

2019

ANNUAL REPORT



The Cash Back
Credit Union

From the Chairman of the Board

Dear Member,

We can't know what next week or even tomorrow brings during the Coronavirus pandemic, so we will instead take this opportunity to look back at 2019 and the success that has positioned us well for whatever lies ahead.

Where you put your money and trust matters--now more than ever--and new programs implemented in 2019 helped save our members dollars and time.

The DFCUPerks and Perks Plus checking program was introduced in 2019. This new fee-based checking option offers members such perks as cell phone insurance, a health savings card, and roadside assistance, as well 400,000 merchant deals through a convenient mobile app. The PerksPlus account replaced our interest-bearing ICP account, and offers all of the benefits at no cost to our members who maintain higher balances.

For those calling in to our Member Service Center, we initiated virtual-hold technology that allows members to request we call them back, without them losing their place in the queue, enabling them to go about their business rather than stay on hold. Members can even schedule a callback at a different day and time for their convenience.

We enhanced DFCU Online, our digital banking experience, with improved access to new features and functionality, and updates to some existing options. We also introduced Card Swap, which allows members to quickly and securely update their card credentials across multiple websites.

DFCU knows it makes a difference to you that organizations where you do business also give back. We are proud to serve communities around Michigan through engagement and education efforts. In 2019, DFCU staff were excited to organize and participate in financial reality fairs, job shadowing, and mock interview events at local high schools and colleges. We also presented financial preparedness programs to more than 1,000 students and parents in Brighton, Dearborn, Grand Rapids, Lansing, and Ypsilanti.

Our free financial seminars continue to be extremely popular with members and the community. DFCU offered 120 free financial education seminars around the state to more than 2,000 attendees, covering such topics as establishing healthy credit, debt-free living, and pre- and post-retirement readiness.

DFCU supported ten education foundations, which supply classroom grants, scholarships, and job-preparedness programs to students. We also sponsored localized initiatives including Ann Arbor's Girls on the Run, DeVos Children's Hospital in Grand Rapids, Henry Ford Hospital, Gleaners Food Bank, Ypsilanti's Children's Literacy Network, Brightmoor Connection Food Pantry, the Shelter Association of Washtenaw County, and several business networking programs through Chambers of Commerce.

We continue to be proud of the significant financial contribution we make to our communities through our unique Cash Back program. On January 6, we paid our members a total of \$30.6 million. Since 2006, we've reinvested more than \$330 million through this effort. No other financial institution offers a member benefit like it.

We hope you will continue to count on DFCU Financial as we continue to offer services, support, and commitment to families and communities like yours.



Sincerely,

A handwritten signature in black ink that reads "James Cowper". The script is fluid and cursive, with the first name "James" and last name "Cowper" clearly legible.

Jim Cowper

DFCU Financial Board Chairman

DFCU EARNs IMPORTANT ACCOLADES

As a company, DFCU's success is measured among a peer group of the 50 largest credit unions in the nation. In addition to finishing at number two in 2019, we are the only credit union of these top 50 to finish in the top 10 for 18 straight years. We were honored to be recognized this year as Forbes Best-in-State Credit Union. Employee surveys helped us achieve National Best & Brightest for the eighth time, Metro Detroit Best & Brightest for the 12th consecutive year, West Michigan Best & Brightest for the 8th year in a row, and Detroit Free Press Top Workplace for the 12th year running.



Balance sheet & income statement

BALANCE SHEET

Consolidated Statements of Financial Condition (In thousands)

December 31 2019 2018
unaudited*

Assets

Cash and cash equivalents	239,473	\$ 160,361
Investment securities	3,502,120	3,328,515
Loans	1,027,648	1,048,285
Allowance for loan losses	(8,210)	(7,436)
Net loans	1,019,438	1,040,849
Property, buildings and equipment	41,697	38,651
National Credit Union Share Insurance Fund deposit	38,827	38,580
Accrued income and other assets	61,073	60,022
Total assets	\$ 4,902,628	\$ 4,666,978

Liabilities and equity

Deposits	4,172,943	4,080,331
Accrued expenses and other liabilities	69,367	65,222
Total liabilities	4,242,310	4,145,553
Retained earnings and regular reserve	633,762	578,856
Accumulated other comprehensive income	26,556	(57,431)
Members' equity	660,318	521,425
Total liabilities and equity	\$ 4,902,628	\$ 4,666,978

INCOME STATEMENT

Consolidated Statements of Income (In thousands)

December 31 2019 2018
unaudited*

Net interest income

Interest income	\$ 130,124	\$ 116,297
Interest expense	13,475	7,724
Net interest income	116,649	108,573
Provision for losses on loans	3,108	4,320
Net interest income after provision for losses on loans	113,541	104,253

Non-interest income

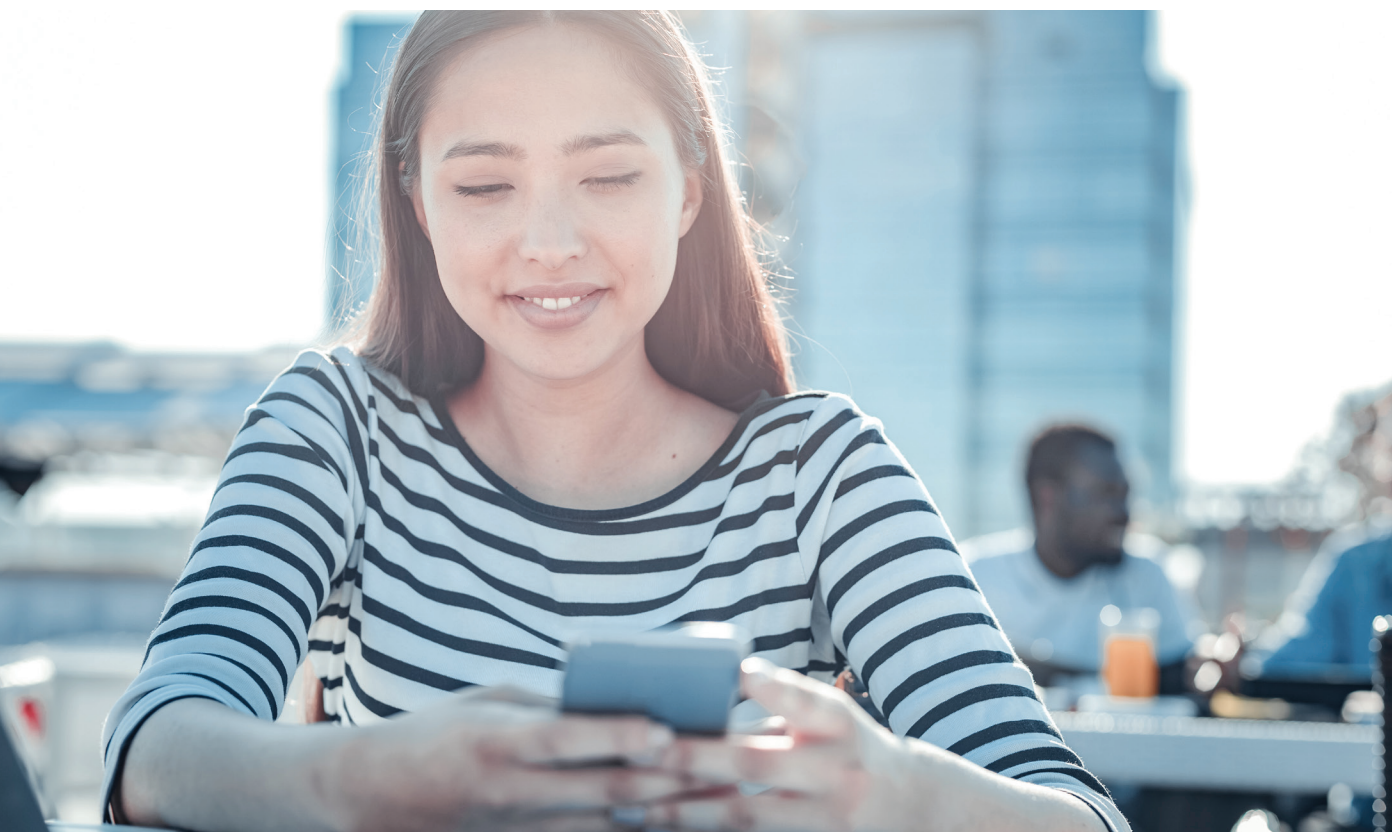
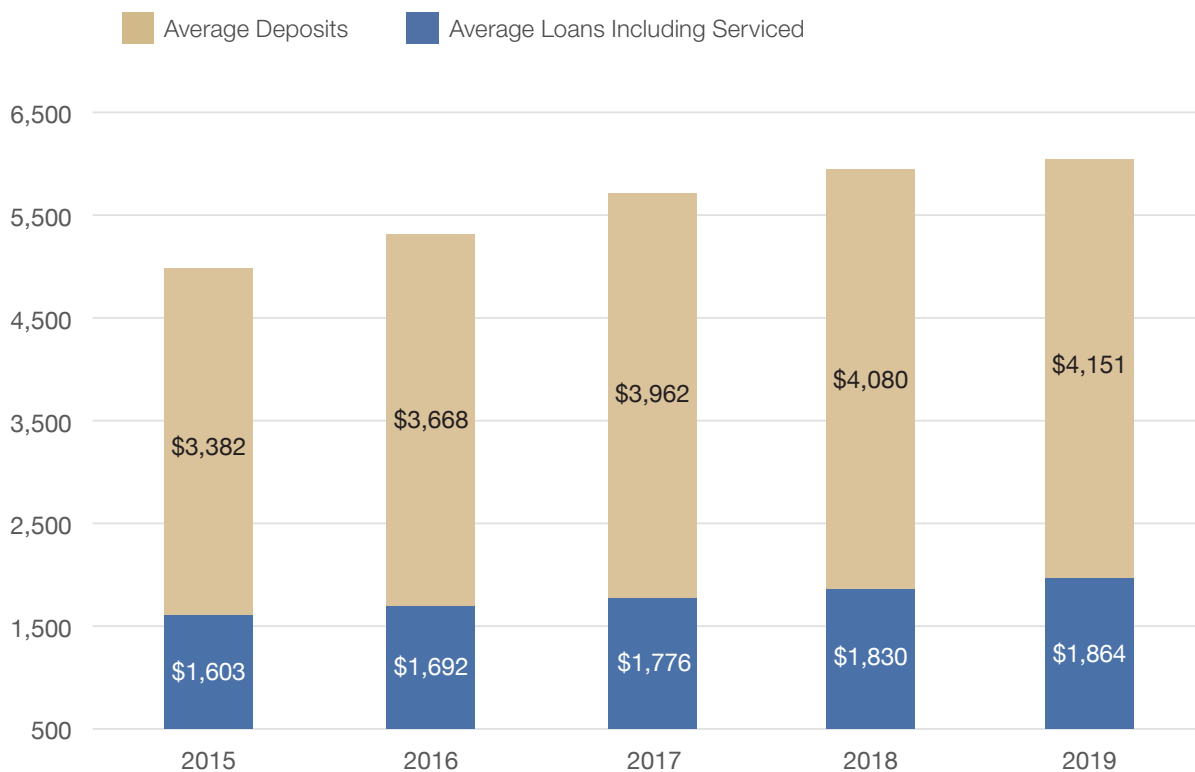
Fees and commissions	45,625	42,697
Other non-interest income	4,159	4,305
Total non-interest income	49,784	47,002

Non-interest expense

Compensation and benefits	44,654	43,356
Office operations and occupancy	15,960	14,873
Other	17,286	17,155
Total non-interest expenses	77,900	75,384
Net income before special patronage dividend	85,425	75,871
Special patronage dividend	30,643	30,137
Net income	\$ 54,782	\$ 45,734

*Crowe LLP was retained to perform the 2019 audit procedures in the spring of 2020. Crowe issued an unqualified audit opinion on the 2018 financial statements.

Five-year growth trends (in millions)



Minutes from the 2019 DFCU Financial Annual Membership Meeting

DFCU Financial Headquarters

MAY 13, 2019

Members were welcomed to DFCU Financial's 2019 Membership Meeting by Board Chairman Jim Cowper. Chairman Cowper 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, Treasurer
- Don Tomford, Director
- Annetta May, Director
- Shirley Ghannam, Director
- Laura Terzes, Secretary of the Board

As well as associate directors Jim Bazner, Margaret Dimond and Cerna Cureton.

Chairman **Cowper** noted that a quorum was present and called the 2019 Membership Meeting to order at 6:01 p.m. Approximately 28 members were in attendance. Chairman Cowper reviewed the agenda provided in the materials to all attendees.

2018 MINUTES

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

REPORT OF THE DIRECTORS

Treasurer Keith Moss 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 Federal Reserve rate increases, job growth, auto sales and home sales.

DFCU Financial had many accomplishments in 2018 which contributed to another successful year financially:

- For 17th consecutive year, DFCU ranked in top 10 for financial performance
- We are in the top five most efficient credit unions. It costs us only 48 cents to make one dollar of revenue vs. 63 cents for our peers
- Average assets under management increased to \$1.6 billion from \$1.5 billion
- Serviced \$1.8 billion in loans
- Deposits increased 6% to \$4.1 billion

Mr. Conway presented major accomplishments, branch expansion, corporate accolades and 2018 initiatives. 2018 was a busy year at DFCU Financial. We ended the year with \$75.9 million in Net Income.

New in 2018

BRANCH AND CALL CENTER ACTIVITY

- Reduced on-hold wait times
- Branch openings: Downtown Ann Arbor and Brighton
- New technology, including touch-screen navigation and image-enabled deposits at our full-service branches

BUSINESS BANKING

- 116 loan accounts for \$21 million
- 3,027 deposit accounts for \$47 million
- Booked 34 loans this year for \$4.5 million
- Held 12 seminars for small business owners

CONSUMER LENDING

- Auto Loan fundings were up 3.4% or \$3 million
- Home Equity fundings and disbursements were down 17%
- E-sign closing totals were \$29M, up 7.4% over last year

MORTGAGE SERVICES

- Serviced 10,264 first mortgage loans for \$1.3 billion
- Mortgage applications were up 1%, fundings were down 18% over 2017
- Now have 12 mortgage officers in various branch locations

DFCU FINANCIAL PARTNERS

- Ahead of last year's revenue by 18% and last year's income by 28%
- Assets under management \$1,469,852,683 for over 12,041 clients (Note that assets under management were lower in December due to the market correction. As of November AUM was \$1.534 billion and today AUM is \$1.556 billion.)
- There are more than 200 CUs that run their business through CUSO Financial. DFCU Financial Partners is #2 of those 200, trailing only Navy Federal Credit Union – the nation's largest, 20 times bigger than DFCU.

MEMBERSHIP GROWTH

- We currently have more than 228,000 members in 2018; we added 2,927 new members, 73% of whom were millennials
- More than 1,300 new accounts were opened through ReferLive program
- Members opened 2,550 new accounts online

COMMUNITY ENGAGEMENT

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

- 120 free financial education seminars around the state for 2,007 attendees
- Donated \$44,050 to school education programs and scholarships
- Sponsored community initiatives including Girls on the Run, Helen DeVos Children's Hospital, Henry Ford Hospital, Cell Phones for Soldiers and Bountiful Harvest and several area Chambers of Commerce
- Participated in 45 community expo events at colleges, UAW, Michigan Association of CPAs, hospitals and business organizations



AWARDS

- Forbes - top 2% of financial institutions
- National Best & Brightest
- Metro Detroit Best & Brightest
- MichBusiness Top Companies
- Detroit Free Press Top Workplace

In addition to outstanding financial and community performance, DFCU Financial also issued its 14th consecutive Cash Back payout, this one of \$30.2 million. Since 2006, we've paid nearly \$300 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.

MR. CONWAY CONCLUDED THE PRESENTATION WITH 2019 KEY INITIATIVE DETAILS INCLUDING

- DFCUPerks checking program
- Evaluate Online Account Opening Solutions
- Implement Consumer Loan Originating System
- Enhance Digital Banking Experience

REPORT OF FINANCIAL CONDITION AND ANNUAL COMPREHENSIVE AUDIT

Chairman Cowper 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, Annetta May, and Keith Moss 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 6:17 p.m.

QUESTION AND ANSWER SESSION

Chairman Cowper invited questions from the membership. A question and answer period followed and ended at 6:23 p.m.



**The Cash Back
Credit Union**

Call: 888.336.2700

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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 is an equal opportunity lender.