

Callahan & Associates, Inc.

The Quarterly Report: 1Q 2012

1Q 2012 Trends to Remember

- **Members:** Total membership rose by nearly 1.8M in the past twelve months, an annual rate of 1.9%. Since January 1, 2012 credit unions added 710K members, a figure 62% higher than the 439K gained in the fourth quarter driven when Bank Transfer Day took place.
- **Checking:** Driven by continued media attention and momentum originating from the fourth quarter of 2011, credit unions posted a record increase in the number of new checking accounts. Members opened 2.5M checking accounts in the past twelve months ended March 31.
- **Core Deposits:** Share balances increased 6.7% over the last 12 months, led by a 16% increase in share draft balances.
- **Loans:** Credit unions originated \$72.5B in loans in the first three months of 2012, a 25% increase over 2011 levels. This is the highest first quarter on record for the industry. Strong first mortgage originations of \$26.1B resulted in record national mortgage market share for the credit union industry.
- **Asset Quality:** Delinquency decreased 16 basis points from December to 1.45%. With a significant drop in delinquent loans, the coverage ratio (Allowance for Loan Losses/Delinquent Loans) increased to 104.9% from 96.0%.
- **The Bottom Line:** Net income is up 20.6% annually and a pre-assessment ROA of 88 basis points is the highest since 2005.

1Q Economic Trends

- Outstanding consumer credit grew by 7.7% in the first quarter, an increase over the 6.9% change posted in the fourth quarter of 2011.
- Real GDP increased at an annual rate of 1.9% in the first quarter of 2012, down from the 3.0% increase in the fourth quarter of 2011. Unemployment fell to 8.2% in March.
- Auto sales increased 9.5% over 2011 levels, with credit unions capturing 14.6% of auto loan originations in the first quarter and posting healthy growth in the auto loan portfolio.
- The Federal Funds Target Rate remained at the historically low 0-25 basis points range driving the net interest margin down to 2.98% as asset yields declined.

Credit Union Statshot at 03.31.12

- 7,165 Credit Unions (-277)
- \$1.015T Assets (+6.6%)
- \$579.5B Loans (+2.1%)
- \$877.7B Shares (+6.7%)
- \$110.3B Capital (+6.7%)
- 93.8M Members (+1.9%)

Watch & Learn

Callahan's Jay Johnson and Chip Filson interpret what these numbers mean for the industry in our 1Q Trendwatch webinar, ready for on-demand viewing now.

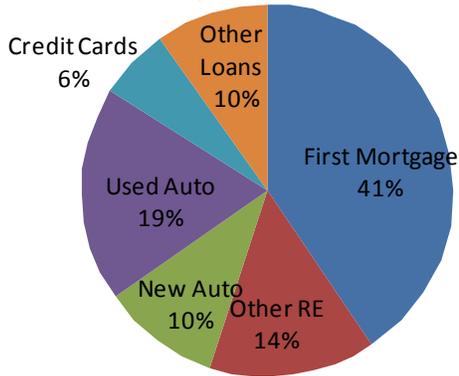
www.creditunions.com/TW

In addition to reviewing industry trends, Shaun Cullinan presents Goldman Sachs Economic Forecast for 2012.

Loans

Credit Union Loan Portfolio

\$579.5B as of March 31, 2012

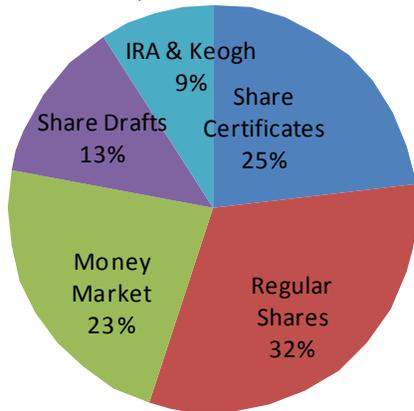


- Loan balances increased 2.1% in the first quarter, a significant improvement from the 1.1% decline posted in March 2011.
- Real estate loan growth came from first mortgages, which grew at 4.9% annually as other real estate balances fell 7.7%.
- New auto loan balances declined through March, though the steep rate of decline eased from 2011. Combined with 6.6% growth in used autos, the total auto portfolio increased 2.6% annually, up from a 4.1% decline last March.
- The credit card portfolio increased at a solid pace. Balances totaled \$36.6 billion in March, a 4.7% increase from the previous year.

Shares

Credit Union Share Portfolio

\$877.7B as of March 31, 2012

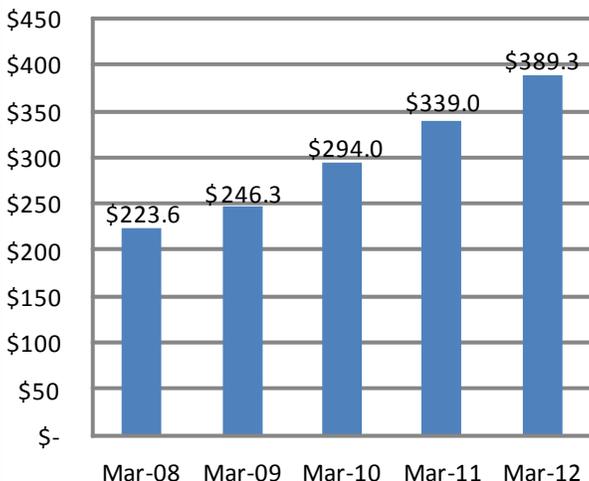


- Credit union shares increased 6.7% on an annual basis. Growth remains strong as members added more than \$54B in new balances over the past twelve months.
- Share drafts and regular shares accounts each posted double-digit growth during the past year. Share drafts increased 16.2% and now total over \$113B.
- Regular shares and deposits, the largest component of the share portfolio, increased to \$280.7B, a 11.8% annual increase.
- Money market share accounts posted a strong annual increase of 7.9% to \$198.7B.

Investments

Total Investments (in \$ Billions)

For All U.S. Credit Unions as of March 31



- Total credit union investments reached \$389.3B in December, a 14.8% annual increase. Investment balances are at record highs.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$199.7B in March, up 16.3% from the year before.
- Investments in Banks and Savings & Loans are the second largest component of the credit union investment portfolio, exceeding holdings in corporate credit unions. Funds held at those depository institutions total \$46.1B, growing 5.1% over the past year as investments in corporate credit unions (including cash) declined 30.0% to \$44.7B.
- Credit unions had been extending their investment maturities over the last year in an attempt to generate a higher rate of return. This trend reversed in the first quarter as credit unions parked new deposit inflows in cash accounts. The percentage of investments with maturities more than a year declined to 52.7% from 54.2% in 2011 as cash and cash equivalents increased by 30.0%.

Revenue

- Total revenue is flat from 2011, reversing a declining trend that began in March 2009. Through the first three months of 2012 credit union income totaled \$12.6B, a increase of 0.1% from levels reported in 2011.
- Interest income declined 3.8% as assets turnover and re-price in the record low interest rate environment.
- Total non-interest income grew 13.2% on strong increases in other operating income, a category which includes gains on mortgage sales to the secondary market.
- Credit unions reduced their provision expenses by one-fifth to \$982M, down from \$1.2B in 2011 and supporting an increase in the bottom line.

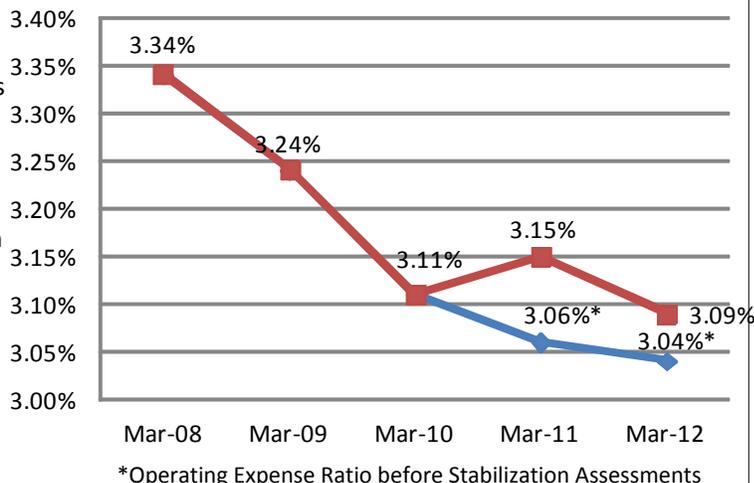
Revenue Growth and Total Revenue For All U.S. Credit Unions as of March 31



Operating Expenses

- Including accruals for 2012 corporate credit union stabilization assessments, the operating expense ratio fell six basis points from 2011 to 3.09%.
- Excluding the stabilization expenses, the OpEx Ratio stands at 3.04%, as operating expenses increased 5.4% annually, slightly below annual asset growth of 6.6%.
- Total employee compensation and benefits, the largest component of operating expenses, reached \$3.9B through the first three months of 2012, a 6.5% annual increase.
- Marketing expenses posted the fastest growth of expense categories, up 12.4% from 2011 levels to \$252M.

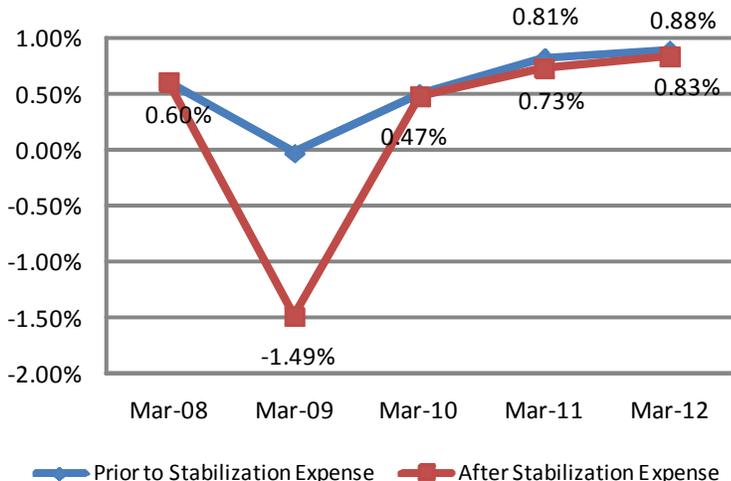
Annualized Operating Exp./Avg. Assets For All U.S. Credit Unions as of March 31



Operating Earnings and Capital

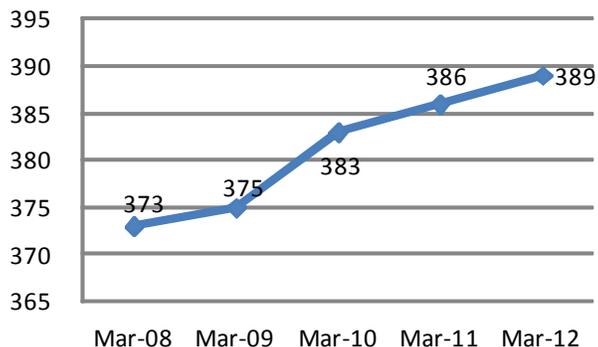
- Credit unions reported record net income for the first three months of 2012. The pre-assessment figure of \$2.2B resulted in an ROA of 88 bps, the highest since 2005.
- ROA after the stabilization assessments rose as well, coming in at 83 basis points, up 10 basis points from 2011.
- The Net Interest Margin narrowed on lower interest income, down to 2.98% from 3.16% in March 2011.
- Credit union capital increased 6.7% to \$110.3B.
- The net worth-to-assets ratio is unchanged from March 2011 at 10.0%.

Return on Assets For All U.S. Credit Unions as of March 31



Productivity

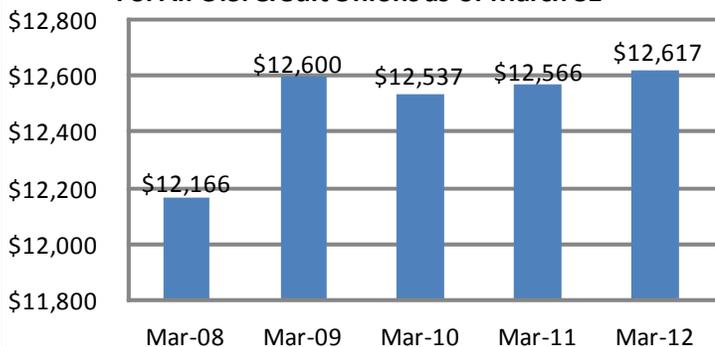
Members per Employee
For All U.S. Credit Unions as of March 31



- Membership increased 1.9% while the employee base grew by 1.3%. This resulted in a higher members per employee ratio, which averaged 389 as of March.
- For the first three months of 2012, credit unions reported an average annualized loan origination per employee level of \$1.20m, a significant increase from the March 2011 level of \$980K.
- Annualized income per employee fell slightly over the past 12 months, coming in at \$209K in March 2012.
- On average each credit union employee services 916 loan and share accounts, a slight increase from the 895 accounts in March 2011.

Member Relationships

Average Loan Balance
For All U.S. Credit Unions as of March 31



- The average loan balance increased slightly from the previous March to \$12,617.
- The average share balance was \$9,363 in March, a 4.7% annual increase.
- Share draft penetration increased once again in the first quarter as members opened a record number (2.5M) of checking accounts at their institutions. The current share draft penetration rate stands at 50.5% as of March, up from the 48.8% reported in the prior year.
- Credit card penetration increased to 14.7% from 14.5% in March 2011.



All of this and more featured in the next issue of CUSP. For more information on CUSP, visit

www.creditunions.com/CUSP.

As you evaluate your newly released 1Q12 data, you have the opportunity to make adjustments to your strategy. Take this chance to explore and employ innovative tactics to take your credit union's financial performance to the next level. Dig into CUSP featuring:

An examination of executive and employee compensation strategies. Learn how to ensure your top executives receive the pay that anchors them to your credit union while not breaking the budget.

Insight into how credit unions share resources, assets, leadership, and ideas through partnerships and mergers, without losing their brand and local appeal. Find examples including sharing or trading facilities, operational or physical assets/resources, leadership, a balance sheet, or a common future, as well as insight into alternative governance models from financial institutions overseas.

A dose of creative thinking from leaders around the industry on how to take your credit union to the next level. In this virtual case study, Karen Miller, CEO of Blue Lakes Federal Credit Union (Wallace, MN), wants to take her \$250 million credit union to the next level in terms of wallet share and member engagement. Credit union industry leaders weigh in on adding an underserved region, incorporating more SEGs, converting to a community charter, and more.