

M-POWERING

YOUR LIFE

2017 • ANNUAL REPORT



MERCK SHARP & DOHME
FEDERAL CREDIT UNION

335 West Butler Avenue, Chalfont, PA 18914
(215) 996-3700 | www.msdfcu.org



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MERCK SHARP & DOHME
FEDERAL CREDIT UNION



We'd like to thank our primary sponsor
Merck & Co., Inc.
for their continued support of Merck
Sharp & Dohme Federal Credit Union.

2017 COMMUNITY EVENTS

Raised \$20,000 for Sebastian Riding Associates & The Shepherd's Shelf

MSDFCU held its 18th Annual Cow Plop to benefit Sebastian Riding Associates and The Shepherd's Shelf. Sebastian Riding Associates offers equine-assisted therapy programs for children and adults living with various disabilities. The Shepherd's Shelf is a food pantry. With this donation, the Credit Union's 18-year total contribution to the community from the Cow Plop is well over a quarter of a million dollars.

Raised \$10,000 for Homeless

MSDFCU held its 19th Annual Charity Golf Open at the Mainland Golf Course. The event raised \$10,000 for Bridge of Hope Buxmont, a Lansdale-based charity working to break the cycle of homelessness. With this donation, the Credit Union's 19-year total contribution to charities from the Golf Open is now over \$187,000.

Adopt-A-Highway

Our staff volunteers cleaned a stretch of local highway spanning two miles of a busy section of County Line Road between Route 202 to Route 309. During three weekend events, employees volunteered, some multiple times, to participate in the clean-up sessions. This is the eighth year MSDFCU has committed to the Adopt-A-Highway program.

KidCare ID Program

During the annual Lansdale Day community event, we provided over 100 children an updated ID, including their photo. As a draw to get the children and parents to stop into the booth, each child could enter a drawing for a gift card valued at \$100. We divided the children into three age groups and randomly selected one child to win from each category.

Shredding Days

To help members prevent identity theft, MSDFCU held three shredding days this past year at different branches. All events were well attended, and members thanked the staff for hosting this valuable service - and all shredded material was sent off to be recycled.

Collected Money and Supplies for Montgomery County SPCA

For the 16th year in a row, we collected money in jars for the Montgomery County SPCA, along with blankets, sheets, towels,

pet food, pet toys and whatever else members donated. A total of \$626.08 was collected along with 20 bags of towels and blankets, plus over 100 other items such as food and toys. Since 1999, we have raised \$40,000 for the SPCA.

Employee Community Involvement

Each month, a different charity is featured, and staff members are asked to donate what is needed by the charity. The initiative kicked off in 2013 and benefitted nine local charities in 2017.

PA Hero Walk

This year, MSDFCU offered its employees a match to walk in the PA Hometown Hero Walk and up to \$20 in matching pledges for any relatives of employees participating. Over \$1,000 was contributed by MSDFCU with 14 employees walking. The PA Hero Walk benefits Wounded Warriors of PA. The organization was formed to help service men and women adapt to everyday life. These heroes face daily challenges mentally and/or physically. To help fund the Project, the PA Hometown Hero Walk was started by one of MSDFCU's members.

Wissahickon Valley Watershed Association Clean-up

For the past several years, our staff has partnered with our main sponsor, Merck & Co., to help with the Wissahickon Valley Watershed stream clean-up. Our employees volunteer their time on a Saturday morning and wade through the edges of the stream to collect debris to help keep the watershed pure. This year we had seven employees and two of their children participate.

Blood Drive

In 2017 we held our first American Red Cross Blood Drive for employees, members and our local community. We met our goal of participation with a collection of 26 units of blood.

Hurricane Fundraiser

There were several major natural disasters during 2017. New Britain Charitable Foundation held a bowling fundraiser, and the donations were made to relief organizations that benefitted the victims of hurricanes including Greater Houston Area United Way, Florida Keys United Way and the National Puerto Rican Chamber of Commerce.



JEFFREY JAMES
CHAIRMAN

CHAIRMAN'S REPORT

With 2018 already establishing itself as a year of “rapid change” with news of interest rates climbing, new housing starts exploding, and tax codes evolving, the Board of Directors of Merck Sharp & Dohme Federal Credit Union is proud to reflect on our 2017 successes. Despite external factors affecting the entire industry, your Credit Union’s employees were successful in either achieving or exceeding expectations for more than 90% of the goals established by the Board for 2017. Accomplishment of these goals provided our members with new technologies for accessing our services and their accounts. Strong return on assets enabled the Credit Union to provide these technology platforms free to the membership.

The Board of Directors, with your Supervisory Committee, is committed to leveraging the success we engineered in 2017 and enabling the Credit Union staff to deliver on even more aggressive and member-focused goals for 2018. These objectives are heavily focused on bringing even better technologies and member service solutions to our members, while maintaining a focus on stewardship for the overall health of MSDFCU’s strategy and brand well into the future. We thank each and every one of our 28,745 members who continue to strengthen our Credit Union’s reputation in the communities we serve by placing their trust in the financial services provided to them and their families.

Jeffrey James
Chairman, Board of Directors

PAST CHAIRMEN AND EXECUTIVE COMMITTEE

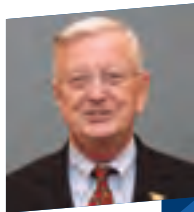
EXECUTIVE COMMITTEE



Jeffrey James
Chairman



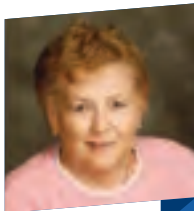
Joseph Robinson
1st Vice Chairman



Robert Muzslay
2nd Vice Chairman



Thomas Einsenberger
Treasurer



Nancy James
Secretary



PAST CHAIRMEN OF THE BOARD

- 1950-1970**
Raymond O. Hoffman
- 1970-1973**
William E. Gadd
- 1973-1976**
John D. Stevens
- 1976-1979**
Joseph G. Robinson
- 1979-1982**
Kenneth L. Brehm, Sr.
- 1982-1985**
W. Andrew McPherson

- 1985-1986**
Peter Nebenfuhr
- 1986-1989**
Thomas D. O'Connor
- 1989-1992**
W. Andrew McPherson
- 1992-1993**
John D. Stevens
- 1993-1994**
W. Andrew McPherson
- 1994-1995**
John D. Stevens

- 1995-1996**
Carter LeBrocq
- 1996-2001**
Bonnie Folgia
- 2001-2004**
Marjorie D. Reed
- 2004-2012**
W. Andrew McPherson

BOARD OF DIRECTORS

	Jeffrey James Chairman		Joseph Robinson 1st Vice Chairman		Robert Muzslay 2nd Vice Chairman (A)
	Thomas Eisenberger Treasurer (A)		Nancy James Secretary		Donald Baines (N)
	Peter Alberti (N)		John Frazzette (N)		Velma C. Hendricks (A)
	Carter LeBrocq (A)		Micheline Marshall (A)		

Director Emeriti

John Becker
Andy Pinckney
Rev. Dr. Marjorie Duncan Reed
Bonnie Folgia

Standing Committees

A: Asset/Liability Management
N: Nominating

THOMAS EISENBERGER
TREASURER



TREASURER'S REPORT

What an amazing year for equities. The Dow, S&P and NASDAQ all posted significant gains, 25%, 19% and 28%, respectively, while the Federal Reserve raised interest rates three times during the year. The unemployment rate dropped to 4.1%, the lowest in 17 years. Regulatory easing and tax reductions appear to have everyone acting positively. Large corporations are considering new investments and expansion, and have announced wage increases and bonuses for many employees.

Merck Sharp & Dohme Federal Credit Union (MSDFCU) continued to grow, as Total Assets increased \$2.7 million, or 0.5%, to \$533.3 million. Net Income for the year was \$2.6 million, up \$0.3 million, or 12.7%, from 2016. The Net Worth-to-Asset Ratio, the primary measure of a credit union's financial strength, increased to 9.92%. Note: a 7% rate or higher indicates a "well capitalized" credit union according to the National Credit Union Administration (NCUA). Total Shares grew by \$5.7 million, or 1.2%, while Total Loans granted increased \$13.4 million, or 19.1%, driven by second mortgages and auto loans, both posting growth over 30%.

As detailed in the Supervisory Committee report, MSDFCU remains a sound financial institution from a regulatory perspective as evidenced by favorable opinions from the NCUA, the regulatory organization for credit unions, as well as our internal and external auditors.

We're not even 90 days into the new year, and both the

weather and stock market are acting like a roller coaster ride. The Federal Reserve has signaled three more rate increases as the economy strengthens. While uncertainly still exists on many fronts, there are a few positive things to look forward to. Late in the year, Congress approved reductions for 2018 in the corporate tax rate as well as tax reductions for a majority of Americans. The President has targeted \$1 trillion in infrastructure investment. Given the positive impact that these changes should bring, it may be time to purchase that new home, move forward with that home improvement, start a business or buy a new car. Maybe it's time to invest and shore up your retirement plan. Whatever the case, MSDFCU will be there for our members, fully prepared to assist with all your financial needs and offering a broad array of financial products and services all with competitive rates and excellent service.

The Board of Directors, Supervisory Committee, management team as well as the entire staff appreciate the trust you place in MSDFCU. We look forward to providing continued value while assisting you in meeting your financial goals. It has been my privilege to serve another year as your treasurer.

Thomas J. Eisenberger, Treasurer

FINANCIAL STATEMENTS

Year Ending December 31, 2017, Unaudited

BALANCE SHEET	2017	2016
ASSETS		
Loans	\$304,049,092	\$252,889,496
Allowance for Loan Losses	(835,673)	(695,768)
Net Loans	303,213,419	252,193,728
Cash and Cash Equivalents	40,112,499	84,344,681
Deposits in Other Financial Institutions	3,000,161	5,000,000
Investments	159,596,146	172,410,541
Furniture and Fixtures	7,584,479	8,060,437
Other Assets	19,806,201	8,559,409
Total Assets	\$533,312,905	\$530,568,796
LIABILITIES AND EQUITY		
Shares	\$134,507,509	\$125,231,669
IRA Shares	12,728,642	14,766,564
Share Certificates	78,699,154	76,304,808
Money Markets	165,582,643	176,831,555
Share Drafts	86,060,667	78,731,775
Borrowings	-	5,000,000
Accounts Payable	3,911,234	4,277,234
Regular Reserves	3,825,775	3,825,775
Undivided Earnings	47,997,281	45,599,416
Total Liabilities and Equity	\$533,312,905	\$530,568,796

STATEMENT OF INCOME	2017	2016
INTEREST INCOME		
Income from Loans	\$10,689,846	\$9,291,425
Investment Income	4,138,043	3,612,964
Total Interest Income	\$14,827,889	\$12,904,389
INTEREST EXPENSE	\$1,605,525	\$1,511,499
Net Interest Income	\$13,222,364	\$11,392,890
PROVISION FOR LOAN LOSSES	\$687,619	\$132,659
Net Interest Income After Provision for Loan Losses	\$12,534,745	\$11,260,231
NON-INTEREST INCOME		
Service Charges and Fees	\$1,103,692	\$1,208,349
Other Non-Interest Income	2,969,826	2,746,370
Net Gain on Sale of Securities	-	298,064
Net Gain on Sale of Loans	153,761	306,151
Total Non-Interest Income	\$4,227,279	\$4,558,934
NON-INTEREST EXPENSE		
Employee Compensation and Benefits	\$6,895,140	\$6,834,195
Office Occupancy and Operations	2,835,941	2,694,724
Share Insurance Premium	-	-
Other Operating Expenses	4,479,146	4,026,731
Total Non-Interest Expense	\$14,210,227	\$13,555,650
Net Income	\$2,551,797	\$2,263,515



DAVID B. WHITEHEAD
CEO

CEO'S REPORT

We believe giving back to our local communities is the cornerstone of our corporate foundation. We have a responsibility to help improve the communities we serve. You may have read about or participated in some of our efforts to support Bridge of Hope BuxMont, Sebastian's Riding Associates, Shepherd's Shelf Food Pantry, Manna on Main Street, Nehemiah's Way, Community Housing, Montco SPCA and many others. In addition, our staff has been cleaning a section of County Line Road since 2010 under the PennDot Adopt a Highway Program.

In 2017, we founded the New Britain Charitable Foundation, a 501(c)(3) organization, so all donations made by you and others to the charities we support are tax deductible. Please visit the website, msdfcu.org, to learn more about the foundation. You can also donate and become a foundation member, thereby helping serve those throughout our communities.

Our purpose is to serve you, our member, with financial products and services that will make your life better. To determine how we are doing, we randomly survey a select group of our members every 18 months. We scored very high in Member Satisfaction - Likelihood to Recommend MSDFCU. Our staff scored very high in the Member Satisfaction Model as did our branch locations.

We discovered areas in which we can improve, such as Problem Resolution. While the number of reported problems was very low, we need to do a better job of resolving the problems that do exist. We also discovered that many of you are not fully aware of our Credit Card and Debit Card Rewards program. We promise to do a better job of educating you of this and other benefits we offer.

Overall, we had a great year financially, gaining high marks from our auditors and federal examiners. And, in the coming year, we have plans to open a branch in Quakertown, hopefully in the first quarter of 2019.

As always, we want to be your preferred financial partner for life!

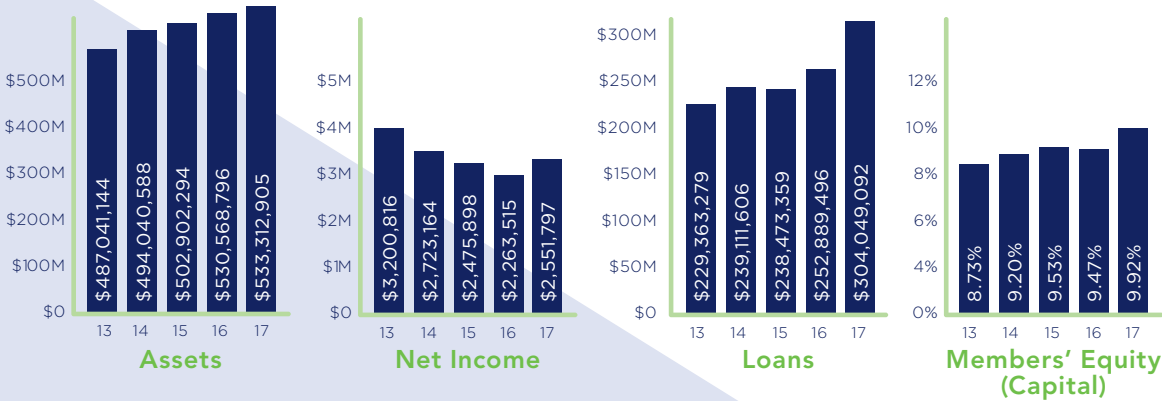
David B. Whitehead
CEO

ANALYSIS OF LOANS GRANTED

Year Ending December 31, 2017

PURPOSE OF LOAN	NUMBER	TOTAL AMOUNT (IN THOUSANDS)
New Automobiles	243	\$7,261
Used Automobiles	736	15,121
Home Equity Lines	185	5,468
Second Mortgages (Fixed)	295	24,032
Personal Loans	560	7,539
Other Secured	5	48
Overdraft Lines	57	217
First Mortgages	63	14,629
Student Loans	24	889
Business Loans	39	4,128
Credit Cards	506	3,899
Total	2,713	\$83,231

FINANCIAL TRENDS



SUPERVISORY COMMITTEE’S REPORT



William Cook
Chairman



Tyrone Edwards



Janet Keyser



Micheline Marshall



Kevin Stauffer

The Merck Sharp & Dohme Federal Credit Union (MSDFCU) continued to provide value for our members and stakeholders throughout 2017. Audits were conducted on schedule by the National Credit Union Administration (NCUA), Accume Partners and CliftonLarsonAllen LLP and found MSDFCU to be a financially sound entity providing significant value to the members and stakeholders.

CliftonLarsonAllen LLP completed the audit of the Credit Union’s financial statements, and Accume Partners assessed the internal processes and systems. The NCUA also examined the Credit Union to ensure the institution was operating within the regulations and charter of Federal Credit Unions. The results of these audits showed no major issues or concerns in the way MSDFCU is being managed and operated. MSDFCU continues to meet financial, operational, compliance and federal rules and regulations.

The Supervisory Committee continues its role as an independent, objective body ensuring the Credit Union meets its financial reporting objectives and has processes and procedures in place to safeguard member assets. We remain confident MSDFCU is prepared to meet current and future regulatory requirements.

The Supervisory Committee is also charged with and continues to respond to issues, comments and suggestions from Credit Union members and addresses these with the board of directors and management team when appropriate to continue meeting the needs of our members.

Our members remain our most valuable stakeholders. Your suggestions for improvements or concerns regarding the operations of your Credit Union are always welcomed by the Supervisory Committee and will receive our prompt and confidential response. These can be submitted via the MSDFCU website or by sending an email directly to the secure email address, supervisorycommittee@msdfcu.org. You may also directly contact any member of the Supervisory Committee.

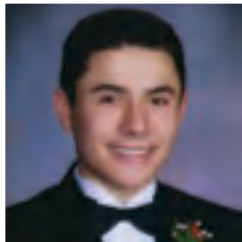
The committee thanks the Credit Union staff, management team and the board of directors for their consistent high-quality work and excellent cooperation, collaboration and leadership throughout 2017. We also thank the membership for their confidence in and continued support of MSDFCU. The Supervisory Committee will continue to be a strong advocate for the members and the Credit Union in 2018.



William Cook
Chairman, Supervisory Committee



RAYMOND O. HOFFMAN MEMORIAL AWARD RECIPIENTS



Anthony Collura

Anthony, known as AJ, is a senior at Pope John Paul II High School (PJP) in Royersford, Pennsylvania. AJ spent much of his volunteer hours participating and taking a leadership role in his school's Community Service Corps (CSC). This group leads various activities throughout the year and works with different organizations to help raise money. One of these events, THON, raised over \$50,000 for families impacted by childhood cancer. AJ also spent time working with special needs students, being a student ambassador for his school, and serving as chairperson for Thanksgiving and Christmas drives. AJ is looking forward to continuing his service to the community by studying medicine.

Meghan Callen, Director of Admissions at PJP, said of AJ, "As a moderator of Student Ambassadors and an adult volunteer on many of CSC's service initiatives, I can honestly say that AJ was one of the hardest working volunteers/ participants I have seen in my 16 years of working with high school students."



Erin Druding

Erin is a senior at Lansdale Catholic High School in Lansdale, Pennsylvania. Erin has committed much of her volunteer efforts to working with Operation Smile, an international nonprofit medical service organization, which provides surgery and care to children in third world countries born with a cleft condition. Erin attended the International Student Leadership Conference in California and started a chapter of Operation Smile in her high school, spending time fundraising and educating other students about the program and need for surgeries. "Erin has been an integral part of the growth of advocacy for cleft conditions within her community," wrote Christabelle M. Fernandez, U.S. Manager of Student Programs at Operation Smile.

Erin has also spent many hours volunteering at Abington-Lansdale Hospital. In her volunteer role, Erin has worked to support hospital staff, spent time with patients and families through the Hospital Elder Life Program, and progressed to volunteering in the Emergency Department of the hospital.



Anne Ikemoto

Anne is a senior at John P. Stevens High School in Edison, New Jersey. She played to her strengths and used her talents to help her community. Anne used her talent as a violinist to bring the joy of music to a senior center where she plays every Sunday with her quartet. She has also participated with local Cub Scouts by accompanying their caroling efforts during the holiday season. She once spent her Christmas break in Spain entertaining seniors with her talent. She also worked as a volunteer at her local hospital, supporting the staff in the Health Information Management Department.

Anne spent time as an assistant soccer coach, working with early elementary-aged kids to bring her love of the sport to them through the Rovers International Service Corps. Spencer Rockman, Director, noted, "Annie brings a natural sense of responsibility and maturity to the role. She made an immediate positive impact upon the campers."



Mackenzie Alexandra Ramsey

Mackenzie is graduating from Springside Chestnut Hill Academy in Philadelphia, Pennsylvania. Mackenzie has spent much of her volunteer time as a Diversity Student Facilitator, helping to bring understanding, knowledge and conversation to classmates, teachers, staff and parents. Her work has led to two new student groups and hiring practices at her high school, helping them to transition into a more racially and socioeconomically diverse institution.

Mackenzie has also worked on her school's March Madness Fundraiser, worked with Cradles to Crayons, traveled to Cambodia to help rebuild houses and was an MLK Day of Service leader. "She is committed to bringing about acceptance and equality within her school community at Springside Chestnut Hill and as a member within the larger community in which she lives," said Shelly Pullian, Lead Teen Advisor at the Montgomery County Chapter of Jack and Jill of America, Inc.



Winslow Weiss

Winslow is graduating from Upper Dublin High School in Fort Washington, Pennsylvania. During the school year, he works with other students to tutor them in math and science, especially physics for which he has a special love. Winslow also works to teach chess to young children through The Huntington Valley Chess Society Juniors. He's also visited the elementary schools within his school district to teach the basics of programming to children in grades from kindergarten through fifth.

Winslow's most adventurous volunteer activity has been helping bring clean water to remote areas of Honduras. He's traveled with his father to work with The Honduras Water Mission to install gravity-fed water systems to areas that would otherwise not have healthy, clean water. This year will mark his fourth water mission. "Winslow was the youngest missionary to travel with us to Honduras, but he is mature beyond his years. Winslow is a thinker and is always looking for more efficient ways to do things," wrote Rob MacNamara, Director at Aqua Pennsylvania.