

## BOARD CHAIRPERSON STEVE'S REPORT

We have experienced another successful year by emphasizing great member service. We were pleased and humbled when MVFCU was voted Mankato's Best Bank or Credit Union again for 2017 (as we were 2013, 2015 and 2016) (2nd Best for 2014) by Free Press and Mankato Magazine Readers. The credit union continues to grow and has better comparisons than our peers on many levels. Our staff is dedicated to providing our members with the best products and services possible, while maintaining the financial health and stability of the credit union. This focus has allowed the credit union to grow in financial strength, and membership, providing a strong base for the future. The board of directors and the supervisory committee volunteers are knowledgeable and dedicated to providing the membership with a strong and viable credit union. Tell us what you want. We listen. Then deliver. We all do our best to say and do: Yes You Can.

## PRESIDENT & CEO NICK'S REPORT

The year 2017 was another record setter. Thanks. We are off to a very good start in 2018, too. We rolled out improved services and technology in 2017 and will continue in 2018 and beyond. We closed 190 first mortgage loans in 2017 and 217 in 2016. We paid a \$70K Co-op patronage dividend for 2017, \$80K for 2016 and \$70K for 2015. There is significantly increased competition in the area, "brick & mortar" and otherwise, which actually makes MVFCU even better for the community.

The economy is likewise robust. Unemployment in MN was 7.3% at 12/31/09 and now down to 2.6% at 12/31/17; Blue Earth County from 6.0% to 2.0% and Nicollet 1.7%. The number of unemployed workers in the Greater Mankato MSA (Metropolitan Statistical Area) decreased from 3,472 to 1,160 between 2009 and 2017. According to CUNA, the steady economic recovery will continue with predictions of USA GDP growth of 2.60% in 2018, inflation of 2.25%, unemployment of 3.9%. An upward shift in the yield curve is expected with Fed Funds increasing to 2.40% and 10 year Treasury reaching 3.00% in 2018. Prime increased from 3.50% to 4.75% in 26 months.

By year end 2017, we reached all-time record highs again in total assets (\$156 million), deposits (\$140 million), loans (\$89 million), member-owned capital (\$15.1 million = 9.72% of assets), members (14,024) and net income (\$1.57 million). Our gross operating expenses, as a percentage of average assets, continue to decline, which is a measure of operational efficiency: 5.00% in 2000, now 2.96% in 2017 versus peer of 3.69%. Our yield on average loans continues to be less than the national average (4.39% vs. 4.85%, great for borrowers) and on the fee side, we netted 0.44% of average assets vs. peer of 0.84%, so we fee less (great for transaction oriented members). Our cost of funds were 0.46% vs 0.39% so higher than peer (good for savers). Market interest rates are moving upward but still low. The FOMC did bump the target rate on Fed Funds from 0.66% at 12/31/16 to 1.68% today. Last year a 1-year Treasury paid 1.04% and a 5-year Treasury paid 2.11% and today 2.03% and 2.63%, respectively. The stock market has been bullish for several years now with the Dow moving from a low of 7,700 March 2009 to 24,000

March 2018. A conforming fixed rate 30 year mortgage would run about 4.50% from a record low of 3.36% last reached August 2016.

Over the past ten years, member owned capital has grown an average each year of 12.38%, deposits 11.55%, loans 8.30%, membership 5.15%, investments 22.03%, with delinquency + charge offs 1.22% of loans (USA average 1.84%), and return on assets 1.02% (USA average 0.39%). These are very solid, balanced, decade-long results and consistently outshine the national peer averages. We continue to earn the highest safety & soundness grades from NCUA, CPAs, CUNA, Bauer (5 of 5 Stars) and Weiss (A- / top 15%). NCUA calculates that given our low risk balance sheet we'd only need 5.97% capital and we have 9.72%. We are very well positioned for a rising rates with only 21% of assets considered long term (peer average is 31%).

Net loan growth in 2017 was up to 12.98% from last year's 10.07% and compared to the 2017 peer average of 8.52%. Net deposit growth in 2017 was 11.96% compared to the peer average of 4.40%. Net capital growth in 2017 was 11.59% compared to the peer average of 5.46%. In 2017, we made 2,200 installment loans which totaled \$31M in total disbursements (compared to 2,015 and \$24M in 2016). When we include all loans and lines, disbursements totaled a record \$70.1M (compared to \$70.6M in 2016). In addition, we service about \$81 million (657 loans) in first mortgages we've sold to the secondary market (FHLB/Fannie Mae).

At 12/31/17, MVFCU had 14,024 members. We opened 1,534 new memberships (closed 585, for a record net gain of 949 members). There are 7,947 checking accounts, 10,943 MasterCard debit cards, 2,479 MasterCard credit cards, 7,367 active online banking users, and 1,332 active mobile banking users. Members used their debit cards 1.8 million times in 2017. Credit Union members performed 4,067 shared branch service transactions both here and away. At MVFCU, members hold 28,434 savings and 7,296 active loan accounts. At year end we had 28 full time and 3 part time employees, same as last year. **Please let us know anytime how we might serve you better. Thanks!**

## BOARD TREASURER GEORGE'S REPORT

MVFCU remains on a very steady course and growing. Each month, and often in the interim, management and the board treasurer convene for the Asset-Liability Committee meeting. Our focus is diverse and includes closely controlling the net interest rate margin, budgeting, measuring and forecasting. We also search for new products and services.

## SUPERVISORY COMMITTEE TIM'S REPORT

The Supervisory Committee (SC) volunteers evaluate management decisions, finances, internal controls and operations in cooperation with the federal agency National Credit Union Administration (NCUA), CPA's Eide Bailly and CLA, and our three internal auditors. In 2017, the SC reviewed 319 loan files. Additionally, we review all new and closed accounts as well as the Internal Auditors' reports. Our confidential Mankato Post Office Box is 4126. Please feel free to contact us with any questions or concerns.

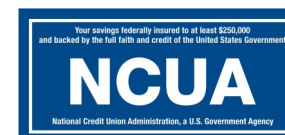


Serving Blue Earth, Nicollet & Le Sueur Counties

## Greater Mankato's Community Credit Union Since 1934

## 83rd ANNUAL MEETING APRIL 24, 2018 Courtyard by Marriott Mankato, MN

Low Loan Rates  
High Savings Rates  
Low or No Fees  
High Quality Service



## MVFCU VISION STATEMENT

Earning Member Loyalty and  
Community Appreciation

## MVFCU MISSION STATEMENT

To exceed the expectations of our member -- owners and become their most valued and trusted financial institution, always in keeping with the cooperative principles.

## MVFCU OPERATING STATEMENT

***TELL US WHAT YOU WANT.  
WE LISTEN. THEN DELIVER.***

## BUSINESS MEETING AGENDA

6:30 PM Call To Order.....Steve Erdman  
Proof Of Notice Of Meeting.....Sandra Eggert  
Declaration Of A Quorum.....Sandra Eggert  
2017 Minutes.....Sandra Eggert  
Close Election/Select Ballot Judge.....Sandra Eggert  
Report Of Nominating Committee.....George Patchin  
Additions/Changes To Agenda.....Steve Erdman  
Report Of Directors.....Steve Erdman  
Report Of President.....Nick Meyer  
Employee Introductions.....MVFCU Staff  
Report Of Treasurer.....George Patchin  
Report Of Supervisory Committee....Timothy Madsen  
**Guest Speaker.....\* John Harrenstein**

## Open Discussion Time

Member attendees are sincerely encouraged to share comments, concerns, and ideas. Tell us what you want. It's your credit union. We will also collect suggestion cards.

## New Business

Scholarship Presentation.....Ben Suker  
Board Election Results.....Steve Erdman  
Introduction Of 2018 Directors.....Steve Erdman  
Door Prize Drawings.....Ben Suker

**\*Guest Speaker North Mankato City  
Administrator John Harrenstein**

***THANK YOU FOR ANOTHER  
GREAT YEAR!! WE LOOK FORWARD  
TO MANY MORE!***

## STATEMENT OF FINANCIAL CONDITION (also \$78M sold mortgage loan servicing portfolio at 12/31/17)

### Income Statements

	12/31/2017	12/31/2016
Interest on Loans	3,663,552	3,571,057
Income from Investments	904,181	658,594
Other Operating Income	1,858,856	1,923,157
<b>TOTAL GROSS INCOME</b>	<b>6,426,589</b>	<b>6,152,808</b>
Employee Compensation & Benefits	1,883,439	1,601,175
Travel & Conference Expense	51,664	41,376
Association Dues	49,277	82,336
Office Occupancy Expense	158,047	164,744
Office Operations Expense	1,156,603	1,015,976
Education & Promotion Expense	236,162	195,819
Loan Servicing Expense	556,390	492,037
Professional & Outside Services	228,076	240,394
Provision for Loan Losses	117,463	129,782
Member Insurance	0.00	0.00
NCUA Operating Fees	29,423	21,672
Interest on Borrowed Money	3,745	46
Membership Meeting Expense	12,112	6,644
Miscellaneous Operating Expense	271	477
<b>TOTAL OPERATING EXPENSES</b>	<b>4,361,465</b>	<b>3,862,650</b>
Dividends Paid to Members	681,688	619,078
Other Non-Operating Income*	312,199	76,639
Pre Net Income	1,574,428	1,617,891
NCUA Recapitalization Expense	0	0
Post <b>Net Income</b>	<b>1,574,428</b>	<b>1,617,891</b>

\* \$312 + \$77 Mortgage Servicing Rights Asset Value—Adjust Annually

### Board Members

Steve Erdman, Chair  
Harold "Sandy" Bartlett, Vice Chair  
Sandra Eggert, Secretary  
George Patchin, Treasurer  
Ross Arneson  
Tammy Longenecker  
Mike Smith

### Management

Nick Meyer, President  
Trent Talle, VP Lending  
Trinette Risting, Operations Manager  
Ben Suker, Development Manager

### Supervisory Committee

Timothy Madsen, Chair  
Tom Bicek  
Warren Michels  
William Montag  
Brenda Simpson  
NCUA: Federal Examiners  
CPA: Eide Bailly and CLA

### Internal Auditors

Joann Ericksen  
Jennifer Bloomquist  
Ben Suker

### Balance Sheets

	12/31/2017	12/31/2016
<b>Assets</b>		
Loans	88,566,399	78,391,122
Allowance for Loan Loss	(284,486)	(292,879)
Short-Term Liquidity	1,078,912	44,900
Corporate CU Investments	5,594,697	5,306,747
Other Investments (mainly CDs)	56,636,193	50,922,286
Building & Land	894,592	946,839
Fixed Assets	359,769	349,365
Other Assets	1,664,870	2,383,259
NCUSIF Deposit	1,322,111	1,148,494
<b>TOTAL ASSETS</b>	<b>155,833,060</b>	<b>139,200,133</b>
<b>Liabilities &amp; Capital</b>		
Member Savings & Certificates	140,202,271	125,221,324
Accounts Payable	431,171	365,104
Dividends Payable	46,457	34,972
Member Capital	15,153,159	13,578,732
<b>TOTAL LIAB. &amp; CAPITAL</b>	<b>155,833,060</b>	<b>139,200,133</b>

### Statements of Equity/Loans/Shares

	12/31/2017	12/31/2016
Beginning Capital	12,576,250	10,958,359
Regular Reserve	1,002,482	1,002,482
Net Income	1,574,428	1,617,891
<b>TOTAL CAPITAL</b>	<b>15,153,160</b>	<b>13,578,732</b>
Vehicle Loans	35,695,333	28,856,525
Consumer Loans	8,478,725	9,116,591
Real Estate Loans	41,138,528	37,029,731
Unsecured Loans	3,253,811	3,388,275
<b>TOTAL LOANS</b>	<b>88,566,399</b>	<b>78,391,122</b>
Primary Share	33,567,991	29,810,741
Money Market	59,944,538	54,163,931
Share Certificates	15,003,963	13,422,637
Checking	26,449,971	23,279,376
IRAs	5,235,808	4,544,639
<b>TOTAL SHARES</b>	<b>140,202,271</b>	<b>125,221,324</b>
<b>NET LOAN CHARGE-OFFS</b>	<b>125,855</b>	<b>115,365</b>
<b>NUMBER OF MEMBERS</b>	<b>14,024</b>	<b>13,041</b>
<b>NET CAPITAL/ASSETS</b>	<b>9.72%</b>	<b>9.75%</b>
<b>RETURN ON CAPITAL</b>	<b>10.96%</b>	<b>12.67%</b>

