

Members First Credit Union Annual Report 2008

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DIRECTORS

Robert Wenger, Chairman
Leon Faught, Vice-Chairman
Larry Dreyer, Secretary/Treasurer
Yolanda Lozano
Charles Dunn
Michael Cuevas
Verna Jolley

MANAGEMENT

Greg Fair, Chief Executive Officer
Wanda Muessel, Chief Operations Officer
Michelle Mendez, Member Service Manager
Gracie Sanchez, Loan Manager
Chris Vega, Collections Manager
Cassy Slinkard, Accounting Manager
Belinda Reeves, SPID Branch Manager
Brenda Collins, Harlingen Branch Manager
Debra Garza, Violet Branch Manager

AGENDA

Welcome – Robert Wenger, Chairman

Invocation

Determination of a Quorum

Introduction of Officers and Guests

Minutes of the Previous Meeting

Reports:

Treasurer – Larry Dreyer

Chairman – Robert Wenger

CEO - Greg Fair

Unfinished Business

New Business

Election of Directors

Attendance Prizes

Adjournment

MINUTES
69th ANNUAL MEMBERSHIP MEETING
March 1, 2008

The 69th Annual Membership Meeting of Members First Credit Union was held on Saturday, March 1, 2008 at the main office located at 5444 S. Staples, Corpus Christi, Texas.

The meeting began at 3:00 p.m. when Chairman of the Board Robert Wenger welcomed members and guests.

The invocation was given by Robert Wenger.

The Chairman verified that 152 members had registered. He certified that a quorum was present and declared it a legal meeting.

The Chairman then introduced the Board of Directors: Leon Faught, Vice Chairman, Larry Dreyer, Secretary/Treasurer, Charles Dunn, Michael Cuevas, Verna Jolley, and Yolanda Lozano (absent).

The Board of Directors met for 12 Regular Meetings in 2007 and 2 Special Meetings.

Secretary/Treasurer noted a copy of the minutes of the 68th Annual Meeting was provided and asked for a motion to dispense with the reading and accept them as written.

MOTION by Jesse Rodriguez, seconded by John Jordan to accept the minutes as written. MOTION CARRIED.

REPORT OF TREASURER

Larry Dreyer stated that Members First has continued its tradition of a strong capital position and high profitability. The capital to assets ratio is higher than most of our peers and net income in 2007 was slightly over \$1M. Such a strong position allowed us to add a new location in 2005 and again in 2007.

Most of the credit union's efforts and expenses go toward offering share draft accounts. A great deal of our income is derived from them as well. With this in mind, the year was very successful with these accounts up

8.8%, the largest growth rate in over 15 years. Member deposits also experienced an excellent year with an increase of 11.6%.

For the year, membership inched up slightly to 13,454 members even though we opened 1,580 accounts. \$18M in loans was advanced which is an increase of 18% over the previous year. However, loans ended down slightly at \$37,174,282 but the quality of the portfolio should be improving.

MOTION by Noneita West, seconded by Rose Mary Haeber to approve the Treasurer's Report as written. MOTION CARRIED.

REPORT OF CHAIRMAN OF THE BOARD

Robert Wenger thanked and applauded the attending members for exercising their rights and privileges as owners and members of the credit union. By their participation, it is clear they are believers in the democratic process and are interested in Members First and our ability to serve future generations.

There are fewer and fewer small and medium size credit unions and it is becoming more difficult for them to compete with large credit unions. However, the real threat is not out there but with ourselves. The challenge is to remain financially sound, stay true to our roots of helping people, offer an alternative rather than an image of other institutions, attract members who share our beliefs and values, and ensure we have members involved and willing to serve when needed as volunteers.

He assured the members that the credit union is heading in the right direction and is ready to meet these challenges. Our goal is to offer affordable financial services, the best rates possible, and a philosophy that our members needs come first.

REPORT OF THE PRESIDENT

CEO Greg Fair stated it was clear we are in an election year and with elections come talks about change. Change is not just a political issue but one that involves everyone. We see it in the workplace, at home, in our environment, and in dealing with our health. The financial industry must also deal with change. Interest rates are in a constant swing as

the credit union tries to balance the needs of borrowers and savers. Lending guidelines are constantly adjusted to manage charge-offs while trying to help as many members as possible. Mergers, field of membership changes, new technology, new competitors, and an increasing number of branches from all institutions shows it is a changing environment for credit unions.

Members First is also anxious to change and adapt. However, we offer a promise and message that is not based on change but rather on something that does not. Our primary focus is on people not profits and our core philosophy is based on service, help, and cooperation.

UNFINISHED BUSINESS

None

NEW BUSINESS

Member Louis Clay asked if we could offer photo ID on our credit cards. CEO Greg Fair stated to his knowledge it was not an option at this time. We would, however, look into this possibility. The credit union was planning on changing card processors in about a year and expected to have more options but we are not sure if this is one of them.

NOMINATING COMMITTEE

The Chairman appointed Charlie Dunn, Larry Dreyer, and Verna Jolley to the nominating committee in September of 2007. The committee was charged with nominating one or more candidates for the three terms expiring in 2008 as well as one that became vacant that expires in 2009. (According to Credit Union guidelines, each member must be willing to serve, donate time and effort for the Credit Union's future, and be a member in good standing.)

The Nominating committee reported that they had received three applicants for the three open positions on the Board for 3 year terms. The nominees were as follows:

Michael Cuevas
Robert Wenger
Leon Faught

MOTION by John Siebert, seconded by John Jordan to have the nominees elected by acclamation. MOTION CARRIED.

The Chairman noted that this left one open position for a one year term that now must be filled by appointment from the Board of Directors. Yolanda Lozano has been selected and agreed to serve out this term.

Door Prizes were awarded.

MOTION by Jesse Jordan, seconded by John Arguell to adjourn. MOTION CARRIED.

The meeting was adjourned at 3:44 p.m.

TREASURER'S REPORT

2008 was another financially successful year for Members First Credit Union. Total assets ended the year at \$73,388,278, an increase of 7.8% from the previous year. This increase was mainly due to an increase in member deposits of over \$4 million. Member deposits ended the year at \$58,226,711. Net income for the year was \$908,280 up slightly from the previous year. This amount represents the fact that we had a 1.44% return on assets for the year which was more than double that of our peers.

In matters of growth, member accounts decreased slightly from 13,454 to 13,289. Total membership (excluding multiple accounts) ended the year at 12,352. Although we would have liked to have seen more positive numbers, they are actually higher than most credit unions of similar size. In fact, all but the largest credit unions found 2008 a year where memberships had large declines. On the usage of our various product offerings, Members First did see promising increases with money market accounts up 14%, IRAs up 5.9%, and CD deposits up 48%.

In lending, the year showed a continued change in the make up and quality of our loan portfolio. Attracting vehicle loans proved very difficult as we have seen in previous years. Real estate loans, however, took up most of the slack allowing the credit union to end the year with \$37,278,435 in our loan portfolio, an amount just slightly higher than year end 2007. The quality of our loan portfolio improved dramatically as reflected by the fact that net charge-offs decreased from \$476,344 to \$341,676, nearly a 30% drop. We did, however, see an increase in delinquencies in the last quarter of the year as the effects of the poor economy began to affect our members. We are not sure of the end result, but acknowledge a continued downturn in the job market will most likely result in an increase in member loan losses this next year. However, the credit union is well positioned to handle any increase in losses that might occur. Our capital to assets ratio, a figure that reflects our past financial success and ability to handle any future financial pressure, is 18.83%, nearly 50% higher than our peers.

For 2009, we are going to work diligently to continue to offer some of the best rates in our area and to provide you with the best service possible. We are excited about the new products our new computer system will bring as well as the ability to make us a more productive credit union. We know that tough times may be ahead for many financial institutions but are confident that Members First will continue to excel and offer financial stability like we have for the past 70 years.

Respectfully submitted,



Larry Dreyer,
Secretary/Treasurer

MEMBERS FIRST CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2008 AND 2007

ASSETS

| | 2008 | 2007 |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 9,142,484 | \$ 19,476,619 |
| Investments | | |
| Other | 20,689,435 | 5,376,204 |
| Loans to members, net | 36,675,464 | 36,532,060 |
| Accrued interest receivable | 238,761 | 195,448 |
| Property and equipment | 5,094,799 | 5,063,467 |
| National Credit Union Share Insurance Fund deposit | 501,745 | 479,646 |
| Other assets | 1,045,590 | 939,685 |
| Total assets | \$ 73,388,278 | \$ 68,063,129 |

LIABILITIES AND MEMBERS' EQUITY

Liabilities

| | | |
|--|---------------|---------------|
| Members' shares | \$ 58,226,711 | \$ 54,155,439 |
| Accrued expenses and other liabilities | 1,942,789 | 1,278,970 |
| Total liabilities | 60,169,500 | 55,434,409 |

Members' equity

| | | |
|---|------------|------------|
| Retained earnings, substantially restricted | 14,004,093 | 13,095,813 |
| Accumulated other comprehensive income (loss) | (785,315) | (467,093) |
| Total members' equity | 13,218,778 | 12,628,720 |

| | | |
|---------------------------------------|---------------|---------------|
| Total liabilities and members' equity | \$ 73,388,278 | \$ 68,063,129 |
|---------------------------------------|---------------|---------------|

MEMBERS FIRST CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|--------------|--------------|
| INTEREST INCOME | | |
| Interest on loans to members | \$ 2,757,186 | \$ 2,835,103 |
| Interest on investments and cash equivalents | 860,984 | 941,969 |
| TOTAL INTEREST INCOME | 3,618,170 | 3,777,072 |
| INTEREST EXPENSE | | |
| Dividends on members' shares | 1,181,688 | 1,350,812 |
| NET INTEREST INCOME | 2,436,482 | 2,426,260 |
| PROVISION FOR LOAN LOSSES | 452,346 | 683,109 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 1,984,136 | 1,743,151 |
| NON-INTEREST INCOME | | |
| Non-operating lease income | 96,004 | 54,939 |
| Other non-interest income | 2,182,163 | 2,071,900 |
| TOTAL NON-INTEREST INCOME | 2,278,167 | 2,126,839 |
| INCOME BEFORE GENERAL AND ADMINISTRATIVE EXPENSES | 4,262,303 | 3,869,990 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Salaries and benefits | 1,642,115 | 1,443,572 |
| Operations | 1,271,084 | 1,140,108 |
| Occupancy | 440,824 | 380,944 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 3,354,023 | 2,964,624 |
| NET INCOME | \$ 908,280 | \$ 905,366 |

MEMBERS FIRST CREDIT UNION
 STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | Retained Earnings | | | Accumulated Other Comprehensive Income (Loss) |
|---|--------------------|----------------|---------------|--|
| | Regular Reserve | Unappropriated | Total | |
| Balance, December 31, 2006 | 1,514,142 | 10,676,305 | 12,190,447 | (460,746) |
| Net income | | 905,366 | 905,366 | |
| Net change in defined benefit obligations | | | | (41,019) |
| Net change in unrealized gains (losses) on available-for-sale investments | | | | 34,672 |
| Balance, December 31, 2007 | \$ 1,514,142 | \$ 11,581,671 | \$ 13,095,813 | \$ (467,093) |
| Net income | | 908,280 | 908,280 | |
| Net change in defined benefit obligations | | | | (283,550) |
| Net change in unrealized gains (losses) on available-for-sale investments | | | | (34,672) |
| Balance, December 31, 2008 | \$ 1,514,142 | \$ 12,489,951 | \$ 14,004,093 | \$ (785,315) |

ELECTION RULES
(as printed in the October 2008 newsletter)

Members interested in running for a position on the Board of Directors must submit a resume for background information and a completed "Director Application and Agreement to Serve" form. A credit history of the applicant and current standing with the credit union will also be reviewed as part of the approval process. All interested parties that receive approval by the Nominating Committee based on this criteria will be included as candidates for upcoming vacancies on the Board of Directors.

Any applicant that the Nominating Committee does not approve will be referred for review by the Board of Directors. These members may be selected if approved by the Board. Any applicant not selected will receive a written explanation describing the reason for disapproval. This information will also be communicated to the Credit Union Department. Interested parties must submit their application no later than December 15, 2008. No nominations will be accepted after this deadline and no nominations may be placed from the floor at the Annual Meeting.

These rules were changed so that all candidates or potential Directors would be in good standing with the Credit Union, would be insurable for bonding purposes, and would receive approval from the Credit Union Department.