



2016 Annual Report



Better than a bank.

The year 2016 saw many significant events: a stock market surge, Brexit, the presidential election, and a Federal Reserve rate hike in December. Consumers spent cautiously with overall expenditures increasing by just 2.4% over 2015, according to euromonitor.com. Reuters.com reported a record year for auto sales lifted by strong demand for pickup trucks and SUVs. Michigan home sales were up 8% in mid-2016 over 2015 with bidding wars between buyers due to decreased inventory.

"Mobile-first" lifestyles continued to rise in importance—58% of consumers turned to their phones for at least five separate activities each day in 2016, compared with 34% in 2015, according to deloitte.com.

Through all the ups and downs, DFCU remained strong, achieving our best year ever with net income of \$58.9 million. Auto loan fundings increased 8% and mortgage applications were up 6% with \$231 million in closed mortgages.

Because we know our members like the convenience of their phones and tablets, in 2016 we enhanced our website, offered electronic signatures on loan closings and provided the ability to open accounts online.

We also know that nothing can substitute for a friendly face and knowledgeable, personal expertise so we added four new branches—Clinton Township, Taylor, Birmingham and Ann Arbor. All are experiencing solid growth due to your loyal support. In fact, our overall membership increased by 4,200 individuals during 2016.

DFCU is in its second year offering business banking. We have received a warm welcome from the marketplace as the number of new accounts, loans and deposits are all experiencing strong growth.

With internal growth comes outward investment in our members and our communities. Our Cash Back dividend of \$27.5 million was paid in January 2017. Thousands of dollars were donated to local education foundations to benefit such programs as robotics teams, math creatives, sign language learning and science. We know that businesses, communities and government must work together to be successful.

Here we stand stronger together after another year with you, our loyal and supportive members. Throughout your financial present and future, in every way, we strive to be the experts, make it easy and make your day.



Dr. Robert Chapman
Chairman of the Board



HIGHLIGHTS OF 2016

- Ranked in the Top 10 for financial performance among peer credit unions across the nation for the 16th consecutive year
- Issued the tenth Cash Back reward of \$25 million for a total of more than \$206 million given to members since 2006
- Opened four new branches in Clinton Township, Taylor, Birmingham and Ann Arbor
- Achieved net income of \$58.9 million, a record year
- Received many employer awards including National, Metro and West Michigan Best and Brightest Companies to Work For and Detroit Free Press Top Workplace
- Supported community organizations including Dearborn Teacher of the Year, the Big Read, U of M-Dearborn Business Speakers Series, the Young Entrepreneurs Academy and many others

BALANCE SHEET

Consolidated Statements of Financial Condition (In thousands)

December 31 2016 2015
unaudited*

Assets

Cash and cash equivalents	\$ 239,945	\$ 216,385
Investment securities	2,927,400	2,612,404
Loans	1,067,359	1,069,833
Allowance for loan losses	(8,389)	(9,321)
Net loans	1,058,970	1,060,512
Property, buildings and equipment	40,862	39,468
National Credit Union Share Insurance Fund deposit	34,471	31,959
Accrued income and other assets	60,158	59,869
Total assets	\$ 4,361,806	\$ 4,020,597

Liabilities and equity

Deposits	3,832,996	3,514,651
Accrued expenses and other liabilities	64,234	61,663
Total liabilities	3,897,230	3,576,314
Retained earnings and regular reserve	493,345	461,937
Accumulated other comprehensive income	(28,769)	(17,654)
Members' equity	464,576	444,283
Total liabilities and equity	\$ 4,361,806	\$ 4,020,597

INCOME STATEMENT

Consolidated Statements of Income (In thousands)

December 31 2016 2015
unaudited*

Net interest income

Interest income	\$ 91,169	\$ 86,570
Interest expense	7,115	6,606
Net interest income	84,054	79,964
Provision for losses on loans	(335)	515
Net interest income after provision for losses on loans	84,389	79,449

Non-interest income

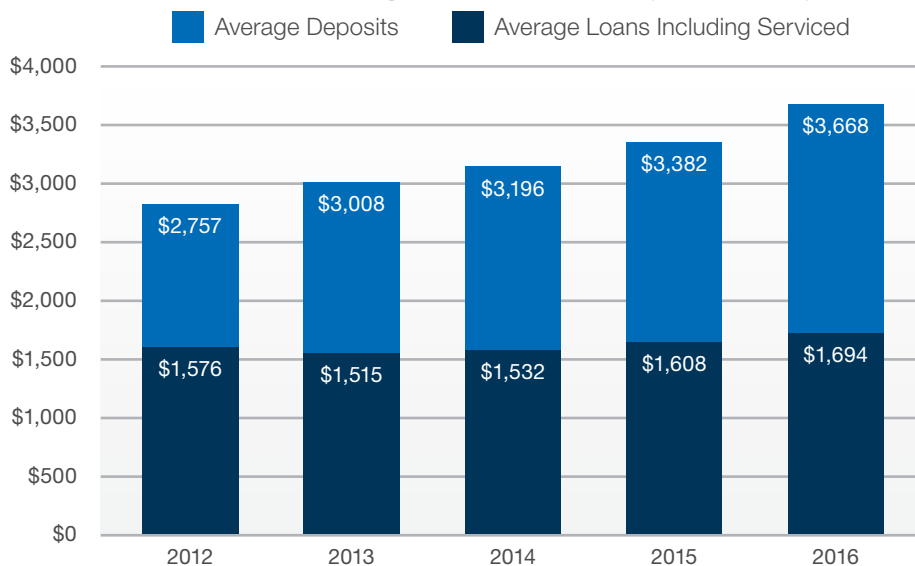
Fees and commissions	32,952	32,136
Other non-interest income	10,265	8,132
Total non-interest income	43,217	40,268

Non-interest expense

Compensation and benefits	39,018	35,608
Office operations and occupancy	14,724	13,638
Other	14,991	16,593
Total non-interest expenses	68,733	65,839
Net income before special patronage dividend	58,873	53,878
Special patronage dividend	27,465	25,564
Net income	\$ 31,408	\$ 28,314

*Crowe Horwath was retained to perform the 2016 audit procedures in the spring of 2017. Crowe issued an unqualified audit opinion on the 2015 financial statements.

Five-year growth trends (in millions)



Minutes from the 2016 DFCU Financial Annual Membership Meeting

The Henry Hotel, May 16, 2016

Members were welcomed to DFCU Financial's 2016 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 Harold Lowman and Shirley Ghannam.

Chairman Chapman noted that a quorum was present and called the 2016 Membership Meeting to order at 6:03 p.m. Approximately 38 members were in attendance. Chairman Chapman reviewed the agenda provided in the materials to all attendees.

2015 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 the state of the state, specifically in terms of positive employment, real estate and education numbers.

DFCU Financial had many accomplishments in 2015 which contributed to another good year financially:

- DFCU Financial ranked eighth among national and regional peers for Return on Assets
- We are in the top five most efficient credit unions based on the 50 largest credit unions in the nation
- Core Net Operating Revenue was \$114.6 million, down slightly from \$115.4 million in 2014
- Deposits increased more than 6% to \$3.4 billion
- We serviced \$1.6 billion in loans, an increase of 5%
- Managed investment service assets increased more than 4% to \$1.2 billion
- Regulatory capital ratios remained strong at 11.3%
- We ended the year with \$54 million in Net Income (before CASH BACK)

Mr. Conway presented major projects, corporate accolades and 2016 initiatives. 2015 was a busy year at DFCU Financial.



Membership growth

- Membership growth equaled 2,910 members and 833 households in 2015.
- Overall mystery shop score of 4.96 (out of 5) with a total of 3,691 shops
 - » 67% scored 5 or higher
- 69% of members said DFCU was superior to the competition

Transactions

We answered 530,288 calls to the Member Service Center plus 36,199 general email/business central. We processed 2,048,501 teller transactions and 137,993 platform transactions. Through mobile deposit we processed 166,712 items. We received 18,976 iRequests, 9,837 Wires and 16,148 calls to our Resource Center.

Online Banking Upgrade

Our old online banking system was 12 years old and not evolving as fast as current technology. The new system implemented in 2015 provides user access across desktop, tablet and phone and is compatible with popular browsers. It allows members to transfer money with non-DFCU accounts and offers increased security.

Business Banking

We launched in May of 2015. Fifteen ribbon cuttings were hosted with local chamber partnerships. Numbers as of 12/31/15 were:

- Deposits—\$7.3 million
- Loans—\$4.2 million
- Pipeline—\$9.2 million

Branch Expansion

Plymouth Township branch opened 06/15/15. A community event held 9/30/15 donated \$12,500 to Plymouth Canton Education Foundation. Family Fun Day on 10/03/15 had more than 200 attendees.

Mortgage Services

We added a new 5/5 arm product with more than \$10 million in closings. We closed close to \$250 million which was a 40% increase over 2014. Application volume increased 34% over 2014. Servicing portfolio increased 5.2% (9,900 loans serviced). We have eight loan officers in our community.

DFCU Financial Partners

We celebrated our 15th year of the advisor-based Financial Partners channel. We had four advisors in 2001 and now have 11. We now manage \$1.3 billion in assets for more than 12,000 households. Record revenue each year since 2009.

Security Chip Card Technology

Reissued 105,384 debit cards. 88% of cards have been activated. 78.8% of members have transacted with the new card.



Community Engagement

DFCU Financial continued to educate members and communities through financial literacy efforts. We held 60 educational seminars for adults attended by 1,086 people. We donated \$52,500 to education foundations in Dearborn, Garden City, Livonia, Plymouth/Canton, Riverview, Walled Lake and Ypsilanti. We partnered with several local community organizations including the Big Read, U of M—Dearborn Business School, Dearborn Young Entrepreneurs Academy and Teacher of the Year, Grand Rapids Grocery Giveaway, Greenfield Village/Henry Ford Museum and chambers around the state. We were also presenting sponsor for Henry Ford Hospital's Game on Cancer initiative which raised thousands of dollars.

In addition to outstanding financial and community performance, DFCU Financial also issued its ninth Cash Back of \$25 million. Since 2006, we've paid over \$206 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 credit union highly values its employees and was recognized as a Detroit Free Press Top Workplace for the eighth consecutive year. Other honors included West Michigan and Metro Detroit 101 Best and Brightest Companies to Work For; and Corp Magazine's Michigan Economic Bright Spot.

Mr. Conway concluded the presentation with 2016 initiative details including enhancements to business banking including ACH and remote deposit capture; a new mortgage and online application system; eSignature and online account opening. Four new branches will be opened: Clinton Township, Taylor, Birmingham and a relocated Carpenter Road branch in Ann Arbor.

Cash Back

Join.
Bank.
Earn.





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

Ryan Bewersdorf, director, Paul Conway, vice chairman, and Keith Moss, director, 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 6:21 p.m.

Question and Answer Session

Chairman Chapman invited questions from the membership. A question and answer period followed.



Better than a bank.

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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.