

Leominster Credit Union
Annual Meeting
September 15, 2020

Treasurer's Report

In 2019, Leominster Credit Union (LCU) experienced solid operating results due to strong loan and investment interest income compared to 2018 which supported the improvement in our overall net interest income by more than \$1.0 million year over year.

The credit union's total assets grew by \$1.0 million to \$707.5 million at December 31, 2019 up from \$706.5 million at December 31, 2018 due primarily to the continuation of the strategy to emphasize our member lending programs while reducing the concentration within our investment securities portfolio.

As a result of the continuing emphasis we have toward our member lending programs, Loans outstanding increased by \$6.8 million during 2019 and totaled \$534.0 million at December 31, 2019. The biggest contributors to the increase in loans outstanding include Consumer Installment Loans which increased during 2019 by \$16.0 million and Home Equity Lines of Credit which increased by \$8.4 million while Member Business Loans increased by \$1.1 million. Mortgage Loans outstanding decreased by \$4.2 million as a result of mortgage loans sold to the secondary market increased dramatically in 2019 as the credit union sold \$16.5 million in mortgages, the highest total since 2012.

Member deposits had one of its best ever growth years and increased by 15% or \$70.1 million during the year to \$537.0 million at December 31, 2019 compared to \$466.9 million at the end of December 2018. We were very successful in enhancing member relationships in 2019 evidenced by the continuation of growth in our core savings and checking deposit accounts which increased by \$2.4 million and \$6.5 million, respectively during the year. Money Market Deposit Accounts grew almost \$35.8 million in 2019 along with the growth from Term Certificates of Deposit of \$25.0 million.

The significant increase in outstanding deposits during the year lessened the need to use alternative funding, such as borrowings from the Federal Home Loan Bank of Boston. As a result, borrowings at the Federal Home Loan Bank of Boston decreased by approximately \$75.1 million from \$171.5 million at December 31, 2018 to approximately \$96.4 million at December 31, 2019.

The credit union's Net Worth increased by \$3.3 million during 2019. LCU ended 2019 with total Net Worth of \$63.5 million pushing the Net Worth Ratio up to 8.97% which represented an increase from 8.52% at the previous year-end and stands well over 9% today. Capital levels remain strong as LCU is categorized by the various regulatory agencies as a "Well Capitalized" credit union, the highest rated tier within regulatory capital adequacy categories.

The Federal Reserve started to decrease short-term interest rates during 2019 which continued to limit the spread between short and long term interest rates putting pressure on interest margins. Despite the continuation of a flattening US Treasury yield curve that limits net interest income opportunities, we were able to improve our overall net-interest income compared to the previous twelve months.

Net income for the year ended December 31, 2019, totaled \$3.3 million compared to \$2.7 million for the same period in 2018 and the highest level since 2010. The \$3.3 million of earnings in 2019 represents an annual return on average assets of 0.45% compared to 0.39% in the prior year.

Leominster Credit Union's net-interest income before provision for loan losses for the twelve months ended December 31, 2019 totaled \$18.1 million, an increase of \$1.0 million compared to the same period in the prior year. The improvement within net-interest income was primarily due to a significant increase in interest income on loans partially mitigated by an increase in deposit interest expense.

The credit union's net charge-off ratio on loans was consistent with its peer group in 2019 despite digging deeper and making credit available to more borrowers during the year, although, the provision for loan loss was relatively flat compared to 2018 and actually decreased to \$792,000 compared to the 2018 total of \$808,000. The stable level of provision for loan loss is a reflection of consistent quality underwriting and strong collection efforts which corresponds to a comparable peer group level of charged-off loans.

During 2019, Non-Interest Income decreased by \$147,000 due primarily to the absence of an unusual \$369,000 premium rebate from the NCUA coupled with a windfall \$475,000 life insurance payment in 2018. Overall non-interest income levels were above the previous year level when excluding the two one-time benefits stated previously primarily due to the significant increase in residential mortgage sale activity producing a healthy increase in the mortgage banking income.

Non-Interest Expenses increased by \$372,000 to \$19.7 million during 2019 and equated to 2.74% of average assets, which was an improvement compared to the 2.77% recorded in 2018 and is considered favorable to LCU's peer group. The major reasons for the increase to our operating expenses during 2019 include increased salary and benefits expense coupled with higher Information Technology expenses associated with the continuation of our Mobile and On-line banking commitment to improve the services to our members and make each transaction as easy as possible.

The ongoing economic environment, which includes the less than advantageous shape of the interest rate yield curve, continues to create significant challenges for the financial services industry. Our commitment to solid underwriting and prudent lending policies and procedures has helped mitigate loan delinquency, foreclosure and repossession activity. Our strong capital position, core earnings and the quality of our balance sheet leaves us well positioned for 2020 and well into the future.