HELPING MEMBERS ACHIEVE THEIR DREAMS

GIVING BACK TO THE COMMUNITY

PROVIDING SUPERIOR SERVICE

2016 ANNUAL REPORT

MICHIGAN STATE UNIVERSITY® FEDERAL CREDIT UNION
Building Dreams *Together*

Student Welcome at MSU Union


Teddy Bear Picnic

Student Welcome at Oakland Center


31st Annual Dinosaur Dash


Blue Mondays

CONTENTS

BUILDING DREAMS
Together

Pay it Forward

Allen Farmers Market

Walk to End Alzheimer's

Girl Scouts

OUR VISION

Michigan State University Federal Credit Union (MSUFCU) began in 1937 as a safe place for Michigan State University (MSU) faculty and staff to borrow and save money during the Great Depression. Though our membership has surged from 74 in 1938 to 230,851 at the end of 2016, and our number of employees has increased from four in 1959 to over 700 in 2016, our values remain the same. At MSUFCU, we take care of our members and embody our core values each and every day by providing superior service; cultivating diversity; encouraging, embracing, and driving change; pursuing growth and development; giving back to our community; building a positive environment; being passionate and determined; and demonstrating integrity and honesty.

Our dedication to members, employees, and our community has helped us become the world's largest university-based credit union, the 48th largest credit union in the United States, and the third largest credit union in Michigan. With over $3.4 billion in assets and $2.48 billion in total loans, we're helping members' dreams come true as they become auto owners and homeowners.

In 2016, we merged in Clarkston Brandon Community Credit Union (CBCCU), which allowed us to provide superior service and products to former CBCCU members and add two branches for existing members living in the area. Additionally, we opened the Financial Innovation and Education Center (FIEC) in East Lansing, launching our new intern program and providing workspaces for up to 30 interns.

We offered financial education in our community, hosting 317 presentations and seminars delivered to 10,739 attendees. Our financial education programs continue to expand, particularly in Oakland County, where we host in-school credit unions at each Brandon School District elementary school and offer students the ability to conduct transactions at Brandon middle and high schools.

The Credit Union's mission is to provide superior service while assisting members and employees to achieve financial security, their goals, and ultimately, their dreams. Our members help us fulfill this mission by trusting that we will do what's in their best interests. Whether helping to consolidate debt or develop a household budget, we're proud to help our members each and every day.

BILL BEEKMAN
CHAIR OF THE BOARD

Dear Members,

Looking back on 2016, it is clear that MSU Federal Credit Union had many great accomplishments while continuing to provide superior service to its growing membership. To help tell our story over the past 12 months, I am pleased to present MSUFCU's 2016 Annual Report.

Though there were many notable events in 2016, one of our most impactful accomplishments was the successful merger with Clarkston Brandon Community Credit Union. With this merger, we were given an opportunity to grow our presence in Metro Detroit by adding branches in Clarkston and Ortonville. As a result, we were able to provide superior service and enhanced product offerings to 8,500 new members, and better serve our 34,000 existing members in Genesee, Lapeer, Livingston, Macomb, and Oakland counties. From the beginning, we were excited about the opportunity to fulfill the credit union philosophy of "people helping people," and will continue to provide individuals who live and work in these communities with excellent service, which will help them to achieve their goals and dreams.

In 2016, we also enjoyed numerous successful community giving efforts. The Credit Union supported 630 charitable organizations in the Greater Lansing and Oakland County communities, and employees raised over $194,000 for local charities, including Small Talk Children's Assessment Center and the Capital Area United Way. Additionally, employees showed their dedication to the Greater Lansing and Oakland County communities by volunteering over 1,200 hours at local charitable organizations. This generosity speaks volumes about the culture of our organization as a whole and of those who selflessly donate their time and resources to make their communities better places.

To round out the year, the Credit Union received recognition as the Detroit Free Press Top Workplaces #1 Large Employer, as one of the Nation's Best and Brightest Companies to Work For™ by the National Association for Business Resources, as a Fit-Friendly Worksite by the American Heart Association, and as fifth in the nation for our financial education efforts by the National Youth Involvement Board, among others. Additionally, the Credit Union was proud to see its President/CEO, April Clobes, named as the recipient of the Detroit Free Press Top Workplaces Leadership Award for her commitment to serving our members, employees, and the community. These awards highlight the success we have achieved by providing superior service not only through our products and services, but also through offering a positive and healthy work environment for employees, and using financial education to provide our community with the tools needed to achieve financial stability and success.

As we look to 2017, we see a bright future in which MSUFCU will continue to solidify itself as a leader in the workplace, community, and the financial world.

On behalf of the Board of Directors, I would like to thank all of our loyal members, employees, and community partners for their contributions in helping to make 2016 a success.

Sincerely,

Bill Beekman
Chair of the Board

APRIL M. CLOBES

PRESIDENT/CEO

Dear Members,

2016 was an exceptional year for the Credit Union as we continued to grow and serve our members with outstanding personal service. In our recent member survey, our members indicated they are “very satisfied” with our service, which is reflected in the 97% satisfaction rate. Our members also continue to recognize the Credit Union’s commitment to their financial success and the achievement of their dreams by increasing their overall business with the Credit Union. As a financial cooperative owned by its members, MSUFCU can best serve all of its members when everyone is actively participating in the Credit Union.

This past year, we completed a merger with the $60 million-asset Clarkston Brandon Community Credit Union (CBCCU). This merger enabled the CBCCU members to continue to receive credit union services and access to their local branches. With the merger, we expanded our branch network in Oakland County, and now have four branches to serve our members in that area. We plan to add other locations in Oakland County over the next few years.

As in years past, in 2016, we continued our commitment to the communities where our members live and work. We hear from members each and every day about how much our commitment to nonprofit organizations means to them, and they tell us that it is due to our core value of giving back to the community that they choose to do business with us over other financial institutions. Helping to create a community that offers robust social services and access to arts and culture makes our region an attractive place for our employees and members to live, work, and play.

The Credit Union had another financially sound year, often outpacing the industry’s benchmarks. We ended 2016 with $3,412,722,511 in assets, member equity grew to $349,032,058, members maintained share accounts of $2,955,817,154, and loans to members reached $2,459,838,908. Every day, I hear positive comments from our members about their accounts and the service they receive at the Credit Union. Our members continue to grow their business with the Credit Union because of our outstanding service and the favorably priced savings and loans.

I look forward to coming to work every day to serve as your President/CEO and I appreciate hearing from all of you about how the Credit Union has positively impacted your lives. We have many exciting projects that will enhance your membership planned for 2017, including our 80th anniversary celebration — look for details coming soon!

Thank you for your continued membership and trust in MSUFCU.

Sincerely,

April M. Clobes
President/Chief Executive Officer

BOARD OF DIRECTORS

BACK ROW:
Bill Latta; Jack Brick; Sue Carter; Janet Lillie; Ernest Betts, Secretary; Michael Hudson

FRONT ROW:
Angela Brown, Vice Chair; Bill Beekman, Chair; Gregory Deppong, Treasurer

EXECUTIVE MANAGEMENT

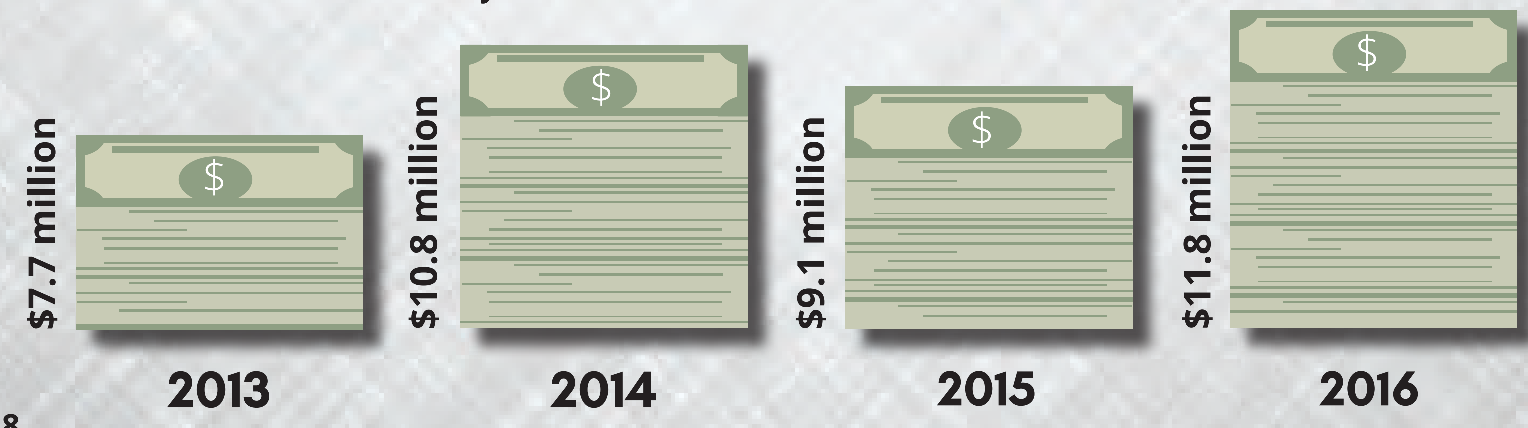
BACK ROW:
Jim Hunsanger, Silvia Dimma, Samantha Amburgey, Whitney Anderson-Harrell, Lea Ammerman, Jeff Jackson

FRONT ROW:
Sara Dolan, April Clobes, Deidre Davis

PROVIDING SUPERIOR SERVICE

MSUFCU is proud to provide superior service to our members. In fact, it's one of the Credit Union's core values. Our efforts aren't limited to transactions — we also help members save money in interest and approve them for loans when they're in need. We provide a friendly and helpful atmosphere when members interact with us, whether at a branch, over the phone, or online through live chat.

We've saved our members nearly $40 million in interest since 2013.



ASSISTING OUR MEMBERS

ATM TRANSACTIONS
4,484,887

BILL PAYMENTS
903,150

BRANCH TRANSACTIONS
5,039,266

CALL CENTER CALLS
657,389

COMPUTERLINE LOGINS
8,789,422

eDEPOSITS
680,839

EMAILS/CHATS
234,931

MOBILE APP LOGINS
11,025,971

TOTAL TRANSACTIONS
33,291,703

MEMBER FEEDBACK

"Christmas was almost ruined when we learned that our hot water heater was broken and we were expecting 15 guests at our house. MSUFCU helped us get a loan just in time to pick up the new hot water heater before they arrived!"

"I love MSUFCU! I have been with you since I was in college and you have helped me grow from a college kid to an adult supporting a family with a mortgage and car payments. You always have my family's best interests at heart, and I can see now why people stay with you for a lifetime!"

NEW PRODUCTS & SERVICES

EMV Chip Cards

We introduced chip technology for our Visa Debit and Credit Cards. Chips are encrypted, providing increased security and fraud protection for our members.

Non-owner Occupied Mortgages

First mortgages on non-owner occupied homes are now available for members. This typically includes investment properties. Additionally, we are now able to offer home equity loans and lines of credit on non-owner occupied homes.

PIN Reset

To change PINs for Visa Credit and Debit Cards, members can sign into ComputerLine or the mobile app. This new method allows members to change their PINs at their convenience.

Samsung/Android Pay™

Members can conveniently pay for items at millions of merchants using their Samsung or Android™ phones by linking their Credit Union Visa Debit or Credit Cards to their digital wallets. Additionally, our Android™ mobile app was updated to feature a safe and secure way for Android™ users to easily access their online accounts by signing in with the touch of a finger.

Redesigned Website

Our redesigned websites (msufcu.org and oucreditunion.org) are now more intuitive and allow for an enhanced user experience.

Saving Draggy App

In collaboration with GEL Lab students at MSU, we created the Saving Draggy app for children ages 5–10 to have fun while learning about saving money.

On June 9, 2015, we broke ground on the second building on our headquarters campus. Shown below, the last beam was placed into the frame of the building during our Topping Out ceremony on May 24, 2016.

GROWTH

MSUFCU experienced tremendous growth this past year. To continue providing superior service to our growing membership, we began construction on the second building on our headquarters campus in 2015, and will complete it in the summer of 2017. We have used energy-efficient materials and sustainable resources throughout construction, and will be applying for Gold Leadership in Energy and Environmental Design (LEED) certification. LEED emphasizes the strategies for sustainable site development, water savings, energy efficacy, material selections, and indoor environmental quality.

The 186,000-square-foot structure will have three floors and a lower level, which will include a community room with seating for up to 300 people. This building will house three departments (Call Center, eServices, and IT) that provide superior service to our members. In 2017, we are on pace to receive nearly 1,000,000 phone calls in the Call Center and nearly 300,000 chats and messages in eServices. Additionally, our IT department designs, builds, and tests our mobile apps, websites, and software applications.

The new building will enable us to further assist members and enhance our service offerings. Without the support of our members who have chosen to finance their home and vehicle loans, and invest in our various savings programs with MSUFCU, our continual growth would not be possible.

In 2016, we:

- employed 723 people
- hired 190 new employees
- created 62 jobs

OUR MERGER WITH CBCCU

MSUFCU had many new beginnings and opportunities in 2016. In March, we merged in Clarkston Brandon Community Credit Union (CBCCU). Because of this merger, both former CBCCU members and MSUFCU members in the area may enjoy our products and services through our Call Center, eServices, and at the two newly renovated branches that were acquired in the merger. The Clarkston and Ortonville branches serve over 8,500 former CBCCU members and over 34,000 existing MSUFCU members who live in the area.

As a result of the merger, we are able to offer membership to anyone who lives, works, worships, attends school, or has a business in Genesee, Lapeer, Livingston, Macomb, or Oakland counties. Over 2.5 million people in Metro Detroit now have access to our superior service and products.

Employees working at our Clarkston branch

8,000 members live within five miles of the Clarkston and Ortonville branches

34,000 members live in Genesee, Lapeer, Livingston, Macomb, and Oakland counties

GRAND OPENINGS

We were excited to hold the grand openings for the Financial Innovation and Education Center (FIEC) — our intern center — and the two newly remodeled branches in Oakland County that we acquired through our merger with Clarkston Brandon Community Credit Union.

At the FIEC, interns work on projects for the Member Relations and Financial Education departments, gaining experience and knowledge in Credit Union products and services. The FIEC is conveniently located on Grand River Avenue across from MSU's campus with flexible hours, enabling students to tailor their internships to schedules that work for them.

FIEC
April 27, 2016

Clarkston
November 29, 2016

Ortonville
November 29, 2016

Our partnership with Oakland University (OU) began in the 1950s. In 2013, OU Credit Union opened as a trade name of MSUFCU when the Credit Union became the official financial services partner of Oakland University. We continue to enhance our partnership by offering OU Credit Union Visa Debit and Credit Card designs, a mobile app, an on-campus branch, and several on-campus ATMs.

OU CREDIT UNION GROWTH

678

OU CREDIT UNION
VISA CREDIT CARDS
OPENED

1,054

NEW
OAKLAND UNIVERSITY
STUDENT MEMBERS

1,290

NEW OU
CREDIT UNION
MEMBERS

1,659

OU CREDIT UNION
MOBILE APP
DOWNLOADS

45

OU ACHIEVE
PRESENTATIONS BY
FINANCIAL EDUCATION

56

FINANCIAL EDUCATION
EVENTS IN THE BRANDON
SCHOOL DISTRICT

Employees volunteering at the Small Talk Children's Assessment Center Annual Auction

COMMUNITY INVOLVEMENT

From MSU and OU, to the tri-county area and Metro Detroit, we work to make our communities better. Through sponsorships and partnerships, employees attend, volunteer, and work at various charitable and community events. In 2016, they volunteered at the Capital Area Humane Society's Walk for the Animals to raise funds for the shelter, helped take down equipment at the annual Hidden Key Fashion Show to support cancer research, supported Lansing-area organizations by running in the Capital City River Run, worked at the Nuestros Cuentos Art Exhibit where members of MSU's College Assistance Migrant Program and local students shared their stories and art, awarded medals to children who participated in the Sparrow Michigan Mile KIDSPRINT, and helped with the Small Talk Children's Assessment Center Annual Auction.

Throughout 2016, employees logged over 1,200 hours of volunteer time.

Walk for the Animals
Benefits the Capital Area Humane Society

Capital City River Run
Benefits Impression 5 Science Center, Lansing Promise, Friends of the Lansing River Trail, and Team Lansing Foundation

Sparrow Michigan Mile
KIDSPRINT encourages getting fit and having fun


Detroit
Free
Press
TOP

2016 DISTINCTIONS

American Heart Association
Gold Award
Fit-Friendly Worksite

Credit Union Journal
#5 Best Credit Union to Work For in $1 billion+ in assets category

Detroit Free Press
#1 in the Large Employer Category
Top Workplaces

Detroit Free Press Top Workplaces Leadership Award
CEO: April Clobes

Fortune
One of the 50 Best Workplaces for
New College Grads

ONE OF 100 BEST
Medium Workplaces
FORTUNE

Great Place
One of the Great Places to Work
to Work

Lansing Regional Chamber of Commerce
Celebration of Regional Growth
Award

Michigan Business
Elite Overall West Michigan's Best & Brightest Companies to Work For® Best of the Best
& Professional Association

Michigan Business & Professional Association
One of the Nation's Best and Brightest Companies
To Work For

National Association for Business Resources
Michigan & National Best & Brightest

National Youth Involvement Board
5th Nationally for Financial Education

2016 MSUFCU COMMITTEES

ASSET LIABILITY MANAGEMENT COMMITTEE MEMBERS

The Asset Liability Management Committee (ALCO) monitors the Credit Union's interest rate risk, liquidity position, investment portfolio, and key ratios. ALCO also analyzes new products, pricing strategies, and the impact of changing interest rates on MSUFCU's financial and competitive position.

Jack Brick | Co-chair, Board Liaison
Angela Brown | Board Liaison
Thomas Cooper
Gregory Deppong | Board Liaison
Antonio Doblas-Madrid
Nancy Hollis
Robert Patterson
Jeff Williams

April Clobes
Sara Dolan | Co-chair
Jim Hunsanger
Jeff Jackson

SUPERVISORY COMMITTEE MEMBERS

The Supervisory Committee protects our membership by enforcing bylaws, overseeing internal and external audits, and hiring external financial statement auditors. Doing so, they review information far beyond established federal regulations.

Sarah Blanck
Steve Kurncz
Liz Lawrence
Janet Lillie | Board Liaison
Francisco Villarruel
Kristine Zayko | Chair

April Clobes
Robert Johnson

2016 AMBASSADORS

MICHIGAN STATE UNIVERSITY AMBASSADORS

Kim Allan
Kim Arthur
Elaine Bailey
Diane Barker
Audree Baxter
Bill Beekman
Bridget Behe
Ernest Betts
Cherie Booms
Jack Brick
Jeff Brodie
Angela Brown
Blair Bullard
Trace Camacho
Terry Cannon
Christine Carter
Sue Carter
Stella Cash
Zachary Constan
Kat Cooper
Douglas Cron
Carmellia Davis-King
Kathleen Deneau
Ken Deneau
Sue Depoorter
Gregory Deppong
Lynne Devereaux
Lisa Dunlap
Jodee Fortino
Natisha Foster
Karen Grannemann
Marilee Griffith
Jodi Hancock
Rosemarie Harman
Mary Lou Heberlein
Paul Heberlein
Lisa Hinds
Charles Hornburg
Angela Howard-Montie
Cheryl Howell
Michael Hudson
Laurie Huntley
Darlene Johnson
Erin Johnson
Ed Karazim
Fred Kayne
Sally Keisling
Darrell King
Michael Kolar
Denni Kraft
Bill Latta
Rhonda Lienhart
Janet Lillie
Angela Matlock
Dean Matsudo
Denise Maybank
Chandos McCoy
Matt McKune
June Messner
Robert Meyer
Kathleen Mills
Carol Noud
Melony Peabody
Karyn Pearl
Debbie Powell
Marilyn Powell
Marcia Ratliff
Sonya Ribnicky
John Roberts
Judith Salminen
Angelica Santos
Mary Schwalm
Lori Senecal
Nina Silbergleit
Cristine Stock
Lori Strom
Laurel Switzenberg
Paula Terzian
Bob Thomas
Victoria Tryban
Marsha Walsh
Susan Waltersdorf
S. Faye Watson
Jeff Williams
Keith Williams
Nancy Yeadon

2016 AMBASSADORS

OAKLAND UNIVERSITY AMBASSADORS

David Archbold
Dawn Aubry
Scott Barns
Nancy Barton-Kenney
Lorna Bearup
David Birkholz
Charles Brown
Sheila Carpenter
Virginia Cloutier
Eric Condic
Ann Dunlop
Pieter Frick
Sandy Gabert
Kitty Gentile
Frank Giblin
Geraldine Graham
Cora Hanson
Robert Hanson
Susan Hartman
Greg Jordan
Ellen Keaton
Sandy Kern
Bonnie Koch
Kelly Lenda
Julie McCarrel
Barbara McDowell
Kimberly McWain
Deborah Middlebrook
Jean Ann Miller
George Preisinger
Katherine Rowley
Gail Ryckman
Laura Schartman
Val Schnable
Maura Selahowski
Leigh Settlemoir Dzwik
Steven Shablin
Tammye Stoves
Linda Switzer
Mohan Tanniru
Ronald Tracy
Chris Turkopp
Geoffrey Upward
David Vartanian
Tricia Westergaard
Hazen Wilcox

MSUFCU LOCATIONS

WE'RE HERE TO SERVE YOU!

East Lansing
3777 West Road
4825 E. Mt. Hope Road
523 E. Grand River Avenue
MSU Union, 49 Abbot Road, Room #108

Lansing
653 Migaldi Lane
200 E. Jolly Road
104 S. Washington Square
Sparrow Professional Building,
1200 E. Michigan Avenue, Suite 300

Okemos
1775 Central Park Drive
2300 Jolly Road

Haslett
16861 Marsh Road

Mason
1133 S. Cedar Street

Charlotte
180 High Street

Auburn Hills
3265 Five Points Drive

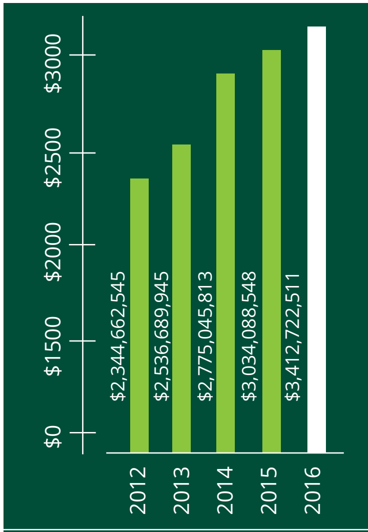
Rochester
2200 N. Squirrel Road

Ortonville
4 South Street

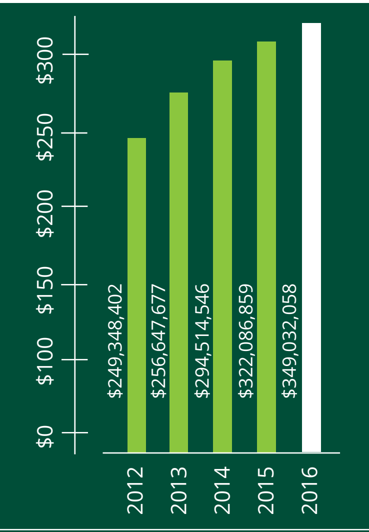
Clarkston
8055 Ortonville Road

Grand Rapids - Coming Soon!
86 Monroe Center Street NW

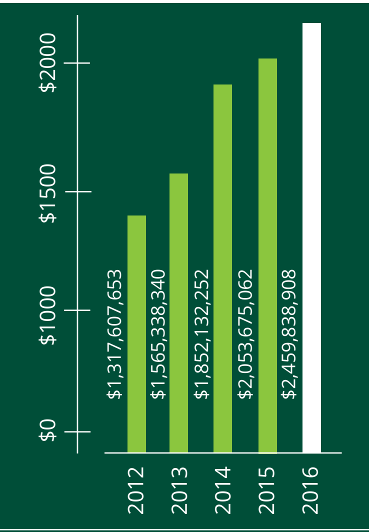
2016 STATEMENT OF FINANCIAL CONDITION



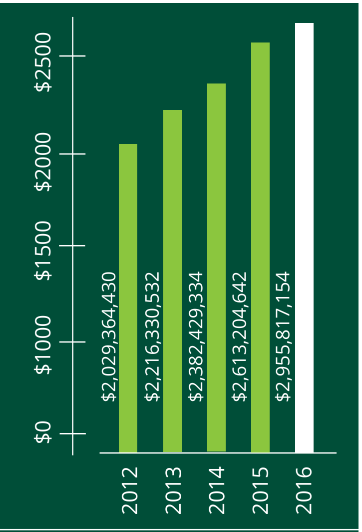
Total Assets



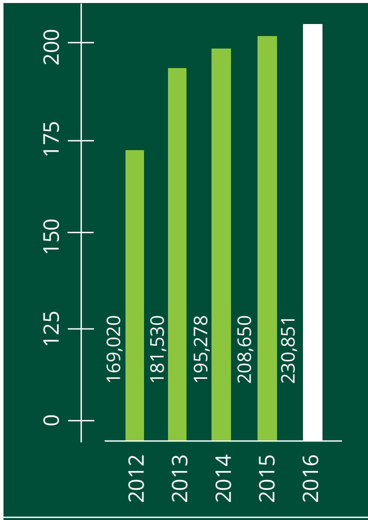
Total Reserves



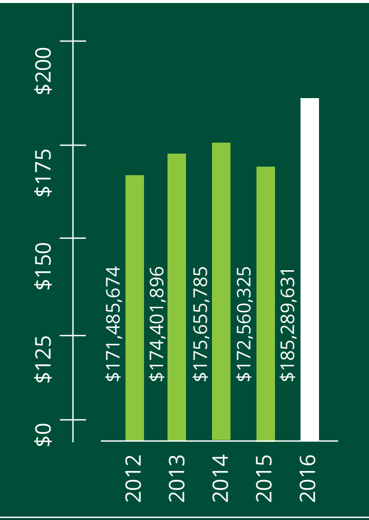
Loans Outstanding (net)



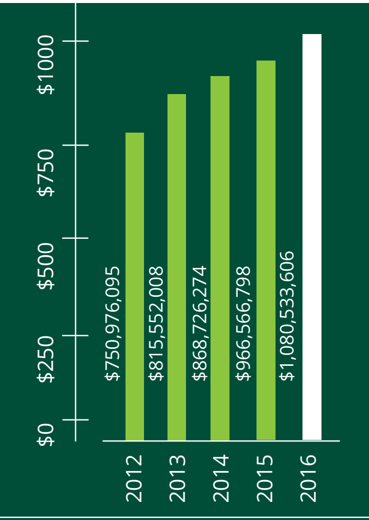
Total Shares



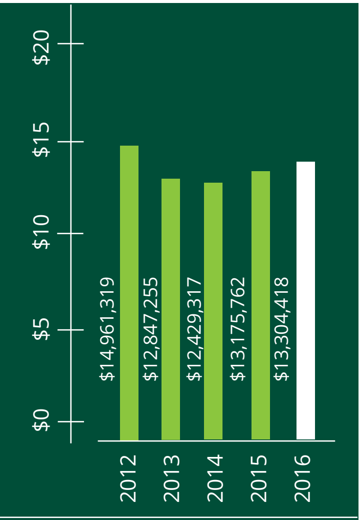
Membership



IRAs*



IMMAs



Dividends Paid, All Savings

*IRAs consist of IMMAs and Share Certificates

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Michigan State University Federal Credit Union
Lansing, Michigan

We have audited the accompanying financial statements of Michigan State University Federal Credit Union (the "Credit Union"), which comprise the statement of financial condition as of December 31, 2016 and the related statements of income and comprehensive income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University Federal Credit Union as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Financial Statements
The financial statements of Michigan State University Federal Credit Union as of December 31, 2015 were audited by other auditors, whose report dated February 16, 2016 expressed an unmodified opinion on those statements.

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC
St. Joseph, Michigan
February 1, 2017

STATEMENT OF FINANCIAL CONDITION

	AT YEAR END December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 144,615,280	$ 152,725,110
Time deposits with other financial institutions	62,946,446	46,308,000
Investment Securities - Available for sale (Note 3)	528,416,707	598,349,092
Other investments	8,652,900	8,350,400
Loans to members - Net (Note 4)	2,459,838,908	2,053,675,062
Premises and equipment - Net (Note 5)	120,178,462	103,674,566
Goodwill (Note 14)	8,092,321	-
Business-owned life insurance	34,781,925	33,303,396
NCUSIF deposit	25,783,173	23,200,028
Other assets	19,416,389	14,502,894
Total assets	**$ 3,412,722,511**	**$ 3,034,088,548**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share and savings accounts (Note 6)	$ 2,955,817,154	$ 2,613,204,642
Borrowings (Note 7)	50,000,000	55,000,000
Post retirement benefit obligations (Note 9)	28,155,083	22,286,963
Accrued expenses and other liabilities	29,718,216	21,510,086
Total liabilities	3,063,690,453	2,712,001,691
Members' equity	349,032,058	322,086,859
Total liabilities and members' equity	**$ 3,412,722,511**	**$ 3,034,088,550**

See notes to financial statements.

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEARS ENDED December 31, 2016	YEARS ENDED December 31, 2015
Interest income		
Loans - Including fees	$ 111,007,276	$ 99,563,022
Investment securities	9,424,667	9,055,859
Interest-bearing balances with other financial institutions	269,197	174,672
Total interest income	120,701,140	108,793,553
Interest expense		
Members' share and savings accounts	13,304,418	13,175,763
Borrowings	1,681,921	1,916,414
Total interest expense	14,986,339	15,092,177
NET INTEREST INCOME	105,714,801	93,701,376
Provision for loan losses (Note 4)	12,643,378	12,461,096
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	93,071,423	81,240,280
Noninterest income		
Fees and charges	14,500,459	13,338,320
VISA interchange	19,756,388	17,599,606
Other	3,133,973	2,914,988
Total noninterest income	37,390,820	33,852,914
Noninterest expense		
Salaries and employee benefits	48,276,879	43,361,686
Occupancy	7,315,195	6,630,015
Operating expenses	41,195,655	36,251,043
Other	2,172,631	1,313,769
Total noninterest expense	98,960,360	87,556,513
NET INCOME	**$ 31,501,883**	**$ 27,536,681**

See notes to financial statements.

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEARS ENDED December 31, 2016	YEARS ENDED December 31, 2015
NET INCOME	**$ 31,501,883**	**$ 27,536,681**
Other Comprehensive (Loss) Income		
Unrealized loss on securities:		
Arising during the year	(369,506)	(1,438,494)
Reclassification adjustment	(248,886)	(272,141)
Total unrealized loss on securities	(618,392)	(1,710,635)
Postretirement benefit plan:		
Net (loss) gain arising during the year	(4,409,304)	1,130,234
Reclassification adjustment - Net actuarial loss	471,012	616,033
Total postretirement benefit plan	(3,938,292)	1,746,267
Total other comprehensive (loss) income	(4,556,684)	35,632
COMPREHENSIVE INCOME	**$ 26,945,199**	**$ 27,572,313**

See notes to financial statements.

STATEMENT OF MEMBERS' EQUITY

	REGULAR RESERVE	EQUITY ACQUIRED IN MERGERS	UNDIVIDED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
BALANCE — JANUARY 1, 2015	$17,980,012	$3,825,906	$286,993,412	$(14,284,784)	$294,514,546
Comprehensive Income:					
Net income	-	-	27,536,681	-	27,536,681
Unrealized loss on securities	-	-	-	(1,710,635)	(1,710,635)
Postretirement benefit plan	-	-	-	1,746,267	1,746,267
BALANCE — DECEMBER 31, 2015	17,980,012	3,825,906	314,530,093	(14,249,152)	322,086,859
Comprehensive Income:					
Net income	-	-	31,501,883	-	31,501,883
Unrealized loss on securities	-	-	-	(618,392)	(618,392)
Postretirement benefit plan	-	-	-	(3,938,292)	(3,938,292)
BALANCE — DECEMBER 31, 2016	**$17,980,012**	**$3,825,906**	**$346,031,976**	**$(18,805,836)**	**$349,032,058**

See notes to financial statements.

STATEMENT OF CASH FLOWS

	YEARS ENDED	
	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$31,501,883	$27,536,681
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	8,804,703	8,377,452
Provision for loan losses	12,643,378	12,461,096
Net amortization of securities	3,287,764	3,580,998
Net gain on sale of available-for-sale securities	(248,886)	(272,141)
Loss on sale of premises and equipment	42,669	-
Earnings on business-owned life insurance	(987,592)	(979,511)
Actuarial loss on postretirement benefit liability	1,929,828	2,139,781
Net change in:		
Other assets	3,082,440	1,510,359
Accrued expenses and other liabilities	8,208,130	5,301,602
Net cash provided by operating activities	**68,264,317**	**59,656,317**
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Sales	19,638,810	28,556,687
Maturities, principal paydowns, prepayments, and calls	166,006,389	96,868,554
Purchases	(119,394,339)	(123,472,299)
Net change in loans	(393,462,669)	(215,808,086)
Additions to premises and equipment	(28,520,135)	(19,798,974)
Proceeds and redemptions of other investments	104,327	1,001,300
Proceeds from time deposits with other institutions	46,656,079	50,610,000
Purchases of time deposits in other institutions	(60,000,000)	(68,472,000)
Increase in NCUSIF deposit	(1,979,928)	(2,305,980)
Proceeds from surrender of business-owned life insurance	967,851	-
Proceeds from sale of premises and equipment	4,948,226	-
Purchases of business-owned life insurance	(44,470)	-
Net cash received from merger	9,524,779	-
Net cash used in investing activities	(355,555,080)	(252,820,798)

See notes to financial statements.

STATEMENT OF CASH FLOWS

	YEARS ENDED December 31, 2016	YEARS ENDED December 31, 2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	284,180,933	230,775,306
Repayment of Federal Home Loan Bank advances	(5,000,000)	(5,000,000)
Net cash provided by financing activities	279,180,933	225,775,306
Net (Decrease) Increase in Cash	(8,109,830)	32,610,825
Cash and Cash Equivalents - Beginning of year	152,725,110	120,114,285
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 144,615,280**	**$ 152,725,110**
Supplemental cash flow information		
Cash paid for:		
Interest	$14,997,743	$15,103,390
Transfers from loans to other real estate owned	$2,097,366	2,034,992
Transfers of other real estate owned to loans	91,200	230,812

See notes to financial statements.

NOTE 1 - Nature of Business

Michigan State University Federal Credit Union (the "Credit Union") is a federally chartered credit union regulated by the National Credit Union Administration and insured by the National Credit Union Share Insurance Fund. The Credit Union operates branches in the metropolitan Lansing and Oakland County areas.

The Credit Union grants consumer loans (including credit card loans), various types of mortgage loans, and business loans to its members. The Credit Union's primary field of membership includes students, alumni, and employees of Michigan State University and Oakland University. Oakland University is served under the registered trade name Oakland University Credit Union. The majority of member loans are secured by collateral, including, but not limited to, members' shares, vehicles, real estate, and other consumer assets. Deposit services include interest-bearing and noninterest-bearing checking accounts, savings accounts, money market accounts, certificates, and IRAs. Other services include mobile applications and computer and telephone transactions as well as automated teller machines.

NOTE 2 - Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with other financial institutions, federal funds sold, and interest-bearing deposits with other financial institutions with original maturities of 90 days or less. Net cash flows are reported for member loan and share accounts.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions consist of nonmembership capital deposits with corporate credit unions with contractual maturities of seven years or less.

Securities

Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income and as a separate component of members' equity. Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other Investments

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) of Indianapolis, is required to maintain an investment in the capital stock of the FHLB. The Credit Union held $7,563,600 of FHLB capital stock at December 31, 2016 and 2015. The stock is redeemable at par by the FHLB and is therefore carried at cost and periodically evaluated for impairment. The Credit Union records cash and stock dividends in interest income - investment securities on the statement of income and comprehensive income.

Other investments also include the Credit Union's investment in Alloya Corporate Credit Union's (Alloya) permanent capital base, which is required to be maintained for full participation as a member of the credit union. The deposit was $1,089,300 and $786,800 as of December 31, 2016 and 2015, respectively. The deposit is not insured by the NCUSIF. Interest on the deposit is paid quarterly based on available earnings at interest rates approved by Alloya's board of directors. In the event a member credit union withdraws from Alloya, the deposit would be repaid in one installment three years after notice of withdrawal is given.

Loans

The Credit Union grants mortgage, commercial, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the metropolitan Lansing and Oakland County areas. The ability of the Credit Union's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated

NOTE 2 - Significant Accounting Policies (continued)

loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan's yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. If a loan is returned to accrual, the interest payments previously received continue to be reported as a reduction of the unpaid principal balance until the loan is paid off, at which time the interest payments are recognized in interest income.

Allowance for Loan Losses

The allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of both specific and general reserve components. The specific component relates to loans that are classified as impaired. A specific allowance is established for impaired loans when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and mortgage loans for impairment disclosures unless the loan is a troubled debt restructuring.

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Credit Union, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Credit Union would not otherwise consider. To make this determination, the Credit Union must determine whether (a) the borrower is experiencing financial difficulties and (b) the Credit Union granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at the fair value of the real estate, less estimated costs to sell, through a charge to the allowance for loan losses, if necessary. Subsequent to foreclosure, valuations are periodically performed by management and write- downs required by changes in

NOTE 2 - Significant Accounting Policies (continued)

estimated fair value are charged against earnings through a valuation allowance and reported in other noninterest expenses. The carrying value of foreclosed assets, included in other assets on the statement of financial condition, was $842,209 and $1,027,843 as of December 31, 2016 and 2015, respectively.

Premises and Equipment
Land and land improvements are carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the lease term or the life of the leasehold improvements.

Business-owned Life Insurance
The Credit Union has purchased life insurance policies on certain key officers. Business-owned life insurance is recorded at its cash surrender value or the amount that can be realized upon immediate liquidation.

Goodwill
The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment.

No impairment charge was recognized during the year ended December 31, 2016. It is reasonably possible that management's estimates of the carrying amount of goodwill will change in the near term.

NCUSIF Deposit
The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1 percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, its converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA board.

Members' Share and Savings Accounts
Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share accounts is based on the available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by management and approved by the board of directors based on an evaluation of current and future market conditions.

Members' Equity
The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes
The Credit Union is exempt, by statute, from federal and state income taxes.

Other Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities and amounts recognized related to postretirement benefit plans (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the equity section of the statement of financial condition. Such items, along with net income, are considered components of comprehensive income.

Loan Commitments and Related Financial Instruments
Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and business letters of credit, issued to meet member financing needs. The face amount for these items represents the exposure to loss before considering member collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements at December 31, 2016 and 2015.

Upcoming Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Credit

NOTE 2 - Significant Accounting Policies (continued)

Union's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Credit Union has not yet determined which application method it will use. The Credit Union is in the process of evaluating the impact of the new standard on the financial statements.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosures related to certain financial instruments, including requiring equity investments to be accounted for at fair value with changes recorded through earnings, the use of the exit price when measuring fair value, and disaggregation of financial assets and liabilities by category for disclosure purposes. The new guidance will be effective for the Credit Union's year ending December 31, 2019. Early adoption is permitted as early as periods ending after December 31, 2017 with some additional options for early application such as the elimination of the requirement for nonpublic business entities to disclose the methods and significant assumptions used to estimate the disclosed fair value of financial instruments. The Credit Union adopted the provision by which it eliminated the disclosure of fair value of its financial instruments in these financial statements. The Credit Union does not believe adopting the remaining provisions of ASU No. 2016-01 in the future will have a material impact on the financial statements. The Credit Union has not yet quantified the impact of the change.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Credit Union's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on the Credit Union's financial statements as a result of the leases classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Credit Union's loans and available-for-sale debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Credit Union's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Credit Union is still quantifying the impact of the new standard.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 1, 2017, which is the date the financial statements were available to be issued.

NOTE 3 - Investment Securities

The amortized cost and fair value of securities available for sale and gross unrealized gains and losses recognized in accumulated and other comprehensive loss at December 31 are as follows:

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. government and federal agency obligations	$289,049,825	$252,686	$(819,345)	$288,483,166
Mortgage-backed securities — Residential	245,887,264	69,016	(6,022,739)	239,933,541
Total available-for-sale securities	$534,937,089	$321,702	$(6,842,084)	$528,416,707
2015				
Bonds:				
U.S. government and federal agency obligations	$320,736,119	$267,714	$(643,007)	$320,360,826
Mortgage-backed securities — Residential	283,505,298	130,453	(5,647,485)	277,988,266
Total available-for-sale securities	$604,241,417	$398,167	$(6,290,492)	$598,349,092

At December 31, 2016 and 2015, securities with a carrying value of approximately $509,371,000 and $584,982,000, respectively, were pledged as collateral to secure borrowed funds.

The contractual scheduled maturities of securities available for sale at December 31, 2016 are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$130,032,745	$130,183,760
Due in one through five years	159,017,080	158,299,406
Mortgage-backed securities — Residential	245,887,264	239,933,541
Total	$534,937,089	$528,416,707

NOTE 3 - Investment Securities
(continued)

Proceeds from sales of investment securities were $19,638,810 and $28,556,687, gross realized gains were $248,886 and $272,141, and there were no gross realized losses for the years ended December 31, 2016 and 2015, respectively.

Information pertaining to investment securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER	
2016	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Bonds:				
U.S. Government and federal agency obligations	$(819,345)	$134,205,790	$ -	$ -
Mortgage-backed securities — Residential	(4,213,525)	173,877,886	(1,809,214)	46,298,182
Total	$(5,032,870)	$308,083,676	$(1,809,214)	$46,298,182
2015				
Bonds:				
U.S. Government and federal agency obligations	$(643,007)	$204,438,586	$ -	$ -
Mortgage-backed securities — Residential	(1,735,798)	123,927,185	(3,911,687)	120,976,317
Total	$(2,378,805)	$328,365,771	$(3,911,687)	$120,976,317

Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair values are expected to recover as the bonds approach their maturity dates.

NOTE 4 - Loans to Members

A summary of the balances of loans follows:

	2016	2015
Consumer	$1,234,470,339	$1,002,526,291
Residential real estate	1,123,342,354	960,201,391
Commercial	119,085,389	106,433,112
Total loans	2,476,898,082	2,069,160,794
Less allowance for loan losses	19,240,365	17,082,615
Plus net deferred loan costs	2,181,191	1,596,883
Net loans	$2,459,838,908	$2,053,675,062

In the ordinary course of business, the Credit Union has granted loans to executive officers, supervisory committee members, and directors and their affiliates amounting to approximately $2,746,000 and $2,997,000 as of December 31, 2016 and 2015, respectively.

The Credit Union's activity in the allowance for loan losses for the years ended December 31, 2016 and 2015, by loan segment, is summarized below and on the next page:

Year Ended December 31, 2016	Consumer	Mortgage	Business	Total
Beginning balance	$ 12,527,553	$ 2,709,229	$ 1,845,833	$ 17,082,615
Charge-offs	(11,729,318)	(478,283)	(180,527)	(12,388,128)
Recoveries	1,823,916	78,584	-	1,902,500
Provision	12,036,126	(62,901)	670,153	12,643,378
Ending balance	$ 14,658,277	$ 2,246,629	$ 2,335,459	$ 19,240,365
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$946,594	$ -	$ 946,594
Collectively evaluated for impairment	14,658,277	1,300,035	2,335,459	18,293,771
Ending allowance balance:	$ 14,658,277	$ 2,246,629	$ 2,335,459	$ 19,240,365
Loans:				
Individually evaluated for impairment	$ -	$ 4,456,415	$ -	$ 4,456,415
Collectively evaluated for impairment	$1,234,470,339	1,118,885,939	119,085,389	2,472,441,667
Total loans	$1,234,470,339	$1,123,342,354	$ 119,085,389	$2,476,898,082

NOTE 4 - Loans to Members
(continued)

Year Ended December 31, 2015	Consumer	Mortgage	Business	Total
Beginning balance	$ 10,126,264	$ 3,642,963	$ 1,399,648	$ 15,168,875
Charge-offs	(10,891,203)	(1,068,676)	(89,015)	(12,048,894)
Recoveries	1,397,397	104,141	-	1,501,538
Provision	11,895,095	30,801	535,200	12,461,096
Ending balance	$ 12,527,553	$ 2,709,229	$ 1,845,833	$ 17,082,615
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$602,000	$ -	$ 602,000
Collectively evaluated for impairment	12,527,553	2,107,229	1,845,833	16,480,615
Ending allowance balance:	$ 12,527,553	$ 2,709,229	$ 1,845,833	$ 17,082,615
Loans:				
Individually evaluated for impairment	$ -	$ 3,669,000	$ -	$ 3,669,000
Collectively evaluated for impairment	$1,002,526,291	956,532,391	106,433,112	2,065,491,794
Total loans	$1,002,526,291	$960,201,391	$106,433,112	$2,069,160,794

As of December 31, 2016 and 2015, the Credit Union had 18 and 28 loans with a balance of approximately $2,036,000 and $3,669,000, respectively, considered to be troubled debt restructurings (TDRs). These loans are classified as impaired loans and individually evaluated for impairment. Most of these loans were first mortgage loans. The allowance allocated to these loans at year end 2016 and 2015 is $322,025 and $602,000, respectively. In almost all cases, these loans are delinquent and being provided for in the allowance for loan losses computation, and, as a result, the restructuring of these loans did not add a material amount to the allowance for loan losses upon their modification. Modifications agreed to by the Credit Union consisted of term extensions and lowered interest rates. No principal and interest was forgiven. During 2016 and 2015, loans classified as troubled debt restructurings that ultimately defaulted were not material to the financial statements.

The Credit Union also classifies delinquent residential real estate loans as impaired loans and individually evaluates these for impairment. As of December 31, 2016 and 2015, these delinquent loans had a balance of $2,420,000 and $1,391,000, respectively.

Credit Quality Indicators
The credit quality indicators used for monitoring performance by the Credit Union are primarily performance-based and include past-due status and nonaccrual status.

NOTE 4 - Loans to Members (continued)

Age Analysis of Past-due Loans
The Credit Union's age analysis of past-due loans at December 31, 2016 and 2015, by loan segment and class, is summarized below:

2016	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans
CONSUMER						
Secured	$7,810,060	$2,667,576	$2,890,408	$13,368,044	$820,551,513	$833,919,557
Unsecured	3,050,108	882,006	1,825,662	5,757,776	336,135,729	341,893,505
Other	388,314	125,100	438,926	952,340	57,704,937	58,657,277
MORTGAGE						
First mortgage	3,822,115	662,211	2,103,436	6,587,762	982,662,059	989,249,821
Home equity	431,562	177,884	244,626	854,072	133,238,461	134,092,533
BUSINESS	70,128	-	38,444	108,572	118,976,817	119,085,389
Total	$15,572,287	$4,514,777	$7,541,502	$27,628,566	$2,449,269,516	$2,476,898,082

2015	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans
CONSUMER						
Secured	$5,873,648	$2,374,851	$2,934,559	$11,183,058	$628,212,671	$639,395,729
Unsecured	2,952,281	981,973	1,780,577	5,714,831	312,685,908	318,400,739
Other	436,285	256,442	151,167	843,894	43,885,929	44,729,823
MORTGAGE						
First mortgage	4,289,682	1,459,462	2,528,962	8,278,106	828,118,302	836,396,408
Home equity	361,786	209,181	212,462	783,429	123,021,554	123,804,983
BUSINESS	123,819	92,872	435,847	652,538	105,780,574	106,433,112
Total	$14,037,501	$5,374,781	$8,043,574	$27,455,856	$2,041,704,938	$2,069,160,794

There were no loans past due greater than 90 days and accruing interest as of December 31, 2016 and 2015.

Loans on which the accrual of interest has been discontinued amounted to approximately $7,542,000 and $8,044,000 at December 31, 2016 and 2015, respectively. If interest on these loans had been accrued, such income would have been approximately $220,000 and $250,000 at December 31, 2016 and 2015, respectively. Impaired loans are not material to the financial statements as of December 31, 2016 and 2015.

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2016 and 2015.

NOTE 4 - Loans to Members (continued)

Nonaccrual Loans

The Credit Union's loans on nonaccrual status at December 31, 2016 and 2015, by loan segment and class, are summarized below:

	2016	2015
CONSUMER		
Secured	$2,890,408	$2,934,559
Unsecured	1,825,662	1,780,577
Other	438,926	151,167
MORTGAGE		
First mortgage	2,103,436	2,528,962
Home equity	244,626	212,462
BUSINESS	38,444	435,847
Total	$7,541,502	$8,043,574

NOTE 5 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2016	2015
Land	$15,490,714	$14,746,802
Buildings and building improvements	76,773,866	87,854,598
Furniture, fixtures, equipment, and software	39,134,095	46,006,256
Leasehold improvements	3,306,718	2,536,251
Construction in progress	32,200,954	10,490,835
Total cost	166,906,347	161,634,742
Accumulated depreciation	(46,727,885)	(57,960,176)
Net premises and equipment	$120,178,462	$103,674,566

Premises and equipment include approximately $32,011,000 of capitalized costs related to the construction of the Credit Union's second office facility on the headquarters campus, expected to be completed and placed into service in 2017 with a total investment of approximately $48,700,000.

The Credit Union leases certain branch offices. One of the lease commitments is with Michigan State University and expires in 2021.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2016 pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending	Amount
2017	$236,276
2018	201,735
2019	201,428
2020	188,393
2021	112,726
Total	$940,558

The land on which a branch location is located is leased from Michigan State University for $1. The lease expires in the year 2110. The cost of such rentals is not included above. Total rent expense was approximately $231,000 and $189,000 during 2016 and 2015, respectively.

NOTE 6 - Members' Shares and Savings Accounts

A summary of members' share and savings accounts at December 31 is as follows:

	2016	2015
Regular shares	$451,426,942	$358,415,384
Share draft	447,766,744	393,149,585
Money market checking	60,158,381	46,034,117
Insured money management accounts	1,080,533,606	966,266,798
Business deposits	179,304,341	147,706,955
Share certificates	736,627,140	701,631,801
Total members' share and savings accounts	$2,955,817,154	$2,613,204,640

The aggregate amounts of members' share and savings accounts in denominations of $250,000 or more at December 31, 2016 and 2015 were approximately $66,437,000 and $56,220,000, respectively.

NOTE 6 - Members' Shares and Savings Accounts (continued)

At December 31, scheduled maturities of share certificates are as follows:

Years Ending	Amount
2017	$319,457,006
2018	136,728,144
2019	110,593,265
2020	65,317,326
2021	94,392,022
Thereafter	10,139,377
Total	$736,627,140

In the normal course of business, the Credit Union's directors, supervisory committee members, and executive officers maintain deposit accounts. The total amount of these shares at December 31, 2016 and 2015 was approximately $1,565,000 and $1,906,000, respectively.

NOTE 7 - Borrowings

The Credit Union has advances from the Federal Home Loan Bank (FHLB) of Indianapolis totaling approximately $50,000,000 and $55,000,000 at December 31, 2016 and 2015, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates range from 2.52 percent to 5.02 percent on balances outstanding, with a weighted average interest rate of 3.20 percent at December 31, 2016. The interest rates range from 2.52 percent to 5.02 percent, with a weighted average interest rate of 3.35 percent at December 31, 2015. The advances are collateralized by qualifying securities as of December 31, 2016. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

The Credit Union has approximately $889,722,000 and $827,511,000 in additional borrowing capacity with the Federal Home Loan Bank of Indianapolis at December 31, 2016 and 2015, respectively.

Future obligations of the advances are as follows at December 31, 2016:

Years Ending	Amount
2017	$10,000,000
2018	-
2019	-
2020	-
2021	-
Thereafter	40,000,000
Total	$50,000,000

NOTE 8 - Line of Credit

Under a line of credit agreement with Alloya Corporate Credit Union, the Credit Union has available borrowings of $100,000,000. There were no amounts outstanding on the line of credit at December 31, 2016 and 2015. Alloya Corporate Credit Union has a blanket pledge on all credit union assets as collateral for borrowings on this line of credit. Alloya rescinds any rights to qualifying securities pledged as collateral on the Federal Home Loan Bank - Indianapolis advances.

NOTE 9 - Postretirement Benefit Plans

The Credit Union provides continued health and dental insurance to eligible retirees, their spouses, and eligible dependents in addition to a $5,000 death benefit to a designated beneficiary. An employee is eligible for these benefits after retiring at age 62 with at least 15 years of service or at least 25 years of service without regard to age. The Credit Union records postretirement benefits that require the accrual of expected cost of retiree benefits during the years that the employees render the necessary service to be entitled to receive such postretirement benefits of the plan.

The plan eligibility requirements were amended for employees hired after December 1, 2009. Dependents of retirees will no longer be covered by the plan. Further, the percentage of premiums that will be paid by the Credit Union will vary depending on the retirement age of the employee. Employees hired after December 31, 2015 will not be eligible for postretirement benefits.

Obligations and Funded Status

	Postretirement Benefits	
	2016	2015
Accumulated benefit obligation	$28,155,083	$22,286,963

NOTE 9 - Postretirement Benefit Plans (continued)

Amounts recognized in accumulated other comprehensive income consist of the following:

	Postretirement Benefits	
	2016	2015
Net loss	$12,295,119	$8,356,827

	Postretirement Benefits	
	2016	2015
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$2,338,962	$2,507,130
Employer contributions	411,936	369,915
Benefits paid	(411,936)	(369,915)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net loss (gain)	3,938,292	(1,746,267)
Total recognized in net periodic benefit cost and other comprehensive income	$6,277,254	$760,863

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $758,278 and $471,012, respectively.

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended December 31 are as follows:

	2016	2015
Discount Rate	3.75%	4.50%

Assumed Healthcare Cost Trend Rates at December 31

	Postretirement Benefits	
	2016	2015
Healthcare cost trend rate assumed for next year	6.00%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	2019	2019

Cash Flow

Contributions and Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid. Expected contributions from the Credit Union are substantially the same as projected benefit payments.

Years Ending	Postretirement Benefits
2017	$ 423,107
2018	472,225
2019	507,981
2020	562,576
2021	608,812
Thereafter	3,926,016

NOTE 10 - Retirement Plans

All full-time and part-time employees are eligible to contribute to the Credit Union's 401(k) plan. Employees who have been on staff for at least 12 months, have worked at least 1,000 hours, and are 21 years of age or older are eligible for the Credit Union's matching contribution. Employees may contribute up to 100 percent of their compensation (subject to IRS limits) and the Credit Union will make a matching contribution equal to 200 percent of the employee's 401(k) elective deferral contributions up to 5 percent of the employees' salary. The 401(k) plan expense was approximately $2,594,000 and $2,275,000 for 2016 and 2015, respectively. In addition, the Credit Union pays the administrative costs of the plan.

The Credit Union also has a 457(b) plan for certain key employees to allow these employees to defer income in excess of the 401(k) plan contribution limits. The Credit Union does not make any contributions to this plan.

NOTE 11 - Off-balance-sheet Activities

Credit-related Financial Instruments

The Credit Union is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

NOTE 11 - Off-balance-sheet Activities

As of December 31, 2016 and 2015, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2016	2015
Commitments to grant mortgage and consumer loans	$43,293,000	$26,592,000
Commitments to grant business loans	5,179,000	3,505,000
Unfunded commitments under lines of credit	812,729,000	742,818,000
Unfunded commitments under overdraft protection programs	84,676,000	77,306,000

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Credit Union, is based on management's credit evaluation of the member.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 12 - Minimum Regulatory Capital Requirements

The Credit Union is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate a risk-based net worth requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2016 and 2015 was 5.87 percent and 5.74 percent, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2016 and 2015, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent call reporting period, and December 31, 2015, the Credit Union was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.00 percent of assets. There are no conditions or events since the notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31, 2016 and 2015 are presented in the table.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
2016	Actual	Ratio	Actual	Ratio	Actual	Ratio
Net Worth	$367,837,894	10.77%	$204,782,747	6.00%	$238,913,205	7.00%
2015						
Net Worth	$336,336,011	11.08%	$182,071,000	6.00%	$212,416,000	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 13 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Credit Union's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Company to determine those fair values.

NOTE 13 - Fair Value Measurements (continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
U.S. government and federal agency obligations	$ -	$288,483,166	$ -	$288,483,166
Mortgage-backed securities — Residential	-	239,933,541	-	239,933,541
Total available-for-sale securities	$ -	$528,416,707	$ -	$528,416,707

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
U.S. government and federal agency obligations	$ -	$320,360,826	$ -	$320,360,826
Mortgage-backed securities — Residential	-	277,988,266	-	277,988,266
Total available-for-sale securities	$ -	$598,349,092	$ -	$598,349,092

NOTE 14 - Business Combinations

On March 25, 2016, the Credit Union acquired all the assets and liabilities of Clarkston Brandon Community Credit Union. The primary reason for the acquisition was the proximity of the branch locations acquired to current credit union members as well as the potential growth opportunities.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

Cash and cash equivalents	$ 9,524,779
Time deposits with other financial institutions	3,279,938
Other investments	406,827
Loans	25,509,580
Property, plant, and equipment	1,779,363
Business-owned life insurance	1,401,783
NCUSIF deposit	603,217
Estimated future recoveries	7,804,899
Other assets	192,452
Total identifiable assets	50,502,838
Shares	58,446,082
Accrued and other liabilities	149,077
Total identifiable liabilities	$ 58,595,159

The goodwill of approximately $8,092,000 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the two organizations and absorption of losses incurred by CBCCU prior to the merger.

As of December 31, 2016, one fair value adjustment is considered provisional, related to the estimated future recoveries. This item has been determined provisionally due to the uncertainty of the actual amounts and timing of cash flows. Of the approximately $7,800,000 of estimated future recoveries at the date of the acquisition, approximately $5,500,000 has been recovered as of December 31, 2016. The remaining $2,300,000 is included in other assets on the accompanying statement of financial condition.

Acquisition-related costs, which include legal and consulting fees, totaled $139,000 and have been included in other operating expenses on the accompanying statement of income and comprehensive income.

MICHIGAN STATE UNIVERSITY
FEDERAL CREDIT UNION
Building Dreams Together

OAKLAND UNIVERSITY
Credit Union

PO Box 1208 • East Lansing, MI 48826-1208
517-333-2424 • 800-678-4968
248-364-4708 • 800-766-6828
www.msufcu.org • www.msufcu.org/community
www.oucreditunion.org • www.oucreditunion.org/community

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