

2022 ANNUAL REPORT

2022 Annual Report

Chairman & CEO's Report

To our Members...

As we continue to navigate a quickly changing and at times challenging economic environment, Preferred Credit Union is proud to celebrate another successful year. In 2022 we welcomed over 2,400 new members and marked 54 years of service to our community. It's with the support of our membership and staff, that we continue to grow and live out our mission of strengthening relationships through value added products and services.

As we reflect on the highlights of 2022 and look forward to what is to come, we want to thank you, our members, for joining us on this journey and making us your preferred financial partner. We wouldn't be here without you!

Improvements for a Greater Future...

Our mission statement says it best. We will operate a well-managed and cost-effective financial institution while building relationships with our members to offer them products and services that meet their goals and needs. In 2022 we continued to look for and introduce products and services that added value to our membership. A few highlights from this past year...

ATM Upgrades: As part of our long-term strategic plan, we completed our ATM Upgrade Project with new ATM installations at our Kalamazoo and Hastings branch locations in 2022.

Business Merchant Services: In 2022 we partnered with Total Merchant Concepts (TMC), a Business Merchant Services provider, to offer our business account holders the tools and services they need for their day-to-day business operations. TMC offers trusted member service and has more than 25 years' experience with credit card processing, contactless payments, mobile payments, invoicing, payroll process and so much more.

Vehicle Warranty Program: We know that members are holding onto their vehicles for longer periods of time before replacing them. To add peace of mind for our members, we launched healthCAR, a vehicle warranty program, that offers affordable month-to-month pricing for a program with superior vehicle breakdown protection. This program is available to all qualified members and not just those who financed their vehicle through us.

Enhancement of our Courtesy Pay Program: In 2021 we launched a new Courtesy Pay program and for a little over a year, we ran both the old and new Courtesy Pay Programs side by side. Since the two programs look at different criteria to determine limits, this gave us the opportunity to monitor overall risk and performance before rolling out the enhancements to accounts under the old Courtesy Pay Program. This rollout expanded the possible limits to more than 13,000 checking accounts, offering greater overdraft protection to qualified members and additional income for the credit union.

Partnership with Upstart: We are always looking for new channels to attract membership and loan growth. In 2022 we launched a new partnership with Upstart, an AI lending platform, that partners with banks and credit unions to provide consumer loans using non-traditional variables, such as education and employment, to predict creditworthiness. We launched our program in November 2022 and anticipate \$3MM in new loans and 250 new members from our Upstart Program in 2023.

Continued Growth...

Preferred Credit Union had a very successful year in 2022. In addition to welcoming over 2,400 new members and 2,100 new Checking Accounts, we also experienced a 13% growth in our loan portfolio due to lower rates the

first half of the year and business loan participation opportunities. We also saw \$3Million in asset growth and \$2.8Million in net profit.

As we continue to look for opportunities to add value to our membership and improve credit union operations, some projects slated for 2023 include enhancing our business continuity plan with the replacement of our Grand Rapids building generator, upgrading to a new cloud-based phone system, launching a new streamlined online Membership Opening Process and partnering with Click SWITCH & Card SWAP to help members securely move their direct deposit and automatic payments from another financial institution to their account with Preferred Credit Union.

Supporting *Community*...

Preferred Credit Union has been serving the community for over 50 years and we love to find ways to give back to those we serve. Credit union wide we supported several organizations; raised \$4,500 for Breast Cancer Awareness/The American Cancer Society, donated \$3,000 to local classrooms through our Classroom Scholarship program (\$500 to six classrooms), hosted free Shred Days with the shred truck on site for our members and community members, sold chocolate bunnies to raise money for the B Foundation of Belding, provided 600 PCU youth members with back to school supplies worth \$6,000 and completed our 3rd annual Inspire Kindness and Pay it Forward Campaign where each employee received \$30 to go out into the community and inspire kindness.

Our branches were also busy with local fundraising efforts to support organizations like: Adopt-A-Highway, Bud Dodson Memorial Area 24 Special Olympic Golf Outing, Brookwood Elementary School, Childhood Cancer Campaign, Communities Overcoming Violent Encounters (C.O.V.E.), Greenville Public School Back 2 School Bash and Reality Store, Helen DeVos Children's Foundation, The Lions Club Toy Project, Ludington Area H.S. Post Prom Activities, Mason County Mitten Tree Project, The Salvation Army Angle Tree, Turk Lake Polar Plunge: Special Olympics, United Way: Personal Care Drive, Veterans Home in Grand Rapids, and the Western Michigan Fair Backpack giveaway,

Preferred Cares is a program created and funded by the staff of Preferred Credit Union and our members to support local children in need. We work with schools and local organizations to identify children or charities who might need school supplies, clothing, or even financial help. In 2022 we worked primarily with Ridge Park Charter Academy and their school social worker/homeless liaison to identify kids in need of basics like winter gear, school supplies, school uniforms and clothing. These families are often homeless or refugee families who have recently relocated to West Michigan.

Looking *Forward*...

The mission of Preferred Credit union is to be our members lifetime financial partner by offering products and services needed to meet their financial goals. As your leadership team, we are committed to looking for ways to add value to your relationship with us and offer the best products and services available to help you meet your financial needs. We remain vested in our members, our staff, and the communities we serve.

We had an exciting year of growth in 2022 and look forward what 2023 will bring. Thank you for your membership and your willingness to make us your preferred financial partner.

Sincerely,

Russell Herman, Board of Directors Chairman

John Yeomans, President/CEO

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Credit Committee Report

Preferred Credit Union had another great year of loan growth in 2022. Our loan portfolio grew 13% or \$16.4 Million, and we ended the year with our loan portfolio at \$144.3 Million. Our growth came primarily from auto loans, our Visa program and through Purchased Loan Participation program. Another indicator of loan growth is seen with our Loan to Share ratio, we ended 2022 at 62.83% compared to 57.82% in 2021. A big thank you to our committed staff and members, who funded 3,149 loans for \$59 Million in 2022.

By the end of 2022, the Federal Reserve had raised interest rates to the highest they have been in 15 years. These rate hikes, while expected throughout the year to help tame inflation, caused loan rates to surge and loan growth to slow. The 'sticker shock' of the rising rates is and will continue to be hard on members, especially for those who have never experienced a rising-rate environment.

While we anticipate loan growth to be more challenging in 2023. To help grow our portfolio, we will continue to offer competitive loan rates, watch for loan participation opportunities, and develop our Upstart program that was launched in 2022.

Delinquency and loan losses remain low and have yet to return to pre-pandemic numbers. We ended the year with delinquency at 0.31%, slightly up from 0.22% in 2021. We charged off 75 loans for \$263,000, also slightly up from 70 loans for \$202,000 in 2021.

The Credit Committee would like to thank the credit union staff, the Board of Directors, and the membership for their support throughout 2022. We look forward to 2023 and helping our members achieve financial success with all their loan needs.

Sincerely,

Dorothy Miller, Chief Lending Officer

Statement of Financial Condition

ASSETS	2022	2021
Loans to Members	\$143,822,425	\$127,474,533
Board and Committee Members	\$481,930	\$517,614
Allowance for Loan / Courtesy Pay Losses	(\$1,407,540)	(\$1,381,985)
Allowance for Impairment Loss	\$0	\$0
Cash and Cash Equivalents	\$2,918,692	\$3,085,952
Shares and Deposits in Alloya Corporate CU	\$21,439,410	\$26,173,953
Other Investments	\$86,829,854	\$94,947,246
Other Real Estate Owned	\$0	\$0
Accrued Interest Receivable	\$666,165	\$583,175
Other Receivables	\$2,329,212	\$2,138,782
Prepaid Expenses	\$358,472	\$846,528
Property, Buildings & Equipment (less depreciation)	\$2,316,061	\$2,372,486
	\$259,754,679	\$256,758,284
LIABILITIES & EQUITY		
Member Shares	\$84,734,319	\$84,266,207
Member Demand & Deposit Accounts	\$144,946,779	\$137,095,798
Accounts Payable & Other Accrued Expenses	\$5,519,778	\$4,204,915
Dividends / Interest Payable	\$15,698	\$14,277
Notes Payable	\$0	\$0
Unrealized Gain/(Loss)	(\$10,054,690)	(\$635,186)
Retained Earnings	\$34,592,796	\$31,812,272
	\$259,754,679	\$256,758,284
INCOME		
Interest on Loans	\$6,721,047	\$6,226,853
Income from Investments	\$1,974,499	\$1,523,577
Other Income	\$4,690,837	\$4,348,774
Gain (Loss) on Sale of Assets	\$19,334	(\$122,948)
Less Interest & Dividend Expense	(\$554,194)	(\$573,973)
Less Provision for Loan / Courtesy Pay Losses	(\$60,000)	(\$7,825)
	\$12,791,524	\$11,394,458
EXPENSES		
Office Operation	\$2,707,317	\$2,422,306
Compensation	\$5,050,614	\$4,686,919
Office Occupancy	\$472,958	\$342,047
Education & Promotion	\$475,447	\$380,774
Loan Servicing	\$886,889	\$806,834
Travel & Conference	\$113,092	\$177,661
Supervision & Examination Fees	\$35,000	\$61,200
Interest on Borrowed Money	\$12	\$0
NCUSIF Stabilization Expense	\$0	\$0
Miscellaneous	\$61,839	\$45,792
Association Dues	\$11,386	\$11,863
Professional and Outside Services	\$196,445	\$187,028
	\$10,011,001	\$9,122,423
NET INCOME	\$2,780,523	\$2,272,035

BOARD OF DIRECTORS

Russell Herman
Chairman

Yvonne Alles
Vice Chairperson

H. Frederick Bartling
Secretary

Gaylen Demarest
Treasurer

Victoria Brown
Director

Fred Gradisher Jr.
Director

Thomas Powers
Director

CREDIT COMMITTEE

Dorothy Miller
Chairman

Barb Denman
Committee Member

Joy Jensen
Committee Member

Cynthia McCombs
Committee Member

John Yeomans
Committee Member

Management Team

John Yeomans
President/CEO

Bev Vander Well
CFO

Christine Pratt
VP of Member Experience

Cynthia McCombs
VP of HR and Security Officer

Dorothy Miller
CLO

Rhonda Harrington
VP of Cards

MILLENNIAL ADVISORY COMMITTEE

Meredith Anderson
Committee Member

Keegan Daniel
Committee Member

Pete Herman
Committee Member

