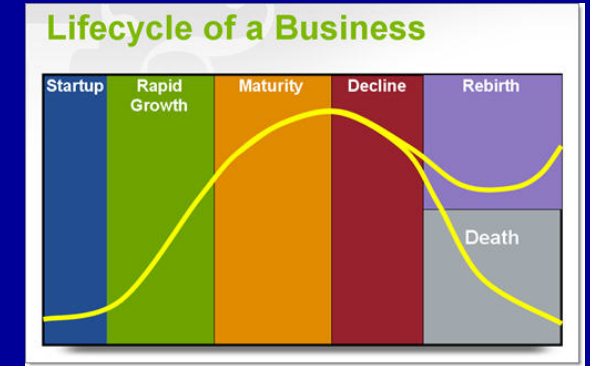
- ◆ Builders plan for rebirth
 - ◆ They look ahead
 - ◆ They take responsibility for altering the path
 - ◆ They persevere through the process to the other side

- ◆ But our rebirth will not be ensured by crafting an industry response, or by looking to build an industry or change its path
 - ◆ Our rebirth counts on what you will teach us about what you need for your rebirth
 - ◆ Our rebirth depends on the builder in each of you to teach us what is unique about your riddle



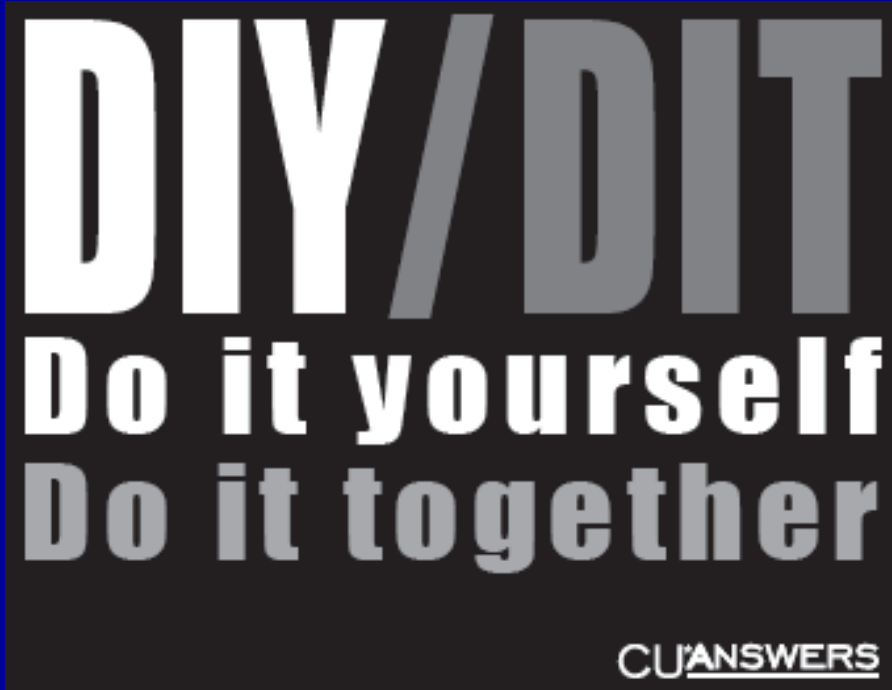
I trust the path to sustainability starts with you

- ◆ It's customer-owners who are constantly challenging our sustainability
 - ◆ They want to know if we'll be ready for the future they will face
- ◆ It's customer-owners who should lead and give the firm a sense of urgency about its future, with rebirth constantly in mind
- ◆ When customer-owners leave it to their vendors to decide what is urgent or not, they risk that what they'll need for the future will be late
 - ◆ As Scott reminded us earlier, "We have to vest in building new realities...we have to be the founders of the future"



CUSO or credit union, our sustainability is squarely in the hands of customer-owners willing to come forward and build

I trust the path to sustainability starts with you



To ignite a builder's soul, every individual needs to feel that they are significant on the path to the solution's ultimate design

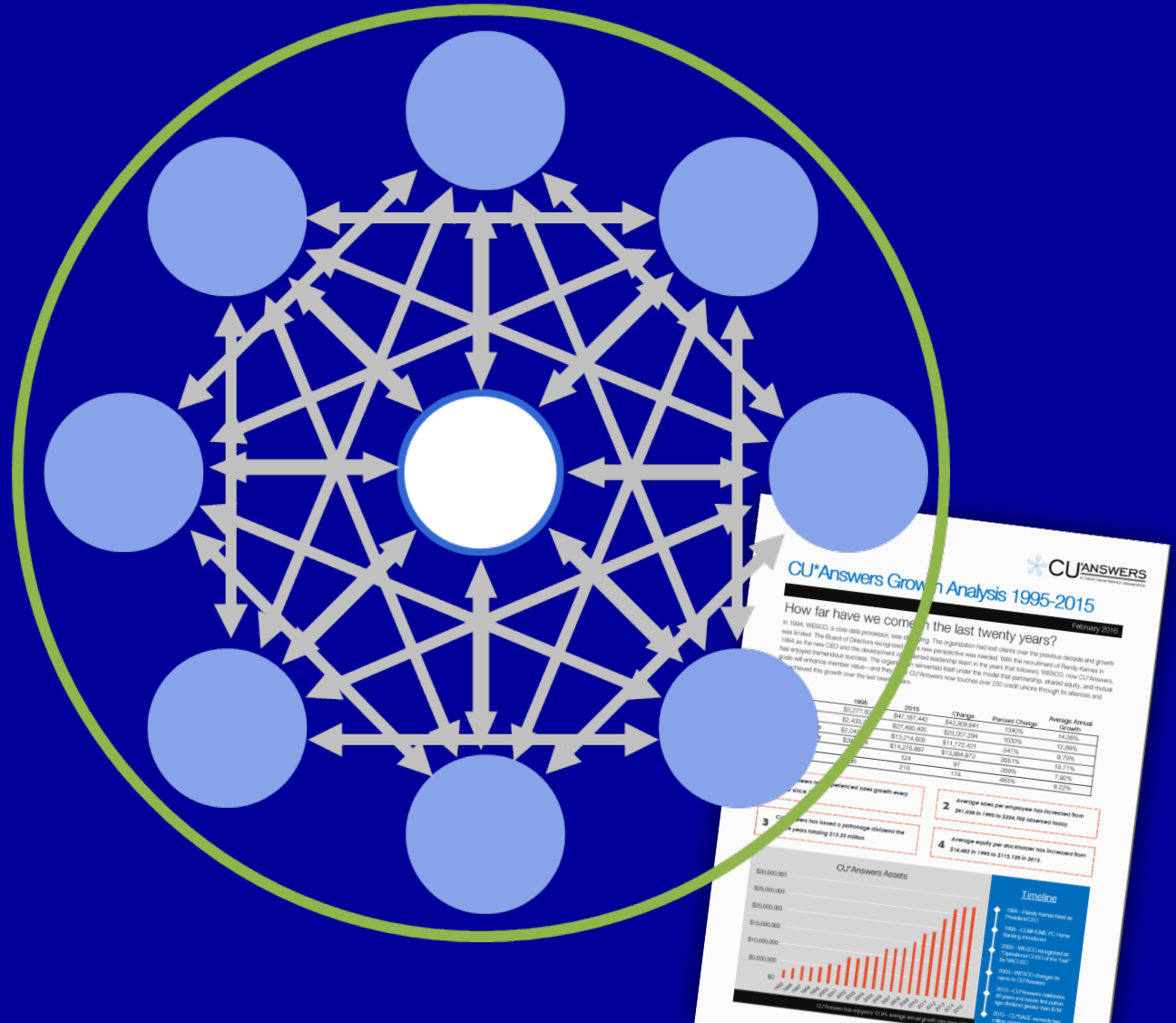
An owner has the right to decide where to engage on that path, and should have our trust

I trust the path to sustainability starts with you

In a network, all innovation is the result of what happens at the edge

In our network, our innovation starts with you and your members

It starts with you being ready to burn down the barriers and lead as a builder, with the passion of a revolutionist





Election Results

Let's see who won!

AND THE WINNERS ARE...

The background is a solid deep blue. It features several flowing, wavy lines in vibrant colors: a yellow-to-orange gradient at the top left, a bright red line at the bottom left, and a cyan-to-blue gradient at the bottom right. These lines create a sense of movement and depth.

Back to the party!