79TH ANNUAL REPORT

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IN YOUR CORNER

INDUSTRIAL CREDIT UNION

78TH ANNUAL MEETING MINUTES | MARCH 27, 2019

CALL TO ORDER

Board Chair Michael Ashby called the 78th Annual Meeting to order at about 6:30 pm on Wednesday, March 27th, 2019 at the Bellingham Cruise Terminal.

ROLL CALL

Board of Directors, Supervisory Committee Members, and over 100 Industrial Credit Union members were present, representing the interests of Industrial Credit Union.

MINUTES

A motion was made, seconded, and carried unanimously to approve the minutes for the March 23rd, 2018 meeting and the Statement of Financial Condition, which were included in the reports that had been distributed.

REPORTS

Annual Reports were distributed to the membership upon arrival, including the President & Chairperson's Report and the Supervisory Committee Report. There were no questions regarding the Annual Report. The report was unanimously approved.

ELECTION OF OFFICERS 2019

The Nominating Committee presented a Slate of candidates in the Annual Report. Board Chair Michael Ashby declared that this was an uncontested election and asked the membership for approval of the slate of candidates as presented. A motion was made and seconded for approval by members present. Harold Henkel was reelected by consent. Invitation was given to become a volunteer with Industrial Credit Union Board.

INTRODUCTION OF NEW CEO

Brandon Hahnel was introduced as the new CEO of Industrial CU, having started in December of 2018. This was his first official meeting with the membership.

STATEMENT FROM CEO

Brandon gave the membership an overview about his background and experience, sharing his values and commitments for the future of the Credit Union. The Credit Union's milestone of reaching $250m in assets was acknowledged, along with our service to 32,000 individuals and businesses. Industrial CU's growing numbers represent all the relationships built in this community. In 2018 Industrial CU had the most successful lending year in our history, adding a lot of funds to provide the community with opportunities. Acknowledgment was given to current and future development of products and services that will provide a lot of value to the members – one being improvement in online capabilities.

Q & A

The floor was opened to member questions, which were addressed by the CEO and senior management.

"What do you see for growth?" Response: Industrial CU is looking forward to great growth, in a controlled manner.	*"How is our cyber security?"* Response: The CU and Board review risk tolerance and cyber security policies annually. Our tolerance for risk is low, with the intent to maintain strong safeguards. Our stance is to not take risks with cyber security.
"When are we raising dividend rates?" Response: The goal is to increase these in the future. Shoring up revenues and increasing efficiencies will be the first move forward.	*"Use of credit card should require a review of ID."* Response: The organization is constantly battling fraud and is diligent in our securities to do so. Industrial CU has some ability to push for partner vendors to do security training, but it is up to the vendor and the member to discuss the security of a transaction.
"How is value returned to members?" Response: There are a number of ways Industrial gives back to its members: Online services, 3rd party connections, products & services, credit card rewards, and dividends.	*"When do we notify members of potential fraud?"* Response: The policy is to inform members of the 'who', 'what' and 'why' of any information compromise within 24 hours. Though there have been some instances with debit cards, Industrial CU has not seen a compromise in information. The organization is diligent in educating staff on identifying and reacting to fraud and scams, as well as educating our members of risk.
"Coming from WECU, what opportunities do you see with Industrial CU?" Response: A huge opportunity is to offer more home loan options.	*"Can we increase password requirements to be more complex and less at-risk?"* Response: We currently require only 6 characters, but we also use MFA (multi-factor authentication). These systems are very secure. We strongly encourage members to use MFA for account access.

ACKNOWLEDGMENT OF LLOYD LUDTKE

Thank you was given to Lloyd Ludkte, who served 28 years on the Board of Directors.

ADJOURNMENT

There being no further business, Industrial CUs 78th Annual Meeting was adjourned around 7:15 pm.

STATEMENT OF FINANCIAL CONDITION

ASSETS	2019		2018	
Loans to Members	$196,200,945	79.42%	$171,477,026	68.03%
Allowance for Loan Losses	($1,403,293)	-0.57%	($1,061,208)	-0.42%
Cash on Hand / In Banks	$3,271,478	1.32%	$2,917,849	1.16%
Investments / Available for Sale	$37,537,355	15.19%	$67,406,467	26.74%
Fixed Assets - Net	$5,669,259	2.29%	$5,847,500	2.32%
Other Assets	$5,770,097	2.34%	$5,474,104	2.17%
Total Assets:	$247,045,841	100.00%	$252,061,738	100.00%
LIABILITIES & MEMBER DEPOSITS				
Member Deposits	$222,648,944	90.12%	$227,748,958	90.35%
Other Liabilities	$2,579,084	1.04%	$5,214,588	2.07%
Total Liabilities & Member Deposits	$225,228,028	91.17%	$232,963,546	92.42%
EQUITY				
Reserves	$3,299,425	1.34%	$3,299,425	1.31%
Undivided Earnings	$19,298,278	7.81%	$17,287,559	6.86%
Reserve - AFS Investments Market Value	($779,890)	-0.32%	($1,488,792)	-0.59%
Total Equity	$21,817,813	8.83%	$19,098,192	7.58%
Total Liabilities, Member Deposits & Equity	$247,045,841	100.00%	$252,061,738	100.00%

STATEMENT OF INCOME & EXPENSE

OPERATING INCOME	2019		2018	
Income from Loans	$9,433,979	64.74%	$7,313,006	58.47%
Income from Investments & Deposits	$1,077,941	7.40%	$1,708,118	13.66%
Non-Interest Operating Income	$4,060,117	27.86%	$3,485,253	27.87%
Total Operating Income	$14,572,037	100.00%	$12,506,377	100.00%
OPERATING EXPENSES				
Labor & Benefits & Other	$6,179,058	42.40%	$5,107,678	40.84%
Office Operations Expense	$5,934,686	40.73%	$5,314,332	42.49%
Total Operating Expenses	$12,113,744	83.13%	$10,422,010	83.33%
INCOME (LOSS) FROM OPERATIONS	$2,458,293	16.87%	$2,084,367	16.67%
Total Non-Operating Gain (Loss)	($36,469)	0.25%	($42,637)	0.34%
INCOME (LOSS) BEFORE DIVIDENDS	$2,421,824	16.62%	$2,041,730	16.33%
Total Dividends & Interest Expense	$411,106	2.82%	$385,181	3.08%
Net Income After Dividends	$2,010,718	13.80%	$1,656,549	13.25%

SUPERVISORY COMMITTEE ANNUAL REPORT

2020 Report for the 2019 Calendar Year

Industrial Credit Union's Supervisory Committee is composed of member volunteers who are dedicated to ensuring the safety and soundness of the Credit Union. The Supervisory Committee works independently of the Board of Directors and management team to confirm that the cooperative's financial condition is stated accurately, and that operations comply with applicable federal and state regulations as well as the organization's bylaws, policies, and procedures.

With the assistance of contracted auditors, the Supervisory Committee oversees several independent reviews of the Credit Union's financial position, operations, and internal controls. Among dozens of smaller reviews, the Supervisory Committee oversaw the following major activities in 2019:

- An audit of Automated Clearing House (ACH) policies and procedures *(conducted by Compliance Services Group).*
- Audits of the Credit Union's Bank Secrecy Act program, consumer and real estate lending programs, human resources processes, and physical security practices *(conducted by Clifton Larson Allen).*
- A Full Opinion Audit of the organization's financial statements and processes *(conducted by Moss Adams).*
- Audits of internal accounting practices, credit and debit card processes, Home Mortgage Disclosure Act procedures, insider accounts, safe deposit boxes, and wire procedures *(conducted by an independent contractor).*

In addition to these requested audits, the Supervisory Committee also ensures that Credit Union management properly responds to, and complies with, periodic Safety and Soundness examinations conducted by the State of Washington Department of Financial Institutions (Division of Credit Unions) and the National Credit Union Administration.

Based on the committee's audit activity and the results of the 2019 Safety and Soundness exam, the Supervisory Committee believes that the Credit Union's operating procedures are sound. In addition, the committee has observed that the cooperative's management team is committed to serving our membership with integrity, accountability, dependability, kindness, and adaptability.



On behalf of the entire Committee, we appreciate the opportunity to serve the members of Industrial Credit Union in the year ahead.

Sincerely,

Melissa Muhich | Chair, Supervisory Committee

ANNUAL REPORT FROM THE CHAIR & CEO

In 2019, Industrial Credit Union enjoyed an incredible year of growth and positive change. Members borrowed over $80 million from the cooperative in 2019, bolstering the Credit Union's total loans outstanding to over $195 million on 12/31/2019. This represents an 11% year-over-year increase in loans to members. From housing and vehicles to home improvements and family vacations, we're pleased to provide the financial services that help our members thrive.

We continually strive to provide our members with more choices, greater rewards, improved protection and increased value. In 2019, we revamped our lineup of checking accounts to include valuable features such as mobile phone insurance, roadside assistance, identity theft protection, purchase protection, and others. We have also enhanced the financial security that our members enjoy through text-based fraud alerts and a growing number of internal cybersecurity protections.

As a cooperative, our financial success is reinvested back into the Credit Union, allowing us to better serve our members and our community for years to come. Over the course of 2019 the Credit Union increased its Net Worth Ratio to over 9.1%, providing increased stability and safety for our membership.

We started 2020 poised to charge ahead with new products and services for our members. The Credit Union is nearly finished rolling out a variety of popular mortgage options (including 30-year home loans), and we are deploying a process that allows us to issue and replace debit cards locally in mere minutes. While we are still pushing forward with these exciting developments, along with the rest of the country we are now managing through a variety of side-effects from the COVID-19 pandemic. The challenges and rapid changes associated with the pandemic have tested our capabilities, but at every turn the positivity, adaptability, and dedication of our employees has been outstanding. As a team we have been reconfiguring and innovating daily with two very important goals in mind: serving our members and keeping our staff healthy.



We are still here for you, and we want to support our membership through these challenging times. We have waived all fees for our Skip-a-Payment program, launched a Pandemic Relief Loan program, greatly increased the number of employees fielding member calls, expanded our drive-up hours, and revamped Mobile Check Deposit to better serve both individual and business members.



We know that some of our members are trying out digital services at Industrial and elsewhere for the first time. Whether it's ordering groceries online, or depositing a check with your mobile phone, learning a new system can be frustrating. We encourage all members to reach out for assistance, whether your needs are technical or financial. We are here to serve you.

Thank you for your membership at Industrial Credit Union!

Sincerely,

Brandon Hahnel | President & CEO
Michael Ashby | Board Chairperson