

NEW *Beginnings*



**Missoula Federal
Credit Union**

More than you expect

ANNUAL REPORT
2013

President's Report

I'd like to start by extending a very big thank you to our members, our board of directors, and to the entire staff of Missoula Federal Credit Union for inviting me to play a part in the life of this great credit union. I know this is a special opportunity. I intend to work very, very hard to make sure that I make positive contributions to the organization.



Jack Lawson, *President & CEO*

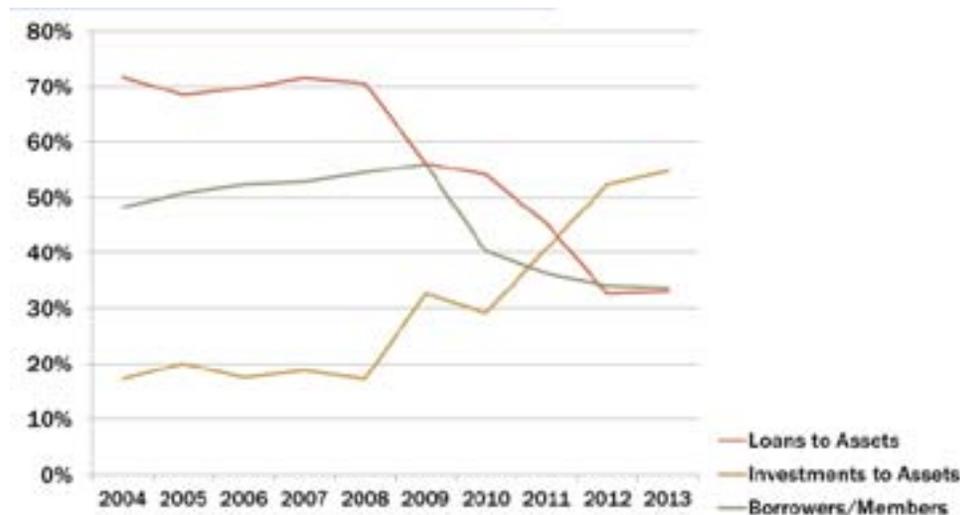
We are indeed transitioning into a new generation of growth for the credit union. The transition is partly about people. But it is also about strengthening our role as a lending institution. Let me start with the people. During the past 6 months we have undergone a major leadership transition. Roxanne Roehl, who was with the credit union for 19 years, retired as our SVP of IT in September of 2013. We hired Clint Summers to replace her. I also joined the credit union in September of 2013, replacing our 18 year CEO, Gary Clark. Then, in December of 2013, our SVP of HR, Roberta Smith, retired after 15 years of service to the credit union. We promoted Robert Farmer to replace her.

So, out of a six-person senior management team, we experienced a 50% turn-over in just a 4 month period at the close of 2013. This kind of a transition would throttle many organizations,

throwing them into a good year or two of new culture building and redirection. Not so for Missoula Federal Credit Union. Your credit union not only planned well for these changes but it also cultivated an attitude among staff which has allowed us to move forward swiftly and progressively.

What does this mean to "move forward swiftly and progressively?" Above all it is about looking forward, creatively and prudently, to reinvigorate our lending model. We are exploring new products, analyzing our pricing, working toward greater efficiency in our processing and underwriting, and revisiting the way that we brand the credit union and tell the story about our role as one of the strongest lending institutions in the market.

Why this focus on lending? As many



of you know from past annual meetings the credit union has been experiencing a challenging period of low loan demand and declining loan balances. This can be seen clearly in the graph above.

From 2004 through 2008 the credit union's loan to asset ratio, the proportion of our members that are borrowers, and the investment to asset ratio all remained roughly constant. This was at levels which credit unions generally aspire to. Then, starting in 2008, the loan to asset ratio started a sharp decline, as did the proportion of our members that are borrowers. This drove our investment to asset ratio upward.

Since investments generate less income for the credit union than do loans, these trends pushed the credit union into a low earnings environment. Indeed, in that same period the credit union's ratio of gross income to average assets declined by about 38%. That is not a sustainable trend.

That is what makes lending the second key part of our transition. Notice in the picture above that the lines representing the loan to asset ratio and the proportion of our members that are borrowers flattened in 2013. *(continued)*

In other words, the decline in loan

President's Report Continued

balances ceased. To be sure, this flattening has not been perfect – we were up some months and down others in 2013. But in terms of a transitional moment there is nothing more important for the credit union.

We must harness this momentum and continue to push loan balances upward. This will generate new earnings which will, in turn, unlock our ability to grow. All of us have a role to play: Our board in setting the strategy and monitoring the risk; our staff in executing on that strategy and managing the risk; and you, our members, in making sure that when you have credit needs you turn first to Missoula Federal Credit Union.

There are a number of exciting projects underway that we believe will strengthen the credit union. To touch on just a few:

- We are rolling out new lending programs in both auto and credit cards that will help us to meet the needs of members who might have recently experienced a setback in credit scores.
- We will be upgrading our online banking (Miss Web) to a much more user friendly and sophisticated program.
- We are working to develop a unique debit and credit card rewards program to encourage our members to shop locally

and reward them for doing so.

We hope that you will see these and other developments at the credit union as meaningful improvements. We cannot thank you enough for your continuing membership and commitment to Missoula Federal Credit Union.

Jack Lawson, *President & CEO*



Chairman's Report

In 2013 we faced continued turbulence in financial markets and regulatory compliance, but our biggest challenges and changes were within Senior Management. After decades of combined service our SVP of IT, Roxanne Roehl, retired in July; CEO Gary Clark retired in September, and SVP of Human Resources, Roberta Smith, retired in December.

The board concluded a year-long national search with the hiring of Jack Lawson as CEO. He has extensive credit union experience and commitment and we have confidence that Jack has the skills and vision to maintain MFCU's excellent service to members, quality and diversity of products, and strong financial performance. Jack and his family have embraced this very special place that we call home.

Clint Summers was hired as SVP of IT and Robert Farmer was promoted to SVP of HR to fill the other roles, and they have already added their unique skills and enthusiasm to making MFCU a credit union that will continue to succeed in the future.

Financial results as reported by the Treasurer are improved over last year, but our real progress is measured by the lives and successes of our members and our staff. While we gauge those results as positive, we still have a ways to travel. Together, with the loyalty and steadfast devotion of our members and staff, we are moving in the right direction.



Carl Rummel, CPA, CCUV, *Board Chair*

The Board and Senior Management had a very productive strategic planning session in the fall, and with new ideas, enthusiasm and resolve we continue to work to make MFCU a better financial institution and provide better products and services.

We appreciate your trust and support and sincerely hope that you continue to trust MFCU as your primary financial institute, bring us your deposits, and more importantly, continue to bring us your loans.

We have an amazing staff and Senior Management who have worked hard on your behalf to support our organization in the cooperative spirit. On behalf of the board, I extend our appreciation and a sincere thank you to every member, staff and manager that continues to make Missoula Federal Credit Union a very special place offering "More than you expect!"

Treasurer's Report

In another year of economic uncertainty and ever increasing regulatory complexity, Missoula Federal Credit Union again improved its financial strength in 2013, with year-end Net Income of \$749,312. MFCU also maintained its spot as Missoula's favorite financial institution according to the Missoula Independent and the Missoulian.

Thanks to all of our owner-members, MFCU assets increased from \$379 million to just over \$383 million, a nearly \$3.5 million increase over 2012. For the first time in the last 5 years we can report an increase in our loan portfolio, and although small (3.8%), this is an important improvement as we believe it is indicative of increasing member demand for loans. In 2013 MFCU's loan portfolio increased by just over \$4.5 million. This increase in loan volume, combined with a small 3.6% (\$11.2 million) increase in share deposits, held MFCU's investment portfolio to just over \$229.4 million versus \$228.1 million in December of 2012.

Despite 2013's slow economic recovery, MFCU Equity improved slightly (\$35 million versus \$34.2 million in 2012). This was due to a focused effort by MFCU staff on cost saving efforts and decreased



Don Creveling, *Treasurer*

operational costs, as well as an increase in non-operating income. Income from the investment portfolio was lower in 2013 due to the changing yield curve. A greater focus on MFCU investment strategies will require more staff time, resources and reporting, but should contribute to an improved investment portfolio which will be important in achieving our budget goals in 2014.

Total Operating Income was down 9% in 2013 due in part to lower Loan Interest Income (down 9.6% in 2013)—even with increased loan volume. Investment Interest Income was down significantly due to the continued interest rate fears. One positive effect of the decrease in Interest Income

was lower Interest Expenses, allowing for a total net income of \$749,312.

MFCU's financial position will continue to support our members' financial service needs, as well as the larger Credit Union mission throughout 2014. While the next year will bring multiple challenges to our new CEO, Jack Lawson, and his team, the MFCU Board of Directors are confident that efforts to grow lending programs and to tightly manage expenses will continue to provide MFCU's owner members quality services at reasonable rates. Most importantly, the member owners of MFCU are assured peace of mind that their cooperative is well positioned to support them for many years in the future.



2013 Financials

Statement of Financial Condition

	2012	2013
Assets		
Loans	\$119,057,227	\$123,638,814
Cash	\$3,649,311	\$3,373,899
Investments	\$228,110,568	\$229,431,512
Land & Buildings	\$17,732,403	\$17,380,403
Other Fixed Assets	\$672,454	\$427,049
All Other Assets	\$10,366,518	\$8,834,578
Total Assets	\$379,588,481	\$383,086,257
Liabilities		
Notes Payable	\$20,377,460	\$17,592,027
Dividends Payable	\$169,833	\$131,840
Other Liabilities	\$5,046,734	\$3,621,686
Total Liabilities	\$25,594,027	\$21,345,554
Shares		
Regular Shares	\$120,823,252	\$135,783,471
Share Drafts	\$87,390,755	\$87,165,567
IRAs	\$14,716,701	\$14,207,162
Certificates	\$41,565,844	\$39,592,250
Money Market	\$52,065,271	\$51,054,537
Other Shares	\$10,131	\$8,808
Total Shares	\$316,571,953	\$327,811,795
Equity		
Regular Reserves & Undivided Earnings	\$34,263,792	\$35,013,103
Unrealized Gain(Loss) on Investments	\$3,158,709	-\$1,084,194
Total Equity	\$37,422,501	\$33,928,909
Total Liabilities, Shares & Equity	\$379,588,481	\$383,086,258

Statement of Income

	2012	2013
Interest Income		
Interest on Loans	\$7,947,663	\$7,181,191
Investment Income	\$3,287,575	\$1,835,901
Total Interest Income	\$11,235,238	\$9,017,092
Interest Expense		
Dividends	\$1,590,773	\$1,316,072
Interest on Borrowed Funds	\$690,764	\$598,818
Total Interest Expense	\$2,281,537	\$1,914,890
Net Interest Income	\$8,953,701	\$7,102,202
Provision for Loan Losses	\$999,248	\$260,541
Net Interest Income <i>(after provision for loan losses)</i>	\$7,954,453	\$6,841,661
Other Operating Income	\$7,703,839	\$7,402,214
Total Operating Income	\$15,658,291	\$14,243,875
Operating Expenses		
Compensation & Benefits	\$7,420,157	\$7,062,197
Travel & Conferences	\$181,564	\$182,301
Association Dues	\$80,683	\$81,824
Office Occupancy	\$1,042,309	\$1,090,890
Office Operations	\$1,626,717	\$1,585,996
Educational/Promotional	\$670,177	\$689,042
Loan Servicing	\$602,661	\$743,273
Professional Services	\$1,868,194	\$2,001,079
Member Share Insurance	\$67,604	\$71,077
NCUA Operating Fee	\$78,973	\$85,838
Other Expenses	\$90,679	\$179,978
Total Operating Expenses	\$13,729,718	\$13,773,495
Non-Operating Income	\$44,622	\$278,931
Net Income	\$1,973,195	\$749,312

Supervisory Report

Missoula Federal Credit Union's volunteer Supervisory Committee is charged with the oversight of Credit Union assets, accounting functions, and implementation of certain policies adopted by your volunteer Board of Directors and executed by the Staff and Management. The Supervisory Committee consists of four members, all of whom are able to provide excellent feedback to the Board regarding Credit Union operations. To remain current on credit union matters, the Supervisory Committee receives electronic bulletins from federal regulators, trade publications and occasionally attends conferences and trainings.

The Supervisory Committee is solely responsible for overseeing one major operating function: the annual audit. The Supervisory Committee selected the accounting firm of Moss-Adams LLP, a nationally recognized accounting firm, to conduct the Credit Union's annual audit. We are pleased to report that the most recent audit covering operations ending June 30, 2013 indicated the Credit Union's Staff, Management and Board have performed together to achieve an audit that reflects commitment, stewardship and hard work. There are many challenges confronting the Credit Union and our

growth in products and services for our members requires we continually review our processes and their outcomes. Our audit shows we are up to the challenge of learning what works and what doesn't.

New regulations continue to be issued by federal financial agencies and regulators in response to damage suffered by the national economy in recent years. The Staff and Board continue their work in keeping up with these changes and implementing them on your behalf. In 2013 the Credit Union took the important step of creating and staffing the position of Internal Auditor. Our Internal Auditor, who reports directly to the Supervisory Committee, has broadened the scope and frequency of oversight functions on behalf of the members. The Internal Auditor routinely attends to the critical task of questioning every aspect of the Credit Union's operations to help the Supervisory Committee assure member assets are prudently and safely managed.

As always, our members may be the target of identity theft and other forms of fraud. The Supervisory Committee strongly urges each member to share responsibility to prevent fraud and theft by being a smart consumer and reporting any suspicious activity related to your

accounts at the Credit Union. We continue to investigate ways to better safeguard the members' assets. We appreciate your cooperation, patience and assistance in our effort to assure that the Credit Union is better protected and exposure from fraud and criminal activity is minimized.

The Supervisory Committee continually strives to respond to member issues by soliciting feedback from a sampling of members through a monthly survey. We also encourage members to provide suggestions regarding member services directly to any Staff member. In these ways, your Credit Union continues to improve itself. In that spirit, we also invite members to contact us directly regarding unresolved Credit Union problems, suggestions for improvements, or similar correspondence at:

Supervisory Committee
Missoula Federal Credit Union
P.O. Box 5384
Missoula, MT 59806-5384

On behalf of Supervisory Committee members Ryan Arthun, Shirlee Walker and Heidi Fanslow, I would like to thank you for your ongoing support and participation in YOUR Credit Union.

Geoff Badenoch,
Chair, Supervisory Committee

Missoula Federal Credit Union classifies members' share accounts as equity as opposed to assets. This classification conforms to the definition in the Federal Credit Union Act and the National Credit Union Administration (NCUA).





*Thank you for your ongoing support
and participation in YOUR Credit Union.*

Board of Directors

Carl Rummel, Chair
Kevin Broughton, Vice Chair
Don Creveling, Treasurer
Jane Cowley, Secretary
Bill Borrie
Leslie Halligan
Anthony Boote

Supervisory Committee Members

Geoff Badenoch, Chair
Shirlee Walker, Vice Chair
Ryan Arthun, Secretary
Heidi Fanslow

Management Staff

Jack Lawson, President/CEO
Robert Farmer, SVP (HR)
Kathy Guderian, SVP/CFO (Finance)
Linda Rayfield, SVP (Branch Management)
Clint Summers, SVP (IT/Risk Management)
Joni Walker, SVP (Marketing/Development)