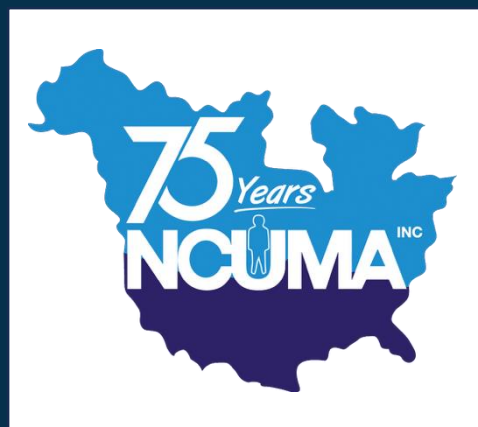




NCUMA ANNUAL SPRING CONFERENCE

Rethinking Member Value *in a new financial era.*

Beyond pricing alone — toward return on member capital, and the long-term value we deliver to the membership as a whole.

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Competitive pressure isn't the question. *What we mean by "value" is.*

For most of the last decade, credit unions have competed on one thing — **price** . A few basis points on a CD. A quarter point off a mortgage rate.

The institutions pulling ahead today are asking a harder question:

*"What does **value** actually mean to the members we serve?"*

TOPICS WE WILL COVER

A new lens for the balance sheet — as **member capital** , not just regulatory capital

A framework for measuring **return on member capital** , not just return on equity

Two case studies that show what **value beyond pricing** looks like in practice

Three questions to bring back to your boardroom on Monday morning

WHERE WE'RE GOING

Six parts. *One question.*

01

Member Value, Redefined

From rate sheets to the four pillars of value that members actually feel.

02

The Balance Sheet, Simply

A shared mental model — what's on it, where the money comes from, where it goes.

03

Member Capital

Net worth is more than a regulatory number — it's the membership's collective ownership.

04

Return on Member Capital

RAROC, recast: charge every dollar for the risk it carries and the alternative it crowds out.

05

Two Case Studies

A \$500M and a \$1.5B credit union — same regulatory grade, very different value stories.

06

Three Questions for Monday

What to ask in your boardroom, in plain English, every quarter.

PART ONE

01

Member Value, *redefined.*

For decades, the answer to "what does a credit union offer?" was "a better rate." Members are telling us — with their wallets and their loyalty — that value is bigger than that.

"We pay a little more. We charge a little less."

It is, factually, what most credit unions still say in their member newsletters and their board books.

It is also no longer enough.

A fintech offering a 5.00% high-yield savings account isn't competing on relationship. It's competing on the same rate sheet you brought to last quarter's ALCO — and frequently winning.

WHAT "VALUE" USED TO MEAN

Higher deposit rates

Lower loan rates

Lower fees

A friendly branch

THE PROBLEM

Every one of these is now table-stakes — or worse, a race the credit union can't reliably win against a digital-only competitor with no branches and no member-owners to answer to.

A BROADER DEFINITION

Value is *four things*, not one.

Each pillar is real. Each is measurable. And each consumes — or builds — member capital.

01 Profitability

Earnings funding the next decade of growth. Without profit, value is a slogan.

02 Capital Strength

The cushion that absorbs shocks and unlocks every strategic option on the table.

03 Innovation

Investments in technology, talent, and new lines of business that keep the institution relevant.

04 Member Experience

Rate, yes. But also speed, trust, advice, and the feeling that someone is on your side.

A high-performing credit union balances all four. Optimizing any one at the expense of the others is how institutions slowly lose the membership.

02

PART TWO

The Balance Sheet, *simply*.

A credit union is, at heart, a very simple machine. Money comes in one side, goes to work, and comes back out the other.

Two sides. They always equal.

LEFT SIDE · ASSETS

What we *own*.

Loans — auto, mortgage, credit card, commercial

Investments — bonds, mortgage-backed securities

Cash & equivalents — overnight, Fed, repo

Earns interest. Carries risk.

RIGHT SIDE · LIABILITIES + CAPITAL

What we *owe* — and own outright.

Deposits — member shares, certificates, money market

Borrowings — term funding from the FHLB or wholesale

Net Worth (Capital) — what's left after the obligations

Costs interest. Funds everything else.

*Every dollar of asset must be funded by a dollar of deposit, borrowing, or capital. **There is no third option.***

The operating framework *behind the balance sheet.*

ALM is a risk management process addressing the relationship between distinct asset and liability risk profiles, with the purpose of preserving and enhancing net worth.

ALM GOALS

Reduce risks

Increase profits

Manage market, liquidity, and capital risk

Identify opportunities for business enhancement

SPECIFIC TECHNIQUES

CECL modeling

Core balance sheet hedging

Mortgage pipeline hedging

ROE / RAROC modeling

FUNDING

Where the money *comes from*.

Three sources fund every loan, every bond, every dollar on the asset side.

~80%

Member Deposits

Shares, checking, savings, certificates. Sticky, lower cost, and the core of the franchise.

CHEAPEST FUEL

~10%

Borrowings

FHLB advances or wholesale term funding. Used to bridge timing or fund opportunistic growth.

FLEXIBLE FUEL

~10%

Net Worth (Capital)

Retained earnings. The cushion that absorbs losses and unlocks every other dollar on the asset side.

THE ENGINE

Illustrative blend for a typical credit union; actual mix varies by institution and strategy.

The cheaper-looking option isn't always cheaper.

Need to raise \$30M for 36 months. Which is cheaper: borrow from FHLB at 4.50% or run a CD promotion at 3.50%?

BEFORE (existing deposit mix)

Savings: \$100M @ 0.15% = \$150K/yr
Money Market: \$80M @ 0.40% = \$320K/yr
Certificates: \$30M @ 1.50% = \$450K/yr
Total: \$210M @ 0.44% average

AFTER (with CD promo to raise \$30M new money)

Savings: \$90M @ 0.15% = \$135K/yr
Money Market: \$70M @ 0.40% = \$280K/yr
Certificates: \$30M @ 1.50% = \$450K/yr
Promo CD: \$50M @ 3.50% = \$1.75M/yr
Total: \$240M @ 1.09% average
Marginal cost of the \$30M = 5.65%

The FHLB advance at 4.50% was cheaper. The CD at 3.50% had a marginal cost of 5.65% — because it repriced existing deposits. Always evaluate the marginal cost, not the advertised rate.

Where the money *goes*.

Three places to put a dollar — each with a different return, a different risk, and a different role in the franchise.

LOANS

Highest return. *Highest credit risk.*

Auto, mortgage, commercial, credit card. The core service the institution exists to provide.

5–8% yield, depending on mix

INVESTMENTS

Steady return. *Interest-rate risk.*

Treasuries, agency MBS, corporates. Liquidity, diversification, a known yield.

3.5–5% yield, depending on duration

CASH & EQUIVALENTS

Lowest return. *No risk.*

Overnight Fed funds, repo, settlement balances. The "parking lot" between decisions.

~Fed funds rate

Yield ranges are illustrative as of 2025; actual figures depend on portfolio composition and market conditions.



THE WHOLE PICTURE

It's a conveyor belt.

Deposits in, loans & bonds out, capital growth in the middle — running, ideally, forever.



COST SIDE

Interest on deposits · Non-interest expense · Credit costs · Tax

REVENUE SIDE

Interest on loans & bonds · Non-interest income · **Retained earnings** → more capital

Interest rate risk is *the most pervasive risk on the balance sheet.*

DEFINITION

Interest Rate Risk (IRR) is the possibility of an increase or decrease in value and income resulting from a change in interest rates.

IRR affects both sides of the balance sheet simultaneously. Assets and liabilities reprice at different speeds, creating gaps that compress or expand net interest margin as rates move.

Key risks to identify on any balance sheet:

Interest rate risk

Credit risk

Liquidity risk

Concentration risk

The goal is not to eliminate risk — it is to ensure the institution is compensated for each risk it takes, and that no risk arises unintentionally.

RISK = RETURN

Some risk is desirable — *if you are well compensated for it.*

Managed well, risk exposure improves member value. Avoided entirely, it caps growth. The goal is intentional, compensated risk — not zero risk.

RISK CONSIDERATIONS

Identify key risks on the balance sheet

Check for unintended consequences

Ensure compensation for each risk taken

Evaluate concentration vs. diversification

THE TRAP TO AVOID

Avoiding one risk while unintentionally adding another.

Example: shortening asset duration to reduce IRR, then inadvertently concentrating in short-term credit instruments that introduce new credit risk.

Six levers. Every dollar of margin *comes from one of them.*

Leverage

How much capital is employed per dollar of assets

IRR

Duration and rate sensitivity of assets vs. liabilities

Credit

Spread earned for default risk taken on loans

Liquidity

Premium earned for illiquid or less-liquid assets

Funding

Cost and structure of deposits and borrowings

Operational

Efficiency of delivering products and services

PART THREE

03 Member capital, *not just regulatory capital.*

Net worth on the balance sheet is more than a NCUA category. It is the membership's collective ownership stake — the cushion that funds tomorrow, and the room the institution has to choose its own future.

DEFINITION

"Net Worth" is the *credit union word* for capital.

It's the cumulative **retained earnings** of the institution — every dollar earned and not paid out, sitting on the balance sheet.

Regulators measure it as a **percentage of assets**:

Net Worth Ratio

=

Net Worth \$

Total Assets \$

THE REGULATORY FLOORS

Well-capitalized	≥ 7.0%
Adequately capitalized	6.0%
Undercapitalized	< 6.0%
Significantly under	< 4.0%

NCUA PCA categories. The point you have to ask permission to operate.

"Well-capitalized" is the *floor*, not the goal.

A board that stops at the regulatory minimum has prepared the institution for ordinary weather — not for strategy.

FLOOR 3
**Strategic
Cushion**

Excess capital available **after** preparing for current opportunities and known risks. The board's room to maneuver.

FLOOR 2
**NW% for
Strategy**

The capital required to prepare for the risks and opportunities the institution has **chosen** — interest-rate stress, cyber, M&A, strategic projects.

FLOOR 1
Minimum NW%

The regulatory threshold (7%). Below this, options narrow quickly — for management, and for the board.

THE CONCEPT THAT MATTERS MOST

Strategic Cushion = *room to act.*

It is the capital that sits **above** what the institution has already committed to risks and known strategic needs.

A positive cushion means optionality — the ability to absorb a surprise, fund an acquisition, take a swing on a new line of business.

A negative cushion means the institution is, quietly, **running on borrowed time.**

THE CALCULATION

Current Net Worth %	15.38%
– Minimum NW %	(7.00%)
– NW% to support strategy	(3.44%)

= **Strategic Cushion** **4.94%**

Illustrative. Real numbers in Part 4.

PART FOUR

04 Return on *Member Capital*.

A new way to read an old acronym. RAROC, re-framed: for each dollar of the membership's capital, are we earning enough to justify the risk we put it to — and the alternative we crowded out?

"Return on Equity" doesn't tell you *what it cost the membership.*

THE OLD QUESTION

ROE

Return on Equity. *How much did we earn on each dollar of capital?*

Problem: a high ROE on a risky bet still looks like a high ROE — until the risk shows up.

THE BETTER QUESTION

RoMC

Return on Member Capital. *How much did the membership earn, after charging each dollar for the risk it took and the alternative it gave up?*

Result: comparisons across loans, bonds, and businesses become apples-to-apples.

The board doesn't need to do the math. The board does need to know what management should be doing with it — on behalf of the members.

From *yield* to *return on member capital*, in seven steps.

Yield	WHAT THE ASSET EARNS
Cost of Funds	Deposits, borrowings
Options Cost	Prepayment, rate-reset
Funding Benefit of Equity	Alternative use of capital
Non-Interest Income	Fees, services
Non-Interest Expense	Operating costs
Credit Costs	Expected losses
Tax Expense	UBIT, where applicable

Economic ROA

Return per dollar of asset

Leverage Multiplier

Assets ÷ Member Capital

Return on Member Capital

THE RISK-ADJUSTED BOTTOM LINE

THE DECISION RULE

The hurdle rate is *the gate*.

Management sets a target return on capital. Every asset class, every new loan, every investment, has to clear it — or capital should go somewhere it can.

WHERE CAPITAL SITS TODAY

Cash: Fed funds, repo Bonds: MBS, agencies, corporates

Loans: auto, mortgage, commercial



NEW DEPLOYMENT

Originate a new loan

THE TEST

Risk-adjusted ROE > Hurdle rate?

If yes — the gate unlocks. Capital is allocated, the asset gets onto the balance sheet, and the conveyor belt keeps moving.

If no — the dollar stays where it earns more, or earns nothing at all, until a better opportunity shows up.

A mispriced loan isn't just a margin risk. *It's a liquidity risk too.*

High-performing institutions price assets accurately to market perceptions of risk — because the consequences of mispricing reach beyond NIM.

LIQUIDATION RISK

Assets priced incorrectly relative to market perceptions of risk have a higher likelihood of poor sale performance — including losses on sale or outright failure to sell.

Market considerations must be accounted for to maximize the institution's liquidity profile.

THE BALANCE SHEET TEST

If an asset cannot be appropriately priced for all the risks and costs associated with it, then its role on the balance sheet should be critically evaluated.

This is the connection between pricing discipline and the ROMC framework: charging each dollar for the risk it carries is how you avoid building a balance sheet that looks strong until you need to liquidate it.

The *highest-ROE* dollar isn't always the *right* dollar.

A risk-adjusted framework will rank-order opportunities — but it won't tell you whether to take them.

Capital allocation also has to respect:

Cash & liquidity — can we actually fund it?

Risk concentration — do we already have too much of this?

Diversification — what happens in the bad scenario?

Strategy — does this fit who we are trying to be?

A USEFUL ILLUSTRATION

A new commercial loan posts a 22% RoMC.

It clears every hurdle.

But it also takes the institution's commercial concentration from 18% of capital to 30%, and the lender retires in nine months.

The board's job is to ask the second-order questions. The number is the input, not the answer.

PART FIVE

05 Two case studies. *Same regulators, different stories.*

A \$500 million credit union and a \$1.5 billion one. Both well-capitalized on paper. Only one of them has the room to act on its strategy.

Both look fine *at first glance.*

CASE A

Credit Union A

Mid-size CU with a heavy auto-loan book and a growing commercial portfolio. The board has approved a new branch and a digital platform build.

TOTAL ASSETS
\$500,000

NET WORTH %
10.20%

CASE B

Credit Union B

Larger CU with a balanced loan book and a mature investment portfolio. The board is evaluating one acquisition opportunity.

TOTAL ASSETS
\$1,500,000

NET WORTH %
13.40%

Both are above the regulatory minimum. Both have positive earnings. Their cushions tell a very different story.

Illustrative institutions. All dollar figures in \$000s. Numbers are tweakable for sensitivity discussion.

Net Worth Strength *at a glance.*

MEASURE	CREDIT UNION A
Current Net Worth %	10.20%
Minimum Net Worth %	7.00%
NW % to support strategy	4.10%
Strategic Cushion	-0.90%

WHAT THIS IMPLIES	CREDIT UNION A
\$ of net worth cushion	-\$4,500
Current asset size	\$500,000
Asset size strategy supports	\$455,500
Asset growth capacity	-\$44,500

THE HEADLINE

Well-capitalized. **Strategically over-extended.**

Clears the regulatory floor with room. But every dollar of capital is already promised — with \$4.5M short for the plan.

CONCERN 1

Branch build & digital project together consume more capital than current earnings will replenish over the plan horizon.

CONCERN 2

Any surprise — credit cycle, deposit run, cyber event — comes out of capital that has already been counted twice.

What's *eating* the cushion.

Strategic net worth requirements, by driver. Where the 4.10% goes.

STRATEGIC NEED	TYPE	NW% TO PREPARE	\$ TO PREPARE
Interest Rate Risk	Risk	1.10%	\$5,500
Credit Risk	Risk	0.45%	\$2,250
Liquidity Risk	Risk	0.30%	\$1,500
Cyber Risk	Risk	0.55%	\$2,750
Reputation / Flight to Safety	Risk	0.30%	\$1,500
Regulatory Risk	Risk	0.20%	\$1,000
Branch Expansion	Opp	0.70%	\$3,500
Digital Platform Build	Opp	0.50%	\$2,500
Total NW% to Support Strategy		4.10%	\$20,500

RISKS VS. OPPORTUNITIES

2.90%

to absorb risks

1.20%

to fund the plan

BOARD QUESTION

Are we underwriting all of these risks at 100% coverage, or have we made implicit choices? What changes if we reduce coverage on any one of them by 25%?

BOARD LEVER

The branch and the digital build are choices. The cushion goes positive again if either one is deferred 18 months — or sized smaller.

Net Worth Strength *at a glance.*

MEASURE	CREDIT UNION B
Current Net Worth %	13.40%
Minimum Net Worth %	7.00%
NW % to support strategy	3.80%
Strategic Cushion	2.60%

WHAT THIS IMPLIES	CREDIT UNION B
\$ of net worth cushion	\$39,000
Current asset size	\$1,500,000
Asset size strategy supports	\$1,861,100
Asset growth capacity	\$361,100

THE HEADLINE

Well-capitalized. Strategically prepared.

Credit Union B carries 2.6 points of net worth above plan needs — about \$39M of cushion, or \$361M of balance-sheet capacity.

OBSERVATION 1

Cushion is real, but not free. Holding it costs roughly \$1.7M of foregone earnings per year vs. deploying at a 4.5% spread.

OBSERVATION 2

Room to pursue the acquisition and absorb an interest-rate shock — the board decides which lever to pull.

How the 3.80% breaks down.

Strategic net worth requirements, by driver. Where Credit Union B has allocated its capital.

STRATEGIC NEED	TYPE	NW% TO PREPARE	\$ TO PREPARE
Interest Rate Risk	Risk	0.85%	\$12,750
Credit Risk	Risk	0.35%	\$5,250
Liquidity Risk	Risk	0.25%	\$3,750
Cyber Risk	Risk	0.45%	\$6,750
Reputation / Flight to Safety	Risk	0.20%	\$3,000
Regulatory Risk	Risk	0.15%	\$2,250
M&A Opportunity	Opp	1.30%	\$19,500
Loan Growth Capacity	Opp	0.25%	\$3,750
Total NW% to Support Strategy		3.80%	\$57,000

RISKS VS. OPPORTUNITIES

2.25%

to absorb risks

1.55%

to fund the plan

BOARD QUESTION

If the acquisition does not happen, the 1.30% reserved for M&A reverts to cushion. What does the board want done with that capital instead?

BOARD QUESTION

Risks total 2.25% of NW. Is the institution's loss assumption on credit and cyber still appropriate for today's environment — or is it last cycle's number?

Same regulatory category. *Different boardroom conversation.*

CREDIT UNION A · \$500M

Current Net Worth %	10.20%
Minimum required	7.00%
Reserved for strategy	4.10%
Strategic Cushion	-0.90%

WHAT THE BOARD SHOULD HEAR

"To execute the plan, we need to either raise capital faster, defer initiatives, or accept a thinner buffer for the next 24 months."

CREDIT UNION B · \$1.5B

Current Net Worth %	13.40%
Minimum required	7.00%
Reserved for strategy	3.80%
Strategic Cushion	2.60%

WHAT THE BOARD SHOULD HEAR

"We have the room to pursue the acquisition. The harder question is whether we should — and what we do with the capital if we don't."

The regulatory grade is the same. The board's job is not.

PART SIX

06 Three questions *for Monday morning.*

If you take only three things from today, let them be these. Ask them every quarter. Insist on the answer in plain English — on behalf of the members.

01

QUESTION ONE

What is our *strategic cushion* — in dollars?

Not "are we well-capitalized." That's a regulatory question, and the answer is almost always yes.

"What is the excess, in dollars, after we have already counted the risks we underwrite and the strategy we approved?"

A board that knows this number can have an honest conversation about what it can and cannot afford to do.

LISTEN FOR

"Our cushion is roughly **\$X million** — here's how it changes under stress."

"That's enough room for the plan, plus one moderate surprise."

"It is **not** enough for the plan and a 1-in-20 credit event — here's the trade-off."

If the answer is "we're at 12% NW and well-capitalized," ask the question again.

02

QUESTION TWO

Is new business *clearing our hurdle?*

Every loan we originate, every bond we buy, consumes capital that has alternatives.

The board does not set the hurdle rate. The board insists that management has one — and that the institution is, on the whole, beating it.

A growing book whose return on member capital is sliding downward is a slow-motion problem worth catching early.

LISTEN FOR

"Our institution-wide RoMC is **X%**, against a **Y%** hurdle."

"The mortgage book is below hurdle by 80bps — here's why we keep originating."

"We're declining the bottom quartile of indirect auto applications. Volume is down 12%; RoMC is up 140bps."

If management can't quote either number, the framework doesn't exist yet.

03

QUESTION THREE

Which risks are we *pricing in* — and which are we hoping won't show up?

The strategic net worth requirement on a slide like Case A's adds up to 4.10%. But that's only the risks the institution has chosen to fund against.

The most expensive losses tend to be the ones nobody priced in.

Insist on naming the second list: the risks the institution does not currently hold capital for.

LISTEN FOR

"We hold capital for interest rate, credit, liquidity, cyber, and reputation risk."

"We do **not** hold dedicated capital for concentration in our top three commercial relationships."

"Here is what would change if we did — and the trade-off the board should weigh."

A short list is a worry. A long list with explicit trade-offs is the goal.

IN SUMMARY

If you remember nothing else.

01 · MEMBER VALUE

Four pillars, not one: profitability, capital, innovation, experience.

02 · THE BALANCE SHEET

A conveyor belt: deposits in, loans & bonds out, capital growth in the middle.

03 · MEMBER CAPITAL

"Well-capitalized" is a floor. The strategic cushion is the real number.

04 · RETURN ON MEMBER CAPITAL

Charge every dollar for the risk it carries. Then compare apples to apples.

05 · CASES A & B

Two well-capitalized institutions. One over-extended, one with room to act.

06 · THREE QUESTIONS

Cushion in dollars? · Clearing hurdle? · Which risks not priced in?



Thank you.

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