

BOARD CHAIRPERSON STEVE'S REPORT

"People First, Not Profit"... is our ongoing commitment! The board of directors and the supervisory committee volunteers represent the diverse membership. We are knowledgeable and dedicated to providing our members the best products and services possible, while maintaining the financial health and stability of the credit union. Certainly, the current economic climate has provided challenges for all of us. Our hardworking staff is well-trained, motivated and focused on the mission and goals of our credit union.

PRESIDENT / CEO NICK'S REPORT

Last year 2010 was another solid one for your credit union. Likewise, we're again off to a good start in 2011. We've come a long way since 1934. However, we haven't changed our focus: **member value, service and satisfaction.** You're the owner !!!

As we all know, like 2008 & 2009, the year 2010 was a challenging one on the macro economic front. We're not out of the woods yet, though conditions are improving. Unemployment in the USA increased from 7.1% at 12/31/08 to 9.7% at 12/31/09, then down to 9.1% at 12/31/10; Minnesota from 6.8% to 7.3% to 6.8%; Minneapolis / St. Paul from 6.4% to 7.0% to 6.5%; Blue Earth County from 5.1% to 6.0% to 5.5%. The farm economy has remained strong. The number of unemployed workers in the Mankato MSA decreased from 3,472 to 3,150 between 2009 and 2010. Foreclosures in Blue Earth County did increase from 144 to 183. The federal & state budget deficits and debt are at record levels. Jobs are the key for many reasons, one clearly is that 2/3rds of GNP is derived from consumer spending. The economic recovery will require all of 2011 and into 2012 during which inflation should remain slight (2011 estimate of 2.5%), interest rates low (10 yr Treasury est. 3.59%), better GNP growth (est. 3.6%) and less unemployment (est. 8.9%).

By year end 2010 we again reached **all time record highs** in total assets (\$72.6 million), deposits (\$66.4 million), member owned capital (\$5.9 million = 8.11%), members (9,383) and net income (\$841 thousand which is needed to make sure capital keeps pace with asset growth). We were near our all time high in loans (\$42.6M vs \$42.7M). 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 3.60% in 2010 vs national peer average of 4.01%. Our yield on average loans continues to be less than the national average (6.09% vs 6.57%, great for borrowers) and on the fee side, we netted .50% of average assets vs. peer of .91%, so we fee less (great for transaction oriented members). Our cost of funds was 8bps below the national average as more deposits flowed into our checking, money market and savings accounts and less into CDs and IRAs, though deposits grew 9% in 2010 (14% in 2009 and 13% in 2008).

Over the **past seven years**, capital has grown an **average** 8.5%, deposits 8.9%, loans 8.2%, membership 3.3%, investments (almost all CDs) 12.7%, delinquency + charge offs 1.23% of loans, and return on assets .70%. These are very balanced and solid results. We continue to earn the highest safety & soundness grades from NCUA (CAMEL 1) and CPAs (unqualified opinion). In the last decade, we've almost tripled the size of

MVFCU though in a methodical, conservative manner.

We're pleased to report that loan delinquency plus charge offs at the end of 2009 was 2.00% and even lower at 2010 with 1.51%, compared to a peer average of 2.55% and 2.38%, respectively.

Across the nation, job losses, foreclosures, business closings and investment devaluations continue to plague many lenders and borrowers. As a result, 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 \$474 thousand. This reduced our final net income in 2009 from \$630 thousand to \$156 thousand. In 2010, our share was \$299 thousand. This reduced our final net income from \$841 thousand to \$542 thousand. In total, that's \$773 thousand paid into the federal government in 2009 and 2010. 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, and issued by "Wall Street". Those investment losses are in part "paper" losses and in time, some value will be restored. For 2011, we've budgeted for another \$160 thousand additional capital contribution to the NCUSIF and for about the next 6 years or so. Banks did and are doing the same to their FDIC fund. In fact, in 2010, our NCUA insurance fund had positive \$1.24 for every \$100 of insured deposits, while the bank FDIC fund had negative -\$0.12 for every \$100 in 2010.

Net loan growth in 2010 was positive 2.25% compared to the peer average of negative <0.36%> and all banks combined average of 1.9% (negative <4.9%> in 2009 for banks). In 2010, we made a record number of consumer loans (1,400) and 1st mortgage lending set a dollars record (78 for \$11.5 million in 2010).

We have 9,383 members, an all time high. There are 4,528 checking accounts, 4,764 Visa debit cards, 1,946 Visa credit cards and 3,286 active online banking users. Here, members hold 18,454 savings and 7,290 loan accounts. At year end we had 21 full time and 5 part time employees to serve you. According to the 2010 Weiss Ratings Service, only 20% of Minnesota credit unions (over \$20M in assets), and only 28% of banks, had a better 2010 report card than your credit union, MVFCU. 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, analyzing trends, measuring and forecasting.

SUPERVISORY COMMITTEE BILL'S REPORT

The S/C volunteers evaluate management decisions, finances, internal controls and operations in cooperation with the federal agency National Credit Union Administration (NCUA), CPAs Larson, Allen and our two internal auditors. In 2010, the S/C reviewed 350 loan files. Additionally, we review all new and closed accounts and I/A reports. Our confidential Mankato PO Box is 4126. Please feel free to contact us.



MVFCU
Your Full Service
Banking Alternative
Since 1934

You're #1

Members Are
The Owners
&
People Are Worth
More Than Money

*Serving folks who live, work or attend
school in Blue Earth, Nicollet and
Le Sueur Counties, Businesses within
and
Immediate Family Members
Wherever They Live*

76th
ANNUAL MEETING
APRIL 26, 2011

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.....Bob Bomier
 Declaration Of A Quorum.....Bob Bomier
 2010 Minutes.....Bob Bomier
 Close Election & Select Ballot Judge...Bob Bomier
 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.....Bill Gray

Unfinished Business

Member Attendees

New Business

Scholarship Presentation.....Edie Lange
 Door Prize Drawings.....Edie Lange
 Board Election Results.....Steve Erdman
 Introduction Of 2011.....Steve Erdman
 Board Of Directors.....Steve Erdman

Guest Speaker MSU Economist Dr. Schiming

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

STATEMENT OF FINANCIAL CONDITION

Income Statement

	12/31/2010	12/31/2009
Interest on Loans	2,568,782	2,754,471
Income from Investments	535,760	473,291
Other Operating Income	776,405	644,630
TOTAL GROSS INCOME	\$3,880,947	\$3,872,392
Employee Compensation & Benefits	1,079,697	1,059,487
Travel & Conference Expense	32,368	27,198
Association Dues	53,482	46,951
Office Occupancy Expense	133,743	128,747
Office Operations Expense	537,850	508,849
Education & Promotion Expense	81,475	68,745
Loan Servicing Expense	239,583	283,560
Professional & Outside Services	155,010	147,205
Provision for Loan Losses	71,337	145,193
Member Insurance	7,240	6,522
NCUA Operating Fees	15,202	13,420
Interest on Borrowed Money	0	12
Membership Meeting Expense	6,913	4,157
Miscellaneous Operating Expense	1,177	1,493
TOTAL OPERATING EXPENSES	\$2,415,077	\$2,441,539
Dividends Paid to Members	644,431	818,698
Other Non-Operating Income	19,611	18,233
Pre Net Income	841,050	630,388
NCUA Recapitalization Expense**	(298,615)	(474,268)
Post Net Income	\$542,435	\$156,119

Board Members

Steve Erdman, Chair
 Craig Lindsay, Vice Chair
 Bob Bomier, Secretary
 George Patchin, Treasurer
 Jayne Pietsch
 Connie Gullixson
 Sandra Eggert, 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
 Merlyn Bruns
 Dick Fasnacht
 Timothy Madsen
 John Schwertfeger

Balance Sheet

	12/31/2010	12/31/2009
Assets		
Loans	42,636,384	41,689,991
Allowance for Loan Loss	(310,592)	(313,704)
Short-Term Liquidity	852,126	1,053,563
Corporate CU Investments	3,220,071	3,692,962
Other Investments (mainly CDs)	22,705,724	17,520,440
Building & Land	978,659	1,013,903
Fixed Assets	189,183	168,086
Other Assets	1,696,609	1,375,451
NCUSIF Deposit	647,161	585,042
TOTAL ASSETS	\$72,615,325	\$66,785,734
Liabilities & Capital		
Member Savings & CDs	66,434,495	61,149,669
Accounts Payable	198,567	164,332
Dividends Payable	86,238	118,142
Member Capital	5,896,025	5,353,590
TOTAL LIAB. & CAPITAL	\$72,615,325	\$66,785,734

Statements of Equity/Loans/Shares

	12/31/2010	12/31/2009
Beginning Capital	4,476,646	4,320,527
Regular Reserve	876,945	876,945
Net Income	542,435	156,119
TOTAL CAPITAL	\$ 5,896,026	\$ 5,353,590
Vehicle Loans	17,940,203	18,436,308
Consumer Loans	4,608,738	4,503,123
Real Estate Loans	17,175,817	16,062,744
Unsecured Loans	2,911,626	2,687,816
TOTAL LOANS	\$42,636,384	\$41,689,991
Primary Share	11,444,953	9,537,513
Money Market	30,373,182	28,106,041
CDs	12,051,983	9,806,821
Checking	11,334,939	10,722,101
IRAs	1,229,438	2,977,193
TOTAL SHARES	\$66,434,495	\$61,149,669
NET LOAN CHARGE-OFFS	\$ 74,449	\$ 102,552

