



Dow Chemical Employees' Credit Union

Report of the Treasurer

January 24, 2017

The slowest economic recovery since World War II continued its slow ascent in 2016. The domestic economy was one of the few bright spots in moving the world economy forward, while the global outlook remained exceedingly weak outside this country. The U.S. stock market turned out to be a big winner in 2016 as the Dow Jones Industrial Average rose to 20,000 from 17,000 at the beginning of the year. The two biggest surprises (the Brexit vote and the U.S. Presidential election) had significant but opposite reactions in the domestic Treasury markets. Short-term and long-term U.S. Treasury rates largely receded (achieving post-Brexit lows) during the first half of the year, while rebounding in the second half (with a sharp rise after the Trump victory). The ten-year Treasury ranged from 1.50% - 2.00% for most of the year, but ended the year up at 2.45%. Similar to 2015, the Federal Reserve made only one ¼% rate hike at its December meeting.

Consistent with the conditions noted above, Dow Chemical Employees' Credit Union had another very successful year. Total assets ended the year at \$1.53 billion at year-end, an increase of \$63.9 million, or 4.4% from 2015. Likewise, member deposits increased \$73.2 million to \$1.33 billion, or 5.8%.

Loans of member deposits increased to \$833.5 million in 2016, an increase of a whopping \$101.4

million over the prior year, or 14.0%. This is largely attributable to the increased demand for auto loans (including those in participation with other credit unions) and continued low rates making real estate mortgages very attractive for purchases and refinances. Consumer loan balances soared 25.8%, or \$78.5 million, to \$382.4 million. DCECU real estate loan balances rose 4.6% to \$416.7 million. Consumers' confidence to increase spending using unsecured debt, coupled with new programs and increased capabilities from a processor conversion the prior year, helped increase credit card balances in 2016 to \$34.4 million, an increase of 15.6%. Through conservative policies and prudent underwriting, resulting in historically low loan losses, DCECU was able to once again return a **record 75%**, or \$11.8 million in excess earnings to its member-borrowers in Loan Interest Rebates.

Rising interest rates experienced during the second half of the year generally had a positive impact on income from Credit Union operations in 2016. Interest income, net of the interest refund, from real estate loans decreased \$687,000, while interest income, net of the interest refund on organic consumer loans rose \$3.5 million. Despite a generally smaller investment portfolio, marginally higher investment rates led to a \$600,000 year-

over-year increase, or 6.0%. Other income increased by \$370,000 in 2016, to \$7.8 million.

Dividend and interest payments on member deposits increased the most in the last nine years by \$1.5 million in 2016, to \$9.5 million, or 19.5%, despite historically low interest rates. Included in the above total was a **record 75%** Member Saver Reward, equating to \$4.0 million in additional benefits for credit union depositors. In 2016, the Credit Union's net interest margin after the member giveback increased slightly from the prior year's \$15.8 million to \$16.3 million, given the record rebates mentioned previously.

Expenses from operations in 2016 totaled \$23.7 million, an increase of \$0.8 million from 2015 -- or 3.6%. The increases experienced versus the previous period were in compensation, benefit and development expenses (+\$815,000 or 7.7%), provision for loan loss expense (+\$490,000 or 144.1%), office operations (+\$180,000 or 12.9%), marketing & public education (\$93,000 or 13.4%), office occupancy (+\$37,000 or 4.7%). Offsetting these were loan servicing expenses (-\$728,000 or 23.6%) and professional/outside services (-\$125,000 or 3.0%). The remaining expenses showed more negligible increases or decreases versus the prior year. Dow Chemical Employees' Credit Union has consistently controlled operating expenses below 2% of average assets. In fact, in



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the most recent aggregate credit union performance report, Dow Chemical Employees' Credit Union had less than one-half the operating expense ratio of credit unions in its peer group.

Even after the dividends/interest, operating expenses, record Member Saver Reward/ Loan Interest Refunds and the VISA Check Card rebate, Dow Chemical Employees' Credit Union was still able to contribute \$0.6 million to undivided earnings in 2016. Total Net Worth at year-end stood at 10.97% compared to 11.40% the previous year. In fact, Dow Chemical Employees' Credit Union has exceeded 10.5% (1½ times the amount considered by regulators to be well capitalized) in net worth for twenty-six consecutive years.

Net worth, which is made up of retained earnings and regular reserves, is essential for the stability and health of all financial institutions. An institution with a strong net worth position is better prepared and able to withstand unexpected economic and financial changes than those with lower reserves. In today's uncertain and turbulent economy, with interest rates as volatile as they

are, a strong net worth position is a must. Net worth is also the Credit Union's major source for financing future growth. Moreover, for safety and soundness, regulators continue to strongly encourage financial institutions to maintain, and often increase their net worth position.

As an additional safeguard to assure a strong financial position, DCECU is blessed to have a strong Supervisory Committee. The primary responsibility of the Supervisory Committee is to supervise credit union audits and review the financial condition, as well as, the internal control structure of the Credit Union.

During 2016, the accounting firm of Doeren Mayhew conducted the Credit Union audits. These audits were made in accordance with generally accepted auditing standards and included appropriate tests of the accounting records, systems and procedures. It is the opinion of our auditors and the Supervisory Committee that satisfactory accounting practices and procedures and effective internal controls are in place to safeguard the Credit Union's assets.

The Supervisory Committee reviews the audit program procedures with Doeren Mayhew on a regular basis to ensure that the audits continue to provide an effective and professional appraisal of the Credit Union's financial activities. Copies of the audit report are available at the Credit Union for members to review.

By controlling operating expenses and maintaining adequate net worth, DCECU is able to provide high-quality, competitively priced services to the entire membership.

I would like to thank the Board of Directors, the Committees, and especially, the entire Credit Union staff for making 2016 such a rewarding and successful year.

Respectfully Submitted,

Dennis M. Hanson
Assistant Treasurer



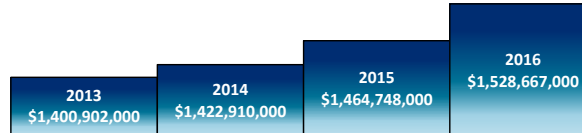
Dow Chemical Employees' Credit Union

2016 Annual Report

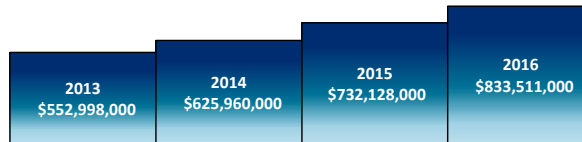
Statement of Financial Condition December 31, 2016 and 2015 (unaudited)

Assets (\$000)	2016	2015
Loans:		
Personal	\$ 212,633	\$ 194,020
Participation	169,769	109,879
Real Estate	416,722	398,479
Credit Cards	34,386	29,751
<i>Total Loans</i>	<u>833,511</u>	<u>732,128</u>
Allowance for Loan Loss	(1,756)	(1,932)
<i>Net Loans</i>	<u>831,755</u>	<u>730,196</u>
Other:		
Investments	660,673	698,026
Other Assets	36,240	36,527
<i>Total Assets</i>	<u>\$ 1,528,667</u>	<u>\$ 1,464,748</u>
Liabilities and Equity		
Liabilities:		
Shares Accounts	\$ 276,327	\$ 249,212
Share Drafts	152,125	142,194
Premium High Yield	669,225	667,051
Certificates of Deposit	228,183	194,198
<i>Total Member Deposits</i>	<u>1,325,860</u>	<u>1,252,655</u>
Other Liabilities	38,489	47,858
<i>Total Liabilities</i>	<u>1,364,349</u>	<u>1,300,514</u>
Equity:		
Total Equity	164,318	164,235
<i>Total Liabilities/Equity</i>	<u>\$ 1,528,667</u>	<u>\$ 1,464,748</u>

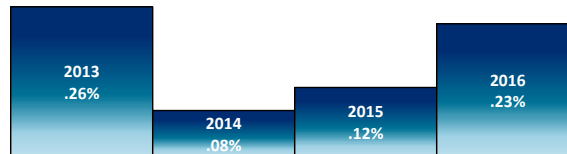
Total Assets



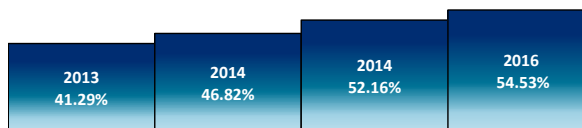
Total Loans



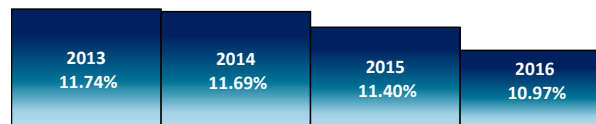
Delinquency Ratio



Total Loans/Total Assets



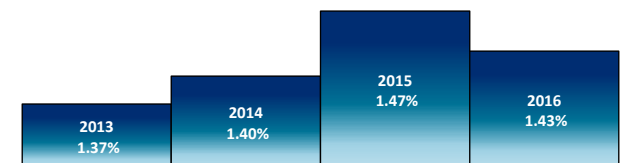
Net Worth Ratio



Statement of Income & Expenses December 31, 2016 and 2015 (unaudited)

Income (\$000)	2016	2015
Personal Loans	\$ 6,958	\$ 6,265
Participation Loans	2,697	1,741
Real Estate Loans	16,096	15,980
Credit Cards	1,967	1,935
Investments	10,520	9,928
<i>Total Interest Income</i>	<u>38,239</u>	<u>35,850</u>
Other Income	8,013	7,750
<i>Total Income</i>	<u>46,251</u>	<u>43,599</u>
Expenses		
Operating Expense	23,714	22,885
Interest Expense	6,126	5,605
<i>Total Expenses</i>	<u>29,840</u>	<u>28,490</u>
<i>Net Income Before Rebate</i>	16,411	15,110
Less Interest Refund	11,837	11,072
Less Member Saver Reward	4,008	3,364
<i>Net Income</i>	<u>\$ 566</u>	<u>\$ 673</u>

Net Operating Expense Ratio



This credit union is federally insured by the National Credit Union Administration.