

2018

ANNUAL REPORT



Dave Boden



Patrick McGuiness

Greetings.

First of all, I'd like to thank you for your continued membership in Hiway Federal Credit Union. As we move into 2019, I'm happy to report that 2018 was a great year for Hiway in a number of different ways. Now in our 88th year, we have grown to serve more than 74,000 members. We finished the year with \$1.11 billion in assets, \$328 million loan production (nice growth from our \$299 million in 2017), and record debit and credit card transactions of \$433 million (up from \$396 million). Our delinquency rate remains very low at 0.32%, and our charge off rate came in at 0.20%. In addition to our strong growth, we had a good income year as well, with a return on assets of 0.72%.

We ended the year with a very healthy capital ratio of 11.85%, meaning we are well insulated from short-term market risks and well positioned to be here to serve our members for many more years to come.

President/CEO and Board Chair

While the numbers people in our back office are pleased with the above, I'd like to share a little more about what these numbers mean to you, and what our strength and solvency enables us to do for our members, our associates, and our community.

Engagement.

No one knows when they or a loved one might face a medical situation, and at Hiway, we want to ease their stress during an already stressful time. For our new mothers and fathers, we want to free them from financial worry and ensure they have uninterrupted time as a family. To these ends, we recently added a couple of new employee benefits: paid medical and parental leave and a higher minimum wage. It's not only the right thing to do for our associates; we also know that attracting and retaining top talent results in the best experience for our members.

Beginning in January 2019, Hiway associates were offered 12 weeks of paid medical and paid parental leave, which can be used to address individual situations or to care for an immediate family member. In addition, we increased our minimum wage to \$15 per hour, about 50% higher than the state's minimum, and an increase of 10% over the Hiway's previous minimum of \$13.50.

These new additions strengthen our already competitive suite of employee benefits, which include low-deductible individual and family health insurance as well as a defined benefit pension plan for retirees.

Our highly engaged associates are

encouraged to give back to our local community, whether through a Hiway initiative or in service to a cause they personally are passionate about. We offer up to 12 hours of paid volunteer time to each associate, and they have made some amazing contributions, including helping us to raise a cumulative total of nearly \$550,000 for Gillette Children's Specialty Healthcare.

Excellence.

To improve our service to you, we need to first know what we're doing well, and where we could do better. That's why we continue to survey our members, compiling your feedback and creating action items for our team. We're proud to report our service levels reached a new high in 2018, and we're striving for even better results this year.

We were honored to be named a Star Tribune top workplace for the fifth consecutive year. It's a testament to our climate and culture.

In addition, Hiway received local, state and national recognition for excellence in community partnership (East Side Area Business Association, for supporting groups and initiatives on St. Paul's east side), financial literacy (Louise Herring Philosophy-In-Action award, for our student checking account offerings), and marketing, communications and special events (Minnesota Credit Union Network Awards, Diamond Awards).

Innovation.

In 2017, we launched a new online banking system and mobile app, with the express intention of providing you more, and better, digital options. In

Board of Directors

Patrick McGuiness
Chair

Sue Mulvihill
Vice Chair

Jeff Schwalen
Secretary

Kim Collins
Director

Doug Differt
Director

John Dillingham
Director

Lori Hodapp
Director

Leonard Leitner
Director

Pam Tschida
Director

Sophia Xiong-Yang
Associate Board Member

2018, we continued enhancing our digital services with a new online account opening platform — a streamlined, intuitive system for both loan and deposit accounts. We hope you've already had a chance to experience it — it's extremely fast and easy.

Last year also saw the implementation of an online financial education offering, called Momentum. Through a series of engaging, 3 – 5 minute videos, you can explore money matters from basic budgeting to retirement and estate planning. I'd encourage you to check it out, and share with others in your life (it's perfect for teens) who might find it useful.

Finally, we are solidifying plans around adding more branches to serve you (and many more members in the future). Watch for more details around where and when, coming soon.

Community.

Of all the many community endeavors we undertook in 2018, one I'm most proud of is the establishment of the Hiway Credit Union Foundation. This new 501(c)3 foundation is dedicated to Hiway's community ideals to Serve, Support and Strengthen. The Foundation allows us to broaden our community outreach, raise more significant funds and be even more active in youth and adult financial literacy. Our first major fundraising event was held on November 8, 2018 at the St. Paul Curling Club, where Hiway associates, members, friends

and partners had a great time learning to curl, and raising over \$47K in the process. Profits from the event will benefit financial literacy for underserved youth in our community, including scholarships to deserving high school students.

As part of our ongoing commitment to Gillette Children's, we introduced our Hockey Kids4Kids program. Leveraging our position as Minnesota's hockey credit union, we partnered with Minnesota Wild goalie Devan Dubnyk and Gillette patient Joe Carr to create interest and momentum in the program, which challenges youth hockey teams to find their own ways to raise funds for Gillette. Since inception, the program has brought in nearly \$42K for this great cause.

Integrity.

We're committed to operating with the utmost integrity, and in accordance with the credit union philosophy of people helping people. According to the Credit Union National Association (CUNA), Hiway provided \$7,213,684 in direct financial benefits to its 71,546 members during the twelve months ending in September 2018.

These benefits are equivalent to approximately \$212 per member household. The loyal high-use member households received \$1,146 in direct financial benefits. Our not-for-profit model means our earnings are returned to you in the form of lower loan rates, higher savings rates, and fewer fees — the more you work with Hiway, the more you can save

and earn.

Respect.

Have you noticed the bold subheadings above each section? These words weren't randomly chosen; they're intentional. In 2018, after a lot of associate, leadership and board discussion, we created Hiway's Core Values, which are reflected in the above. Our values are the framework for how we treat each other and our members, and for how we approach our work each day.

These values provide a baseline upon which we developed our new member service model, called Hiway GPS. The name encompasses the important role our team plays in helping you navigate through your financial life toward your goals, whatever they may be. We're already proud of our service, so don't expect any large, dramatic changes. GPS simply provides associates some additional tools to strengthen that and aid in helping them to find the best products and services for you.

Thank you.

As we look ahead, 2019 holds both challenges and opportunities. The economy continues to be relatively strong. Unemployment is low, consumer confidence is reasonably strong and low borrowing rates (even with some small upticks) should lead to continued strong loan demand for both automobiles and homes. This is the short-term outlook, but it is always difficult to predict the future. Could we have a recession in our near future? Could world trade policies cause economic pressures?

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Supervisory Committee

Daniel Kahnke
Chair

Gordon W. Kordosky
Committee Member

Larry Schmitz
Committee Member

Cory Starkweather
Committee Member

Melissa Stewart
Committee Member

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Where will interest rates go? We continue to be in an extended period of historically low rates overall, and after some increases in the past year rates seem to be relatively stable. Changes in the overall economy can certainly trigger more rate moves — either up or down — and Hiway will always respond accordingly to maximize overall value to our membership.

We have been pleased to be able to raise savings rates recently (watch for quarterly specials in 2019), and we remain committed to offering savings rates at or near the top of most tiers within the local marketplace. As

we see rates change, we generally respond to the market carefully to maintain a good balance between the lowest loan rates and the highest savings rates we can offer. The balance between higher savings rates and low loan rates continues to result in increasingly narrow margins for the credit union. As such, we will continue to focus on operational efficiency and cost management, even as we make the investments in staffing and technology required to deliver an outstanding member experience.

Again, thank you for being an owner and member of Hiway Federal

Credit Union. It's because of your loyalty that we are able to offer so much to our members, associates and communities. Our credit union is stronger the more we all participate — the more we grow, the more we are able to give back to everyone. So please look to Hiway to be your primary financial institution — use us for as many services as fit your life — and encourage friends and neighbors to become owner-members as well. We're stronger together, and we look forward to many more years with you on the road of life.



Daniel Kahnke

The Supervisory Committee, which consists of volunteer members of Hiway Federal Credit Union, provides oversight over financial management practices and procedures to ensure compliance with the National Credit Union Administration (NCUA) regulations and Hiway's bylaws and policies.

To assist the committee, the Risk Management Department monitors Hiway's day-to-day operations and

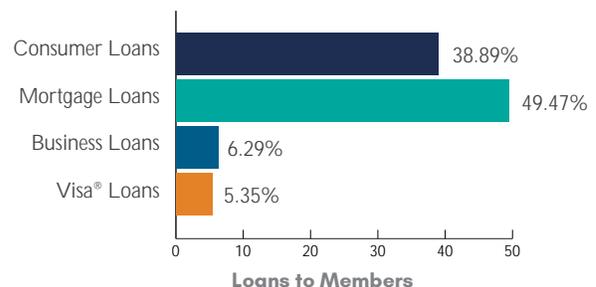
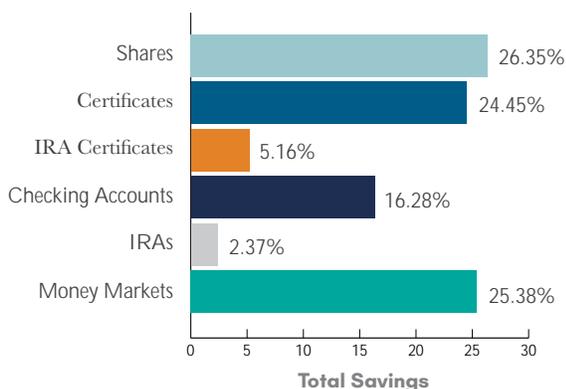
Supervisory Committee Chair

performs financial and operational audits of its records and functions.

An annual audit of Hiway's financial statements was performed by the certified public accounting firm of CliftonLarsonAllen, LLP. Their report has expressed an unmodified opinion on these statements. The enclosed summary of financial information for 2018 and 2017 is extracted from the financial statements. Copies of the complete financial statements with related footnotes are available upon request.

Hiway continues to be a safe place for members' assets and an exceptional provider of financial services whether personal or through digital channels.

The Supervisory Committee thanks you, the member, for your loyalty and support. On behalf of my colleagues on the Supervisory Committee, I also thank the Risk Management Department, the officials and associates of Hiway for their continued cooperation and their commendable delivery of service to the members.



Statements of Financial Condition*

	2018	2017
Assets		
Loans to members, net	\$ 805,929,437	\$ 752,141,008
Cash and cash equivalents	32,033,163	29,051,730
Investments	210,486,193	254,086,984
Accrued interest receivable	2,675,608	2,690,169
Property and equipment, net	17,336,593	18,327,720
National Credit Union Share Insurance Fund deposit	9,482,132	9,316,760
Other assets	33,418,927	39,014,932
Total assets	<u>\$ 1,111,362,053</u>	<u>\$ 1,104,629,303</u>
Liabilities & Members' Equity		
Liabilities		
Share accounts and certificates	\$ 981,006,037	\$ 972,646,114
Accrued and other liabilities	11,358,388	12,550,940
Total liabilities	<u>\$ 992,364,425</u>	<u>\$ 985,197,054</u>
Members' Equity		
Total liabilities & members' equity	<u>\$ 1,111,362,053</u>	<u>\$ 1,104,629,303</u>

Statements of Income and Expense*

	2018	2017
Interest Income		
Interest on loans	\$ 32,023,769	\$ 28,874,759
Interest on investments	5,819,831	5,501,730
Total	<u>\$ 37,843,600</u>	<u>\$ 34,376,489</u>
Interest Expense		
Share accounts and certificates	\$ 5,552,494	\$ 5,278,589
Net interest income	<u>\$ 32,291,106</u>	<u>\$ 29,097,900</u>
Provision for Loan Losses		
Net interest income (after provision for loan losses)	<u>\$ 2,733,104</u>	<u>\$ 984,104</u>
Other Income		
Service fees	\$ 4,477,946	\$ 4,393,698
Gain/(Loss) on sale of assets	(132,141)	212,987
Other income	7,754,780	8,063,308
Total	<u>\$ 12,100,585</u>	<u>\$ 12,669,993</u>
Other Expenses		
Salaries and employee benefits	\$ 19,713,941	\$ 19,270,126
Occupancy expenses	8,593,275	7,867,776
Other operating expenses	5,425,448	5,668,549
Total	<u>\$ 33,732,664</u>	<u>\$ 32,806,451</u>
Net income	<u>\$ 7,925,923</u>	<u>\$ 7,977,338</u>

*Statements of Financial Condition and Statements of Income and Expense include the statements of Hiway Federal Credit Union and its wholly-owned subsidiary, Hiway CU Services, LLC.

Federally insured
by NCUA



Sent **Military Care Packages** to troops overseas. Hiway's Beyond the Yellow Ribbon Committee continually collects donations from associates and ships out a box whenever one gets filled. Hiway is a proud Yellow Ribbon Company.



Introduced **Hockey Kids4Kids**, an innovative program in collaboration with the Minnesota Wild, Wild goaltender Devan Dubnyk, Minnesota Hockey and Gillette Children's Specialty Healthcare. Hockey Kids4Kids encourages youth hockey teams to think beyond themselves and use their teamwork off the ice to come up with their own creative ideas to raise funds for Gillette Children's. In the inaugural season, 36 teams participated and raised \$10,000.

Sponsored the **Minnesota Hockey Rec League** for the 4th consecutive year to help encourage more kids in the Twin Cities metro area to experience ice hockey. The Rec League's volunteer coaches teach new players fundamental skills while fostering a spirit of sportsmanship, fair play and a love of the game.

Hiway is the Official Credit Union of the Minnesota Wild and Minnesota Hockey.



Volunteered to pay it forward with our 4th annual **Pave the Way** initiative, which included making and serving meals at Ronald McDonald House and Fisher House, preparing sandwiches for the homeless delivered by Love One Another and packaging food at 2nd Harvest Heartland. 90 Hiway associates volunteered 78 hours of time.



Donated more than \$1,100 and 210 toys to **Toys for Tots**. Members generously gave more than \$600 and our Foundation matched with \$500.



Board Member Pam Tschida was recognized as **Outstanding Volunteer of the Year** by the Minnesota Credit Union Network (MnCUN). The award is given to a credit union

volunteer who best represents the credit union spirit through dedication to, and belief in, the credit union movement.



Honored as **East Side Business of the Year** by the East Side Area Business Association. The award recognizes a business that demonstrates great accomplishment and has had a positive impact on our community.

Received the **Dora Maxwell Social Responsibility Community Service Award** for our Hockey Kids4Kids program and the **Louise Herring Philosophy-in-Action Member Service Award** for our Student Savings Account. The statewide awards are sponsored by the Minnesota Credit Union Network (MnCUN) and the Credit Union National Association (CUNA), and recognize credit unions for the activities they coordinate that benefit their community and demonstrate the practical application of the credit union movement's principles in serving their members.

Raised more than \$26,000 for Credit Unions for Kids, which provides funds for **Children's Miracle Network (CMN)** affiliated hospitals, locally benefiting Gillette Children's Specialty Healthcare. Funds were raised through associate casual days, raffle tickets, summer cookouts, popcorn sales and more.

Contributed \$1,000 to sustain funding for the **American Council of Engineering Companies of Minnesota (ACEC/MN) Scholarship Program**. The joint endowment strategy launched in 2009 and contributions come from Hiway financial transactions by ACEC/MN member firms or their employees.



Named one of the **Top Workplaces in Minnesota** by the StarTribune for the 5th consecutive year. Top Workplaces recognizes the most progressive companies in Minnesota based on employee opinions measuring engagement, organizational health and satisfaction.

President/CEO Dave Boden was named as one of **The Most Powerful Business Leaders in Minnesota** in the inaugural issue of Minnesota 500.



Serve. Support. Strengthen.

Launched **Hiway Credit Union Foundation**, an independent 501(c)3 non-profit organization founded to build upon Hiway's tradition of philanthropy and our commitment to be "With You on the Road of Life." Our Foundation will aim to increase support of families, servicemembers, veterans, schools, disaster relief efforts and community initiatives through education, scholarships, in-kind support and volunteerism.

Raised more than \$47,000 at our **Foundation Inaugural Fundraising Event** at St. Paul Curling Club. Profits from the event benefitted financial literacy for underserved youth.



Senior Vice President of Organizational Effectiveness Christine Cordell was named as a **Top Women in Finance** honoree by Finance & Commerce.

Banking that's personal, easy and secure.

Mobile & Online Banking

- Mobile Deposit
- Bill Payment
- eDocuments
- Person-to-Person Payment
- Institution-to-Institution Transfer

Personal Savings

- Certificates
- WINcentive[®] Savings
- Retirement Accounts

Free Checking

- Mastercard[®] Debit Card
- 12 Free ATM Transactions per month
- 63,000+ Fee-free ATMs

Affordable Loans

- Auto
- Home
- Visa[®] Credit Cards
- Recreational Vehicles
- Personal
- Student

Youth Services

- Youth Clubs
- Savings Incentive Programs
- Teen Accounts

Business Solutions

- Savings & Checking
- Loans
- Merchant Accounts
- Visa[®] Credit Cards
- SBA Programs

With You on the Road of Life

Hiway Federal Credit Union[®] (Hiway) was founded in 1931 to serve the employees of the Minnesota Highway Department. We have since grown our membership to include state agency employees, military servicemembers, small businesses, individuals and families throughout Minnesota. Through the confidence and trust our members place in us and share with their families, friends and co-workers, Hiway now provides a full suite of financial products and services to more than 74,000 members across the country.

Members consistently share with us that it is simply a pleasure to work with Hiway, our service is excellent and our rates are always competitive. We will continue to embrace and deliver value as we serve those who choose Hiway as their preferred financial provider.

Locations

Main Office
111 Empire Drive
St. Paul, MN 55103

MnDOT Building Branch
395 John Ireland Boulevard, Room B-23
St. Paul, MN 55155
(Teller Services Only)

Fort Snelling Branch
5025 East 54th Street
Minneapolis, MN 55417

Hours available at hiway.org. In addition to our locations, you have access to 5,000 Shared Branches nationwide.

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TDD Users
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800.627.3529 (MN Relay)



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