

CREDIT COMMITTEE REPORT

The year 2020, a year we will remember! A year of challenges but also opportunities. The challenges we all know and experienced in our own way. The opportunities brought forth change, new processes and new ways to help you, our member-owners, with your lending needs.

In 2020, the credit union put members first by creating loan programs to help those who were financially impacted by the pandemic. We lowered our fees to ensure more money could stay in your pockets when uncertainty hit and we were forced to stay home. We increased our rewards program to provide encouragement through the change and rewarded you for trying something new and using our online and mobile delivery channels to apply for and close your loans. We placed great focus on communication with call campaigns focused on your financial well-being.

Our efforts and yours made 2020, despite its many challenges, a great success. Loan balances increased \$24,603,593.55 in 2020, closing the year with total loan balances equal to \$259,024,039.38. Our indirect loan program climbed \$12,397,614.44 in 2020 as members looked to enjoy the great outdoors with new "toys" for the season, financing nearly 1,000 recreational vehicle loans in 2020 which is nearly double that of 2019. The low interest rate environment brought record growth to our mortgage loan portfolio with the mortgage team processing more than 530 mortgage loans in 2020 for a total of \$51,514,092.40. We were able to invest \$3,869,999.59 into our local communities through our business loan relationships with hardworking small business owners and entrepreneurs, and paid \$162,550.00 in rewards to members who utilized our online and mobile banking platforms to apply for and close their loans.

Financial wellness was and will continue to be our focus with 32 certified financial counselors on staff ready, willing and able to meet your needs. Financial counselors are here to help members who simply want to take control of their finances, and in 2020 they were able to do just that. Our team of financial counselors and recovery and resolution assistants were able to help members meet their loan obligations and hold our loan delinquency ratio to 0.43% of our total loan balances. A proud feat, given the many economic challenges people faced throughout 2020.

As we look to the future, we will continue to focus on you, our member-owners, your financial well-being and providing you with affordable, convenient, and secure access to credit. It is our responsibility to promote thrift and find loan options that work in your best interest. You are why we do what we do, and we thank you for putting your trust in Alpena Alcona Area Credit Union.

Respectfully yours,

Dennis Artley, Chairperson

Balance Sheet

December 31, 2020 and December 31, 2019

Assets	2020	2019
Loans to Members, Net of Allowance for Loan Losses	\$257,521,914	\$232,902,674
Cash	3,923,044	2,739,012
Investments	178,183,355	125,710,193
Fixed Assets, Land & Bldgs	5,407,292	5,076,665
Furniture & Equipment, Net	556,140	511,798
Other Assets	5,433,000	4,388,511
TOTAL ASSETS	\$451,024,745	\$371,328,853

Liabilities & Net Worth

Accounts Payable	\$3,250,036	\$3,503,361
Notes Payable	0.00	0.00
Dividend / Interest Payable	268,929	285,037
Member Savings	394,614,065	322,042,443
Statutory Reserves	4,522,980	4,522,980
Undivided Earnings	48,368,735	40,975,032

TOTAL LIABILITIES & NET WORTH	\$451,024,745	\$371,328,853
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Statement of Income & Expense

December 31, 2020 and December 31, 2019

Income:	2020	2019
Interest on Loans	\$11,975,961	\$10,613,968
Investment Income	2,115,367	2,942,333
Other Income	5,419,884	4,648,635
TOTAL INCOME	\$19,511,212	\$18,204,936

Operating Expenses

Compensation & Benefits	\$6,275,267	\$5,655,715
Travel & Conference	129,794	192,035
Office Occupancy	527,890	544,745
Office Operations	1,203,925	1,145,680
Educational & Promotional	590,042	481,460
Loan Services	1,331,960	1,033,740
Professional Outside Svcs.	1,120,997	892,563
Provisions for Loan Loss	1,037,635	1,291,358
Member Insurance	0.00	0.00
Operating Fees	81,568	74,816
Other Expenses	34,962	38,514

TOTAL OPERATING EXPENSES	\$12,334,040	\$11,350,626
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Other Income (Expense):

Non-Operating Income & Expense	2,213,070	595,227
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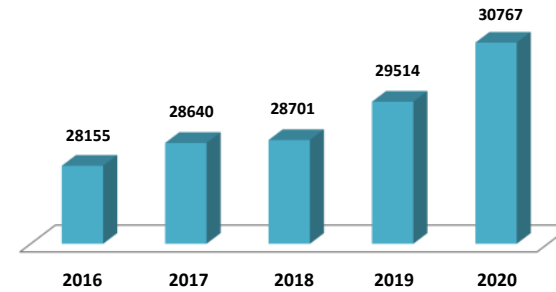
Dividend & Interest Expense

Interest on Borrowed Money	0.00	0.00
Interest on Deposits	1,480,566	1,425,463
Dividends on Shares	515,942	408,795

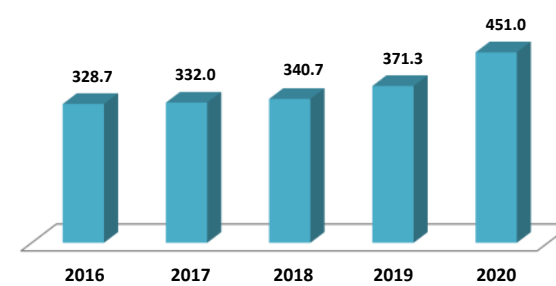
TOTAL DIV/INT EXPENSE	\$1,996,508	\$1,834,258
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NET INCOME	\$7,393,734	\$5,615,279
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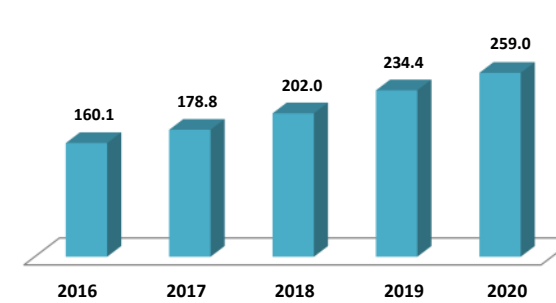
Total Membership



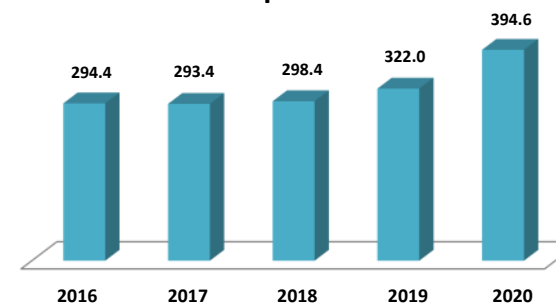
Total Assets - In Millions



Loans to Members - In Millions



Shares & Deposits - In Millions



AAACU 67th Annual Meeting

Board of Directors

Charlie Negro, Chairperson Director of Categorical Funding at Oscoda Area Schools
 Sheila Panknin, Vice Chairperson Retired Ludlow Enterprises
 Brian Shumaker, Secretary B&S Enterprise
 Terry Nelkie, Treasurer NCVW, Management Group LLC
 Michelle Cornish Retired Alpena Public Schools
 James McNeil Alpena County Sheriff Department
 Ann Martin Retired Alpena Public Schools

Associate Directors

Mark Devers Retired, United States Air Force and Michigan Air National Guard
 James Gorman Tawas Area Schools
 Terry King Dean Arbour Ford Lincoln of Alpena

Supervisory Committee

Byron Parr, Chairperson President, Michigan Credit Services
 Sean Pear Oscoda Area Schools
 Mark Devers Retired, United States Air Force and Michigan Air National Guard

Credit Committee

Dennis Artley, Chairperson Retired, IRS
 Lorna Dellar, Secretary AAACU Staff
 Paul Fredenburg Retired, AAACU Staff
 Beth Tessmer AAACU Staff
 Charlene Oliver AAACU Staff

Security Officers

Donald J. Mills AAACU Staff
 Angie Szatkowski AAACU Staff

President & CEO

Donald J. Mills

AAACU Mission Statement

To be your most trusted and valued financial partner for life

Our Member Promise

- To simplify your life
- Work in your best interest
- Be your advocate to help achieve your lifetime financial goals

CHAIRPERSON'S REPORT

With more than 110 years of credit union leadership experience, the Board of Directors of Alpena Alcona Area Credit Union consists of ten members: seven directors and three associate directors. The Board of Directors is responsible for the general direction and control of the credit union. The board delegates operational functions to management but are ultimately responsible for maintaining the credit union's safety and soundness as well as fulfilling our credit union's mission: *To be your most trusted and valued financial partner for life.*

Directors are member-owners who are volunteers elected to represent all member-owners. They are placed in a position of trust and honor which also requires commitment and dedication. Directors must have a general knowledge of the credit union's daily operations and exercise due diligence in performing their obligations. It is this board's position that each director must maintain a high level of competence and understanding of credit union policies. The Board of Director's views its role in guiding the credit union as:

- Providing members the opportunity to improve their economic and social condition
- Providing high quality financial services at competitive prices
- Providing safe and sound financial stewardship
- Complying with all applicable laws and regulations

Strategic planning, adopting appropriate policies, and oversight of credit union management help the Board of Directors achieve its role. In addition, directors and associate directors regularly participate in credit union financial literacy trainings and credit union education programs.

AAACU Board highlights from 2020 include:

- AAACU is a partner of CU Trust, the first credit union owned entity in Michigan that is established to serve the trust and fiduciary needs of our members
- Participated in a multi-day strategic planning session with AAACU Management Team and Committees to reaffirm our mission: *To be your most trusted and valued financial partner for life*
- Lowered Overdraft Protection (ODP) and Non-Sufficient Fund (NSF) fees
- Participated in "The 14 Days of Giving" to support area non-profit organizations

It is an honor and privilege to serve AAACU and our member-owners as elected directors of the board. We will continue to work diligently and collaboratively to achieve the AAACU Mission Statement: *To be your most trusted and valued financial partner for life.*

We appreciate you and thank you for your continued support of our organization!

Sincerely,

Charlie Negro, Chairperson

SUPERVISORY COMMITTEE REPORT

The purpose of the Supervisory Committee is to maintain quality systems of checks and balances, ensure the accumulation and retention of accurate records and protect member's funds. The committee is comprised of a team of volunteer credit union members who are appointed annually by the Board of Directors.

The Supervisory Committee is assisted in carrying out its responsibilities by the Internal Auditor. The Internal Auditor is tasked with conducting audits and performing testing to ensure established policies and procedures are followed, operational and financial standards are met, and resources are used economically and efficiently. In addition, the Supervisory Committee oversees the integrity of the Credit Union's financial statements through an external audit of the financial statements and verification of members' accounts.

The Supervisory Committee as well as the Internal Audit Department has found the credit union's overall procedures and controls to be in good condition. The credit union records have been found to be maintained properly, honestly and accurately. Policies established by law and by the Board of Directors are carried out faithfully, and with certainty, members' assets are safeguarded and used according to the purposes of the credit union. We commend the Staff and Management Team for their dedication and service!

As part of this committee, Mark Devers, Sean Pear and I remain committed to you, our member-owners, and the mission, vision and values that form the foundation of Alpena Alcona Area Credit Union.

Respectfully submitted,

Byron Parr, Chairperson

TREASURER'S REPORT

It is a pleasure to welcome you to the 67th Annual Meeting of your Alpena Alcona Area Credit Union. 2020 has been a very challenging year with many changes for all of us with the Covid-19 pandemic in the world, including our first virtual annual meeting tonight. It has challenged all businesses, including your credit union, but we did have an exceptional year in strengthening the financial position of Alpena Alcona Area Credit Union.

With statewide membership now available we are all encouraged to share the outstanding services offered by our credit union with friends and family members who live in other parts of Michigan. In 2020 there were 1,253 new member-owners added for a total membership of 30,767 as of December 31, 2020. Please continue to spread the word about our member value proposition and the benefits of becoming a member of Alpena Alcona Area Credit Union.

Total net income in 2020 was \$7,393,733.67 which represents a 31.67% increase in net income as compared to 2019 when net income totaled \$5,615,278.79. This strong income level gives a very strong return on assets operating ratio of 1.80%. Our net worth to total assets ratio continues to be "well capitalized" at 11.73%. Even though overall net

worth grew at a healthy 16.25% it was not enough for net worth to keep pace with overall asset growth resulting in a slight decline from 12.26% at the end of 2019.

Total member shares and deposits climbed \$72,571,622.00 and ended the year 2020 equal to \$394,614,064.70. This represents market share growth of 22.53%. This large increase in deposits is the cause of the slight decline in our net worth to total assets ratio. If the federal government provides the anticipated COVID stimulus payments to individuals in 2021 the strong savings numbers should continue to increase and the net worth to total assets ratio will decline. Our credit union will still continue to be "well capitalized".

Our entire Credit Union Lending Team is to be commended for successfully processing and closing 5,655 member loans with balances totaling \$100,894,172.81 in 2020 versus 2019 when we closed 5,967 member loans with balances totaling \$92,114,464.21. Total member loan balances outstanding increased \$24,603,593.55 in 2020 and now stand equal to \$259,024,039.38 as of December 31, 2020. This equates to a 10.50% increase in total member loan balances over 2020.

The return on our investment in our Credit Union Service Organization – Neighborhood Mortgage Solutions LLC that provides mortgage services to credit unions in 21 states including our Credit Union was very strong. NMS, LLC recorded net income in 2020 equal to \$6,965,511.10 compared to \$2,093,956.26 in 2019. Each of the three CUSO owners posted \$2,321,837.06 to our bottom line for 2020.

Your credit union also has investments in other Credit Union Service Organizations, the newest being Credit Union Trust. This is a collaborative effort to provide trust and estate planning services to credit union members throughout the State of Michigan. You can contact any branch and they can arrange an appointment with Credit Union Trust.

Our credit union continues to be a strong financial cooperative delivering innovative products and services to our growing membership. We truly appreciate and thank you for your business and be assured that we will continue to strive "*To be your most trusted and valued financial partner for life*".

It has been my privilege and honor to serve as your Treasurer this past year.

Respectfully yours,

Terry J. Nelkie, Treasurer



ANNUAL REPORT

2020

“To be your most trusted and valued financial partner for life”