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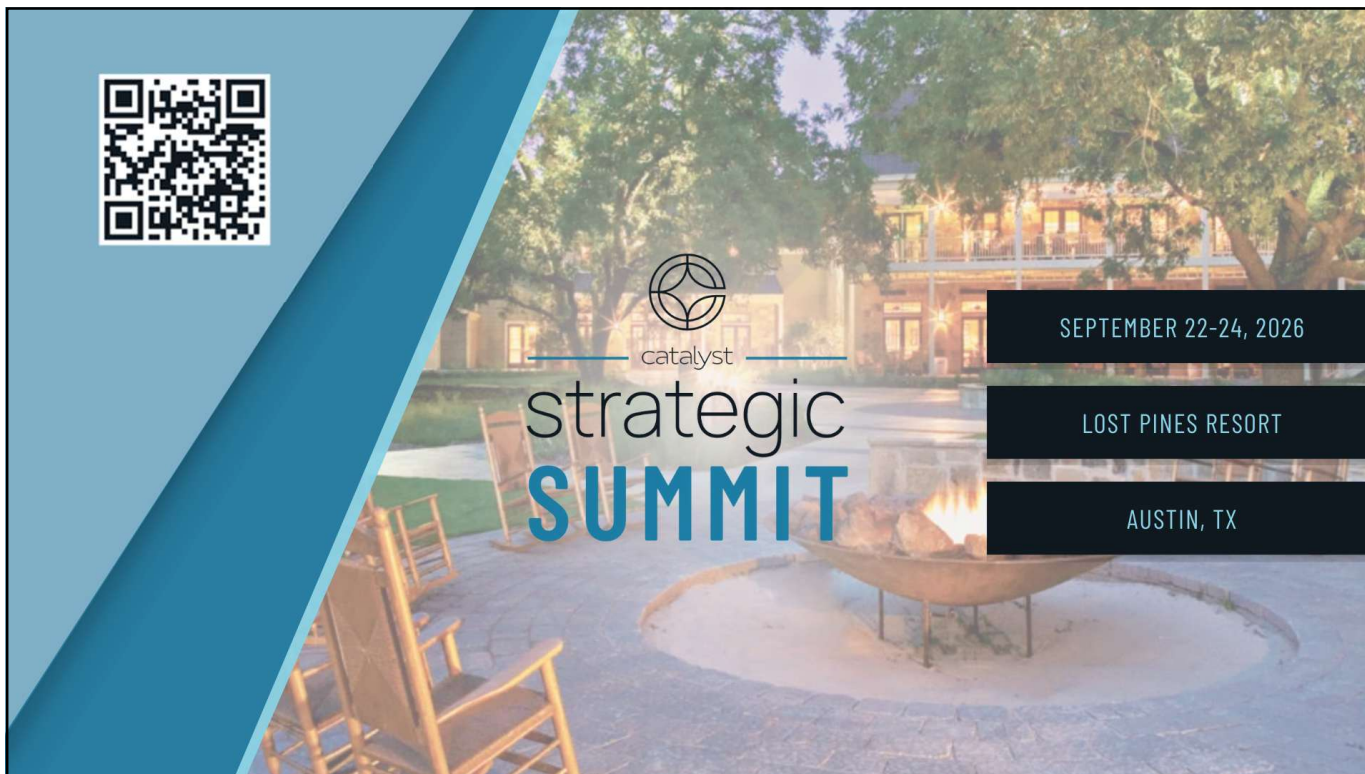
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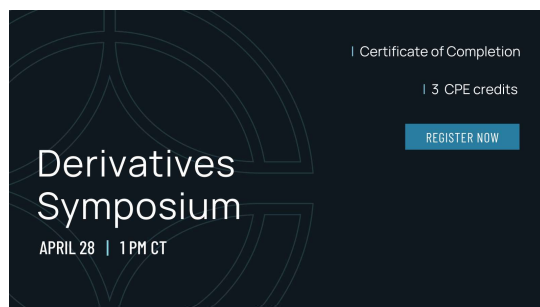
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## 2026 Derivatives Symposium

**Derivative hedging**, a key strategic tool for managing interest rate risk, is gaining momentum with credit unions. Find out why. Join our team and other industry experts for a holistic review of derivatives.

During this session, you'll learn more about:

- Fair value & cash flow hedging strategies
- Swap and option pricing
- Key components of hedge accounting
- Counterparty documents and collateral management processes
- Over-the-counter versus cleared derivatives
- How to prepare for your regulatory exam



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## Subordinated Debt is Powerful

Strategic benefits whether issuing or investing

### Issuers

- Stronger capital position
- Growth and expansion support
- Capital for internal investments
- Enhanced operational flexibility

### Investors

- New asset class
- Spread above Treasuries
- Industry support
- Unique cash flow structures

**BUT – you can only be on one side of the transaction!**

Regardless of the Side –  
Know What You're Getting Into

## Subordinated Debt | What Is It?

Subordinated Debt is a borrowing

- Unsecured debt
- Primary loss position after undivided earnings and reserves
- Absorbs losses **before** Share Insurance Fund
- Due to loss position (before deposit insurance), subordinated debt provides some protection to the Share Insurance Fund
- Eligible for net worth treatment\*\*

In the event of a liquidation, subordinated debt investors are subject to complete loss

*\*\*Not all credit unions are eligible for direct net worth treatment*

Limited value without net worth treatment

## Subordinated Debt | Eligibility

Anyone can issue subordinated debt, but not all get net worth treatment!

- Only Low-Income Credit Unions (LICU) can count directly towards net worth
  - Or those expecting to become a LICU within 2 years

New credit unions and non-LICU complex credit unions can count towards Risk Based Capital

- Best use case applies to LICUs due to direct regulatory net worth treatment

Must obtain advanced written approval, requiring



## Subordinated Debt | Structures

Subordinated debt is not permanent capital

- Must be repaid with eligibility declining over final 5 years

### Maturity Terms

- Minimum 5 years
- Maximum 20 Years
- *Could extend to 30 years if proved to be debt and not equity*

### Repayment Terms

- Bullet structure
- Monthly, quarterly interest payments

### Call Options

- Generally callable in whole or in part over final 5 years
- *Aligns with eligibility amortization schedule*

### Rate Structure

- Fixed rate or Fixed to Floating Rate structure

Sub Debt Net Worth Inclusion Schedule	
Remaining Maturity	Amount Eligible for Regulatory Capital
< 5 Years	80%
< 4 Years	60%
< 3 Years	40%
< 2 Years	20%
< 1 Year	0%

## Subordinated Debt | Leverage is Key

Subordinated debt has a higher rate than secured debt

### Strategic key: growing the balance sheet quickly

- Supports asset growth 5-10x issuance amount

### Rule of two

- Break-even typically requires loan growth 2x amount issued

Subordinated Debt Leverage & Profitability 200% Leverage		
	Amount	Income/Expense
Subordinated Debt @ 7.50%	\$ 10,000,000	\$ (750,000)
Additional Deposits @ 2.00%	\$ 10,000,000	\$ (200,000)
30yr Mortgages @ 6.00%	\$ 10,000,000	\$ 570,000
New Autos @ 4.50%	\$ 10,000,000	\$ 400,500
<b>Income Contribution</b>		<b>\$ 20,500</b>
<b>ROI</b>		<b>0.21%</b>
<b>Ending Net Worth @ \$1B Assets with 8% Net Worth</b>		<b>8.82%</b>
<b>Increase in Net Worth (without additional income)</b>		<b>0.82%</b>
Subordinated Debt Leverage & Profitability 400% Leverage		
	Amount	Income/Expense
Subordinated Debt @ 7.50%	\$ 10,000,000	\$ (750,000)
Additional Deposits @ 2.00%	\$ 30,000,000	\$ (600,000)
30yr Mortgages @ 6.00%	\$ 20,000,000	\$ 1,140,000
New Autos @ 4.50%	\$ 20,000,000	\$ 801,000
<b>Income Contribution</b>		<b>\$ 591,000</b>
<b>ROI</b>		<b>5.91%</b>
<b>Ending Net Worth @ \$1B Assets with 8% Net Worth</b>		<b>8.65%</b>
<b>Increase in Net Worth (without additional income)</b>		<b>0.65%</b>

## Subordinated Debt | Brings Future Earnings to Today

Leverage and use future earnings now - with the promise of repayment in the future

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Assets	1,000,000	1,050,000	1,102,500	1,157,625	1,215,506	1,276,282	1,340,096	1,407,100	1,477,455	1,551,328	<b>1,628,895</b>
<i>Assume 5% Growth</i>											
Net Worth	80,000	85,000	90,250	95,763	101,551	107,628	114,010	120,710	127,746	135,133	<b>142,889</b>
<i>Assume 0.50% ROA</i>											
Net Worth Ratio	8.00%	8.10%	8.19%	8.27%	8.35%	8.43%	8.51%	8.58%	8.65%	8.71%	<b>8.77%</b>
Subordinated Debt	20,000	20,000	20,000	20,000	20,000	20,000	16,000	12,000	8,000	4,000	-
<i>25% of Net Worth</i>											
Additional Asset Growth	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
<i>4x leverage</i>											
New Total Assets	1,080,000	1,134,000	1,190,700	1,250,235	1,312,747	1,378,384	1,451,303	1,527,868	1,608,262	1,692,675	<b>1,781,309</b>
<i>Assume 5% Growth</i>											
Sub Debt Cost		1,800	1,800	1,800	1,800	1,800	1,800	1,440	1,080	720	360
<i>@ 7.50%</i>											
New Net Worth	100,000	106,372	113,063	120,088	127,464	135,209	139,342	143,904	148,919	154,408	<b>160,394</b>
<i>Assume 0.59% ROA</i>											
Net Worth Ratio	9.26%	9.38%	9.50%	9.61%	9.71%	9.81%	9.60%	9.42%	9.26%	9.12%	<b>9.00%</b>
<b>Forecast Assumptions:</b>				<b>Results:</b>							
1) Additional Assets (\$80MM) earn 5.0%		4) ROA Increases 9bps		1) Assets higher by 9% after 10 years		4) Sub Debt costs \$14.4MM over 10 years					
2) Additional Deposits (\$60MM) cost 2.0%		5) Asset Growth (\$80MM) is retained		2) Net worth ratio higher by 238PS after 10 years							
3) Sub Debt (\$20MM) costs 7.50%		6) Asset Growth remains 5% annually		3) Sub Debt is zero after 10 years							
<i>All Numbers in thousands</i>											

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## Why Subordinated Debt?

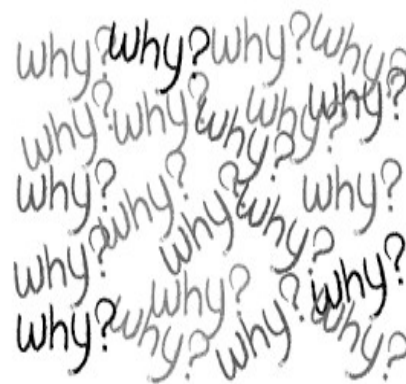
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## Subordinated Debt | Why Issue?

Overcome operating challenges

### Financial Strategy:

- Overcoming capital constraints to support growth
- Protecting net worth through economic downturns
- Building capital for acquisitions and expansion
- Improved regulatory standing and resilience



## Subordinated Debt | Borrowings vs. Subordinated Debt

Borrowings Leverage			
	Before		After
<b>Assets</b>	\$ 1,000,000,000	\$ 1,020,000,000	\$ 1,020,000,000
<i>New Assets</i>			\$ 20,000,000
<b>Shares &amp; Liabilities</b>	\$ 920,000,000	\$ 920,000,000	\$ 920,000,000
<i>New Deposits</i>			\$ -
<b>Borrowings</b>		\$ 20,000,000	\$ 20,000,000
<b>Net Worth</b>	\$ 80,000,000	\$ 80,000,000	\$ 80,000,000
Net Worth Ratio	8.00%	7.84%	7.84%

Borrowings

- Supports equal asset growth - 1:1 leverage
- Net worth ratio deteriorates
- No required deposit growth

Subordinated Debt Leverage			
	Before		After
<b>Assets</b>	\$ 1,000,000,000	\$ 1,020,000,000	\$ 1,250,000,000
<i>New Assets</i>			\$ 250,000,000
<b>Shares &amp; Liabilities</b>	\$ 920,000,000	\$ 920,000,000	\$ 1,150,000,000
<i>New Deposits</i>			\$ 230,000,000
<b>Subordinated Debt</b>		\$ 20,000,000	\$ 20,000,000
<b>Net Worth</b>	\$ 80,000,000	\$ 80,000,000	\$ 80,000,000
Net Worth Ratio	8.00%	9.80%	8.00%

Subordinated Debt

- Supports 10x more asset growth - 10:1 leverage
- Net worth ratio remains stable
- Does require funding growth

## Subordinated Debt | Subordinated Debt vs. Other Options

### **Sale & Leaseback**

- Harder and less beneficial to execute a sale and leaseback during weak economic times

### **Loan/Investment Sales**

- Provide capacity to continue lending and bolster earnings, but does not support meaningful deposit growth

### **Borrowings**

- Supports net loan growth, but depresses capital ratios and does not support deposit growth



Why Now?

## Subordinated Debt | Why Now?

### Balance Sheet Preparedness

- Markets can, and do, shift rapidly
- When the economy shifts, balance sheet impacts occur quickly

### Strategic Optionality

- Regulatory approval provides the “option” to issue subordinated debt
  - No immediate obligation

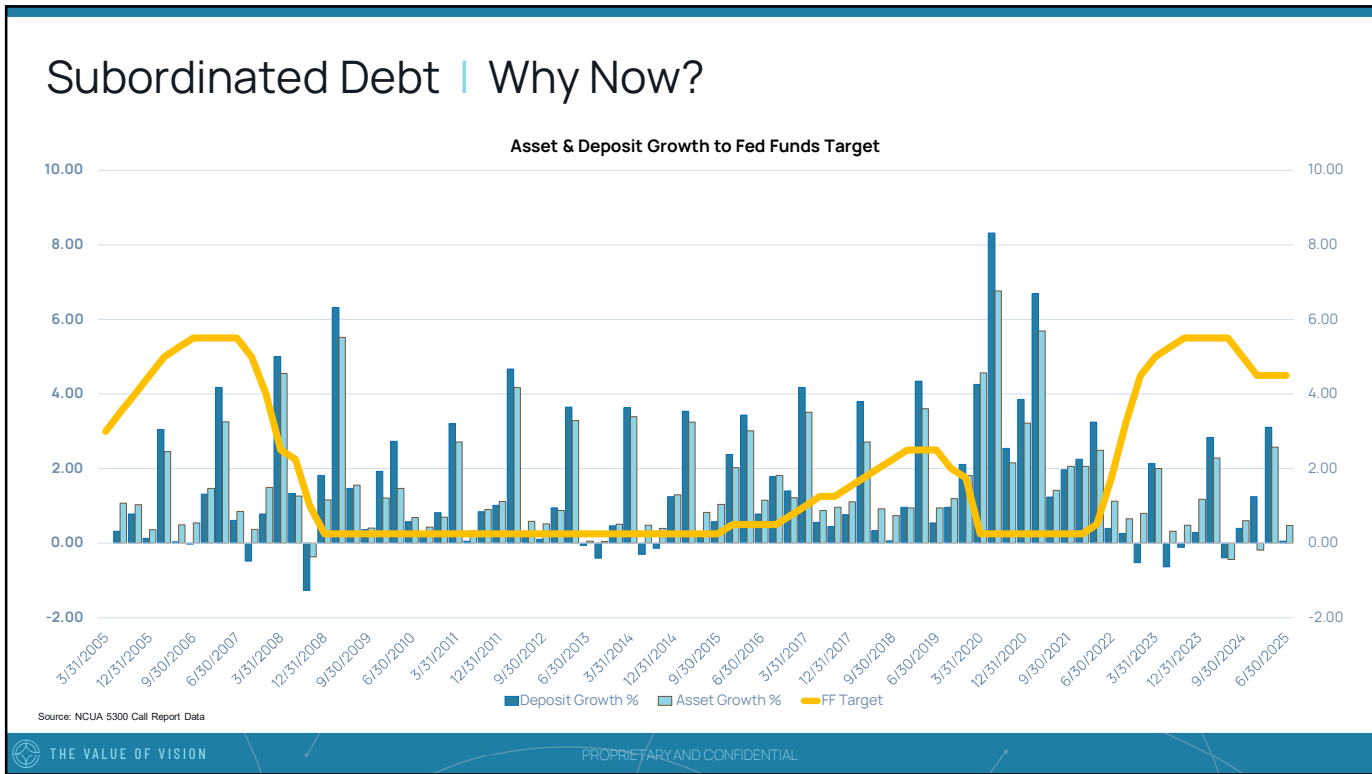
### Market Responsiveness

- Approval enables rapid response to market changes; shortening the issuance timeline by months

## Subordinated Debt | Why Now?

- 1) Takes 2-3 months to get approved plus another 1-2 months to raise funds
- 2) Approval grants a 2-year funding window – plus potential extension

Application Development	Regulatory Review & Offering Document Preparation	Issuance, Placement & Settlement*	Post Issuance Maintenance
3-4 Weeks	7-8 Weeks	4-8 Weeks	Through Maturity
← 4-5 Months →			



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# Issuance Process

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## Subordinated Debt | Issuance Process

### Offering Documents

- When ready to issue, you will need to create an offering circular to issue Subordinate Debt Notes as a private placement security.
- The OC is an extensive document that will include:
  - An overview of the Issuer's strategy and planned uses for the proceeds.
  - Specifics on the notes – coupon rate, maturity date, call features, etc.
  - A list of risk factors specific to the offering.
- In addition to the OC, an Investor Presentation will be created to highlight the offering and the credit union's story to potential investors.

### Note Structures

- Fixed to Float is predominate structure – 10-year maturity – fixed for 5 years, then adjustable.
- Includes call provisions – Callable in whole or in part after 5 years. All "calls" require prior regulatory approval.

### Issuance Rates

- Rates are market and credit dependent.
- The fixed coupon spread is usually in the 250 to 400 basis point spread over the 10-year Treasury.
- The floating rate spread will be locked in at settlement based on the difference between the coupon rate and the SOFR rate on that day.

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## Subordinated Debt | Issuance Process

### Go to Market Strategy

- All investors must be Accredited Investors
- Majority sold to Entity Accredited Investors
  - Credit unions, banks, pension funds, insurance companies, bond funds, etc.
- Large issuances sold within and outside the credit union industry
  - Require a CUSIP, DTC Registration and rating

### Data Room & Due Diligence Hosting/Review

- A full due diligence package is provided to potential investors via a secure data room.
  - Documents include OC, Investor Presentation, Financials, Policies and Annual Reports.

### Investor Calls

- Prior to closing, an investor call is often held. This gives the issuer an opportunity to tell their story to investors and answer any questions.

## Subordinated Debt | Issuer Review

### Key areas to evaluate when reviewing a subordinated debt investment opportunity include:

- Growth trends
- Loan quality
- Earnings capacity
- Liquidity
- Use of funds



# Questions

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