

Members First Credit Union Annual Report 2014

Table of Contents

| | |
|--|----|
| Directors and Management..... | 2 |
| Agenda..... | 3 |
| Minutes, 75 th Annual Membership Meeting..... | 4 |
| Treasurer's Report..... | 8 |
| Statement of Financial Condition..... | 9 |
| Statement of Income..... | 10 |
| Statement of Members' Equity..... | 11 |
| Election Rules..... | 12 |

DIRECTORS

Hector Garcia, Chairman (2015)
Yolanda Lozano, Vice-Chairman (2017)
Roman Almaguer, Secretary/Treasurer (2015)
Larry Dreyer (2016)
Mark Kulwicki (2015)
Manuel Esquivel III (2017)
Samuel Shores (2016)

MANAGEMENT

Greg Fair, Chief Executive Officer
Wanda Muessel, Chief Operations Officer
Debra Garza, Loan Manager
Lauren Walker, Accounting Manager/Controller
Blake Kemmis, IT Manager
Sherry Hernandez, Member Service Manager
Chris Vega, Collections Manager
Belinda Reeves, Violet Branch Manager
Brenda Collins, Harlingen Branch Manager
Eric Flores, SPID Branch Manager
Rachael Storr, Marketing Director
Adriana Crisp, Human Resources Manager

AGENDA

Welcome – Hector Garcia, Chairman

Invocation

Determination of a Quorum

Introduction of Officers and Guests

Minutes of the Previous Meeting

Reports:

Treasurer – Roman Almaguer

Chairman – Hector Garcia

CEO - Greg Fair

Unfinished Business

New Business

Election of Directors

Attendance Prizes

Adjournment

MINUTES
75th ANNUAL MEMBERSHIP MEETING
March 1, 2014

The 75th Annual Membership Meeting of Members First Credit Union was held on Saturday, March 1, 2014 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 Michael Cuevas welcomed members and guests.

The invocation was given by Blake Kemmis.

The Chairman verified that 141 members had registered. He certified that a quorum was present and declared it a legal meeting.

The Chairman introduced the Board of Directors: Hector Garcia, Vice Chairman, Larry Dreyer, Secretary/Treasurer, Robert Wenger, Verna Jolley, Mark Kulwicki, and Roman Almaguer. The chairman also recognized advisory director Yolanda Lozano.

Secretary/Treasurer Larry Dreyer noted a copy of the minutes of the 74th Annual Meeting was provided in the 2013 report and asked for a motion to dispense with the reading and accept them as written.

MOTION by John Jordan, seconded by Erasmo De La Rosa to accept the minutes as written. MOTION CARRIED.

REPORT OF TREASURER

Larry Dreyer reported that Members First experienced a year of balanced growth while maintaining a strong capital position in 2013. Deposits grew 6.9% while loans increased 7.9% during the year. Total assets at the end of the year reached \$107,905,572. Loans ended the year at \$52,524,314 which is nearly 50% higher than it was just 4 years ago. Even with the high level of loan growth, loan losses had dropped and the net loan charge-off ratio was just 0.25%, less than one fourth what it was 4 years ago when the economy was in a slump.

The capital to asset ratio increased to 17.75% compared to our peers of 10.46%. This clearly reflects the stability of the credit union and that deposits are safe and sound. Strengthening capital was due to

continued profitability with net income of \$1,336,812 providing a capital contribution of 1.23%, nearly double that of our peers. The credit union ended the year with 11,623 members with nearly 60% having a checking account, 65% a check or credit card, and the vast majority using our electronic services. Mr. Dreyer stated that 2013 was a successful year and thanked the members for their support of the credit union and for 75 years of existence.

MOTION by Annette Hansen, seconded by John Arguell to approve the Treasurer's Report as written. MOTION CARRIED.

REPORT OF CHAIRMAN OF THE BOARD

Michael Cuevas stated it was an honor to report at the 75th annual meeting and that the board was appreciative of the level of trust given them by the members. He emphasized how well the credit union performed this past year and that it was important that members felt confident in the direction the credit union was headed. He noted it was with the participation of members that we have remained in a strong financial position.

Mr. Cuevas went over how credit unions are different from banks. Instead of paying shareholders, our profits stay in the credit union to offer competitive rates, new products, and enhanced services. The more members use our services, the more we can help. He concluded saying that under the leadership of management, the guidance of the board, the commitment of the staff, and the support of our members, Members First is well positioned to face any challenges and seize any opportunity that presents itself in 2014.

REPORT OF THE CEO

Greg Fair acknowledged the accomplishment of the credit union reaching 75 years of existence. He explained that the credit union began in December of 1938 when a group of telephone employees met and took the first step to create Corpus Christi Telco Federal Credit Union. With a small beginning, the credit union grew in size and complexity. Highlights included two name changes, a merger, the addition of over 300 select employer groups, and the move to a community charter.

Mr. Fair reflected the credit union has been through a great deal of change and will continue to do so. However, we have been successful by keeping to our core values in which we were created. He stated we operated under the philosophy of people helping people with profits kept in the credit union for continued improvement. We are guided by an unpaid volunteer board of directors and we exist due to the support of members that believe in our mission.

Mr. Fair recognized Robert Wenger for 44 years of volunteer service to the credit union. Mr. Wenger has been a great leader through good and tough times and will be greatly missed. He concluded acknowledging the board for volunteering, the staff for performing a great job, and the members for their support.

UNFINISHED BUSINESS

None

NEW BUSINESS

None

NOMINATING COMMITTEE

The Chairman appointed Larry Dreyer, Mark Kulwicki, and Ray Almaguer to the nominating committee in September of 2013. The committee was charged with nominating one or more candidates for the two three year terms expiring in 2014. (According to Credit Union guidelines, each member must be willing to serve, have an appropriate credit history, donate time and effort for the Credit Union's future, and be a member in good standing.)

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

Michael Cuevas
Manuel Esquivel III
Yolanda Lozano

Ballots were distributed when members registered and were turned in prior to the start of the meeting. The nominating committee selected

Mary Pena, Chief Teller, Barbara Benavides, Teller, and Tiffany Bain, Teller to tabulate the votes.

Door Prizes were awarded while the votes were tabulated.

Nominating Committee Chairman Roman Almaguer reported the tellers completed their tabulation with Michael Cuevas receiving 52 votes, Manuel Esquivel III 75 votes, and Yolanda Lozano 103. This resulted in Manuel Esquivel III and Yolanda Lozano being elected as the two new directors for 3 year terms.

MOTION by Erasmo De La Rosa, seconded by John Jordan to destroy the ballots. MOTION CARRIED.

MOTION by John Arguell, seconded by John Jordan to adjourn the meeting. MOTION CARRIED.

The meeting was adjourned at 3:46 p.m.

TREASURER'S REPORT

Providing a safe and dependable alternative to save, borrow, and assist with your financial needs are all main goals of the credit union. In 2014, we took another step forward in maintaining all of these objectives. Total assets increased by 5% reaching \$113,346,673 at year end. Our capital position which reflects past and present profitability increased to 18.36%. This reflects solid financial strength when you consider the average credit union our size has a ratio of 10.47%. Net income for the year was \$1,657,497 and we achieved a capital contribution of 1.44%. This % was the highest we have experienced in over 5 years and was nearly 3 times the profitability of our peer credit unions.

One of the main reasons for the improvement in net income was lower operating expenses. Staying competitive and keeping expenses low can be a real challenge and our efforts were rewarded with the results we had hoped to achieve. Our operating expense ratio dropped to 3.41%, one of the lowest levels we have ever reached. This led to a net operating expense ratio of 1.33% which is well below the peer average of 2.19%.

Deposits for the year grew 4.6% totaling \$92,342,780 by year end. Loan growth was harder to achieve than in recent years but we managed a small increase of 1.4% to end with \$53,234,103 in our loan portfolio. Loan quality, however, improved as reflected by a respectable loan loss ratio of 0.51%, our lowest level in over 5 years.

Overall membership was steady, ending the year with 11,600 members. However, active members grew as shown by a 5.1% increase in checking accounts, 11.3% in check cards, 10% in money market accounts, and a 9.4% increase in the number of credit cards.

This past year our continued financial success allowed Members First to make the list of the top 200 healthiest credit unions in America (composed by DepositAccounts.com). In fact, we were ranked 44th out of 6,600 credit unions, placing us in the top 1% of all credit unions. We are proud to provide such a high level of safety to our members, reflecting we are still going strong after 75 years. We have proven we are ready to respond wherever the economy may lead us and can continue to provide the financial assistance you need.

Respectfully submitted,



Roman Almaguer Jr.,
Secretary/Treasurer

**MEMBERS FIRST CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 AND 2013**

ASSETS

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 12,138,479 | \$ 7,741,651 |
| Investments | 40,132,252 | 39,361,668 |
| Loans to members, net | 53,053,136 | 52,345,966 |
| Accrued interest receivable | 364,564 | 293,819 |
| Property and equipment | 5,271,755 | 5,357,917 |
| National Credit Union Share Insurance Fund deposit | 871,062 | 841,240 |
| Other assets | 1,513,425 | 1,963,311 |
| Total assets | \$ 113,346,673 | \$ 107,905,572 |

LIABILITIES AND MEMBERS' EQUITY

Liabilities

| | | |
|--|-------------------|-------------------|
| Members' shares | \$ 92,342,780 | \$ 88,268,729 |
| Accrued expenses and other liabilities | 1,144,389 | 1,076,810 |
| Total liabilities | 93,487,169 | 89,345,539 |

Members' equity

| | | |
|---|-----------------------|-----------------------|
| Retained earnings, substantially restricted | 20,809,375 | 19,151,879 |
| Accumulated other comprehensive income (loss) | (949,871) | (591,846) |
| Total members' equity | 19,859,504 | 18,560,033 |
| Total liabilities and members' equity | \$ 113,346,673 | \$ 107,905,572 |

**MEMBERS FIRST CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| INTEREST INCOME | | |
| Interest on loans to members | \$ 3,194,000 | \$ 3,134,231 |
| Interest on investments and cash equivalents | 654,304 | 610,426 |
| TOTAL INTEREST INCOME | 3,848,304 | 3,744,657 |
| INTEREST EXPENSE | | |
| Dividends on members' shares | 464,904 | 560,518 |
| NET INTEREST INCOME | 3,383,400 | 3,184,139 |
| PROVISION FOR LOAN LOSSES | 222,117 | 217,294 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 3,161,283 | 2,966,845 |
| NON-INTEREST INCOME | | |
| Fees and Charges | 1,488,075 | 1,568,275 |
| Other non-interest income | 829,908 | 795,139 |
| TOTAL NON-INTEREST INCOME | 2,317,983 | 2,363,414 |
| INCOME BEFORE GENERAL AND ADMINISTRATIVE EXPENSES | 5,479,266 | 5,330,259 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Salaries and benefits | 1,853,485 | 1,829,758 |
| Operations | 1,514,892 | 1,664,698 |
| Occupancy | 430,416 | 398,923 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 3,798,793 | 3,893,379 |
| NET NON-OPERATING GAINS (LOSSES) | (22,976) | (32,744) |
| NET INCOME BEFORE NCUSIF EXPENSE | 1,657,497 | 1,404,136 |
| NCUA CORPORATE STABILIZATION EXPENSE | 0 | 67,324 |
| NET INCOME | <u>\$ 1,657,497</u> | <u>\$ 1,336,812</u> |

**MEMBERS FIRST CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | Retained Earnings | | | Accumulated Other Comprehensive Income (Loss) |
|--|----------------------------|-----------------------|---------------|--|
| | Regular Reserve | Unappropriated | Total | |
| Balance, December 31, 2012 | | | | |
| Net income | \$ 1,514,142 | \$ 16,300,924 | \$ 17,815,066 | \$ (939,872) |
| Net change in defined benefit Obligations | | 1,336,812 | 1,336,812 | |
| | | | | 348,026 |
| Balance, December 31, 2013 | \$ 1,514,142 | \$ 17,637,736 | \$ 19,151,878 | \$ (591,846) |
| Net income | | 1,657,497 | 1,657,497 | |
| Net change in defined benefit obligations | | | | (358,025) |
| Balance, December 31, 2014 | \$ 1,514,142 | \$ 19,295,233 | \$ 20,809,375 | \$ (949,871) |

ELECTION RULES

(as printed in the October 2014 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 these 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, 2014. 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.