

2015 Annual Report



Life.
We're in
it together.

Celebrating 60 years
of banking that
actually gives back.



Sixty years ago...



Eight Missoula police officers formed Missoula Federal Credit Union in September 1956.



Each officer contributed \$40 for a total of \$320.

“ We started our own credit union to see if we could borrow money at a cheaper rate than we were borrowing to get along as a policeman at the time. Eight of us decided to try it and we each put in \$40. ”

– **Herb Roehl**, Missoula Federal Credit Union Co-Founder



Today...



45,917
members



Entrusting \$430 million of community assets to Missoula Federal Credit Union management.



6 branch locations



140 employees



1203 volunteer hours
in 2015





Chairman's Report

Looking back – moving ahead.

With the upcoming 60th anniversary of Missoula Federal Credit Union, we honor the past of our unique start and history. Check out the MFCU origins video at missoulafcu.org to learn our story and reflect on the roots of MFCU.

The story of every current and past member, along with every person to ever work or volunteer at MFCU is woven into the fabric of our story as an organization. We need to keep the stories of the past sixty years alive as we move ahead and write new chapters of our legacy. A legacy that is centered on the philosophy of a financial cooperative based on people helping people.

Time marches on, and moving ahead we are likely to see increasing regulation on financial institutions

nationally and increased bank competition locally. With the hard work of our staff and executive team, and continued support from our members we will be up to the test. I know that the staff and executive team are excited about the future

Helen Keller said, “I am only one, but I am still one. I cannot do everything, but still I can do something. And because I cannot do everything I will not refuse to do the something that I can do.”

Every member has an important role in our future. I have two challenges for each of you: understand the fundamental difference between a bank and a credit union; and continue to bring your deposits and loans. After all, why wouldn't everyone want to join a credit union?



You can rest assured that your money is safe and the credit union is a good steward of your assets. The financial strength of the credit union is reflected in the Treasurer’s report. The operational strength is echoed throughout the President’s report. We have an amazing CEO, executive team and staff who all really care that the Credit Union is making a difference in peoples’ lives.

In the origins video founder Herb Roehl notes that he took a cut in pay to be a policeman and didn’t earn enough to feed his family. The Credit Union he helped start made a difference in his life by covering

“ We need to keep the stories of the past sixty years alive as we move ahead and write new chapters of our legacy.

”

that shortage.

Our origins story continues today. We continue to look back and move ahead, to build a sustainable financial institution where people care about each other; always have; and always will.

Carl Rummel
Board Chairperson
Missoula Federal Credit Union





President's Report

Much of our work in 2015 continued our focus on improving the economic fundamentals of your credit union – fostering growth, generating reasonable earnings, and building protection for the future. That focus is paying off.

Overall asset growth was about 8% in 2015. This is well above the norm in the credit union industry, which is closer to 6%. Membership is also increasing. In fact, the 2015 membership growth rate of 4.32% was stronger than we have achieved since 2001. These signs of growth are especially gratifying since they are a reflection of membership and community confidence in the credit union.

Meanwhile, as new and existing members increase their deposits, we

are working hard to turn a greater proportion of those deposits into loans to our membership. In 2015 we made approximately \$98 million in loans to members – loans for cars to get people to and from work, mortgages for home buyers, home equity loans to do home improvements or send kids to college, loans to fund small businesses. This is critically important work. This is where we have our greatest impact on the local economy. It is work that we could not do without your support.

This lending activity, along with careful management of overall spending, has helped to push earnings upward. It is useful to remember that profit maximization is not our goal. That is what makes us different from retail banks. But we do need cover costs and generate net earnings sufficient

“ We are also investing in areas of credit union operations so that we can serve you better. ”

– *Jack Lawson, Missoula Federal Credit Union President & CEO*

to support growth. We are doing well against this goal. In 2015 we achieved a return on assets of 83 basis points, our best earnings performance since 2008.

Increasing earnings, in turn, enable us to build net worth, which is both protection against an uncertain future and the foundation that allows us to grow. The 9.10% net worth growth we achieved in 2015 is our best performance since 2007.

These are great achievements. But even if we are focused on the economic fundamentals that is not all we are doing. We are also investing in areas of credit union operations so that we can serve you better. Some of the most important of these investments include the following:

We remodeled both our Russell Street and Reserve Street branches. The Russell lobby was reconfigured to eliminate the video teller machines and return human beings to the front line of branch service. The Reserve Street branch underwent a major renovation to better protect it from weather, increase energy efficiency and use of renewable energy sources, and to improve its presence and accessibility.

We continued to improve our eBranch infrastructure to better serve all those members who use remote banking services rather than visit the branches – specifically, online, mobile, and telephone banking. The team has expanded. They are more empowered to transact and solve problems. They are working with new hardware and software.

We hired a new Senior Vice President of Home Lending, Justin Sanders. Justin is now charged with overseeing all aspects of the home loan transaction. He is committed to, and solely focused on improving our responsiveness, speed and quality of service in this area.

These are just a few of the most important investments we made in 2015 to serve you better. While we are pleased with the improvement in the economic fundamentals we also sincerely hope you are feeling the impact of these operational changes. If you are not, then we want to hear about. Thank you for your continuing support of Missoula Federal Credit Union.

Jack Lawson
President & CEO
Missoula Federal Credit Union





Treasurer's Report

2015 was another successful year for the Credit Union. Net income increased by more than a quarter to nearly \$3.5 million, leading to a 5% rise in total equity to over \$40 million. This strong financial position reflected both the strength of the local economy and Missoula Federal Credit Union's efforts to grow its loan portfolio while controlling expenses.

Overall assets increased in 2015 by 8% to \$430 million. Particularly noteworthy was the 12% loan growth, higher than peers, to around \$155 million. Car loan growth of 25% was striking, partly reflecting the buoyant U.S. and local car market. With total deposits rising by nearly 10% to over \$375 million, investments rose by 6% to \$245 million.

The equity gain of \$2 million (5%) reflected a rise in operating income at

12%, roughly double the increase in total operating expenses (at 6%). Net interest income rose by nearly one quarter to over \$11 million, reflecting both higher investment income and higher income on loans. Total operating income – of which interest income is two-thirds – rose at roughly half this rate at 12% reflecting a prudent increase in provision for loan losses and a slower rate of growth of other operating income (mostly real estate fees). Staff compensation and benefits, which account for roughly half of the total operating expenses, rose by 7% to over \$7 million, reflecting a tighter local labor market and some needed salary adjustments, including starting pay rates. Non-operating income declined by nearly one quarter to \$0.8 million, with lower gains on sales of investments than in 2014.



MFCU remains unusual among its peers in having an investment portfolio 60% larger than its loan portfolio. During 2015, the loan portfolio rose by one and a half percentage points of assets to 36%, while the investment portfolio declined by around one percentage point to 57% of assets. This rate of change, even in the face of 12% loan growth, underscores the size of the challenge facing MFCU as we work to transform the balance sheet so that a majority of assets take the form of loans. Such a rebalancing can only be done prudently over a considerable time. It will require a continued focus on lending, with new loan products, loan promotion and great service by

board, management, and staff.

MFCU needs to establish its position as the most attractive lending institution to all of its members and potential members. Borrowing from MFCU provides our members with competitive rates and local service that supports the communities needs. Members are encouraged to discuss all of their potential borrowing needs with the credit union. Together, we should build on 2015's strong financial performance to take MFCU forward confidently to meet future challenges. This should help build a credit union better placed to meet its member/owners' overall financial needs.

Anthony Boote
Treasurer
Missoula Federal Credit Union



BALANCE SHEET

	2014	2015
ASSETS		
Loans	\$137,862,031	\$154,753,150
Cash	\$4,317,822	\$3,934,154
Investments	\$230,407,871	\$245,263,786
Land & Buildings	\$16,912,109	\$17,757,183
Other Fixed Assets	\$271,732	\$570,035
All Other Assets	\$8,977,652	\$7,952,987
Total Assets	\$398,749,217	\$430,231,295
LIABILITIES		
Notes Payable	\$12,177,526	\$8,284,655
Dividends Payable	\$108,258	\$94,628
Other Liabilities	\$3,726,928	\$3,729,633
Total Liabilities	\$16,012,712	\$12,108,916
SHARES		
Regular Shares	\$146,572,109	\$162,713,312
Share Drafts	\$94,658,626	\$114,147,451
IRAs	\$13,607,608	\$12,760,066
Certificates	\$37,693,453	\$34,493,638
Money Market	\$50,568,338	\$52,354,390
Other Shares	\$18,257	\$23,415
Total Shares	\$343,118,391	\$376,492,272
EQUITY		
Regular Reserves & Undivided Earnings	\$37,717,110	\$41,149,748
Unrealized Gain(Loss) on Investments	\$1,901,004	\$480,359
Total Equity	\$39,618,114	\$41,630,107
Total Liabilities, Shares & Equity	\$398,749,217	\$430,231,295

INCOME STATEMENT

	2014	2015
INTEREST INCOME		
Interest on Loans	\$7,377,194	\$8,318,843
Investment Income	\$3,467,098	\$4,655,877
Total Interest Income	\$10,844,292	\$12,974,720
INTEREST EXPENSE		
Dividends	\$1,188,205	\$1,142,949
Interest on Borrowed Funds	\$359,557	\$284,214
Total Interest Expense	\$1,547,762	\$1,427,163
NET INTEREST INCOME	\$9,296,530	\$11,547,557
Provision for Loan Losses	\$479,627	\$1,401,315
Net Interest Income (after provision for loan losses)	\$8,816,903	\$10,146,242
Other Operating Income	\$6,374,138	\$6,861,300
Total Operating Income	\$15,191,041	\$17,007,542
OPERATING EXPENSES		
Compensation & Benefits	\$6,689,253	\$7,161,022
Travel & Conferences	\$127,382	\$185,418
Association Dues	\$75,734	\$84,003
Office Occupancy	\$1,122,233	\$1,126,360
Office Operations	\$1,729,934	\$1,718,475
Educational/Promotional	\$703,462	\$852,795
Loan Servicing	\$651,985	\$451,452
Professional Services	\$1,953,676	\$2,271,307
Total Operating Expenses	\$13,504,189	\$14,353,960
Non-Operating Income	\$1,017,155	\$779,056
Net Income	\$2,704,007	\$3,432,638



“ MFCU is all about being a family. This family truly cares about each other and doing the right thing for our members and the community. ”

– *Clint Summers, SVP Brand & Technology*



Supervisory Committee

Ryan Arthun, *Chairperson*

Shirlee Walker, *Vice-Chair*

Geoffrey Badenoch, *Secretary*

Heidi Fanslow

Supervisory Committee Report

The Supervisory Committee protects the interests of Missoula Federal Credit Union (MFCU) members. We work with MFCU's internal auditor to ensure effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. As members, Ryan Arthun, Shirlee Walker, Geoff Badenoch, and Heidi Fanslow volunteer to serve in this role because we believe in MFCU's mission to enhance the lives of our members and the community.

In addition to working with the internal auditor, the committee retained the services of an independent accounting firm, Moss Adams LLP, to perform a comprehensive annual audit of MFCU financial statements and controls this year. Based upon Moss Adams issuance of a "clean opinion", our regular internal reviews, and results of the NCUA supervisory examination, it is the opinion of the Supervisory

Committee that Missoula Federal Credit Union is operating in a fiscally safe manner and has sound policies and programs.

We would like to recognize the many members, employees, leaders, and volunteers whose stewardship and hard work over the past 60 years allowed Missoula Federal Credit Union to become the valued local financial institution that it is today. We look forward to celebrating those first 60 years with all of you this summer.

Members are always welcome to contact the Supervisory Committee 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



Board of Directors

Back Row Left to Right:

Alex Gallego

Bill Borrie

Anthony Boote, *Treasurer*

Carl Rummel, *Board Chairperson*

Front Row:

Jane Cowley

Don Creveling, *Secretary*

Leslie Halligan

Executive Team

Jack Lawson, President & CEO

Robert Farmer, SVP (HR)

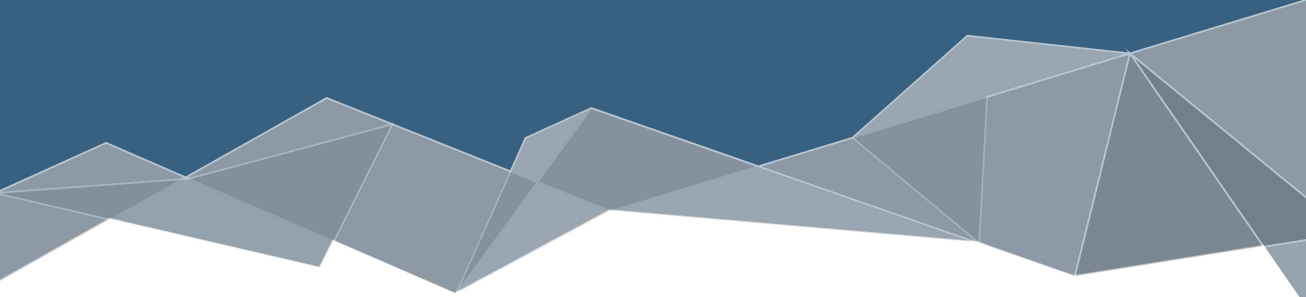
Kathy Guderian, SVP/CFO (Finance)

Linda Rayfield, SVP (Credit Administration)

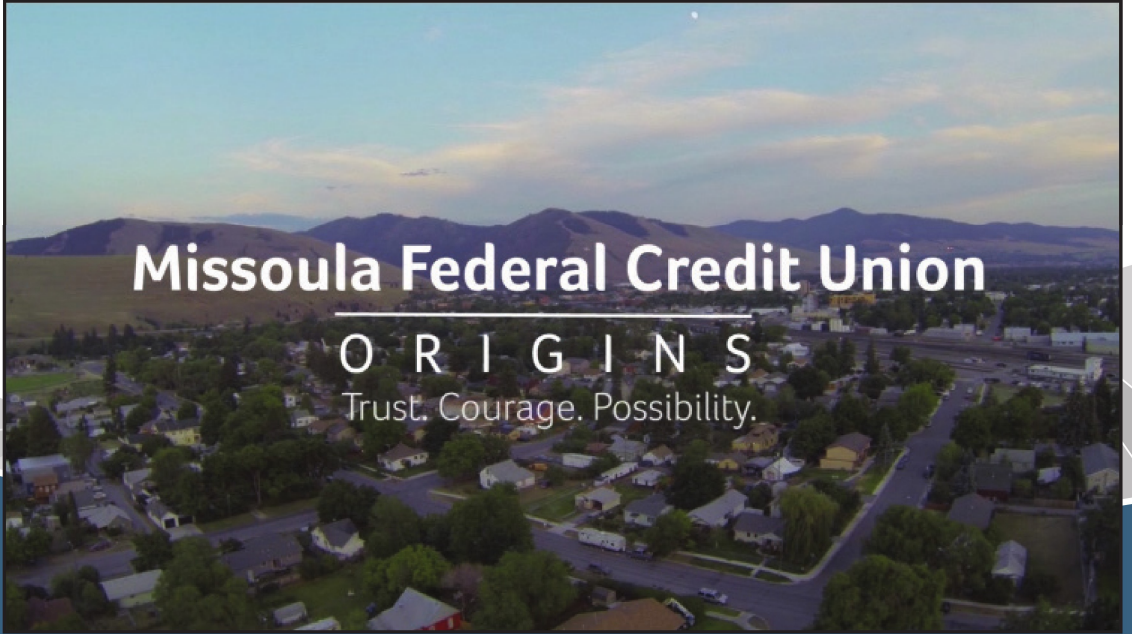
Clint Summers, SVP (Brand & Technology)

Bill St John, SVP (Retail Branches)

Justin Sanders, SVP (Home Lending)



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



Watch our Origins Story at
www.missoulafcu.org.



**Missoula Federal
Credit Union**
Banking that actually gives back