

BOARD CHAIRPERSON STEVE'S REPORT

We have experienced another record setting year by focusing on our ongoing commitment "People First, Not Profit". 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, 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. As a part of our growth, we are pleased that the Kato Engineering Employee's Credit Union has chosen Minnesota Valley Federal Credit Union to be their financial partner.

PRESIDENT / CEO NICK'S REPORT

Last year 2011 was another wonderfully solid one for your credit union and the membership which now exceeds 10,000. Likewise, we're again off to a good start in 2012.

The biggest news story for MVFCU in 2011 was the decision by Kato Engineering Employees Credit Union (KEECU) to merge operations into ours, officially effective 1/1/12. The process went very smoothly. KEECU was chartered in 1967 and served six companies. They had 600 members, \$2.3M in assets, \$2M in savings, \$1.3M in loans and added \$200K to our capital, after distributing almost \$100K cash to their members in a bonus dividend. These dollars were added in 2012.

As we all know, 2008 through 2011 were challenging years on the international, national and state economic fronts. Locally we've fared better than many. We're not out of the woods yet, though conditions indeed are improving. Unemployment in the USA was **9.7%** at 12/31/09, now **down to 8.3%** at 12/31/11; Minnesota from **7.3%** to **5.7%**; Minneapolis / St. Paul from **7.0%** to **5.5%**; Blue Earth County from **6.0%** to **4.5%**. The number of unemployed workers in the Mankato MSA decreased from 3,472 to 2,651 between 2009 and 2011. Foreclosures in area counties also are decreasing. According to CUNA, the economic recovery will require all of 2012 during which inflation should remain in check (2012 estimate of 1.50%), interest rates low (10 yr Treasury est. 2.00%), better GDP growth (est. 2.5%) and less unemployment (est. 8.5%).

By year end 2011 together we again reached **all time record highs** in total assets (\$77.6 million), deposits (\$70.6 million), loans (\$49.4M), member owned capital (\$6.6 million = 8.47%), members (10,135) and net income (\$854 thousand which is needed to make sure capital keeps pace with asset growth). Our gross operating expenses, as a percentage of average assets, continues to decline, which is a measure of operational efficiency: 5.00% in 2000, now 3.45% in 2011 vs national peer average of 3.97%. Our yield on average loans continues to be less than the national average (5.57% vs 6.37%, great for borrowers) and on the fee side, we netted .39% of average

assets vs. peer of .87%, so we fee less (great for transaction oriented members). Our cost of funds were 2bps higher than the national average (great for savers). We do realize that with near historically low market interest rates, evidenced by a 30 year fixed rates mortgage for 4%, it hasn't been the best of times for savers. Today, a 5 year Treasury pays under 1%.

Over the **past eight years**, capital has grown an **average** 9%, deposits 9%, loans 9%, membership 4%, investments 10%, delinquency + charge offs 1.23% of loans, and return on assets .73%. These are very balanced results and consistently outshine the national averages. We continue to earn the highest safety & soundness grades from NCUA and CPAs. Our inside internal auditors still meet weekly and report monthly.

In 2009, all 7,500 natural person credit unions in the USA were required to contribute additional capital into the federal deposit insurance fund (NCUSIF; **never a penny of taxpayer money**) and our share was \$474K. In 2010, \$299K. In 2011, \$170K. In total, that's \$943K. The primary losses were at five of the biggest Corporate Credit Unions (in states: CA, CT, IL, KS, TX) that invested in private label, mortgage backed securities, insured and highly rated when sold, made by former banks like Countrywide and WaMu, issued by FNMA & Freddie Mac to "Wall Street". For 2012, we've budgeted for another \$100K. Banks and taxpayers had to refund the FDIC.

Net loan growth in 2011 was positive 15.81% compared to the peer average of 0.34%. In 2011, we made a record number of installment loans (2,092) which totaled \$20M and total disbursements, which include lines of credit, \$34M.

We have 10,135 members, an all time high. There are 4,828 checking accounts, 5,641 Visa debit cards, 1,713 Visa credit cards and 3,731 active online banking users. Here, members hold 18,997 savings and 7,604 loan accounts. At year end we had 22 full time and 4 part time employees to serve you. Thank you. Please feel free anytime to share your ideas.

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, analyzing trends, measuring and forecasting.

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 CliftonLarsonAllen, and our two internal auditors. In 2011, the SC reviewed 403 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.



Serving Blue Earth, Nicollet & Le Sueur Counties

Local Trusted Banking

77th ANNUAL MEETING APRIL 24, 2012

Low Loan Rates High Savings Rates Low or No Fees



It Pays to Bank Where You're Part Owner!



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.**

BUSINESS MEETING AGENDA

6:30PM Call To Order.....Steve Erdman
 Proof Of Notice Of Meeting.....Sandra Eggert
 Declaration Of A Quorum.....Sandra Eggert
 2011 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.....Nick Meyer
 Report Of Treasurer.....George Patchin
 Report Of Supervisory Committee....Timothy Madsen
Guest Speaker.....Jonathan Zierdt*

Open Discussion

Member attendees are encouraged to share comments, concerns, and ideas.

New Business

Scholarship Presentation.....Edie Lange
 Board Election Results.....Steve Erdman
 Introduction Of 2012 Directors.....Steve Erdman
 Door Prize Drawings.....Edie Lange

***Guest Speaker Greater Mankato Growth CEO
 Jonathan Zierdt www.greatermankato.com**

**THANK-YOU FOR ANOTHER
 GREAT YEAR!!!**

STATEMENT OF FINANCIAL CONDITION

Income Statement

	12/31/2011	12/31/2010
Interest on Loans	2,564,412	2,568,782
Income from Investments	519,615	535,760
Other Operating Income	747,964	776,405
TOTAL GROSS INCOME	\$3,831,991	\$3,880,947
Employee Compensation & Benefits	1,154,838	1,079,697
Travel & Conference Expense	30,897	32,368
Association Dues	55,674	53,482
Office Occupancy Expense	136,222	133,743
Office Operations Expense	552,553	537,850
Education & Promotion Expense	92,775	81,475
Loan Servicing Expense	208,285	239,583
Professional & Outside Services	158,842	155,010
Provision for Loan Losses	32,775	71,337
Member Insurance	7,163	7,240
NCUA Operating Fees	16,346	15,202
Interest on Borrowed Money	0	0
Membership Meeting Expense	5,844	6,913
Miscellaneous Operating Expense	4,667	1,177
TOTAL OPERATING EXPENSES	\$2,456,882	\$2,415,077
Dividends Paid to Members	540,923	644,431
Other Non-Operating Income	19,455	19,611
Pre Net Income	853,641	841,050
NCUA Recapitalization Expense**	(169,855)	(298,615)
Post Net Income	\$683,786	\$542,435

Board Members

Steve Erdman, Chair
 Craig Lindsay, Vice Chair
 Sandra Eggert, Secretary
 George Patchin, Treasurer
 Harold "Sandy" Bartlett
 Connie Gullixson
 John Vickers, Membership Chair

Management

Nick Meyer, President / CEO
 Edie Lange, VP Development
 Trent Talle, Loan Department Manager
 Dean Wellner, Real Estate Manager
 Trinette Risting, MSA Manager
 Andrea Marinenko, Branch Manager

Supervisory Committee

Bill Gray, Chair (medical leave)
 Merlyn Bruns
 Dick Fasnacht
 Timothy Madsen
 John Schwertfeger

Balance Sheet

	12/31/2011	12/31/2010
Assets		
Loans	49,356,372	42,636,384
Allowance for Loan Loss	(274,261)	(310,592)
Short-Term Liquidity	1,353,200	852,126
Corporate CU Investments	1,621,722	3,220,071
Other Investments (mainly CDs)	22,300,714	22,705,724
Building & Land	935,379	978,659
Fixed Assets	229,824	189,183
Other Assets	1,443,824	1,696,609
NCUSIF Deposit	679,419	647,161
TOTAL ASSETS	\$77,646,193	\$72,615,325
Liabilities & Capital		
Member Savings & CDs	70,574,234	66,434,495
Accounts Payable	411,335	198,567
Dividends Payable	80,812	86,238
Member Capital	6,579,812	5,896,025
TOTAL LIAB. & CAPITAL	\$77,646,193	\$72,615,325

Statements of Equity/Loans/Shares

	12/31/2011	12/31/2010
Beginning Capital	5,019,081	4,476,646
Regular Reserve	876,945	876,945
Net Income	683,786	542,435
TOTAL CAPITAL	\$ 6,579,812	\$ 5,896,026
Vehicle Loans	20,807,910	17,940,203
Consumer Loans	5,318,480	4,608,738
Real Estate Loans	19,958,961	17,175,817
Unsecured Loans	3,271,021	2,911,626
TOTAL LOANS	\$49,356,372	\$42,636,384
Primary Share	13,529,751	11,444,953
Money Market	33,201,552	30,373,182
CDs	10,222,448	12,051,983
Checking	11,958,929	11,334,939
IRAs	1,661,554	1,229,438
TOTAL SHARES	\$70,574,234	\$66,434,495
NET LOAN CHARGE-OFFS	\$ 67,025	\$ 74,449

