


COMMONWEALTH
CREDIT UNION



**COMMONWEALTH
CREDIT UNION**

ANNUAL REPORT 2019

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Who WE ARE

Your Friends, Neighbors, and Community Partners

As a not-for-profit financial institution owned by our members, we take great pride in the communities we serve. Commonwealth Credit Union strives to live up to our mission of Bettering Lives for those around us, both inside our branches and beyond. It's our belief that to truly fulfill this mission, we must be present, active, and involved.

We're honored to be a resource for the small businesses in our community. Thanks to our business services, we can provide businesses with the tools and resources to manage and grow their funds, as well as access to borrow what they need to help them achieve their goals.

Security for our members is our number one priority, and at Commonwealth Credit Union, we take it seriously. Commonwealth Credit Union hosts shred days in Frankfort, Lawrenceburg, Louisville, and Lexington. We shred about 14,000 pounds of documents at each event. Shred days are great for the environment and protect our members' sensitive information. At these events, we also collect non-perishable food items to donate to community charity organizations.

We are dedicated to empowering our communities with the tools and resources to provide them with services that will fortify their financial futures. Money and finances can be a frightening topic of discussion, but by providing financial empowerment and education tools, we aim to make it more engaging for our members.

Our Common Cents program aims to cultivate an understanding of key financial concepts to encourage members to make better decisions related to managing their money now and in the future. Also in this program are steps for understanding major life transactions, planning for retirement, and starting a family. By preparing to handle life's biggest moments, they can take control of their own financial journey.

Giving back to our community is a huge aspect of who we are as Commonwealth Credit Union. The Central Kentucky Heart Walk shows that there is immeasurable strength in numbers, and that by working together, we can truly better lives throughout Central Kentucky. For two years, Commonwealth Credit Union has participated in the Central Kentucky Heart Walk. In 2019, our team came together to honor the memory of our friend and colleague, Tracy Coffey, who passed away in November 2018 from a heart attack.

Our team members created Harbin's Heroes, committed to being Heroes for Tracy. Throughout the company, money was raised to donate in his memory. Employees purchased Harbin's Heroes t-shirts and donated vacation time. Our team members also devoted funds through our internal dress down days where we contribute a minimum of \$2 in exchange for the ability to wear jeans and tennis shoes on a specific day. The total donation bar was set high at \$10,000. On the day of the Heart Walk, it was announced that we had raised \$20,248. Surpassing this goal by such a large margin was a fitting way to honor Tracy, who is always in our hearts.

In addition, Commonwealth Credit Union is sponsoring three videos on Shriners Hospitals for Children to bring awareness of the pediatric orthopedic care Shriners provides. We also helped fund the construction of a therapeutic and medical assessment playground on the campus.

This is only a sampling of projects we are involved in through our communities. We also make visits to our Veterans in nursing homes, participate in elementary school Career Fairs, cheer on and provide water to 5K race participants, and deliver holiday gifts to foster homes. At Commonwealth Credit Union, we're united by the understanding that together We Better Lives. Our works, projects, plans, and goals are designed with this core belief in mind.



Chairman's **REPORT**

At Commonwealth Credit Union, we're more than just your local financial institution. We're your neighbors, community members, family members, and friends. Because of this, we care about you and your financial future, and we're dedicated and driven to better the lives of all our members. We open our doors each morning with the expectation to deliver an extraordinary experience for every member, no matter their story or what challenges they face. I'd like to extend thanks to all the team members for continuing to focus on and employ this common purpose with the professionalism and enthusiasm our members deserve.

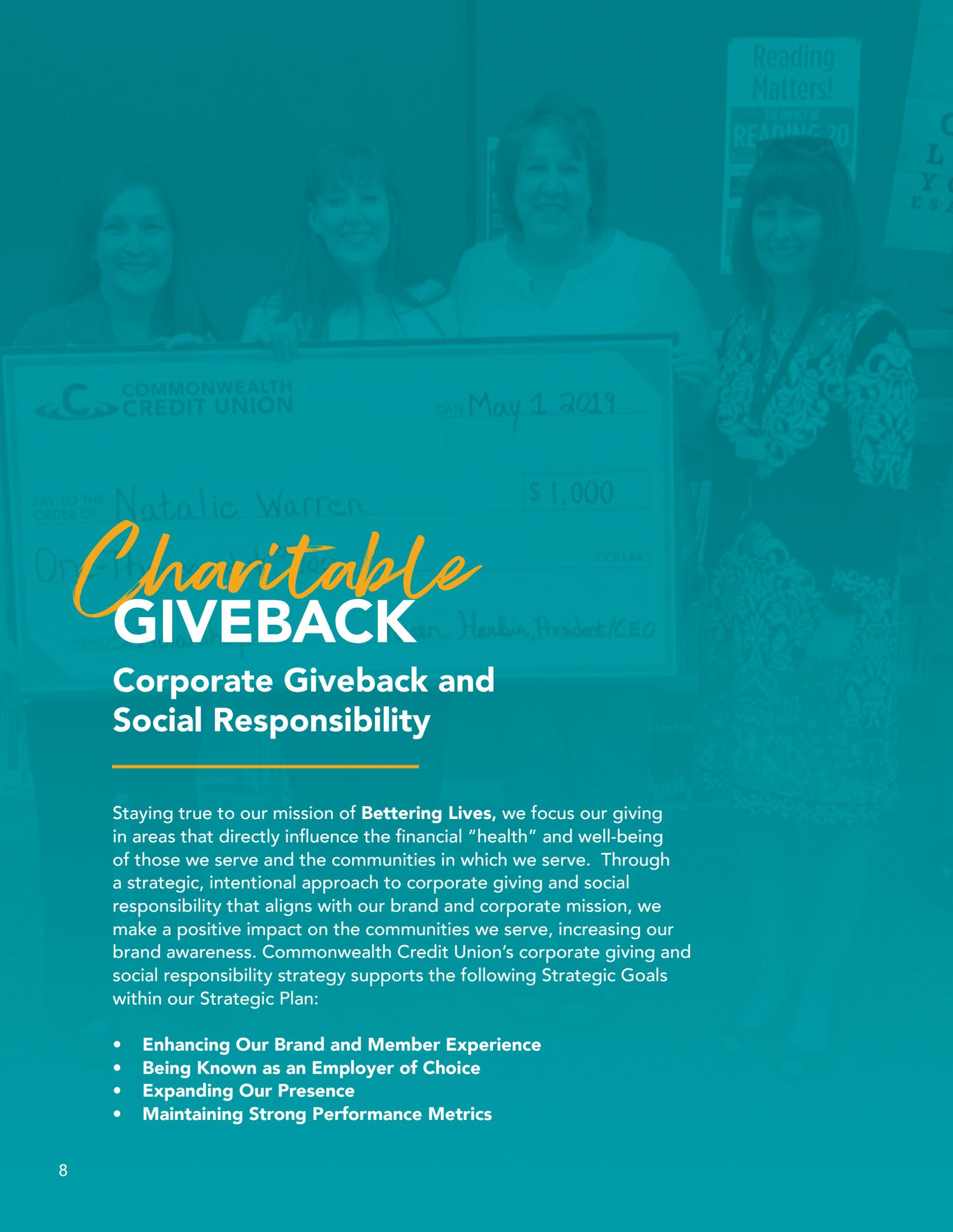
The early part of 2019 saw the Grand Re-opening of our Cane Run Road branch as part of our commitment to involvement and growth in Jefferson County. This technologically advanced branch provides our members ease of use and allows our team to serve the community's financial needs better than ever before. The addition of our second branch in Georgetown gives us the capability to serve more members of that community and enables them to experience superior service in their own neighborhood. I would be remiss if I failed to mention our ongoing partnership with the University of Louisville. Since 2015, Commonwealth Credit Union and the University of Louisville have cultivated and strengthened our partnership to guarantee we are providing the highest level of quality service to faculty, staff, alumni, and students of UofL. We are excited to announce we have extended this partnership through 2030.

Commonwealth Credit Union has participated in the Central Kentucky Heart Walk for the past two years. This event shows that there is strength in numbers, and by working together, we can truly better lives throughout Central Kentucky. In 2019, our team came together to honor the memory of our dear friend and colleague, Tracy Coffey, who sadly passed away from a heart attack. On the day of the Heart Walk, more than 70 participants walked for Tracy as part of Harbin's Heroes. It was announced that we had raised \$20,248 in his memory and were the top fundraising team. For 2020, our President/CEO, Karen Harbin, was named the Heart Walk Chair.

As we move forward into 2020, it's important that we remember to celebrate our achievements and growth, while also recognizing that each success is a testament to the collaboration among our team members, leaders, and volunteers. Each of you here has a voice, and you're all essential in keeping Commonwealth Credit Union one of Kentucky's leading financial institutions. To our members: I'd like to personally thank you for your continued trust.

As always, we're committed to our current and prospective members, and the journey you take toward a successful financial future. No matter where this year may lead us, we'll still be your friends, neighbors, and community members who open our doors each morning with the goal of bettering lives. Thank you for allowing us to CU Differently, and we look forward to the privilege of serving your financial needs in the coming year.

Regina Grubbs
Regina Grubbs, CPA



Charitable GIVEBACK

Corporate Giveback and Social Responsibility

Staying true to our mission of **Bettering Lives**, we focus our giving in areas that directly influence the financial “health” and well-being of those we serve and the communities in which we serve. Through a strategic, intentional approach to corporate giving and social responsibility that aligns with our brand and corporate mission, we make a positive impact on the communities we serve, increasing our brand awareness. Commonwealth Credit Union’s corporate giving and social responsibility strategy supports the following Strategic Goals within our Strategic Plan:

- **Enhancing Our Brand and Member Experience**
- **Being Known as an Employer of Choice**
- **Expanding Our Presence**
- **Maintaining Strong Performance Metrics**

Enhancing Our Brand and Member Experience

A focused corporate giving strategy allows our members and communities to have a better understanding of “who” CCU is and enables them to connect with CCU on a personal level. Being known as a socially responsible organization, contributing to the well-being of the communities in which we serve, bolsters our brand image and helps build brand loyalty. Providing avenues for members and nonmembers to engage alongside CCU in socially responsible activities builds alignment and support for our brand and mission within our communities. Opportunities to engage with targeted audiences and communities will be a key factor in selecting sponsorships and partnerships to support.

Being Known as an Employer of Choice

When employees feel that their organization is socially responsible, they experience a greater sense of identity with the business they work for. In fact, social responsibility can be more important than financial success in determining how much employees identify with their workplace. Being connected to a socially responsible organization can be linked to employee retention, productivity, and overall engagement. Employees who are more engaged perform better when they feel good about their company’s social responsibility and charitable involvement. By making employees aware of the credit union’s efforts to give back, and celebrating these efforts, we expect employees to become more actively engaged with their work and perform better.

Along with increasing current employees’ commitment, a clearly defined corporate giving strategy can help make our organization look more attractive to applicants and prospective employees. In the age when millennials want to work for “high-impact” organizations, engaging in social responsibility, and having a defined strategy, can help attract top talent to CCU over other organizations. A survey by the non-profit Net Impact found that 72% of students about to enter the workforce stated that seeking a job where they can “make an impact” was important for their happiness. Ensuring CCU has a strong corporate giving strategy is an important element of attracting and retaining talent. Our corporate giving strategy focuses on social responsibility and provides in Team 1, our internal culture, the following:

- A voice in selecting charitable and giveback activities.
- The opportunity to engage the communities in which they live and work.
- Support for engagement with their own specific charities.

Expanding Our Presence

Supporting organizations and activities within the communities we serve is the cornerstone of our strategy. To ensure we are giving back to those we serve, CCU giving will be focused within the 24 counties we serve, with funding and activities tied directly to “Bettering the Lives” of our current members or those living or working in the following counties within the Kentuckiana Regional Planning & Development Agency (KIPDA) and Bluegrass regions of Kentucky:

- Bullitt County
- Henry County
- Jefferson County
- Oldham County
- Shelby County
- Spencer County
- Trimble County
- Anderson County
- Bourbon County
- Boyle County
- Clark County
- Estill County
- Fayette County
- Franklin County
- Garrard County
- Harrison County
- Jessamine County
- Lincoln County
- Madison County
- Mercer County
- Nicholas County
- Powell County
- Scott County
- Woodford County

Maintaining Strong Performance Metrics

As a cooperative, not-for-profit financial institution owned and operated by its members exclusively to meet their financial needs, we never forget that we are stewards of our members’ money. Charitable giving, sponsorships, philanthropic activities, and member giveback are managed each year in accordance with the Board-approved budget.

Maintaining a structured and focused giveback and social responsibility strategy that supports the mission of our organization, within the approved budgetary guidelines, ensures the credit union’s overall performance metrics are not negatively impacted by charitable giving and community activities that are purely philanthropic and are not derived to drive revenue.

Guidelines are defined for the following areas for corporate giveback and social responsibility activities:

- **Corporate Sponsorships**
- **Community Giving**
- **Solicited Charitable Giving**
- **Member Giveback**

Corporate Sponsorships

Staying true to our mission of Bettering Lives, CCU's corporate sponsorship strategy focuses on improving the financial health, along with the physical health and well-being, of those we serve. In selecting organizations to support or partner with, we will ensure our funds are used to better the lives of those living or working in the 24 counties in which we operate.

Following a strategy that supports **"Health Is the First Step to Wealth,"** we are committed to working with organizations that use 80% or more of our corporate sponsorship funds to directly improve the health or well-being of those within our membership.

"Health Is the First Step to Wealth"

Communities are built on the strength of their families and future generations. Therefore, the primary focus of our involvement in charitable activities is directly related to improving the lives of families, especially children (the future of our communities), as well as those who support long-term sustainability for the communities in which they live.

The areas we have identified to engage with to provide support fall into the following categories:

- Education
- Health
- Safety and Well-Being



Community Giving

Community giving is supported by branch and department activities, along with the structured Dress Down Days. These activities are driven and supported by Team 1 members directly. The majority of these initiatives are comprised of Team 1 engagement and require minimal direct funding.

Solicited Charitable Giving

Along with annual corporate sponsorships, we receive direct solicited charitable giving requests. These formal requests are reviewed and approved by the Charitable Giving Committee, tracked, and reported to the Board of Directors. The Charitable Giving Committee is comprised of employees from different areas within the organization and directed by the Chief Marketing Officer.

Member Giveback

Commonwealth Credit Union provides products and services at a competitive cost for the benefit of its members and is committed to giving back to its members through direct product savings in accordance with the budget and as approved by the Board of Directors. Member Giveback occurs in the following areas:

- Limited offers providing higher-than-market rates on savings products
- Limited offers providing lower-than-market rates on loan products
- Special gifts and giveaways

Offers will be provided periodically throughout the year and marketed, providing members ample opportunity to participate. Offers may include the following, as well as additional items:

- \$5.00 Initial Deposit Payment
- \$25.00 New Member Referral
- \$25.00 New Checking Account Referral
- Cash Back for Auto Refinances
- Cash Back for Mortgages
- First-time Home Buyer Program
- Car Funding Initiatives
- Higher-than-market Rates for Certificates
- Cash Back and Other Valuable Options

Opportunities are reviewed and implemented each year based on member benefit and market conditions. Offers are provided that support balance sheet needs, the current year's budget, and performance metrics.



Community Giving Initiatives

We're honored to announce that we've given in excess of \$600,000 in charitable giving and direct member giveback.

Blue Grass Green Source
American Heart Association
Shriners Hospitals for Children
YMCA - Central Kentucky
University of Louisville Foundation
Louisville Metro Police (SWAT)
American Red Cross Sound the Alarm
American Red Cross Disaster Blaster



Planned Community Giving for 2020

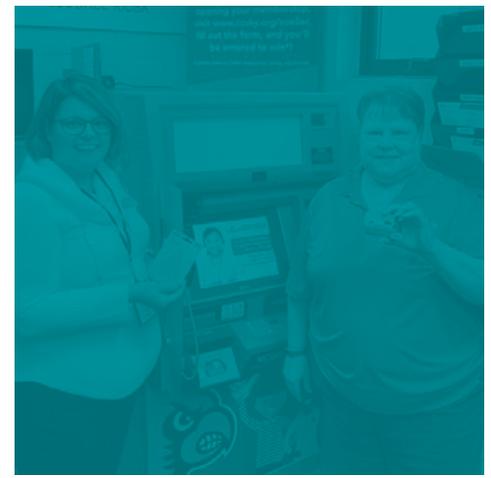
Direct member giveback and charitable giving through the following partnerships will be increased to over \$1 million in 2020.

American Heart Association
Shriners Hospitals for Children Medical Center
YMCA - Central Kentucky
University of Louisville Foundation
Kentucky Center for the Arts
Make-A-Wish Foundation
Louisville Metro Police Foundation
Campbellsville University
American Red Cross
Financial Empowerment Commission
Urban League



Community INVOLVEMENT





Education INITIATIVE

In 2018, Kentucky passed a law that requires all high school students, beginning with the freshman class entering in the fall of 2020, to have taken a financial literacy course or program before graduation. In 2019, the Financial Empowerment Commission was formed to oversee the improvement of financial education in Kentucky.

Through a partnership with the Kentucky Credit Union League and Kentucky credit unions, the Commission is able to operate without expense to taxpayers for its first three years. Thus, Commonwealth Credit Union is actively addressing financial empowerment within our service area, and has developed dynamic programming to meet the new high school financial literacy graduation requirement while continuing to grow our college/university and community influence.

Due to the importance of connecting youth and young adults to financial empowerment resources along with valuable products and services that can mature with them, CCU developed a new area of focus called Community Education. Utilizing input from an internal Community Education Committee, our organization has been able to build relationships and partnerships with area schools and universities. The 2019 programs included Metropolitan College and UPS, REACH with the University of Louisville, the after-school program with the Central Kentucky YMCA, and a new High School Program for all freshmen at Scott County High School in Georgetown. The partnerships we are building will allow CCU to impact the future of thousands of high school and college students and their parents. These partnerships will bring added value not only to those individuals but also to the credit union and the communities we serve as a whole.

Treasurer's REPORT

Commonwealth Credit Union had a very good year in 2019 with a Return on Average Assets of 1.07% which is comparable to the aggregate pool of credit unions in our asset size. These earnings make possible improved delivery systems to our members. In 2019 we continued to invest in Interactive Teller Machines (ITMs) to better serve our members while controlling costs, but also invest in vital infrastructure to secure our data systems and promote growth utilizing digital channels.

Managing economic changes and navigating the interest rate environment is a primary concern for our credit union. The economic winds are expected to remain rather volatile with the Federal Reserve Bank having to cut rates in the past year and due to the spread of the Coronavirus in early 2020, they had an unexpected emergency rate cut of 0.50% and are expected to have additional rate decreases in 2020.

2019 was a very good year for our credit union in both loan and share growth which allowed our assets to increase by \$121.3 million, or 9.6%. This past year saw our credit union open a second branch in Georgetown while two new branches in Versailles and Louisville are scheduled to open in the spring of 2020.

Commonwealth Credit Union experienced loan growth of \$78.9 million, or 8.9%, compared to year-end 2018. The growth was led by mortgage loans at \$45.0 million, or 16.7%, personal loans at \$10.6 million, or 15.2%, credit card loan at \$10.3 million, or 11.4%, and home equity loans at \$8.7 million, or 10.6%. The allowance for loan losses to total loans ended 2019 at 0.91% and the net charge-off and delinquency ratios were 0.74% and 0.67%, respectively.

Share growth was \$130.1 million, or 12.4% over year-end 2018. Certificate balances grew \$65.4 million, or 29.0% followed by money market balances, which grew \$28.3 million, or 18.0%, checking accounts grew \$18.8 million, or 11.2%, and saving accounts grew \$15.2 million, or 3.5%.

Net income for 2019 was \$14.2 million and accounted for a 1.07% return on average assets. Non-interest income was up 21.1% over 2018 due primarily to increased interchange fees on credit and debit cards, other fees and returns on investments. Non-interest expenses increased 8.2% due to increased salary and benefits costs, depreciation costs on fixed assets and loan expenses.

We continue to be one of the most solvent credit unions in the U.S. Our capital position, as reported by our Net Worth Ratio, ended 2019 at 14.0%, which is far higher than the average financial institution, making us one of the safest places in the nation for members / depositors.



Government regulatory requirements remain a challenge to implement and are expected to increase operational expenses. We plan to leverage our existing branch network by expanding membership with our community charter to serve member loan and share needs. We are happy you recognize the tremendous source of financial resources Commonwealth Credit Union provides to you, our members, and we encourage your colleagues and family to receive these same benefits by becoming a member. We constantly and consistently strive to earn your business. Thank you for allowing us to serve you.

James R. Chadwell
Secretary/Treasurer, CPA

Financial REPORT

Balance Sheet

Assets

| | 2019 | 2018 |
|----------------------|------------------------|------------------------|
| Cash & Overnight | \$158,446,519 | \$100,107,095 |
| Investments | \$149,480,466 | \$205,270,899 |
| Net Loans to Members | \$966,420,474 | \$887,514,716 |
| Fixed Assets | \$37,459,414 | \$33,840,514 |
| Other Assets | \$71,665,777 | \$35,426,011 |
| Total Assets | \$1,383,472,650 | \$1,262,159,235 |

Liabilities & Equity

| | | |
|---------------------------------------|------------------------|------------------------|
| Member Shares | \$1,176,222,091 | \$1,046,152,624 |
| Other Liabilities | \$22,579,381 | \$49,536,792 |
| Total Equity | \$184,671,178 | \$166,469,819 |
| Total Liabilities & Equity | \$1,383,472,650 | \$1,262,159,235 |

Income Statement

Interest Income

| | YTD 2019 | YTD 2018 |
|------------------------------|---------------------|---------------------|
| Loan Interest | \$53,374,844 | \$47,718,146 |
| Investment Income | \$6,218,831 | \$5,205,776 |
| Total Interest Income | \$59,593,675 | \$52,923,922 |

Interest Expense

| | | |
|-----------------------------------|---------------------|---------------------|
| Cost of Funds | \$8,909,863 | \$5,591,919 |
| Borrowing Expense | \$79,654 | \$151,892 |
| Total Interest Expense | \$8,989,517 | \$5,743,811 |
| Net Int Income before Prov | \$50,604,158 | \$47,180,111 |
| Provision for Loan Losses | \$7,328,530 | \$7,031,953 |
| Net Int Income after Prov | \$43,275,628 | \$40,148,158 |
| Non-Interest Income | \$22,671,284 | \$18,723,696 |
| Non-Interest Expense | \$51,718,954 | \$47,785,712 |
| Net Income | \$14,227,958 | \$11,086,142 |

Supervisory COMMITTEE REPORT

The Supervisory Committee consists of five members appointed by the Board of Directors. The Committee's main duties are to conduct a comprehensive annual audit of the credit union and other audits as necessary. The Committee also performs a financial and management oversight role, independent of the Board of Directors, on behalf of the credit union membership.

The Committee retained the services of Doeren Mayhew CPAs, an independent CPA firm specializing in credit union audits, to conduct the audit as of December 31, 2019. The 2019 financial audit report may be reviewed upon request.

In addition to the annual audit, a team of internal auditors who report directly to the Supervisory Committee has developed a flexible annual audit plan using appropriate risk-based methodology to conduct operational and compliance audits of the credit union. During 2019, the Internal Audit staff completed and issued audit reports in numerous areas. The Internal Auditors' main responsibilities are to assist the Committee in ensuring that internal controls are in place and operating as intended, member assets are being safeguarded, and credit union policies and procedures are followed.

We encourage members and credit union employees to express any concerns to the Supervisory Committee. The names of those expressing concerns will be held in the strictest confidence.

The Committee wishes to thank the Board of Directors and the staff of Commonwealth Credit Union for their assistance and cooperation in 2019.



Rob Ellis

Supervisory Committee Chair

SUPERVISORY COMMITTEE



Alice Wilson
CPA



Gary Forman



Michelle Sutton
CPA



Steve Dooley

BOARD OF DIRECTORS



Karen Harbin
President / CEO, CPA



Regina Grubbs
Chairperson, CPA



Randy Fawns
Vice Chairperson



Jim Chadwell
Secretary / Treasurer, CPA



Donnie Rodgers II
Board Member



Kay Jones
Board Member



Kenny Blackwell
Board Member, CPA



Mary Foster
Board Member



Randy Overstreet
Board Member



Bill Leach
Board Member



Alex Rose
Board Member

President's REPORT

Every new year ushers in change and new opportunities, but 2019 was truly an exceptional year. We reopened one branch and added another location to our family of branches. For the second year in a row, we were honored with the designation of a Best-In-State Credit Union by Forbes Magazine and named as one of the Best Places to Work in Kentucky. Although we could hang our hat on these accolades, we are always striving to achieve more for the betterment of our members.

Last year, we laid the groundwork for a sustainable and repeatable program that would teach financial education to the next generation. This year, we have launched an educational initiative that allows us personal interaction with students, so we can best prepare them for the road ahead. Our Community Education Specialist visits area high schools, talking directly to students, understanding their concerns, and most importantly, educating them on how to save, budget, and plan for their future. This work is supported by House Bill 139, which was approved in the 2019 legislative session and signed into law.

I was proud to work with Treasurer Allison Ball on this bill that gives educators the tools needed to teach financial empowerment to our students at no additional cost to taxpayers.

To provide members with added convenience and better access to their money, we have listened and are answering a long-standing call by naming Versailles as our next Kentucky home. Opening in the spring 2020, this branch will offer enhanced technological features and top-of-the-line service, all with your hometown banking feel.

2020 will also mark the start of our Health Is the First Step to Wealth Campaign. Through our partnerships with the American Heart Association, the American Red Cross, Shriners Hospitals for Children, and the Make-A-Wish Foundation, we can better lives from the inside out. We'll also be present, active, and involved with many other local community events, including Candlelight Weekend, Holiday Parades, area Business Expos, Young Professionals groups, and Oktoberfest, to name just a few.

Even with all of the new initiatives, branch locations, and community partnerships, I can state confidently that we will never sacrifice what we do best: providing personal service and quality financial solutions to our members. We will continue to stay true to this philosophy and give you an experience that is second to none while bettering the lives of more people than ever before.

Karen Harbin

President / CEO, CPA



BETTERING LIVES...
Together!

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ALL INFORMATION IS CONFIDENTIAL AND PROPRIETARY.