80TH ANNUAL REPORT

IN YOUR CORNER

INDUSTRIAL CREDIT UNION

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79TH ANNUAL MEETING MINUTES | APRIL 29, 2020

CALL TO ORDER

Chair Michael Ashby called the 79th Annual Meeting to order at about 5:15 pm on Wednesday, April 29, 2020, on the digital platform Zoom.

ROLL CALL

Board, Supervisory Committee (SC) Members, and about 45 Industrial Credit Union members were present, representing the interests of Industrial Credit Union.

Board and Supervisory Committee members present: Michael Ashby (Board Chair), Rick Maricle (Board Vice Chair), Michael Neuterman (Board Secretary), Melissa Muhich (SC Chair), Dennis McGrew (Board Volunteer), Stanley Godek (Board Volunteer), Harold Henkel (Board Volunteer), Bonnie Drafs (SC Volunteer).

Industrial Credit Union Senior Management present: Brandon Hahnel (CEO), Rich Holcomb (VP of Finance), Vickie Skelton (VP of Operations), BJ Van Leeuwen (VP of Lending).

MINUTES

Michael Ashby (Board Chair) requested a motion to approve the March 27th, 2019 Annual Meeting minutes and the Statement of Financial Condition, which were included in the reports that had been distributed to members. This motion was made and seconded from the floor, and attendees approved unanimously.

REPORTS

Annual reports were distributed to the membership upon arrival via website link, including the President and Chairperson's Report and the Supervisory Committee Report. Michael Ashby (Board Chair) presented the President and Chairperson's report, and Melissa Muhich (SC Chair) presented the Supervisory Committee Report for any member responses or questions. There were no questions regarding the presented material. All reports were unanimously approved, as per the aforementioned motion.

ELECTION OF OFFICERS 2020

The Nominating Committee, consisting of Michael Ashby, Melissa Muhich, and Brandon Hahnel, presented [by Melissa Muhich] a slate of candidates in the Annual Report. Chair Michael Ashby abstained presentation due to his reelection. Melissa Muhich (SC Chair) stood in and declared that this was an uncontested election and asked the membership for approval of the slate of candidates as presented:

- Reelection of Michael Ashby as Board Chair
- Reelection of Dennis McGrew as Board Volunteer
- Reelection of Bonnie Drafs as Supervisory Committee Volunteer

All candidates agreed to extend their terms. They were reelected without motion or vote, all three with acclimation.

Michael Ashby (Board Chair) invited the membership to become a volunteer with the Industrial Credit Union Board or Supervisory Committee.

ANNUAL ADDRESS FROM CEO

Brandon Hahnel (CEO) provided a current health check for the Credit Union. Membership numbers continue to increase, with over 2000 additional members over the last four months. Deposits and loans continue to grow; loans especially, having increased $100 million since 2018. This is a landmark in growth and being able to provide for the community. Net worth continues to prove the Credit Union as well-capitalized, providing a good safety net to weather any current or future crises. At the end of March, the net worth per dollar increased, while the percentage shrank – this is because members are bringing more money in deposits and trusting the Credit Union to keep their money.

Mr. Hahnel reviewed changes in 2019 and the beginning of 2020. Membership increased 7.3% from December 2018. 2019 saw $80 million in new loans, an 11% growth from 2018 – an incredible production and provision for members. The following enhancements were deployed: high-value checking accounts, enhanced cyber security processes, and the highest certificate rates in Whatcom County.

ANNUAL ADDRESS FROM CEO *(continued)*

Mr. Hahnel shared recent monthly loan numbers to show the effect of the pandemic. Loan numbers were on good track in the first three months this year but have significantly decreased [by about $4.5 million] in April. The Credit Union wants to reiterate it is still available to lend and offer help. Skip-a-pay services are also being offered to defer loan payments for a month.

The CEO addressed the current pandemic and how the Credit Union is handling the situation. The Credit Union is prioritizing individuals and the community over revenue. Skip-a-pay fees are being waived to relieve financial stress. Pandemic relief loans are now being offered for additional help. Lobbies are still closed, but all services are still available. Branches have extended hours and services in the drive-ups. The Credit Union is here to help in many ways. As for the future, the Credit Union looks to continue to provide excellent value and service to members. Management is excited to be able to offer a wider variety of conventional mortgages, including 30-year home loans, staring in June of this year. A secure online chat program will soon be added, with the ability of co-browsing to better help members self-navigate quickly. Secure online membership application ability is also coming soon, creating a safe process for employees and new members to complete onboarding. And last, but not least, instant issue debit cards – the ability to provide new cards in-branch immediately – will come soon after branch lobbies are reopened.

Q & A

Michael Ashby (Board Chair) opened chat for questions, which were addressed by Brandon Hahnel (CEO) and the Senior Management team (Rich Holcomb, Vickie Skelton, BJ Van Leeuwen).

Q: *"How are deposit rates set? Why are they so low?"*

A: Currently, deposit rates are higher than most peers. The Credit Union is striving to offer rates well above market right now, with the desire to raise them higher in the long term. If rates are raised too much or too fast, it can negatively affect the capital of the Credit Union and affect it's abilities to properly manage the institution. Management takes the Credit Union mission and values seriously, and it is a balancing act between the institution and membership, as well as long and short-term movement.

Q: *"Do we do our own cash counts, or use an outside service?"*

A: The Credit Union does its own cash counts, with processes in place. All drawers, vaults, and cash recyclers are balanced each day. Modern machinery has made reconciling cash very accurate and secure. Constant reconciliation is done, as well as surprise cash audits.

Q: *"Can you address the 20% increase in labor and benefits, while member rates have gone down?"*

A: The Credit Union has been adding key staff to service the new lending programs by onboarding expertise in lending and technology. Over the long term, this will provide much value to the membership. This is a front-loaded investment process that will be able to support more loan types and membership needs, providing greater return for members in the long run.

Q: *"Does the CU really have the highest dividend rates in the area, because it doesn't seem so?"*

A: The Credit Union does extensive research to determine dividend rates. Currently, the certificate rates are high, which is challenging to find elsewhere. Deposit rates currently match or exceed peers'.

Q: *"What percentage of member deposits are used in lending?"*

A: The percentage used exceeds 80%, which is a great, safe, position.

ADJOURNMENT

There being no further business, Michael Ashby (Board Chair) called the 79th Industrial Credit Union Annual Meeting adjourned at 5:55 pm.

STATEMENT OF FINANCIAL CONDITION

ASSETS	2020		2019	
Loans to Members	$210,443,289	68.42%	$196,200,945	79.42%
Allowance for Loan Losses	$(1,876,187)	-0.61%	$(1,403,293)	-0.57%
Cash on Hand	$3,424,077	1.11%	$3,271,478	1.32%
Investments / Overnight Deposits	$83,264,482	27.07%	$37,537,355	15.19%
Fixed Assets - Net	$5,772,234	1.88%	$5,669,259	2.29%
Other Assets	$6,551,021	2.13%	$5,770,097	2.34%
Total Assets:	$307,578,916	100.00%	$247,045,841	100.00%
LIABILITIES & MEMBER DEPOSITS				
Member Deposits	$279,304,026	90.81%	$222,648,944	90.12%
Other Liabilities	$3,787,405	1.23%	$2,579,084	1.04%
Total Liabilities & Member Deposits	$283,091,431	92.04%	$225,228,028	91.17%
EQUITY				
Regular Reserves	$3,299,425	1.07%	$3,299,425	1.34%
Undivided Earnings	$21,655,264	7.04%	$19,298,278	7.81%
Reserve - Investments Market Value	$(467,204)	-0.15%	$(779,890)	-0.32%
Total Equity	$24,487,485	7.96%	$21,817,813	8.83%
Total Liabilities, Member Deposits & Equity	$307,578,916	100.00%	$247,045,841	100.00%

STATEMENT OF INCOME & EXPENSE

OPERATING INCOME	2020		2019	
Income from Loans	$10,657,286	65.50%	$9,433,979	64.74%
Income from Investments & Deposits	$384,949	2.37%	$1,077,941	7.40%
Non-Interest Operating Income	$5,228,380	32.13%	$4,060,117	27.86%
Total Operating Income	$16,270,615	100.00%	$14,572,037	100.00%
OPERATING EXPENSES				
Labor & Benefits & Other	$7,326,390	45.03%	$6,070,273	41.66%
Office Operations Expense	$4,905,780	30.15%	$4,725,331	32.43%
Total Operating Expenses	$12,232,170	75.18%	$10,795,604	74.08%
Income (Loss) From Operations	$ 4,038,445	24.82%	$3,776,433	25.92%
Allowance for Loan Loss	$ 1,681,544	10.33%	$1,318,139	9.05%
Total Non-Operating Gain (Loss)	$386,339	-2.37%	$(36,469)	0.25%
Income (Loss) Before Dividends	$2,743,240	16.86%	$2,421,825	16.62%
Total Dividends & Interest Expense	$386,250	2.37%	$411,106	2.82%
Net Income After Dividends	$ 2,356,990	14.49%	$ 2,010,718	13.80%

Industrial Credit Union is federally insured by NCUA.

SUPERVISORY COMMITTEE ANNUAL REPORT

2021 Report for the 2020 Calendar Year

As volunteer members of this Committee, we are dedicated to ensuring the safety and soundness of our policies, procedures and practices as well as the financial position of Industrial Credit Union. One of our responsibilities is to confirm the Credit Union's financial condition is stated accurately. We work to ensure the accuracy of records, make sure member deposits are adequately protected and that operations are in compliance with all federal and state regulations, as well as our own bylaws, policies and procedures. We do this with the assistance of the Credit Union's Internal Auditor, Risk Management Department, and accounting firms conducting independent reviews of our financials and operations.

In addition to our regulatory risk examination conducted by the State of Washington Department of Financial Institutions – Division of Credit Unions, we also worked with the Internal Audit Department and external service providers to conduct a full Opinion financial statement audit as well as assessments of policies and procedures related to ACH transactions, dormant accounts, payroll processing, recruiting and hiring practices, internal controls, and compliance with the Bank Secrecy Act. Based on our activities and the results of our 2020 exam and audits, the Supervisory Committee believes that the Credit Union is performing appropriately to sustain a safe and secure future; and that it is well managed with a strong commitment to serving the membership.

As your representatives, the Supervisory Committee will continue to perform oversight activities so that we are confident members' financial interests are well protected. We encourage you to contact us with any questions or comments about our findings.

I wish to thank my fellow committee members, Bonnie Drafs and Rick Maricle, for their dedication to the Credit Union. A special thank you goes to the Credit Union's Internal Auditor and staff members in the Risk Management and Accounting departments for their hard work and outstanding support.



On behalf of the entire Committee, we appreciate the opportunity to serve the members of Industrial Credit Union and look forward to a secure and successful 2021.

Sincerely,

Melissa Muhich | Chair, Supervisory Committee

ANNUAL PRESIDENT AND BOARD CHAIR REPORT

Though 2020 was without a doubt a difficult year, the challenges we encountered pushed Industrial Credit Union to grow and adapt in ways that will continue to benefit our members and the Credit Union for years to come.

In the face of uncertainty our teams responded with agility; we expanded our services and increased our lending activities. We debuted 15-year and 30-year fixed-rate conventional mortgage options, streamlined our online loan application process, and began instant-issuing debit cards out of our own branches.

While many other organizations drew back during the pandemic, we leaned forward and pushed for positive growth. We found innovative ways to serve our members in this new environment: launching an all-online membership application process, introducing live chat both on our website and in online banking, and heavily evolving our cybersecurity infrastructure.

Over the course of the year, the number of auto loans at credit unions in Whatcom County declined by 5.9%. At Industrial Credit Union, over the same timeframe, the number of auto loans on our books increased by 14.8%. While the average credit union in the United States built their net worth by only 7.25%, Industrial Credit Union grew net worth by 10.43%.



In 2020 our financial performance has been very strong; our membership grew by 3.7%, our members borrowed over $210,000,000 in loans, deposited over $279,000,000 and our Net Promoter Score (NPS) improved from 53.9 in 2019 to 58.1. Between significant loan growth, a rising NPS score and a 25.5% increase in deposits, it's clear our members have placed great trust in their credit union.

The U.S. Department of the Treasury Community Development Financial Institutions Fund (CDFI) also believes in our mission and performance, and Industrial Credit Union has been awarded a $650,000 grant to support our lending efforts.



Industrial Credit Union is well positioned to both survive and thrive in 2021. We are proud to serve our members and Whatcom County and hopeful that the year ahead will be filled with positive change.

Thank you for your continued membership and support.

Sincerely,

Brandon Hahnel | President & CEO
Michael Ashby | Board Chairperson