KEMBA
LOUISVILLE CREDIT UNION

84th Annual Meeting REPORT 2017

Mission Statement

KEMBA Louisville Credit Union strives to be our members' primary financial institution, by serving them in a prompt, confidential and efficient manner. Our goal is to enhance our members' fiscal lives with competitive savings and loan products.

Meeting Date April 25, 2018

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Secretary's Report

KEMBA Louisville Credit Union

Minutes of the 83rd Annual Membership meeting of the KEMBA Louisville Credit Union, held on May24th, 2016, at Holy Family Church, the Saffin Center, 3926 Poplar Level Road, Louisville, Kentucky, 40213.

Norman Markert, Board Chairperson, welcomed all members and guests present. He stated that after the business meeting, the door prizes would be awarded.

The retirees in attendance were recognized at this time. 23 retirees were in recognized.

Mr. Markert asked for ten seconds of silence in memory of KEMBA members who have died during the past year. Norm also noted the passing of Tony Grisanti this year, who had served as KEMBA's Board of Directors Chair for 6 years. He was a true friend and asset to the credit union.

Meeting was called to order at 6:56 PM.

<u>Business Meeting</u>: (As required by by-laws)

Establish a quorum is present. Board Secretary Nancy Williams stated that 59 members and 5 guests were present for the business meeting.

A copy of the minutes of the 2016 Annual Meeting had been distributed to all present at the time of sign in. There were no comments, questions, additions or corrections. Norm Markert asked for a motion that the reading of the minutes be dispensed with and that they be approved as presented. Motion made by Mike Duffy, second by Gary Williams was made to dispense with the reading. Motion was approved by consensus with none opposed.

A copy of the reports of the Board of Directors, Treasurer, Credit Manager and Supervisory Committee for the 2016 operations were also distributed to all in attendance at sign in. Norm Markert asked for a motion to dispense with the reading of these reports. Motion by Frances Sparrow, second by Gary Williams was made to dispense with the reading. Motion was approved by consensus with none opposed.

Old Business – Board Secretary Nancy Williams reported to all in attendance that there was no old business for review.

New Business –

Election of officers: Norm asked Joe Cordaro to present the nominating committee report. The nominating committee consisted of Joe Cordaro, Norm Markert and Mark Edwards. Joe reported that one incumbent board member, Steve Wine, had agreed to run for reelection to a 3 year term. The nominating committee received one member's request to be placed on the ballot during the open period for members interested in the position being vacated by Lucille Chesser who had declined to run for a new term. Tom Stokes had agreed to run and is eligible as described in the bylaws of KEMBA Louisville Credit Union. The nominating committee reported no additional members expressed interest in running for the board.

After presenting the nominating committee report, Joe Cordaro turned the meeting back to Norm Markert.

There being only one member nominated for each position open, Norm Markert requested that these two candidates be elected by general consent. All members present approved by general consensus the two nominees for the Board of Directors. There were none opposed. Steve Wine and Tom Stokes are elected to 3 year terms by general consensus.

Congratulations to Steve and Tom.

Norm Markert asked if there was any additional new business to discuss. There was no additional business at which time Norm declared the business meeting adjourned.

Meeting adjourned at 7:01 P.M.

DOOR PRIZES:

The $300.00 grand prize was won by Abby Bland.

Norm thanked all for attending and to have a safe drive home.

TREASURER'S REPORT

COMPARATIVE FINANCIAL STATEMENT

	December 31, 2017	December 31, 2016
ASSETS		
LOANS TO MEMBERS (NET)	$16,651,327	$17,192,860
INVESTMENTS (NET)	$33,848,986	$31,701,647
CASH	$601,585	$688,581
LAND, BUILDING & EQUIPMENT	$384,852	$411,991
OTHER ASSETS	$164,676	$129,005
TOTAL	$51,651,426	$50,124,084
LIABILITIES & MEMBER EQUITY		
SHARES	$20,962,858	$20,040,804
SHARE DRAFT CHECKING	$7,540,067	$6,835,720
SHARE CERTIFICATES	$8,859,967	$9,012,923
IRA	$3,848,427	$3,953,094
CHRISTMAS CLUB	$138,010	$148,104
ACCOUNTS PAYABLE	$89,364	$105,757
DIVIDENDS PAYABLE	$64,418	$62,506
EQUITY	$10,148,315	$9,965,176
CUSIP LOAN	$0	$0
TOTAL	$51,651,426	$50,124,084
	INCOME STATEMENT	INCOME STATEMENT
OPERATING INCOME		
INTEREST ON LOANS (NET)	$1,277,552	$1,352,373
INVESTMENT INCOME	$444,109	$345,036
OTHER INCOME	$428,828	$481,458
TOTAL	$2,150,489	$2,178,867
OPERATING EXPENSES		
SALARIES & BENEFITS	$773,185	$762,325
PROFESSIONAL SERVICES	$206,382	$216,157
OFFICE OPERATIONS	$668,578	$664,144
PROVISION FOR LOAN LOSSES	$120,000	$65,000
MEMBER INSURANCE	$0	$0
TOTAL	$1,768,145	$1,707,626
DIVIDENDS PAID TO MEMBERS	$199,206	$187,471
NON OPERATING EXPSE	$0	$0
NET INCOME	$183,138	$283,770
	STATISTICS	STATISTICS
MEMBERS	5113	5130
LOAN ACCOUNTS	2498	2513
AVERAGE SAVINGS PER MEMBER	$8,087	$7,837
AVERAGE LOAN BALANCE	$6,719	$6,842

Meeting Date April 25, 2018

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Board of Directors Report

2017 was a challenging year in many areas of operations. Net income declined to $183,138.22 versus $283,769.59 for 2016. Several factors attributed to the decline in income, including higher charged off loans, resulting in a $120,000 charge to the provision for loan losses and the addition of a shared compliance officer, which added additional cost to outside services. The compliance officer position is a much welcomed addition in an effort to assure that KEMBA remains vigilant in the ever changing world of rules and regulations. This service, along with Cyber Security measures will help to protect our members and assure all regulatory issues are handled properly. These are necessary expenses to maintain a compliant business model. Looking at other factors will review areas of concern, such as loan growth and areas where we are well positioned as interest rates begin to rise nationwide. Loan income declined by $74,820.55 due to outstanding loan balances declining 3.2% versus 2016. This is in spite of new loans being virtually the same as 2016, with a net decline of $2,710 vs previous year. Members are paying off debt more rapidly than acquiring new debt and at the same time are saving more as assets grew by 3.1%. Other areas of income did improve as investment income was up $99,073.08 from 2016. Other income streams come from fees and insurance reimbursements. The fees consist of NSF, Courtesy Pay and Debit Card Interchange, while insurance reimbursements are generally income received from credit life and disability protection our members purchase as a safety net. Fee income dropped $17,268.94. While this trend has a negative impact on net income, it does reflect more responsible financial activity of our members, which is a good thing. Other expenses outside the higher Provision for Loan Losses were managed well in 2017. Over all operating expenses without provision expense was $1,648,145.17. Previous year was $1,642,626.28. The total increase in operating expenses was $5,518.89 or less than 0.3% versus 2016. Dividends paid to members increased by over $11,733.85 vs 2016. This was not due to rising rates, but more a result of increased member deposits. 2018 would appear to be a return to better savings and CD rates as the Federal Reserve continues to increase rates.

KEMBA assets continue to grow as we are now at $51,651,425.88 at end of 2017.Many key ratios continue to reflect the strength and soundness of your credit union. Capital remains strong at 19.65% and net capital is 19.39%. Delinquency dropped to 1.18% while net charge offs increased to 0.73%. KEMBA approves loans using a risk based policy that is based on member credit scores. This allows us to make loans at rates based on credit worthiness and represents value across credit scores. This also allows us to serve all members and manage risk, knowing that increased losses are manageable in light of the return of the entire portfolio. Another risk assessment became mandatory when KEMBA assets exceeded $50 million. We now have to do an annual “shock” test to determine the effect of a 300 basis point rise in rates on our finances. We are pleased to report that this study was done as of December 31st, 2017 and the results were categorized as low risk across all 4 measurements that NCUA monitors.

The KEMBA Board of Directors declared a bonus dividend and an interest rebate to the membership. Our strong capital position allowed us to do this again in 2017 as a way of thanking both our savers and borrowers at a time when every dollar can make a difference. The dividend paid in the fourth quarter was 0.60%, or an increase of 0.45% over the previous quarters. This returned an additional $23,926 to our members. The members who borrowed money saw a rebate of 1% of interest paid in 2017. This returned $12,310 to our borrowers. This total return of $36,236 is our commitment to repay our membership when it is economically possible to do so. This return to both our saving and borrowing members represented a 16.5% return of credit union net income in 2017 to you, our members.

KEMBA was approached by another credit union to partner in the hire of a shared compliance officer. We agreed and now have the services of a highly specialized individual one week per month. She monitors many aspects of our daily operations to assure we are compliant with regulatory changes and that we operate in asafe and sound manner. Our compliance person reviewed our remote deposit product before lanching in the first quarter of 2018 to assure that this service is safe and sound before being made available to our members. The board has also approved KEMBA as a potential outlet for shared branching. The KEMBA President, Don Diebold, continues to serve on the Executive Committee of Credit Union Centers of Kentucky (shared branching). Shared branching as we know it is in a state of change. KEMBA will monitor these changes before a final decision is made to becoming an outlet.

There was no assessment for the Corporate Stabilization in 2017. At the February NCUA meeting, the board agreed to returning $736,000,000 of the corporate assessment back to eligible credit unions. This should occur in the 3rd quarter and we will see a prorated share of this return of funds. NCUA has merged the corporate stabilization into the share insurance fund, which created the surplus that results in this return of previous assessments paid after the corporate crisis in 2008.

KEMBA continues to participate in shared branching as an option for all members across the state. Members continue to have free access to 5/3 ATM machines as well as ATM's through the Alliance One Network. We want access to be as convenient as possible for all our members.

Financial Standards Group completed the Supervisory Audit in September. No significant operating issues were noted. Financial Standards Group continues to perform quarterly audits, including Bank Secrecy Act and Safe Act audits to assure compliance as needed. FSG also conducted ACH audit in 2017 and found that KEMBA follows safe and sound practices in this area of member services.

KEMBA continues to support charitable endeavors both on a personal level as well as through donations from the credit union. We support the Louisville Chapter projects. Donations also were made to the World Federation of Credit Unions, the American Heart Association, Shriner's Circus appeal and Special Olympics and Crusade for Children. Other donations were made to St Jude Hospital as well as Holy Family Church as a corporate picnic sponsor. We also contributed to Dare to Care, Salvation Army and the Louisville Police drive to “Clothe a Kid”. Our management and staff contribute of their own resources for Heart Walk and Juvenile Diabetes research. We strive to be good Corporate neighbors in our community.

KEMBA Louisville hosted the annual Kroger Affiliated Credit Union Conference in Louisville in June of 2017. This annual event brings many other credit union management and volunteers together to share ideas and discuss trends in other Kroger markets across the country. The 4 day event brought time to socialize as well as key speakers to discuss issues such as human resources, financial trends and other topics in 3 days of informal class room settings. Along with the support of the Kentucky Credit Union League, we had a very positive event that was enjoyed by all.

We face many challenges in 2018. The operating environment is difficult as we work to maximize benefits to our members while maintaining a positive bottom line in the current interest rate environment. The KEMBA Board of Directors met in January with VolCorp facilitators in our bi-annual strategic planning process. The preliminary plan was distributed to all board and the credit union management for review. We see the need that is most daunting is growing loans and reaching our younger members and their financial needs. Delivering services to these members requires thinking outside the box, as they see financial services differently than our “seasoned” members.

We have to find ways to meet these needs to continue to grow. Older members tend to be savers, while younger members are the ones with borrowing needs. We want to reach both groups and plan to do so in 2018 and beyond.

Thank you for your continued support. We want to be your primary financial institution. We welcome feedback from all members. Together we can help with your present borrowing needs and your savings needs for a secure future.

Norman Markert, Chairperson
Mark Edwards, Vice-Chairperson
Steve Wine, Secretary
Joe Cordaro, Treasurer
Earl Adam, Director
Tom Stokes, Director
Nancy Williams, Director

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Credit Manager's Report

2017 was an interesting year in lending. We began the year very slowly in new loans generated versus 2016. The first 5 months we booked $3,255,582.48 in new lonas, which was a decrease of over $529,695 versus the same period in 2016. This was a 14% drop. The last 7 months we reversed the trend and generated $418,403 more than the same period in 2016. This favorable trend has carried into the first quarter of 2018 as well. We had a loan promotion in the last half of the year where we offered members $25 gift card to "test drive" a KEMBA car loan. The member was given a $25 Kroger gift card for just applying for a loan. If the loan was approved and closed with KEMBA, the member received an addition $100 Kroger gift card. The results had a positive effect on new loans in the second half of the year.

Loans for 2017 total 3,164 which was a decrease of 62 over the previous year. This figure includes loan add-ons to existing revolving lines of credit. Collateral loans total 397 for the year. New loans and advances total $9,426,899.22 for 2017, a decrease of $111,291.64 versus 2016. This was a drop of 1.17% versus 2016. KEMBA Credit Committee approved 314 cars, trucks, motorcycles and boats in 2017. The average value of these collateral loans was $13,713. This is a decrease in average value versus 2016 of $520 per loan. The drop was due to the decrease in average loan value on new vehicles. Used cars continue to be the vehicle of choice of our members, representing 283 of the total loans granted. We only had 19 new cars financed in 2017 with an average value of $22,961. New vehicles averaged $33,929 in 2016. Competing with dealers who can offer 0% on new vehicles is challenging. Not all members qualify for this dealer financing and educating members to check with KEMBA before buying continues to be a challenge, but could result in savings if pursued by members.

Unsecured loans continued strong results in 2017. We did 2,767 new loans or advances to existing lines of credit in 2017 for a total of $3,466,746.30. This averaged $1,719 per loan advance. The unsecured loan yields the highest interest of all loan classifications, but at significant higher risk as there is no collateral to protect the credit union in the event of default. KEMBA unsecured loans are still a significant value and helps our members stay away from predatory lenders who charge usurious rates and trap members in a spiral difficult to get out of.

Member education is the best method to assure that they can shop confidently, knowing what they can be approved for, at what rate and estimated payment. We strive to meet the needs of all members across the economic scale. We have made loans to members who have never borrowed before, all the way up to members who 'know the ropes'. We make loans based on a member's credit score. Members with very high scores get the lowest rates, while members on the low end of the scoring model pay a higher rate. These rates will virtually always be better than the member can achieve financing 'on the lot', many times at half the rate obtained through the dealership. We still offer the opportunity to members, to match the best rate other lenders can offer.

Total loans outstanding at the end of 2017 was $16,783,206. This was -2.0% drop from 2016 year end, or a decrease of $544,222. Net loans were $16,651,327 after allowance for loan losses. We look forward to continuing loan growth in 2018. The net loan drop can be attributed to several factors. As previously noted, new loans generated in 2017 were only down $111,292 versus 2016, yet year end is down $544,222. Some of this has been attributed to a drop in outstanding real estate, however a bigger issue is the demographics of KEMBA membership. Older members tend to be net savers, while younger members are the typical borrowers. Our membership overall is aging and these members are paying off outstanding loans. During strategic planning in January, management and board began exploring methods to connect with younger members. We hope to use e-mail addresses as well as other services to connect with all members. Loan promotions can be broadcast to potential borrowers in electronic media format to get to these new members and employees who are looking for a convenient method to apply and get approved for their borrowing needs.

As we move forward we want our members to be educated and to know what options are available. We are aware that borrowers have many options in financing. We are also aware that there are unscrupulous lenders that prey on potential borrowers and put them into loans that are not in their best interest. Other services, including our partnership with ACCEL, will assist members with free financial counseling and budgeting to assure sound financial decisions are a part of our members daily lives. Lending done in a prudent manner that assists our members in meeting financial needs without breaking the family budget is our primary goal. If we do this, we have done our jobs well. If we make loans that put undue pressure on a member and their family, we have done a disservice to both them and the credit union. We want to help make dreams come true and make our members comfortable in knowing that we are here to help them achieve their financial goals.

Don Diebold, Credit Manager – NMLS #1140794
Brian Shean, Loan Officer – NMLS #1134207
Judy Graham, Loan Officer – NMLS #603237

Supervisory Committee Report

The responsibility of the Supervisory Committee is to insure that the business affairs of your credit union are being properly handled according to state and federal law and within the policies established by the Board of Directors.

The Supervisory Committee is required to perform an annual audit to assure that KEMBA Louisville Credit Union is operated in a manner that conforms to generally accepted accounting principals. The Supervisory Committee approves an outside firm to conduct this annual audit. KEMBA is in the first year of a three year contract with Financial Standards Group to complete this annual audit. Financial Standards Group performed this audit as of June 30th, 2017. All results were reviewed by both Supervisory members and the Board of Directors with the management team. The audit is also reviewed by the Kentucky Department of Financial Institutions, as well as the National Credit Union Administration examiners. It was determined that the credit union is operating in a safe and secure manner. The Supervisory Committee renewed the contract for audit services with FSG for an additional 3 year term for 2017 – 2019.

Financial Standards Group, Inc. has also been retained to continue to conduct quarterly supervisory audit. On a quarterly basis, FSG continues to review internal controls on many issues to assure procedures are followed in regard to member account maintenance, closures and follow up verification. In addition to review of member accounts, other audit review includes invoices, loans, cash reconciliations and any other issues that can be safety and soundness concerns. No exceptions were noted during these audits.

FSG also did a SAFE Act review in mortgage lending as well as an annual Bank Secrecy Act audit to assure that KEMBA Louisville Credit Union is complying with government mandates in member identification and following the Office of Foreign Asset Control procedures. There were no significant issues found during these quarterly reviews.

FSG has been retained to conduct an annual ACH (Automated Clearing House) audit commencing with 2017 and annually in the following years. This audit was performed on April 3rd with a written report provided for board and examiner review. No exceptions were noted.

KEMBA is required to have all staff, board members and supervisory members attend annual training to assure that the Bank Secrecy Act requirements are being adhered to. This is to assure that issues in regard to potential terroristic activity that involves financial activity are being monitored and reported to appropriate government agencies. This year the training was conducted by Marsha Hahn of Volcorp. Training certificates were signed and logged for reference during the exam performed by the Kentucky Department of Financial Institutions.

Every two years the Supervisory Committee does an account verification. The supervisory committee performed the account verification by selecting a 10% sample of member statements, segregating these with a written address to the Supervisory Chairperson as to maintain the integrity of the sample. Exceptions were reviewed with management and were due to incorrect mailing adresses. These were researched and forwarded to members via store mail or with corrected addresses. No exceptions were noted by members. All members were informed of the verification by newsletter, website and work location communications. The verification is performed every 2 years and will be performed again in 2019.

It is the opinion of the Supervisory Committee that the KEMBA Louisville Credit Union is in a sound financial position and the affairs of the credit union are being managed in a business-like manner and in accordance with the requirements of the law.

Jeff Hurtgen, Chairman
Derek Duffy, Member
Chuck Steinmetz, Member