



DFCU FINANCIAL

2021 Annual Report

AGENDA

1. Determination of a Quorum
2. Approval of the Minutes from 2021 Meeting
3. Report of Chairman
4. Report of Financial Condition & Annual Comprehensive Audit
5. Unfinished Business
6. New Business Other Than Election
7. Election
8. Adjournment
9. Questions and Answers

RULES OF PROCEDURE AND CONDUCT OF THE ANNUAL MEETING

The following rules of procedure and conduct have been adopted by the Board of Directors and will be used to assure that the annual meeting is fair, orderly, and conducted in a business-like fashion.

1. The meeting will be conducted in accordance with the Agenda set forth above and will be conducted as expeditiously as possible.
2. The Annual Membership Meeting shall be governed by these Rules of Procedure and the parliamentary procedures described in Democratic Rules of Order (Seventh Edition).
3. This presentation may not be recorded without the express written permission of DFCU Financial.
4. If you have specific questions not already submitted, please use the CHAT function and questions will be responded to.
5. In order to give everyone an opportunity to be heard, questions and comments should be brief.
6. The distribution of any marketing, advertising, soliciting, promotional, or other materials is strictly prohibited.
7. Any person found to be violating the foregoing Rules of Procedure and Conduct or otherwise being disruptive to this meeting may be removed from the meeting.
8. Meeting Business. In addition to the election of directors, matters to come before the annual meeting are limited to specific actions of members permitted under the law and DFCU Financial's bylaws. No action may be taken by the members at the annual meeting unless the entire membership has been notified prior to the annual meeting of the old or new business action to be considered.

Dear Valued Members,

On behalf of your Board of Directors, DFCU Financial announces the appointment of Ryan Goldberg as our new President and CEO. An experienced business leader, Ryan succeeds Mark Shobe, who retires after 22 successful years as President and CEO.

We can all be proud of what we've accomplished together under Mark's leadership. This now-nearly-\$7 billion credit union has grown more than 600% in assets, and earnings are more than 20 times what they were in 2000. DFCU Financial is widely known as one of the most efficiently operated credit unions in the country. Our continued strong financial performance has placed us in the top 10 among peer credit unions nationally in earnings performance for 20 consecutive years.

This outstanding financial performance has allowed us to pay Cash Back to members each January since 2007. The payout continued to increase each year, and \$36.1 million was paid this January. This is the largest special dividend in the history of the credit union industry. To date, more than \$392.8 million has been given back to members.

Over these years, Mark and his team have been instrumental in soliciting and acting on membership feedback. As a result, we initiated and grew a thriving full-service, advice-based investment services department; launched commercial banking services; platform sales and service programs have been implemented; and a major branch expansion program was undertaken to better and more conveniently serve members.

Mergers provided DFCU Financial with geographic diversification into the Ann Arbor, Lansing, and Grand Rapids markets. The total number of branch offices has expanded from six to 27 since 2000. Number 28 will open this fall in Rochester Hills. We wish Mark well in his much-deserved retirement.

Ryan brings 30 years' experience in retail and commercial banking, wealth management, and retirement services. He comes from Alerus Financial Corporation where he served as Executive Vice President, Chief Revenue Officer. Previously, as Head of Retail Banking for Flagstar, his team doubled its customer base by leading the largest acquisition in the company's history with the purchase of 52 offices from Wells Fargo.

As Executive Vice President, Regions Financial Corporation, he ran the Branch Small Business and Priority Banking segments throughout the South, Midwest, and Texas.

Ryan has enjoyed much success in his banking, loan, and investment career. He has previously worked and lived in metro Detroit, which will enable a smooth transition back to our community.

Ryan received his Bachelor of Science in Finance with cum laude distinction from Florida State University. He was named Top 40 Under 40 by both Gulfshore Business and the Tampa Bay Business Journal.

DFCU has a longstanding commitment to our membership, and the Board of Directors has great expectations that Ryan Goldberg will continue our tremendous member service. The goals for the future will be continued loan and deposit growth for our members and the communities we support.

Please join me in welcoming Ryan to our DFCU team.



Jim Cowper

Chairman of the Board
DFCU Financial

James Cowper

BALANCE SHEET

Consolidated Statements of Financial Condition

December 31	2021 unaudited*	2020
Assets		
Cash and cash equivalents	\$ 276,842	\$ 268,777
Investment securities	5,101,474	4,483,131
Loans	932,817	931,142
Allowance for loan losses	(5,511)	(11,346)
Net loans	927,306	919,796
Property, buildings and equipment	37,393	39,909
National Credit Union Share Insurance Fund deposit	48,974	42,830
Accrued income and other assets	63,392	62,247
Total assets	\$ 6,455,381	\$ 5,816,690
Liabilities and equity		
Deposits	5,637,174	4,931,760
Accrued expenses and other liabilities	76,272	76,408
Total liabilities	5,713,446	5,008,168
Retained earnings and regular reserve	753,943	689,367
Accumulated other comprehensive income	(12,008)	119,155
Members' equity	741,935	808,522
Total liabilities and equity	\$ 6,455,381	\$ 5,816,690

INCOME STATEMENT

Consolidated Statements of Income

December 31	2021 unaudited*	2020
Net interest income		
Interest income	\$ 115,512	\$ 125,819
Interest expense	5,474	8,803
Net interest income	110,038	117,016
Provision for losses on loans	(5,264)	4,793
Net interest income after provision for losses on loans	115,302	112,223
Non-interest income		
Fees and commissions	54,597	50,978
Other non-interest income	11,175	3,114
Total non-interest income	65,772	54,092
Non-interest expense		
Compensation and benefits	49,569	46,109
Office operations and occupancy	15,897	16,491
Other	14,890	15,335
Total non-interest expenses	80,356	77,935
Net income before special patronage dividend	100,718	88,380
Special patronage dividend	36,142	32,775
Net income	\$ 64,576	\$ 55,605

*Crowe, LLP was retained to perform the 2021 audit procedures in the Spring of 2022. Crowe, LLP issued an unqualified opinion on the 2020 financial statements.

Five-year Growth Trends (in millions)



 Average Deposits  Average Loans Including Serviced



We were honored to be recognized in 2021 as one of Forbes' Best-in-State Credit Unions. DFCU is the only CU in Michigan to have won this award all four years it's been given. Employee surveys helped us achieve National Best & Brightest for the 10th time, Metro Detroit Best & Brightest for the 14th consecutive year, West Michigan Best & Brightest for the 10th year in a row, and Detroit Free Press Top Workplace for the 14th year running.

In 2021, DFCU Financial was proud to make significant contributions to organizations that offered creative learning opportunities and enhanced community engagement. Unique sponsored programs included:

Virtual **Financial Reality Fairs called Bite of Reality**. This hands-on experience presented by DFCU staff helped students learn to manage their wants and needs to live on their own. After the students navigated nine components of independent living, they balanced their budget and evaluated what they'd learned.

With a grant from DFCU Financial, the **Birmingham Education Foundation** offered third graders a program that taught them about Michigan's Native Americans with stories and facts about how they hunted, traveled, traded, played, and used natural resources to help them survive.

BookPALS is an innovative program used by the **Children's Literacy Network**, and sponsored by DFCU, to connect students who live in different cities or rural communities all over Michigan through virtual reading groups. Currently nine reading groups meet weekly with designated books and reading exercises, mentored by a teacher.

Youth Energy Squad students recognized that awareness and education were key factors in helping their communities take action against climate change. The self-named Climate Action Warriors partnered with the City of Detroit's Green Task Force to present relevant information about climate change to a group of more than 75 teachers and community educators as an example of how they could address climate change through their curriculum. DFCU Financial was proud to sponsor programs like this through Detroit Public Schools Foundation's EcoWorks program.

On behalf of **Operation Good Cheer**, DFCU staff adopted 32 children and purchased and wrapped gifts from each child's wish list, providing them with gifts and the joy of knowing there are people who care.

PHONE CONFERENCE - MAY 17, 2021

Members were welcomed to the 2021 DFCU Financial Membership Meeting by Board Chairman Jim Cowper. Because this meeting was a conference call format, he directed the members to the website for the annual report, financials, and meeting agenda which were all previously made available for review.

CALL TO ORDER

RULES OF CONDUCT

Chairman Cowper reviewed the Rules of Conduct for the virtual meeting including:

- This presentation may not be recorded without DFCU permission
- All participants except those speaking will be muted
- Use the chat function for specific questions
- Questions will be responded to immediately following the meeting

Chairman Cowper then introduced the officials present at the meeting.

- **Keith Moss, Vice Chair**
- **Don Tomford, Secretary**
- **Margaret Dimond, Director**
- **Shirley Ghannam, Director**
- **John Sinelli, Director**
- **Jim Bazner, Associate Director**
- **Mark Shobe, President & CEO**

AGENDA

DETERMINATION OF A QUORUM

Approximately 17 members were in attendance. Chairman Cowper noted that a quorum was present and called the 2021 meeting to order at 6:00 p.m.

APPROVAL OF MINUTES FROM THE 2020 MEETING

The first order of business on the agenda was acceptance of the minutes from the 2020 Annual Membership Meeting. The minutes were approved and made part of the official records.

2020: PERFORMANCE CHALLENGES AND SUCCESSES

The next two agenda items were the Report of the Directors and the Report of Financial Condition and Annual Comprehensive Audit made by Chairman Cowper.

PERFORMANCE CHALLENGES

Our debit and credit card income was negatively impacted by the “shut down” of businesses earlier in the year. As businesses were partially reopened, online shopping increased and revenue began to bounce back. A year later, the pandemic is still going on and uncertainty still presents us with challenges.

Consumer loan demand—primarily for auto and home equity loans—was also negatively impacted in 2020.

Net Interest Margin was challenged by low rates and the repricing of our loan and investment portfolios. Specifically, net interest margin declined from 2.46% to 2.20%. We anticipate earnings yields will continue to decline in 2021.

DFCU received a large number of requests for mortgage relief in the form of loan extensions and forbearances. Loan extension requests went from an average of seven per month to more than 400 requests in just a few days.

Under the CARES Act of 2020, forbearance gives borrowers a temporary postponement or reduction of mortgage payments of up to 180 days. Procedures and processes were quickly developed to effectively accommodate the CARES Act, credit reporting, and proper file maintenance. Depending on how quickly the economy bounces back, there is uncertainty to the impact on credit quality for loans in the future.

Commercial loan demand was also limited by the pandemic, as those businesses with PPP loans were generally unwilling to move or enter into new loan agreements.

PERFORMANCE SUCCESSES

Although there were difficulties presented by the pandemic, we were still able to achieve some positive accomplishments.

Despite the dramatic increase in hardship requests, we experienced substantial growth in mortgage lending due to record low interest rates. Many members also took the opportunity to refinance and saved on monthly costs.

2020 mortgage closings totaled \$404 million, compared to \$283 million in 2019.

Our title company also had a banner year, thanks in part to the increased activity in the mortgage market.

Our members were saving more, resulting in significant deposit growth.

DFCU Financial Partners, our investment advisory arm, saw very strong performance as the stock market was flooded with new investors during the pandemic.

2020 FINANCIAL OVERVIEW – DEPOSITS, LOANS, AND INVESTMENTS

2020 FINANCIAL RESULTS

Moving on to the Report of Financial Condition, here are some specific numbers:

Average deposits in 2020 increased by 10% over 2019 and totaled \$4.5 billion.

Average loan balances (including serviced loans) were up slightly (0.4%) in 2020 and totaled \$1.9 billion.

Average assets under management (by DFCU Financial Partners) increased 6.3% in 2020 and totaled \$1.9 billion.

DFCU's Return on Assets reached 1.64% during a record year of net income, the 4th (fourth) highest mark in our national peer group.

This is the 20th consecutive year DFCU has finished in the top 10 in ROA nationally.

Management's concerted efforts to control costs resulted in an extremely efficient operation, ranking us 2nd (second) nationally.

Chairman Cowper directed members to review full Balance Sheet and Income Statement within the Annual Report and to invited them to review these at their leisure.

OTHER 2020 ACCOMPLISHMENTS

- Debit and credit card conversions, to a new servicer and from Visa to Mastercard
- We opened our newest branch on Cass Avenue in Midtown
- And for the 15th consecutive year, we paid our members the Cash Back reward

REACHING OUT TO COMMUNITIES

DFCU continues to be deeply involved in its communities and actively provides financial education free of charge to members. The pandemic slowed, but did not diminish, this engagement.

- Car cruise for First Responders
- Game on Cancer Kids Club art packages, meals
- Gleaners Food Bank donation
- Virtual Financial Seminars, bigger and better than ever
- Detroit Education Foundation Hope Park donation
- Other Ed Foundation sponsorships including community gardens, welcome kit for Kindergartners, shop small business giveaways, and technology and robotics grants

AWARDS

DFCU received several awards in 2020

- Forbes – Best-in-State Credit Union for the third consecutive year
- National Best & Brightest for the 9th time
- Metro Detroit Best & Brightest for the 13th consecutive year
- West Michigan Best & Brightest for 9th year
- Detroit Free Press Top Workplace for the 13th year

2021 INITIATIVES

As we move into 2021, Chairman Cowper detailed a few top initiatives:

- Focus will continue to be on stringent cost control
- Work to keep branches open to meet member needs
- Will engage the commercial market as businesses recover
- Mortgage production will shift away from refinancing and toward new home purchases

- Continue to help members through loan repayment challenges
- Improve member self-service experience
- Addition of new app offering more control and security over debit and credit cards

ELECTION

Don Tomford, Shirley Ghannam, and Jim Cowper 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. Thanks to the nomination committee led by John Sinelli.

ADJOURNMENT OF MEETING

The meeting adjourned at 6:13 p.m.

Q & A

There were no questions, so the meeting ended at 6:13 p.m.





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