

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

Hello MVFCU members. Last year 2009, our 75th anniversary year, was another solid one for your credit union. Likewise, we're off to a good start in 2010. We've come a long ways since 1934. However, we haven't changed our focus: **member service**. After all, you are the owners!

As we all know, like 2008, the year 2009 was a tumultuous and challenging one on the economic front, globally, nationally and state wide. We're not out of the woods yet. Unemployment in the USA increased from 7.1% at 12/31/08 to 9.7% at 12/31/09; Minnesota from 6.8% to 7.3%; Minneapolis / St. Paul from 6.4% to 7.0%; Blue Earth County from 5.1% to 6.0% and Nicollet County from 5.4% to 6.0%. The federal and state budgets and outstanding debt are at record levels. However, albeit slowly, it does seem the economic recovery is underway. It certainly will require all of 2010 and into 2011 during which inflation and interest rates are low, GNP grows modestly and unemployment decreases.

By year end 2009 we again reached **all time record highs** in total assets (\$66.8 million), deposits (\$61.1 million), gross income (\$3.9 million), member owned capital (\$5.4 million) and net income (\$630 thousand which is needed to make sure capital keeps pace with asset growth). Our net operating expenses as a percentage of average assets continues to decline, which is a measure of operational efficiency (was 3.64% in 2002 and now 3.20% in 2009 vs peer average of 3.45%). Our yield on average loans continues to be less than the national average (6.53% vs 6.75%, great for borrowers) and on the fee side, we netted .51% of average assets vs. peer of .99%, so we fee less (great for transaction oriented members). Our cost of funds was just slightly below the peer average as more deposits flowed into our money market, savings and checking accounts and less into CDs, though deposits grew an amazing 14% in 2009. Over the **past five years**, capital has grown an average 8%, deposits 10%, loans 9%, membership 3.3%, return on assets .82%, delinquency + charge offs 1.34% of loans and investment portfolio growth of 15%. These are very solid results. We continue to earn the highest safety & soundness grades from the federal NCUA (CAMEL 1) and CPAs.

We're pleased and relieved to report that loan delinquency at the end of 2009 was a very manageable at 1.76% though

up from 2008's 1.35% (including federally insured student loans) compared to the peer average of 1.67%. However, the biggest difference was in our significantly lower net loan charge offs that only increased from 0.19% at 12/31/08 to 0.24% at 12/31/09. This compares very favorably to the national average of 0.88% charge offs for credit unions our size.

Across the nation, obviously foreclosures, business closings, investment devaluations and job losses continue to plague many lenders and borrowers. As a result, in 2009, all 8,000 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 from \$630 thousand to \$156 thousand for 2009.** In 2010, we budgeted for another \$236 thousand for the NCUSIF (National Credit Union Share Insurance Fund). Banks did the same and more for their FDIC insurance fund.

Net loan growth in 2009 was actually negative 2% (banks were approximately negative 8% and thrifts negative 15%), which is somewhat unprecedented for MVFCU, even though the number and dollar amount of loans granted were about the same as in 2008 when we grew 6% and in 2007 when we grew 10%. The main reason is that near historic low first mortgage interest rates allowed members to pay off other debt. Of the 72 first mortgage loans (totaling about \$10 million) we made in 2009, we sold all but 4 to the secondary market. In addition, members worked to pay down loans, save more and spend less which was a nationwide trend.

We have 9,100 members, an all time high. There are 4,500 checking accounts, 4,000 Visa debit cards, 2,000 Visa credit cards and 3,000 active online banking users. Here, members hold 18,000 savings and 7,000 loan accounts. At year end we had 21 full time and 5 part time employees to serve you. It was reassuring and fun to learn that in the 2009 Free Press Readers Choice Awards, MVFCU was rated second best area financial institution, just behind Wells Fargo but ahead of US Bank. Maybe in 2010 we'll be first. Thanks for a great year.

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 2009, the S/C reviewed 150 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 contract us.



Since 1934

**Your Full Service
Banking Alternative**

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*

**75th
ANNUAL MEETING
APRIL 27, 2010**

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

- ♦ 6:30 PM Call to Order Steve Erdman
- ♦ Proof of Notice of Meeting Bob Bomier
- ♦ Declaration of a Quorum Bob Bomier
- ♦ 2009 Minutes Bob Bomier
- ♦ Closing of Elections & Selection of Ballot Judges Steve Erdman
- ♦ Report of Nominating Committee George Patchin
- ♦ Additions or Changes to the 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

Guest Speaker MSU Economist Dr.Schiming

New Business:

- ♦ Scholarship Presentation Edie Lange
- ♦ Board Election Results Steve Erdman
- ♦ Introduction of 2010 Board of Directors Steve Erdman
- ♦ Door Prize Drawings Trinette Risting

STATEMENT OF FINANCIAL CONDITION YEAR ENDING 12/31/09

INCOME STATEMENT

	<u>12/31/09</u>	<u>12/31/08</u>
Interest on loans	\$2,754,471	\$2,841,028
Income from investments	473,291	408,801
Other operating income	<u>644,630</u>	<u>565,763</u>
TOTAL GROSS INCOME	\$3,872,392	\$3,815,592
Employee compensation & benefits	1,059,487	1,011,412
Travel & conference expense	27,198	30,257
Association dues	46,951	43,373
Office occupancy expense	128,747	124,508
Office operations expense	508,849	455,727
Education & promotion expense	68,745	77,777
Loan servicing expense	283,560	246,926
Professional & outside services	147,205	151,063
Provision for loan losses	145,193	118,078
Member insurance	6,522	5,937
NCUA Operating fees	13,420	11,224
Interest on borrowed money	12	40
Annual meeting expense	4,157	4,403
Miscellaneous operating expense	<u>1,493</u>	<u>463</u>
TOTAL OPERATING EXPENSES	\$2,441,539	\$2,281,188
Dividends Paid to Members	818,698	1,108,621
Gain (Loss) on Sale of Assets	0	471
Other Non-Operating Income	18,233	18,045
Pre Net Income	630,388	-
NCUSIF Recapitalization Expense*	<u>(474,268)</u>	<u>-</u>
Post Net Income (see CEO's Report)	\$ 156,120	\$444,298

BOARD MEMBERS

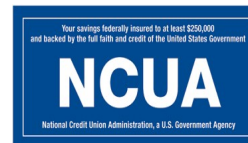
Steve Erdman, **Chair**
Craig Lindsay, Vice Chair
Bob Bomier, Secretary
George Patchin, Treasurer
Jayne Pietsch
Connie Gullixson
Sandra Eggert, Membership Chair

MANAGEMENT

Nick Meyer, President / CEO
Edie Lange, VP - Development
Trent Talle, Loan Dept. Manager
Dean Wellner, Real Estate Manager
Trinette Risting, MSA Manager

SUPERVISORY COMMITTEE

Bill Gray, **Chair**
Dick Fasnacht
Timothy Madsen
Merlyn Bruns
John Schwertfeger



BALANCE SHEET

	<u>12/31/09</u>	<u>12/31/08</u>
Assets		
*Loans	\$41,689,991	\$42,694,093
Allowance for loan loss	(313,704)	(271,063)
Short-term Liquidity	1,053,563	1,537,832
Corporate CU Investments	3,692,962	2,807,400
Other investments (mainly CDs)	17,520,440	9,929,296
Building & land	1,013,903	1,061,431
Fixed assets	168,086	129,167
Other assets	1,375,451	463,972
NCUSIF deposit	<u>585,042</u>	<u>500,354</u>
TOTAL ASSETS	\$66,785,734	\$58,852,482
Liabilities and Capital		
*Member share deposits	61,149,669	53,453,662
Accounts payable	164,332	62,234
Dividends payable	118,142	139,114
*Member capital	<u>5,353,590</u>	<u>5,197,472</u>
TOTAL LIAB. & CAPITAL	\$66,785,734	\$58,852,482

STATEMENT OF EQUITY/LOANS/SHARES

	<u>12/31/09</u>	<u>12/31/08</u>
Beginning Capital	\$4,320,527	\$3,876,229
Regular Reserve	876,945	876,945
Net Income	<u>156,119</u>	<u>444,298</u>
*TOTAL CAPITAL	\$5,353,590	\$5,197,472
Vehicle loans	18,436,308	19,005,833
Consumer loans	4,503,123	3,887,153
Real estate loans	16,062,744	17,249,831
Unsecured loans	<u>2,687,816</u>	<u>2,551,276</u>
*TOTAL LOANS	\$41,689,991	\$42,694,093
Primary shares	9,537,513	8,911,564
Money market	28,106,041	22,581,367
CDs	9,806,821	9,600,634
Checking	10,722,101	9,277,314
IRAs	<u>2,977,193</u>	<u>3,082,784</u>
*TOTAL SHARES	\$61,149,669	\$53,453,662

	<u>12/31/09</u>	<u>12/31/08</u>
NET LOAN CHARGE-OFFS	\$102,552	\$80,490