2022



MERCK EMPLOYEES FEDERAL CREDIT UNION

Your Prescription to Financial Health.

Annual Report

MERCK EMPLOYEES FEDERAL CREDIT UNION

2022 Annual Report

2022: SAFETY AND SOUNDNESS CONTINUE TO DRIVE OUR MEMBER EXPERIENCE



Safety. Security. Protection. Those are three on-point words to describe what today's consumer expects from its financial providers. It is exactly the standard that we hold ourselves to when serving our valued members.

Reporting our annual financial statements and audits are always a vital part of this annual report and we are very proud of our rock-solid financial position and sound balance sheet that can be found in this report, but beyond the financials much of what happens at the credit union is aimed at delivering the very safest banking experience. That has never been more important than in the current environment where fraudsters are perpetrating bolder and more frequent attacks. We have best-of-breed standards in verifying higher risk transactions such as wires and external transfer requests. We blend an approach of sound technology with old fashioned verification from our capable team. Technology is vital and becoming more vital in our business, but there are many scenarios where the best protection is the human element.

Although we are a large credit union, we still practice a hands-on, trust-but-verify approach with all transactions. For example, we contact our members on all transfer requests. Many members are surprised when we call, saying their other institutions to do not contact them live. However, correctly and accurately verifying the intended transfer is vital today where scammers are getting sophisticated in getting access to member data, mostly by social engineering. Unfortunately, in 2022 we heard from many members who fell victim to social engineering scams. What do they look like? A prevalent one is scammers posing as some sort of technology service, such as GeekSquad, and telling the consumer they need to finalize changes to their computer. The consumer unknowingly gives them access to fully control their computer. The scammers will then state that they need to have the next payment before they can return control of their computer. Sadly, we have seen our members fall victim to this very scam. We urge members to always slow down and not give out personal information or access to any of their personal devices to any

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third-party. We are happy to be a sounding board for members who are concerned about potential scams, and we are proud to report we helped thwart many scams in 2022.

Due to the rising occurrence of fraud, your credit union dedicated itself to educating the membership on how to best protect themselves. For example, there has been widespread theft of mail out of United States Postal Service mailboxes. At all our branches and on our Web site we educated members on the dangers of mailing checks using the "big blue" mailboxes outside of Post Offices. Scammers are stealing mail from the boxes, washing the checks, and adding phony information to defraud consumers. This is not a rare occurrence. These thefts are happening all the time and the USPS has acknowledged consumers are safer to mail their mail inside the Post office. We also work with local authorities when we identify trends in stolen mail from particular locations. While our core business is banking services, we are very much in the fraud business. Preventing fraud has become as vital as anything else we do. You can be confident that your credit union board and management team are constantly evaluating and getting educated on emerging frauds to best protect the membership. Your credit union has one of the very best loss ratios of any financial institution in the country and it's a testament to our Enterprise Risk Management approach, which dictates a state of constant awareness and monitoring of risk. We then act quickly to add new protections and procedures when new risks are identified.

Fed's Rate Rise Cycle Disrupts Markets

On the financial side of the business, 2022 was marked by a hawkish Federal Reserve that raised interest rates at the fastest pace in our country's history. After more than a decade of a zero or near zero rate environment, the Fed raised by 425 basis points in 2022. A rapid spike up like this will have consequences. The Fed's goal is to contain and reduce inflation, but the Fed's rate hikes have thus far had minimal impact on inflation. There is often a lag effect with Fed actions, so it remains to be seen how much the rake hikes will continue to tamp down inflation. For consumers, the hike in rates marked the first time in a very long time that the cost of borrowing has risen. Consumers grew accustomed to 3% mortgage rates and near 0% auto loans. The Fed's actions in 2022 put an end to an era of low-cost borrowing. It's important to know while rates are up, historically borrowing rates remain on the lower side. Your credit union continued to deliver competitive savings and borrowing rates in these uncertain times.

We embraced the Fed's actions by taking a conservative approach to our balance sheet and remain well positioned to provide our members with great value in all economic climates.

Investing in Our Members' Future

Beyond our member risk mitigation efforts and managing the Fed's rapid rate environment, 2022 was an important year for investing in the credit union's future by enhancing our infrastructure. The credit union is making important investments in its IT environment to ensure members will have all the capabilities that the modern banking environment demands. Those investments will become visible to the members in 2023 as we roll out new online and mobile banking features that will empower members to better control their banking experience.

On behalf of everyone at Merck Employees Federal Credit Union, we thank you for your membership, your trust, and support.

Sincerely,

Jeff Hack
Chairman

Paul Gentile
President/CEO

In Memoriam: Lisa Marie Auerbach

Lisa Marie Auerbach of Landenberg, Pa., passed on Friday, October 21, 2022 following a nearly eight year battle with metastatic breast cancer. She was 51 years old.



Among her many accomplished career highlights, both professional and volunteer, she was a longtime volunteer board member of Merck Employees Federal Credit Union and also served on the credit union's Supervisory committee.

Born on January 12, 1971 in Rahway, New Jersey, Lisa was the daughter of Edward O'Brien and Gerda Kos O'Brien.

She was the beloved wife of John T. Auerbach; mother of Jennifer Gaspar; sister of Edward O'Brien (and wife Michelle); aunt and Godmother of Ethan O'Brien and Julia O'Brien; niece of Diane Kos, Elizabeth O'Brien Goracy, Joe Goracy and daughter in law of John Auerbach, Sr.

She obtained a BS in Electrical Engineering, graduating from Rutgers University in 1992. She also obtained a Master Degree of Business Administration (MBA) from Fairleigh Dickinson University. She worked at Merck & Co, in Rahway, New Jersey, supporting manufacturing computer systems and as a Financial Analyst where she particularly enjoyed supporting her various clients managing budgets.

She lived in various parts of New Jersey including Clark, Avenel, Woodbridge and Edison. She moved to rural Landenberg, Pennsylvania and built a home in 2012 on a farm with John and Jennifer.

Lisa's greatest joy and satisfaction came from supporting others and charity. She was the foundation of the Merck Women's Network chapter for Rahway, providing consistent leadership and guidance for many years. She single-handedly organized immensely popular annual bus trips to New York City for dinner and shows on Broadway. Lisa volunteered time working at JFK Hospital in New Brunswick, New Jersey. She also volunteered for Make-A –Wish, doing interviews with children and families to help them formulate their wishes as well as Family Promise, helping homeless families. Lisa also planned and executed a complex fundraiser, raffling off prizes donated by local business at an event held at a local winery in 2018 which raised over $20,000 for METAvivor to fund metastatic breast cancer research. She did much of this while battling her own cancer, diagnosed in 2014.

The credit union has made a $5,000 charitable donation to METAvivor in Lisa's name and will forever remember her tremendous contributions to the success of the credit union.

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2023 Merck Employees FCU Scholarship Recipients



Joshua Baker
Attending: Cornell University
Area of Study: Biomedical Engineering

"The value of a scholarship is difficult to understate. In line with the credit union's goal to serve the community, the scholarship will absolutely help me toachieve my goals in college—and allow me to eventually serve my community too."



Jimmy Boelhower Jr.
Attending: The College of New Jersey
Area of Study: Education

"I believe what the Merck Federal Credit Union does for students is amazing because it helps students fulfill their dreams and come out of college with less debt."



AJ Caesar
Attending: Princeton University
Areas of Study: Chemical Engineering, Tech. & Society, Sustainable Energy

"I'm extremely blessed and grateful for being selected for this scholarship. The credit union has played an integral part in my family's financial well-being for decades. The assistance provided by MEFCU to undergraduates like myself helps students follow their dreams of becoming tomorrow's leaders while lessening the financial burden of a college education. Also, as a volunteer-led organization the Credit Union shows students the good that comes out of volunteerism, inspiring us to keep it an important part of our future endeavors."



Christopher Lee
Attending: University of Pennsylvania
Areas of Study: Philosophy, Politics, Economics

"The Merck EFCU Scholarship program helped immensely in financing my pursuit of higher education. The Merck EFCU's dedication to promoting education for young people is a testament to their core ideal of service towards society. Just as volunteerism from members is vital to the internal functions of a credit union, it is clear that the Merck EFCU strives to give back to its community, and return thefavor of aiding its constituents."

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Caroline Sewell
Attending: Still Deciding
Areas of Study: Chemistry, Medicine

"I am so grateful to the Merck Employees Federal Credit Union for their generous support of my education. The scholarship money allows me to devote my full attention to learning. The credit union is a strong model of volunteerism and community engagement — one which I will continue to follow."

Sheerea Yu
Attending: Harvard University
Areas of Study: English, Journalism, Law

"I am so grateful to the Merck Employees Federal Credit Union for this scholarship! Higher education and volunteerismhave always been major goals of mine, and I am so excited to have the opportunity to continue to pursue both."



Treasurer's Report

Merck Employees Federal Credit Union's strong financial performance in 2022 allowed the credit union to continue its tradition of returning value to members with industry-leading deposit and loan rates. In addition, MEFCU continues to have one of the lowest fee structures in the banking sector. The credit union paid out $25,479,233.61 in member dividends, representing approximately 60% of total income. Total deposits ended 2022 at 1,911,067,964 down from 2,135,836,400 in 2021. The average share balance at year end was $76,302.32. Loans granted to members were $61,567,280, up from $55,733,022. Total loans outstanding ended 2022 at $219,105,699 up from $176,807,522 in 2021.

Providing members with a safe and sound institution is always one of our top priorities. In 2022 the credit union's Net Worth was 11.50%. As a federally-chartered and federally-insured credit union through the National Credit Union Administration, the credit union is required to maintain 7% capital to be considered "well-capitalized." At over 10% we are well above the requirement, demonstrating the credit union's financial strength. With the support of Merck, our corporate sponsor, we continue to maintain a lower expense ratio compared to our peer credit union group. In 2022 operating expenses were $8,988,128 representing just 21.29% of total income.

Respectfully Submitted,
Andrea Krysienski, Treasurer

MERCK EMPLOYEES FEDERAL CREDIT UNION

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Board of Directors



Jeffrey Hack
Chair



Patrick Ruane
Vice Chair



Andrea Krysienski
Treasurer



Raffalle Karby
Secretary



Douglas Christie



Ronald Coleman



Linda George



Charles Orgelfinger



Bernard Wisniewski

MERCK EMPLOYEES FEDERAL CREDIT UNION

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Supervisory Committee



Cynthia Francisco



Lorraine McLeod



Anthony Richards

Supervisory Committee Report

The Supervisory Committee is an autonomous committee appointed by the Credit Union's Board of Directors and is responsible for the financial audit. The Supervisory Committee met periodically throughout 2022 to monitor office operations and perform random account verifications. To assist the Credit Union, the Supervisory Committee engaged the Certified Public Accounting Firm, The Curchin Group, to conduct the annual audits as of December 31, 2022.

Your Supervisory Committee is pleased to report that the Credit Union is in sound financial condition and the records are in good order. This is based on the results of The Curchin Group's audit and their opinion of the financial statements as well as operating results. A copy of the Certified Audit is available for inspection at the Credit Union office in Rahway, New Jersey.

Respectfully Submitted
Cynthia Francisco, Chair
Lorraine McLeod
Anthony Richards



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STATEMENTS OF FINANCIAL CONDITION
(IN THOUSANDS)
DECEMBER 31,

ASSETS	2022	2021
Cash and cash equivalents	$ 32,757	$ 69,551
Interest-bearing time deposits	45,319	50,769
Available-for-sale debt securities	754,632	808,798
Held-to-maturity debt securities	1,191,289	1,255,691
Equity securities - restricted	1,782	2,236
Loans receivable, net of allowance for loan losses	218,659	176,412
Accrued interest receivable	9,487	9,361
Furniture, equipment and improvements, at cost, less accumulated depreciation	1,583	1,742
Other investments	6,909	5,910
Other assets	1,315	1,346
Deposit in the National Credit Union Share Insurance Fund	16,931	16,212
	$ 2,280,663	$ 2,398,028
LIABILITIES AND MEMBERS' EQUITY		
Members' share and savings accounts	$ 1,911,068	$ 2,135,836
Dividends payable	7,349	5,666
Accrued interest on notes payable	940	-
Notes payable	167,000	-
Accrued expenses and other liabilities	1,416	1,184
	2,087,773	2,142,686
COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY:		
Undivided earnings	192,097	184,698
Other undivided earnings	70,278	70,278
Accumulated other comprehensive income (loss)	(69,485)	366
	192,890	255,342
	$ 2,280,663	$ 2,398,028

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STATEMENTS OF INCOME
(IN THOUSANDS)
YEARS ENDED DECEMBER 31,

	2022	2021
INTEREST INCOME:		
Loans receivable	$ 6,582	$ 5,797
Securities and other deposits	34,261	30,642
	40,843	36,439
INTEREST EXPENSE -		
Members' share and savings accounts	25,479	23,312
Borrowed funds	1,258	-
	26,737	23,312
NET INTEREST INCOME	14,106	13,127
PROVISION (BENEFIT) FOR LOAN LOSSES	180	(18)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,926	13,145
NON-INTEREST INCOME:		
Net gain (loss) on investments	(381)	350
Other income	29	-
Fees and charges	820	1,262
NCUSIF refund	297	1,203
	765	2,815
NON-INTEREST EXPENSES:		
Salaries and employee benefits	3,122	3,100
Office operations	1,957	1,778
Professional and outside services	540	555
Other	1,673	1,802
	7,291	7,235
NET INCOME	$ 7,399	$ 8,725