

2017

ANNUAL REPORT



The Cash Back
Credit Union

From the Chairman of the Board

Since 2006, I've had the pleasure and privilege of chairing the Board of Directors for DFCU Financial. I had served on the general board since 2000 when I was elected to this honorable position.

In these past 18 years, we've seen a lot of significant changes and improvements based mostly on your feedback and industry innovations. Technology, mergers, a fourth name change and our biggest differentiator, Cash Back, have greatly influenced the way we do business.

As I prepare to retire from this distinguished and hardworking board, I share some reflections on our biggest accomplishments that I have been honored to be a part of during my tenure.

2003

Dearborn Federal Credit Union is renamed DFCU Financial.

As we continued to expand our branch network beyond Dearborn, this name change was a significant part of a business strategy to allow us to enter new markets and increase consumer awareness of our products, services and expertise.

We considered an entirely new name, but as we listened to our members, we found that many already used the initials DFCU.

Our members were very clear on three points: Preserve a connection to the heritage of the organization; continue to build awareness that DFCU Financial is a full-service financial institution; and maintain our local community feel while emphasizing that we are a large organization.

2006

DFCU Financial issues a special patronage dividend (now Cash Back) of \$17 million, which is the first dividend issued in more than 20 years, and the largest in the history of credit unions.

To date, payments to our members have totaled \$262 million.

2009

DFCU Financial expands beyond the metropolitan Detroit area with the merger of CapCom Credit Union with offices in Grand Rapids and Lansing.

CapCom's roots reach back to the 1930s when a small group of Lansing fire fighters created a credit union to serve all municipal employees. Through this merger, DFCU became a state chartered credit union, regulated by both the NCUA and the State of Michigan's Office of Finance and Insurance Regulations. This change was significant as it allowed us to expand our field of membership to include the entire Lower Peninsula, something that the federal charter does not allow.

2010

DFCU Financial completes another merger with MidWest Financial, which brought branches in the Ann Arbor and Ypsilanti area.

MidWest Financial was founded in 1938 by the employees of the hospital as University of Michigan Hospital Employees Credit Union.

2011 - 2012

We monitored advances in technology to provide you with the tools to manage your finances more easily and effectively with the introduction of:

- Online and Mobile Banking
- Mobile Deposit
- Text alerts
- Security notifications

New Account Switch Process makes it much easier for members to move accounts to DFCU.

2014

Technology enabled us to offer an upgraded online banking platform, AutoSmart car shopping options, and mobile loan applications, all to serve you better, faster and more efficiently.

2015

Our new business banking products and services respond to hundreds of member requests to meet the underserved small business sector.

2016

DFCU offers a new online mortgage application system, as well as eSignature capabilities to enable members to bank from anywhere.

Branch Expansion

While other banking institutions consolidate and close, DFCU goes from six to 28 branches between 2009 and 2016.

Ongoing Community Partnerships

Since 2000, we've donated thousands of dollars and volunteer hours to area school foundations, offered hundreds of financial seminars, supported many health and human service institutions including Henry Ford Hospital, Beaumont Hospital, Mott and DeVos Children's Hospitals and Susan G. Komen Race for the Cure, and partnered with countless other community organizations.

We've accomplished a lot together over the years, and your board of directors and DFCU Financial staff will continue to work hard to provide the best in class service to which you've become accustomed.

It has been a true pleasure to be a part of such a thriving, efficient, engaged organization and I thank you all for the opportunity to serve you.



Dr. Robert Chapman
Chairman of the Board



Balance sheet & income statement

BALANCE SHEET

Consolidated Statements of Financial Condition (In thousands)

December 31 2017 2016
unaudited*

Assets

Cash and cash equivalents	\$ 226,143	\$ 239,945
Investment securities	3,214,611	2,927,400
Loans	1,059,219	1,067,359
Allowance for loan losses	(7,991)	(8,389)
Net loans	1,051,228	1,058,970
Property, buildings and equipment	39,127	40,862
National Credit Union Share Insurance Fund deposit	37,330	34,471
Accrued income and other assets	59,051	60,158
Total assets	\$ 4,627,490	\$ 4,361,806

Liabilities and equity

Deposits	4,076,469	3,832,996
Accrued expenses and other liabilities	66,572	64,234
Total liabilities	4,143,041	3,897,230
Retained earnings and regular reserve	533,123	493,345
Accumulated other comprehensive income	(48,674)	(28,769)
Members' equity	484,449	464,576
Total liabilities and equity	\$ 4,627,490	\$ 4,361,806

INCOME STATEMENT

Consolidated Statements of Income (In thousands)

December 31 2017 2016
unaudited*

Net interest income

Interest income	\$ 101,865	\$ 91,169
Interest expense	7,503	7,115
Net interest income	94,362	84,054
Provision for losses on loans	1,036	(335)
Net interest income after provision for losses on loans	93,326	84,389

Non-interest income

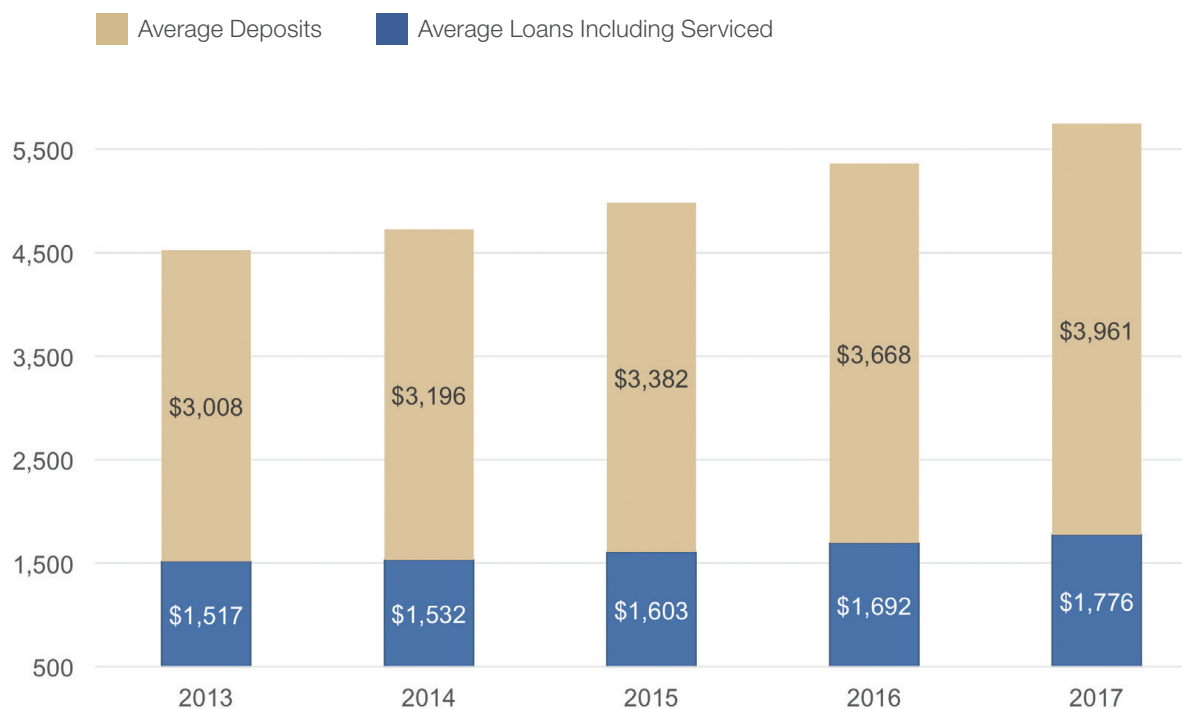
Fees and commissions	41,748	32,952
Other non-interest income	6,281	10,265
Total non-interest income	48,029	43,217

Non-interest expense

Compensation and benefits	41,604	39,018
Office operations and occupancy	14,707	14,724
Other	15,934	14,991
Total non-interest expenses	72,245	68,733
Net income before special patronage dividend	69,110	58,873
Special patronage dividend	29,332	27,465
Net income	\$ 39,778	\$ 31,408

*Crowe Horwath was retained to perform the 2017 audit procedures in the spring of 2018. Crowe issued an unqualified audit opinion on the 2016 financial statements.

Five-year growth trends (in millions)



Minutes from the 2017 DFCU Financial Annual Membership Meeting

DFCU Financial Headquarters

May 15, 2017

Members were welcomed to DFCU Financial's 2017 Membership Meeting by Board Chairman Dr. Robert Chapman. Chairman Chapman introduced the officials present at the meeting. They included:

- Matt Elsey, Director
- Ryan Bewersdorf, Director
- John Sinelli, Director
- Mark Shobe, President and CEO
- Paul Conway, Vice Chairman of the Board
- Keith Moss, Director
- Don Tomford, Director
- Jim Cowper, Treasurer
- Laura Terzes, Secretary of the Board

As well as Associate Directors Jim Bazner, Shirley Ghannam and Annetta May.

Chairman Chapman noted that a quorum was present and called the 2017 Membership Meeting to order at 6:00 p.m. Approximately 30 members were in attendance. Chairman Chapman reviewed the agenda provided in the materials to all attendees.

2016 Minutes

These minutes were approved and made part of the official records.

Report of the Directors

Treasurer Jim Cowper and Vice Chairman Paul Conway gave the Report of the Directors. The treasurer began with a look back at statewide vs. national financial results, specifically in terms of small business growth, auto sales, home sales and mobile first lifestyles.

DFCU Financial had many accomplishments in 2016, which contributed to another successful year financially:

- For the 16th consecutive year, DFCU ranked in top 10 for financial performance
- We are in the top five most efficient credit unions. It costs us only 55 cents to make one dollar of revenue vs. 67 cents for our peers.
- Core net operating revenue was \$120 million, up from \$114.6 million in 2015
- Managed investment service assets increased to \$1.3 billion from \$1.2 billion while balance sheet assets grew from \$3.8 billion to \$4.2 billion
- Average loans serviced were nearly \$1.7 billion, up from \$1.6 billion
- Deposits increased more than 9% to \$3.7 billion
- Regulatory capital ratios remained strong at 11.1%
- We ended the year with \$58.9 million in net income prior to patronage dividend

Mr. Conway presented major accomplishments, branch expansion, corporate accolades and 2017 initiatives. 2016 was a busy year at DFCU Financial.

Branch Expansion

- Four branches opened in 2016 to better serve the membership
 - » Clinton Township in January
 - » Taylor and Birmingham in April
 - » Relocated Carpenter Rd in August
- Total of \$42,500 was donated to Education Foundations in these four communities

Branch and Call Center Activity

- Membership growth equaled 4,200 members and 1,700 households in 2016
- Transaction volumes = 453,000 to the MSC and 18,000 general email/business central
- 2,100,000 teller transactions + 118,000 platform transactions
- Significant growth in Mobile Deposit of almost 21%

Member Satisfaction

New member satisfaction program launched in January 2016. Results through the end of the year:

- Member Service Center
 - » Member Satisfaction average score of 93 (out of 100)
- Branch
 - » Member Satisfaction average score of 96 (out of 100)

Business Banking

Enhancements included Business ACH and Remote Deposit Capture. Nine educational seminars were offered for small business owners.

- Deposits - \$34 million
- Loans - \$21 million in loan balances

Consumer Lending:

- Automobile fundings were up 11%
- Home Equity disbursements were up over 7%
- Members closed \$21 million in consumer loans through eSignature technology

Mortgage Services

- Mortgage applications were up 6%
- Closed nearly \$231 million in first mortgage loans
- Now service 10,000+ mortgage loans
- Rolled out new online application platform
- Added new mortgage officer in Birmingham

DFCU Financial Partners

- Increased revenue each year since 2009
- Now manage \$1.375 billion for over 100,000 households
- Were the #2 program out of 190 credit unions with CUSO Financial Services (CFS) in 2016
- Added Broadridge-Forefield: Client education/marketing tool, and Financial Consultant personalized websites to better serve our members
- Hired two new consultants with extensive expertise



Community Engagement

We served our members and the community through several engagement and education efforts:

- Presented 64 free financial education seminars around the state for 1,004 attendees
 - » A new Retirement Readiness Social Security seminar was created and extremely well received
- Donated \$59,788 to school and community education programs in Dearborn, Livonia, Birmingham, Taylor, Clinton Township, Riverview, Walled Lake and Garden City
- Sponsored several community initiatives that supported Dearborn Teacher of the Year, Young Entrepreneurs Academy, Beaumont Hospital Neonatal Research, Henry Ford Medical Center, Mott Children's Hospital, Helen DeVos Children's Hospital and several area chambers of commerce

In addition to outstanding financial and community performance, DFCU Financial also issued its tenth Cash Back payout, of \$27.5 million. Since 2006, we've paid more than \$233 million to members. It was the largest payout in the history of credit unions at inception and still is unmatched by any other credit union.

The Cash Back Credit Union



Mr. Conway concluded the presentation with 2017 key initiative details including:

- Upgrades to DFCU Online that enabled members to group accounts according to their preference, quick transfer option and sends new security alerts
- Several most frequently used forms will be automated online for better user experience
- Further security enhancements for those members engaging in electronic fund transfers (EFTs) and remittance transfers through our ATMs and automated clearing house (ACH) systems
- Wire transfers both domestically and internationally will be made easier with new upgrade

Report of Financial Condition and Annual Comprehensive Audit

Chairman Chapman referenced the Report of Financial Condition contained in the annual report and noted that members could review it further at their leisure.

Unfinished Business

There was none.

New Business

There was none.

Elections

Director Matt Elsey, Director John Sinelli, and Board Secretary Laura Terzes were up for re-election. Each candidate was introduced and background information was provided to the members present. Since the candidates were running unopposed for three vacancies, a unanimous ballot was cast.

Adjournment of Meeting

The meeting adjourned at 6:20 p.m.

Question and Answer Session

Chairman Chapman invited questions from the membership. A question and answer period followed and ended at 6:25 p.m.





**The Cash Back
Credit Union**

Call: 888.336.2700

Click: DFCUFinancial.com

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NCUA Your savings are federally insured to \$250,000 by the National Credit Union Administration, a U.S. government agency.



DFCU Financial Federal Credit Union is an equal opportunity lender.