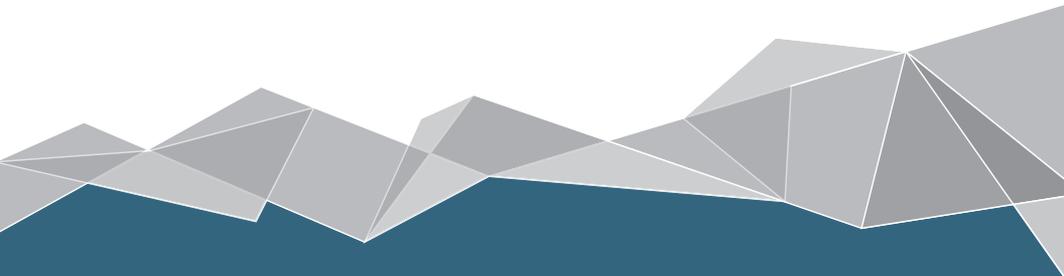


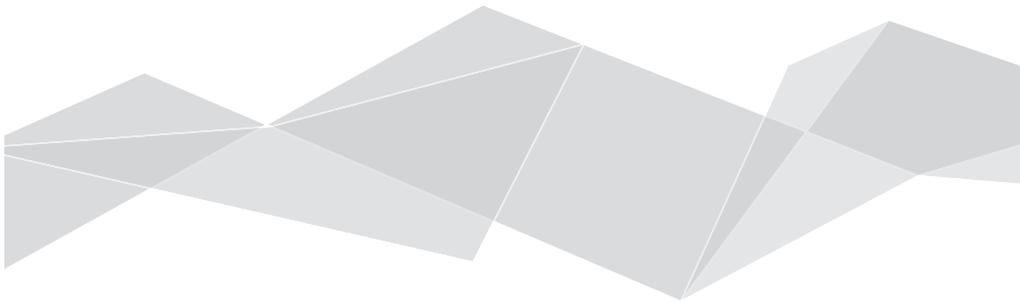


2014

Annual Report



**Missoula Federal
Credit Union**
Life. We're in it together.



President's Report

My 2013 President's report focused on the theme of leadership transition. In the final 4 months of 2013 planned retirements led to an incredible 50% turnover in a 6 person senior management team. I noted that this kind of a transition would throttle many organizations, throwing them into a year or two of new culture building and redirection. But not so for Missoula Federal Credit Union. Your credit union not only planned well for these changes, it also cultivated an attitude among staff which allowed us to move forward swiftly and progressively.

During the first quarter of 2014 we



Jack Lawson, President & CEO

embarked on a rigorous strategic planning process. We dug in to understand and clearly state the challenges facing the credit union. Based on this understanding we took direction from our Board of Directors. And with that direction we developed a new 3 year strategic financial plan. We are now implementing that plan.

The themes of that strategic plan are Rebalance and Modernize. Rebalancing starts from the idea that we should not be focused on growth for growth's sake. Above all we need to put our energy into redeploying assets in the form of loans to members rather than in lower impact, lower earning investments.



To this end we have:

- Reorganized the management team to focus more resources on front-of-house sales and service to members;
- Redesigned loan products and pricing to meet more member needs and capture more market share; and,
- Concentrated more of our marketing activities on telling the story of MFCU as an effective community lender.

These changes have started to take hold and show some results. While total assets increased 6% in 2014 we pushed loan balances up by 11%. That is the best loan growth performance we have experienced in 5 years.

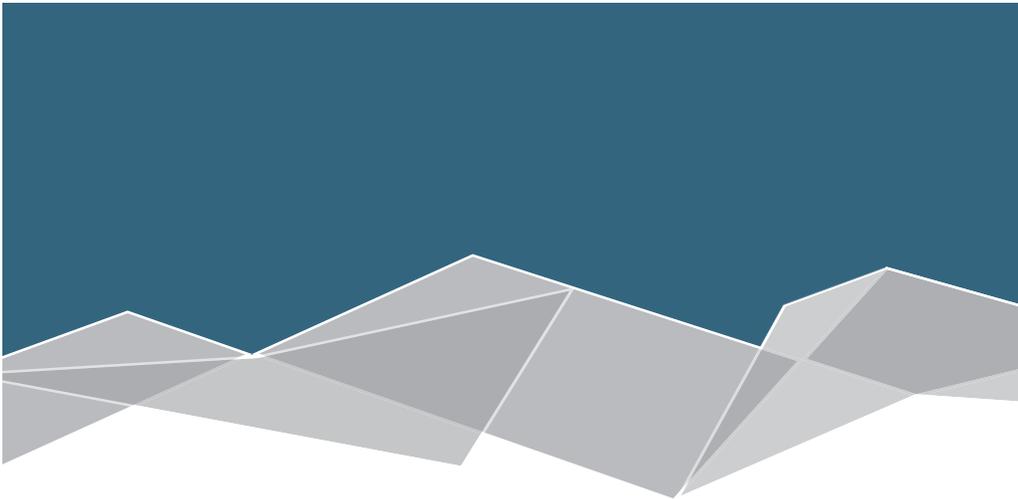
Meanwhile modernizing the credit union has meant making changes in some areas that our members and employees have been asking us to pay more attention to. It is our hope that these changes will strengthen our relationship with both members and employees and that this, in turn, will strengthen the credit union.

For example:

- We refreshed the look, feel and voice of the brand and have started to push out new and more compelling marketing materials;

- We completely redesigned our website to celebrate that new brand and to better meet the needs and interests of our members, regardless of what type of device they use to access the site;
- We began rolling out a new online and mobile banking platform that we believe is among the very best options available on the market today;
- We started issuing chip-based (EMV) credit cards to take advantage of some of the latest card security technology available; and,
- We launched an overhaul of our employee manual, performance evaluation and compensation systems to ensure that we are attracting and retaining the best possible employees.

To be sure, this has been a huge amount of work. But it is work that we believe is already having a positive impact. As Tony noted in his Treasurer's Report we achieved a solid financial performance in 2014. This was partly due to steady improvements in the local and national economies, no doubt, but it was also due to our work developing and implementing a sensible strategic plan. We are proud of the progress made, but we know it's not enough. We look forward to continuing our efforts in the years to come.



Chairman's Report

Our annual report last year was titled "New Beginnings" and featured photos of plants sprouting in warm, fertile soil. This year our report could be titled "Bringing in the Harvest" or "Bumper Crop!" Having a rural background I realize that having one good year is not necessarily a measure of long term success. Mother Nature always has a storm, drought or some other surprise just around the corner. One of the mentors in my life used the phrase, "ride the wave because the trough is right behind."

In his classic War & Peace, Leo Tolstoy said "the two most powerful warriors are patience and time." It's been a bumpy road and while we are enjoying some degree of success, rest assured that complacency and mediocrity are not part of our ongoing business plan. I attribute our success to perseverance and commitment to doing the right thing for our members, and the loyalty of our

members to MFCU.

Management has diligently worked to reduce costs and improve efficiency. The lending folks have labored to develop new loan products and guidelines. The marketing group focused on a rebranding project to update our public image and perception. IT put their efforts into enhancing internal and external security, developing the virtual branch and updating our website. The people behind the scenes in accounting and human resources were dedicated to the daily tasks that keep our organization running smoothly. Our frontline staff, the tellers, financial service representatives and lenders were attentive to the needs of our members and providing the best possible experience.

Our Board has worked tirelessly to support the culture of the credit union; the continued importance of education to

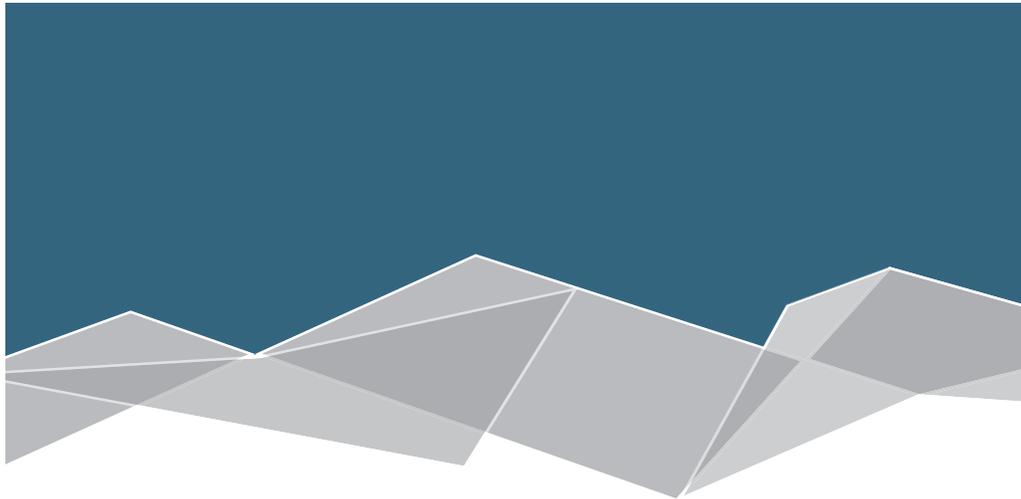


Carl Rummel, CPA, CUV, Board Chair

our staff and members; the commitment to community involvement; and being good stewards of your credit union. I hope that we have fulfilled that charge in your eyes.

We appreciate your ongoing trust and your continued support of MFCU as your primary financial institution. We have experienced good loan expansion, but growth of your deposits positions us to make even more good loans. Please refer your family, friends and neighbors to MFCU for their borrowing needs.

Our amazing staff, senior management, volunteer board and Supervisory Committee all worked hard for you last year, and we all support and believe in the cooperative spirit. We will continue to pedal fast and hard to make Missoula Federal Credit Union the best. At the end of the day we hope you will agree, it's life, and we're in it together.



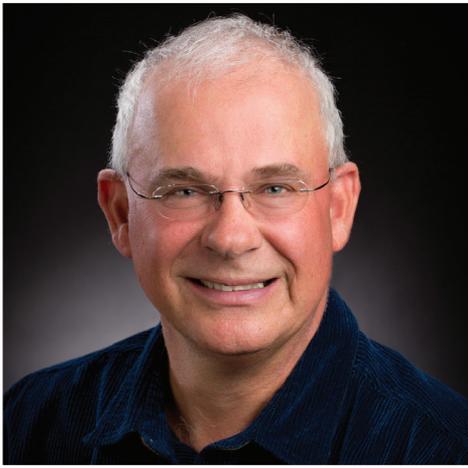
Treasurer's Report

2014 was a successful year for the Credit Union. Missoula Federal Credit Union took advantage of the economic recovery to strengthen considerably its financial position. Net income increased in 2014 by 260% to a healthy \$2.7 million, contributing to a 17% increase in total equity of nearly \$40 million.

Overall assets increased in 2014 by \$16 million to approach \$400 million. Of particular importance was an 11.5% or \$14 million increase in the overall loan portfolio to \$138 million. This reflected both the economic recovery and a greater focus on promoting loan growth, including the rollout of new loan products. Car loan growth of over 36% was particularly striking. Comparative data suggest this overall loan growth is broadly in line with peers. With total deposits rising by nearly 5%, investments remained generally unchanged at around \$230 million.

The strong equity gain of nearly \$6 million reflected both higher income and lower operating expenses. Net interest income rose by over 30% to over \$9 million, due to higher investment income – reflecting changes in the yield curve – as well as a smaller increase in income on loans. This more than offset the decline in other operating income from lower real estate fee income, due to the slower real estate market. Operating expenses declined overall by 2% to \$13.5 million, as a result of a continued focus by management and staff on cost-saving efforts. Non-operating income more than tripled to over \$1 million, due to gains on sales of investments over the year.

MFCU is unusual amongst its peers in having an investment portfolio at \$230 million (58% of assets), considerably larger than its loan portfolio at \$130 million (35% of assets) at year end 2014. It would be in a much healthier financial



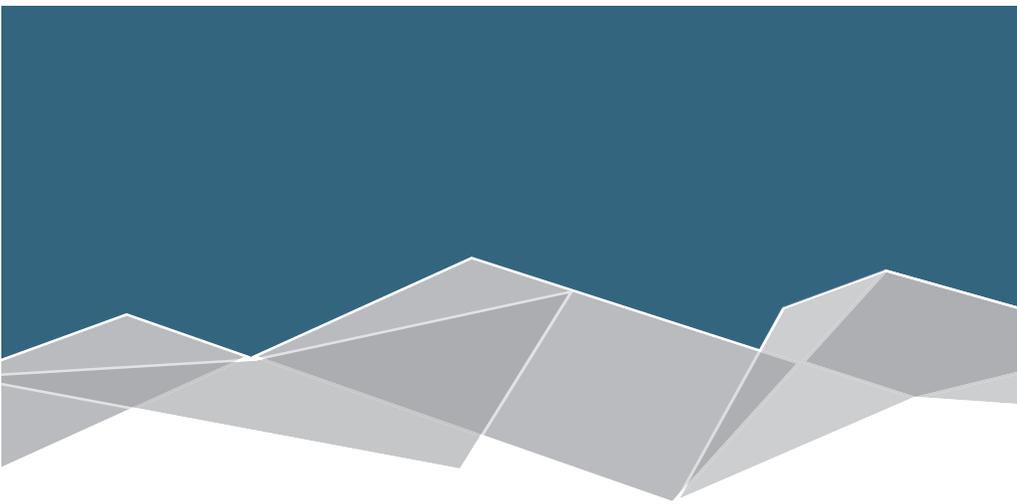
Anthony Boote, Treasurer

position if these ratios were reversed over the medium term. This will require a relentless focus on lending – including more new loan products, more active loan promotion, and efficient, seamless service – by board, management and staff. We aim to establish MFCU’s reputation as the premier lending institution in our market, in line with its reputation as a Missoula’s favorite financial institution. All members are urged to consider MFCU first for all their borrowing needs. Our goal will be to find a way to approve those loan requests. Together, we can build on 2014’s good financial performance to secure a stronger, more vibrant MFCU, better able to serve its member owners in the future.

2014 Financials

STATEMENT OF FINANCIAL CONDITION		
	2013	2014
ASSETS		
Loans	\$123,638,814	\$137,862,031
Cash	\$3,373,899	\$4,317,822
Investments	\$229,431,512	\$230,407,871
Land & Buildings	\$17,380,403	\$16,912,109
Other Fixed Assets	\$427,049	\$271,732
All Other Assets	\$8,834,578	\$8,977,652
Total Assets	\$383,086,257	\$398,749,217
LIABILITIES		
Notes Payable	\$17,592,027	\$12,177,526
Dividends Payable	\$131,840	\$108,258
Other Liabilities	\$3,621,686	\$3,726,928
Total Liabilities	\$21,345,554	\$16,012,712
SHARES		
Regular Shares	\$135,783,471	\$146,572,109
Share Drafts	\$87,165,567	\$94,658,626
IRAs	\$14,207,162	\$13,607,608
Certificates	\$39,592,250	\$37,693,453
Money Market	\$51,054,537	\$50,568,338
Other Shares	\$8,808	\$18,257
Total Shares	\$327,811,795	\$343,118,391
EQUITY		
Regular Reserves & Undivided Earnings	\$35,013,103	\$37,717,110
Unrealized Gain(Loss) on Investments	-\$1,084,194	\$1,901,004
Total Equity	\$33,928,909	\$39,618,114
Total Liabilities, Shares & Equity	\$383,086,258	\$398,749,217

STATEMENT OF INCOME		
	2013	2014
INTEREST INCOME		
Interest on Loans	\$7,181,191	\$7,377,194
Investment Income	\$1,835,901	\$3,467,098
Total Interest Income	\$9,017,092	\$10,844,292
INTEREST EXPENSE		
Dividends	\$1,316,072	\$1,188,205
Interest on Borrowed Funds	\$598,818	\$359,557
Total Interest Expense	\$1,914,890	\$1,547,762
NET INTEREST INCOME	\$7,102,202	\$9,296,530
Provision for Loan Losses	\$260,541	\$479,627
Net Interest Income (after provision for loan losses)	\$6,841,661	\$8,816,903
Other Operating Income	\$7,402,214	\$6,374,138
Total Operating Income	\$14,243,875	\$15,191,041
OPERATING EXPENSES		
Compensation & Benefits	\$7,062,197	\$6,689,253
Travel & Conferences	\$182,301	\$127,382
Association Dues	\$81,824	\$75,734
Office Occupancy	\$1,090,890	\$1,122,233
Office Operations	\$1,585,996	\$1,729,934
Educational/Promotional	\$689,042	\$703,462
Loan Servicing	\$743,273	\$651,985
Professional Services	\$2,001,079	\$1,953,676
Member Share Insurance	\$71,077	\$0
NCUA Operating Fee	\$85,838	\$70,694
Other Expenses	\$179,978	\$379,836
Total Operating Expenses	\$13,773,495	\$13,504,189
Non-Operating Income	\$278,931	\$1,017,155
Net Income	\$749,312	\$2,704,007



Supervisory Report

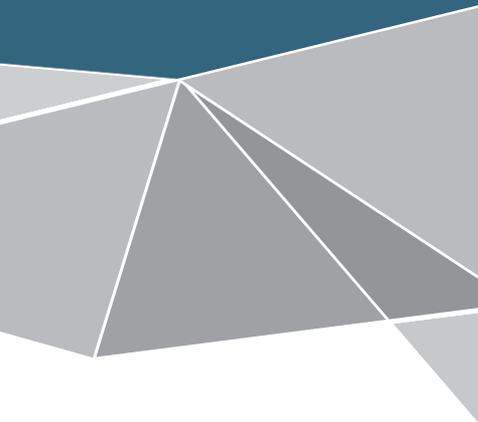
Oversight of Missoula Federal Credit Union has been set up as a system of checks and balances. The Board of Directors sets the policy that guides the credit union. Management oversees everyday activities and puts Board policies into action. The Supervisory Committee is tasked with ensuring that appropriate policies are put into place by the Board and carried out by the Management. The Supervisory Committee also serves as the members' representative to the Board and can help to resolve member complaints. As members, we volunteer to serve in this role because we are passionate about MFCU's mission to enhance the lives of our members and the community.

This past summer Geoff Badenko, who has volunteered in many capacities with MFCU over the past 20 years, elected to step down from his role as chairperson of the Supervisory Committee. He has left big shoes, which I will work hard to fill. As a member, I want to express my

appreciation for the leadership he has provided and remain grateful that he will continue to serve as a member of the Supervisory Committee with Heidi Fanslow, Shirlee Walker, and myself.

One of the Supervisory Committee's most significant responsibilities is to select an external auditor and then oversee the annual audit. Moss Adams LLP, a nationally recognized accounting firm, has been selected to conduct the annual audit through June 2015. They have proven to be an important partner in our efforts to ensure the security of member assets. Based upon their most recent audit and exams by our insurer, the National Credit Union Administration (NCUA), it is the opinion of the Supervisory Committee that MFCU is both financially solid and being operated safely and soundly. This is in no small part the direct result of the commitment, stewardship, and the hard work of all of MFCU's staff, management, and board.

The Committee is pleased to report



Ryan Arthur, Supervisory Committee Chairperson

that the addition of an internal auditor position in 2013 has proven to be another invaluable tool in ensuring that members' assets are protected. With the oversight of the Supervisory Committee and management, the internal auditor has worked tirelessly to identify potential weaknesses in our systems and controls before they can become problems. She has also proven to be a resource in coordinating audits and staying on top of the ever-changing rules and regulations that govern credit unions.

As a Committee, we would like to congratulate the management, staff, Board of Directors, and members of MFCU on another successful year. Only through all of our efforts is Missoula Federal Credit Union able to consistently rate as the best financial institution in Missoula. We look forward to doing our part to ensure that remains the case for many years to come.

I would like to close by reminding members that they can contact the

Supervisory Committee regarding unresolved credit union problems, suspicion of fraud, suggestions for improvements, or similar correspondence at:

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

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

Board of Directors

Carl Rummel, *Board Chairperson*

Don Creveling, *Secretary*

Anthony Boote, *Treasurer*

Jane Cowley

Bill Borrie

Leslie Halligan

Alex Gallego

Supervisory Committee Members

Ryan Arthun, *Chairperson*

Shirlee Walker, *Vice-Chair*

Geoffrey Badenoch, *Secretary*

Heidi Fanslow

Management

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)*

Colleen Murphy, *1st VP Home Lending*

Bill St John, *1st VP Retail Branches*