



2016 Annual Report

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Your Community Credit Union



Chairman's Report

As Montgomery County residents, we understand the benefits and the challenges that our family, friends, neighbors and co-workers face every day. We understand the needs of our community and the importance of nourishing our local economy. Living in the shoes of our members makes us intuitive to the area's financial needs.

Montgomery County is the place that Mid-Atlantic Federal Credit Union (MAFCU) has called home since 1967, when a small group of IBM employees wanted a collaborative and secure financial experience built among the spirit of fellowship and community. Since then, the credit union has changed its name and grown in size, added to its field of membership and the level of service we provide, however, our mission and purpose remains the same. Today, we take great pride in being able to call ourselves the only community credit union of Montgomery County and providing quality financial services to meet the needs of the local businesses that thrive here and the individuals that make them work.

We went through several key transitions during 2016. MAFCU welcomed a new CEO and strategically re-aligned our team to better serve you. We also welcomed one new Board of Directors in 2016, Randy Scritchfield. We are grateful to Elliot Margolis and Rennie Poffenberger for their many years of service, which contributed to the credit union's growth, and look forward to our new directors' contributions. These changes have positioned the credit union to better serve you – our members – and continue moving in the right direction.

An Internal Outlook

Our MAFCU staff has seen some changes in management within the past year, however, they continue to stay invigorated and motivated in regards to what lies ahead for MAFCU. Staff is encouraged to contribute to the strategic planning and operations of the credit union. It is our mission to retain the collaborative spirit this credit union was built upon in 1967. We continue to place heavy emphasis on member-focused initiatives and goals. As members of the community and credit union, ourselves, it places us at a great advantage and passion in serving the community.

We continue to improve accessibility for today's members while maintaining the relationship and trust that comes with being financial stewards of the community.

As your friends and neighbors, we sincerely thank you for your loyalty and your business.

— John G. Boothe, *Chairman, Board of Directors*

Treasurer's Report

For 2016, Mid-Atlantic Federal Credit Union (MAFCU) continued to grow in the key areas of total assets and total loans. The Credit Union grew over \$9M in total assets to \$310M at year end, up from \$301.1M for year-end 2015. Total loan balances increased from \$196M in 2015 to \$216M in 2016.

The number of Credit Union members grew from 23,907 members to 24,691 – an increase of 3%. Member shares increased from \$282.10M in 2015 to \$289.1M in 2016. The Credit Union's return to members, in the form of dividend payouts, was \$762K, an increase of \$155.3K over 2015's \$606.7K.

Our delinquency ratio at the end of the year was .68% compared to 1.36% in 2015. The net charge off ratio increased from .21% to 1.18%. The increase in net charge offs was due to our effort in writing off non-performing loans and returning the credit union's loan portfolio to quality. The drop in the delinquency ratio reflects the increase in quality.

In 2016, the credit union was able to significantly decrease our Provision and Allowance for Loan Losses by over 58%. The increases of the previous year, which were required to account for the potential of non-recovery of the total exposures of commercial loans, still impacted the credit union's net income. However, the resulting income net loss shrank from \$4.0M in 2015 to \$1.5M in 2016 and is continuing to head in the right direction. MAFCU is continuing to actively focus on restoring positive income performance.

Overall, 2016 was a year of growth for Mid-Atlantic Federal Credit Union. Your Board of Directors and Senior Management are dedicated to continuing Mid-Atlantic Federal Credit Union to be the effective, dependable, and successful institution that you, our members have come to expect. We look forward to increasing value every day, in every way, throughout 2017 and beyond.

— Barbara Kawamura, *Treasurer*

Supervisory Committee's Report

The Supervisory Committee ensures that audits are carried out within specified time frames according to the Federal Credit Union Act and regulations by the National Credit Union Administration (NCUA). The Supervisory committee also ensures that our members' accounts are verified annually. The Committee contracted the CPA firm of Orth, Chakler, Murnane & Company to complete our annual audit. Their report concluded that the financial statements of the credit union present fairly in all material aspects and conforms to generally accepted accounting principles.

The committee also contracted with Orth, Chakler, Murnane & Company to complete the Automated Clearing House (ACH) review and with the company Affirmix to complete the annual Bank Secrecy Act review.

The Supervisory Committee appreciates the support of management and staff. The Committee shall continue to perform its oversight responsibilities in the best interest of all the credit union members.

— Zenia Yang, *Chair, Supervisory Committee*



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Financial Report

As of December 31, 2016 (unaudited)

| | 2016 | 2015 |
|------------------------------------------------|----------------------|----------------------|
| Income | | |
| Loan Income | \$9,707,333 | \$9,249,213 |
| Investment Income | \$841,596 | \$761,682 |
| Other Income | <u>\$4,417,555</u> | <u>\$4,277,224</u> |
| Total Income | <u>\$14,966,484</u> | <u>\$14,288,119</u> |
| Expenses | | |
| Dividend Expense | \$762,024 | \$606,720 |
| Compensation and Benefits | \$6,977,979 | \$6,306,360 |
| Office Occupancy & Operations | \$4,218,944 | \$4,210,924 |
| General Administrative Expense | \$2,882,662 | \$3,289,664 |
| Provision for Loan Losses | \$1,597,079 | \$3,832,786 |
| Federal Operating Fees | \$54,797 | \$49,857 |
| Total Expenses | <u>\$16,493,485</u> | <u>\$18,296,311</u> |
| Net Income | <u>(\$1,527,001)</u> | <u>(\$4,008,192)</u> |
| Assets | | |
| Gross Loans | \$219,781,472 | \$201,253,015 |
| Allowance | <u>(\$3,198,666)</u> | <u>(\$4,632,749)</u> |
| Net Loans | \$216,582,806 | \$196,620,266 |
| Cash | \$49,650,482 | \$37,272,078 |
| Investments | \$20,958,860 | \$47,684,607 |
| Loans Held for Sale | \$4,170,913 | \$1,708,250 |
| Net Fixed Assets | \$6,400,036 | \$6,510,348 |
| Other Assets | <u>\$12,322,129</u> | <u>\$11,321,981</u> |
| Total Assets | <u>\$310,085,226</u> | <u>\$301,117,530</u> |
| Liabilities | | |
| Accounts Payable | \$490,482 | \$496,496 |
| Dividends Payable | \$12,353 | \$30,545 |
| Accrued Expense | \$1,495,810 | \$1,273,715 |
| Notes Payable | \$504,231 | \$523,500 |
| Other Liabilities | <u>\$557,734</u> | <u>(\$2,909,604)</u> |
| Total Liabilities | <u>\$3,060,610</u> | <u>(\$585,348)</u> |
| Members' Shares | | |
| Shares | \$249,597,055 | \$236,278,355 |
| IRAs | \$4,055,747 | \$3,969,600 |
| Share Certificates | \$35,371,971 | \$40,900,943 |
| Total Shares | \$289,024,773 | \$281,148,898 |
| Nonmember Deposits | <u>\$32,205</u> | <u>\$1,000,180</u> |
| Total Shares & Nonmember Deposits | <u>\$289,056,978</u> | <u>\$282,149,078</u> |
| Members' Equity | | |
| Regular Reserve | \$3,130,369 | \$2,820,284 |
| Fairfax County FCU/PGCFCU Capital | (\$353,450) | (\$322,729) |
| Unrealized Investment Loss | (\$186,776) | (\$159,016) |
| Undivided Earnings | \$15,377,495 | \$17,215,261 |
| Other Comprehensive | \$0 | \$0 |
| Total Members' Equity | <u>\$17,967,638</u> | <u>\$19,553,800</u> |
| Total Liabilities & Members' Equity | <u>\$310,085,226</u> | <u>\$301,117,530</u> |



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