

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.

PRESIDENT / CEO NICK'S REPORT

Last year, 2012, was another very productive one for your credit union, membership and employees. We set an all-time high in first mortgage originations. We sold most to FHLB, but retained servicing. Likewise, we're off to another great start in 2013.

Again, the biggest news story for MVFCU in 2012 was the smooth merger of Kato Engineering Employees Credit Union (KEECU) officially effective 1/1/12. KEECU was chartered in 1967 and served six companies. We added their 590 members in 2011. In 2012 we combined their \$2.3M in assets, \$2M in savings, \$1.3M in loans, and \$200K to our capital, after distributing almost \$100K cash to their members as a bonus dividend. One of their board members, Sandy, joined our board.

As we all know, 2008 through 2012 were challenging years. Locally, we've fared better than most. Unemployment in Minnesota was **7.3%** at 12/31/09, now down to **5.4%** at 12/31/12; Blue Earth County from **6.0%** to **4.4%**. The number of unemployed workers in the Mankato MSA decreased from 3,472 to 2,542 between 2009 and 2012. According to CUNA, the economic recovery will require all of 2013 during which inflation should remain in check (2013 estimate of 1.75%), interest rates low (10 year Treasury est. 2.10%), better GDP growth (est. 2.5%) and less unemployment (est. 7.75%).

By year end 2012, we again reached **all-time record highs** in total assets (\$90.8 million), deposits (\$82.5 million), loans (\$54.4M), member-owned capital (\$7.9 million = 8.69% of assets), members (10,735) and net income (\$1.1 million). 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 3.35% in 2012. Our yield on average loans continues to be less than the national average (5.39% vs 6.09%, great for borrowers) and on the fee side, we netted .47% of average assets vs. peer of .88%, so we fee less (great for transaction oriented members). Our cost of funds were slightly 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 3.75%, it hasn't been the best of times for savers. Today, a 5-

year Treasury pays under 0.80% and a 1 year Treasury pays 0.14%.

Over the **past nine years**, capital has grown an **average** 10.1%, deposits 9.5%, loans 9.3%, membership 4%, investments 12%, with delinquency + charge offs 1.21% of loans (USA average 2.02%), and return on assets .79% (USA average .42%). These are very balanced results and consistently outshine the national peer averages. We continue to earn the highest safety & soundness grades from NCUA, CPAs and CUNA Mutual. Our inside internal auditors continue to 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 2012, \$76K. In total, that's \$1.02M in expense. The primary losses were at five of the biggest Corporate Credit Unions (in states: CA, CT, IL, KS, TX) that invested in underperforming, mortgage backed securities, issued by "Wall Street."

Net loan growth in 2012 was positive 10.09% compared to the peer average of 3.40%. In 2012, we made a record number of installment loans (2,221) which totaled \$24M in total disbursements. When we include all lines of credit, disbursements totaled an astounding \$51.5M.

We opened 1,283 new memberships (closed 683, for a net gain of 600 members). There are 5,342 checking accounts, 5,088 Visa debit cards, 1,876 Visa credit cards and 4,576 active online banking users. Here, members hold 21,076 savings and 8,338 loan accounts. At year end we had 24 full time and 3 part time employees to serve you. We have a wonderful staff. Thank you all very much.

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), CPAs CliftonLarsonAllen, and our two internal auditors. In 2012, the SC reviewed 363 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

78th ANNUAL MEETING APRIL 23, 2013

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.*

MVFCU OPERATING STATEMENT

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

BUSINESS MEETING AGENDA

6:30PM Call To Order.....Steve Erdman
Proof Of Notice Of Meeting.....Sandra Eggert
Declaration Of A Quorum.....Sandra Eggert
2012 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.....Mr. Joe Spear*

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 2013 Directors.....Steve Erdman
Door Prize Drawings.....Edie Lange

*Guest Speaker Mr. Joe Spear, Editor, Mankato
Free Press and MN Valley Business Magazine

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

STATEMENT OF FINANCIAL CONDITION

Income Statement

	12/31/2012	12/31/2011
Interest on Loans	2,716,586	2,564,412
Income from Investments	460,599	519,615
Other Operating Income	1,190,665	747,964
TOTAL GROSS INCOME	\$4,367,850	\$3,831,991
Employee Compensation & Benefits	1,288,996	1,154,838
Travel & Conference Expense	29,796	30,897
Association Dues	65,450	55,674
Office Occupancy Expense	134,042	136,222
Office Operations Expense	665,707	552,553
Education & Promotion Expense	98,738	92,775
Loan Servicing Expense	264,214	208,285
Professional & Outside Services	171,532	158,842
Provision for Loan Losses	77,417	32,775
Member Insurance	7,038	7,163
NCUA Operating Fees	19,918	16,346
Interest on Borrowed Money	0	0
Membership Meeting Expense	5,344	5,844
Miscellaneous Operating Expense	(602)	4,668
TOTAL OPERATING EXPENSES	\$2,750,173	\$2,456,882
Dividends Paid to Members	450,340	540,923
Other Non-Operating Income	17,115	19,455
Pre Net Income	1,184,452	853,641
NCUA Recapitalization Expense**	(75,651)	(169,855)
Post Net Income	\$1,108,801	\$683,786

Board Members

Steve Erdman, Chair
John Vickers, Vice Chair
Sandra Eggert, Secretary
George Patchin, Treasurer
Harold "Sandy" Bartlett
Connie Gullixson
Mike Smith

Management

Nick Meyer, President / CEO
Edie Lange, VP Development
Trent Talle, VP Lending
Trinette Risting, MSA Manager
Andrea Marinenko, Branch Manager
Dean Wellner, Mortgage Supervisor

Supervisory Committee

Timothy Madsen
Merlyn Bruns
Dick Fasnacht
John Schwertfeger
William Montag

CPA: CliftonLarsonAllen

Internal Auditors

Ben Suker
Joann Ericksen

Balance Sheet

	12/31/2012	12/31/2011
Assets		
Loans	54,360,551	49,356,372
Allowance for Loan Loss	(270,935)	(274,261)
Short-Term Liquidity	1,208,698	1,353,200
Corporate CU Investments	3,951,722	1,621,722
Other Investments (mainly CDs)	26,654,302	22,300,714
Building & Land	926,253	935,379
Fixed Assets	301,185	229,824
Other Assets	2,890,376	1,443,824
NCUSIF Deposit	796,322	679,419
TOTAL ASSETS	\$90,818,474	\$77,646,193
Liabilities & Capital		
Member Savings & CDs	82,465,519	70,574,234
Accounts Payable	408,605	411,335
Dividends Payable	47,756	80,812
Member Capital	7,896,594	6,579,812
TOTAL LIAB. & CAPITAL	\$90,818,474	\$77,646,193

Statements of Equity/Loans/Shares

	12/31/2012	12/31/2011
Beginning Capital	5,785,310	5,019,081
Regular Reserve	1,002,483	876,945
Net Income	1,108,801	683,786
TOTAL CAPITAL	\$7,896,594	\$6,579,812
Vehicle Loans	23,575,505	20,807,910
Consumer Loans	6,099,608	5,318,480
Real Estate Loans	21,292,638	19,958,961
Unsecured Loans	3,392,800	3,271,021
TOTAL LOANS	\$54,360,551	\$49,356,372
Primary Share	17,604,587	13,529,751
Money Market	36,357,751	33,201,552
CDs	10,187,491	10,222,448
Checking	14,986,450	11,958,929
IRAs	3,329,240	1,661,554
TOTAL SHARES	\$82,465,519	\$70,574,234
NET LOAN CHARGE-OFFS	\$106,194	\$67,025

