

Credit Union 1 Annual Report 2010

CREDIT
UNION



In Memory of Nancy Roman

September 30, 1939 - September 9, 2010

*Credit Union 1 remembers former Director of Human
Resources Nancy Roman*

From 1987-2007, Nancy touched the lives of Credit Union 1 employees as the Human Resources Manager. She aided the credit union through two mergers and helped to build the successful organization that it is today. Nancy was a driven family advocate who worked tirelessly to make Credit Union 1 the family-friendly work environment that it has become. She proudly assisted with the start-up and implementation of our "Little 1's" Children's Learning Center and helped to guide many of our employees to successful and happy careers. She is fondly remembered and greatly missed.



Our Mission: To help our members achieve their financial goals by focusing on excellent service and value.

○ Credit Union 1 strongly upholds its core values as an affirmation of our belief in the credit union's community purpose: to advocate vision and integrity, to provide quality services, and to act as responsible, ethical citizens.

Whether we are implementing cutting edge products, ensuring accurate and timely transactions, or taking an active role in supporting our community, Credit Union 1's effort to financially benefit Alaskans is ongoing and sincere.

Credit Union 1 2010 Annual Report

Chairman's Message

This was another overall strong year for Credit Union 1 and we have a long list of accomplishments and successes to show for it. We are proud to announce that we loaned over \$168.3 million to our members in 2010, up \$11.1 million from 2009. At the end of the year, Credit Union 1 had a total of 61,874 members, an increase of 4,227, or 7% over 2009. Credit Union 1 also proudly contributed nearly \$115,000 and 1,023 hours of community service to more than 37 Alaskan charities and nonprofit organizations in 2010.

We were recognized for our community support efforts in some outstanding ways. We received the Association of Fundraising Professionals Alaska Chapter's National Philanthropy Day Award for an Outstanding Corporation. Credit Union 1 was also featured in *Alaska Business Monthly's* "Corporate 100" for our success at staying stable and strong despite the recession, and for our dedication to giving back to our communities.

Our President/CEO Leslie Ellis was named Alaska Credit Union League's Outstanding Executive of the Year, which distinguishes her as a credit union trailblazer, a community leader and an advocate for financial literacy. Commitment to financial literacy also garnered Credit Union 1 a STAR Award for its dedication to the School-Business Partnership that we have with our cyber branch

at Anchorage's West High School. The credit union also received Honorable Mention in the Desjardins Youth Financial Education Awards program. We are the first credit union in Alaska to ever receive this honor.

One of the year's most proud moments was the June opening of our Mountain View Branch. For over 20 years, this Anchorage community had been without the presence of a financial institution. In addition to making the economic lives of our existing members in the area more convenient, we have already helped over – 750 new members begin to manage their money in healthy and more knowledgeable ways. Our 2nd Annual Mountain View Street Fair was also a tremendous success, with an estimated 3,000 people in attendance.

Our unique and award-winning One for All Rewards Program also gained popularity in 2010. The program's overall redemption rate increased 5%, meaning that 37% of our members now take advantage of the free points that they earn based on the products and services they use with the credit union.

In financial terms, 2010 was a solid year. We stayed stable, strong and continued to enhance our products and services while lending money and helping our members and communities. Our second payment to the National Credit Union Share Insurance Fund (NCUSIF) was \$1.6 million. This fund protects credit unions nationwide from the need for government aid and combats the effect of the economy on the credit union industry. This is a large expense and is not one that we will be able to eliminate any time soon, but we have budgeted appropriately for it and did not let it take us by surprise.

One of the most exciting things that we are going to be working on in 2011 is the much-needed update of our Nome Branch. The new branch will have a better location, better facility and will be better-equipped to meet the needs of the community it serves. We are looking forward to reaching out even farther in the Nome area to help our members and continue to build our membership base.

Looking ahead to 2011, we expect to see more of the same things we saw in 2010: more financial services reform, increased regulations and interest rate uncertainty. We will continue to be diligent in managing our margins and making adequate preparations

for any storm that we may have to weather. We will continue to place emphasis on financial education, especially with our youth, to help them start off on the right path to becoming financially responsible adults. We are also going to continue do whatever we can to help Alaskans bounce back from job loss, high prices and the stress of worrying about money. Most of all, we will stay true to our mission: To help members achieve their financial goals by focusing on excellent service and value.

Roger Aldrich, Chairman

Supervisory Committee Report

The supervisory committee is appointed by the board of directors and is responsible for ensuring that the financial statements of the credit union are accurately and fairly presented by management and that operational practices and procedures are sufficient to safeguard member assets. These duties are required by federal and state regulations. State of Alaska statutes summarize the committee's responsibilities and read as follows:

"The supervisory committee shall conduct an annual audit of the accounts of the credit union and submit a report of the audit to the board of directors and a summary of the audit to the members at the next annual members' meeting of the credit union. The supervisory committee may conduct supplementary audits as it considers necessary or as ordered by the commissioner, and submit reports of the supplemental audits to the board of directors."

To fulfill these obligations, the supervisory committee hired the international accounting firm of KPMG LLP to perform an independent audit of our financial statements and confirmation of member accounts. The results of the audit, conducted as of and for the year ending September 30, 2010, indicate that the financial statements of Credit Union 1 are fairly stated. Additionally, the credit union's internal auditor reviews and evaluates the systems of management's control and reports the results to the Supervisory Committee and management on an ongoing basis.

Credit Union 1 is regulated by the State of Alaska and insured by the National Credit Union Administration (NCUA), and is subject to examination by both entities on an annual basis. The positive results of these examinations and those conducted by our internal and independent auditors are strong indications of the ongoing soundness and effective management of this institution.

Damien Stella, Chairman | Marietta Hall, Secretary | Carl Markon, Member

○ Credit Committee Report

Overall loan performance was strong in 2010. Growth on the consumer side of the portfolio increased \$13 million, or 5.1%. The top performing consumer category was used auto loans, up 16.4%. Growth in the real estate loan portfolio was strong, increasing \$7.5 million or 4.4% over 2009. Credit cards and other unsecured loans saw a 2.7% increase.

The credit union's lending operations remain prudent. Credit Union 1 management regularly reviews a sample of loans granted and the credit union's lending department is scrutinized by internal and external auditors, as well as state and federal examiners. None found any weaknesses in the credit union's underwriting policies.

Credit Union 1 continues to have a significantly low ratio of delinquent loans in the portfolio, which was .50% for 2010. This is a .46% decrease from December 2009. Loan charge offs, as a percentage of average outstanding loans, were .70%. As expected, this is a slight increase from 2009. As evidence of great collection efforts, recoveries were up 6% from the previous year. For a \$747 million dollar financial institution to have maintained such a low delinquency ratio and charge off rate is a testament to its strong underwriting and collection practices. Despite continued economic instability, the credit union's loan performance remained stable and its portfolio grew in 2010.

Scott Butterworth, Chairman | Davina Napier, Secretary | Debbie Casey, Member

Treasurer's Report

Total assets for the credit union as of December 31, 2010 grew 6.2% to \$747,357,000. This growth had a corresponding increase in member deposits up 5.8% to \$661,284,000. Credit Union 1's net income for 2010 was \$6.3 million after paying a NCUSIF stabilization expense of \$1.6 million. Even with this expense the credit union's net income remained strong.

Income earned by a financial institution is often measured as a percentage of total assets. For 2010, Credit Union 1's return on assets (ROA) was .88%. Before paying the NCUSIF stabilization expense, the credit union's ROA was 1.10%. These earnings have helped build equity within the institution. At the end of 2010, the credit union's equity (or "capital") was 9.71% of total assets. As such, Credit Union 1 is designated "well capitalized" by the National Credit Union Association (NCUA). This equity allows the credit union to improve its technological capabilities, offer additional products and services, fund facility upgrades and protect the institution during an economic downturn and interest rate uncertainty.

Since 1952, Credit Union 1 has offered Alaskans ways to fund their dreams affordably, whether through savings or loan products. Looking ahead at 2011, the board remains optimistic for the credit union's future success, despite the lagging economy, low interest rates and increased operational costs. For the immediate future, these factors are expected to limit short-term income growth, though the credit union will diligently monitor the conditions and work to minimize operational expenditures.

Joe Towslee, Treasurer

Financial Statements

Balance Sheet

(Unaudited, in Thousands)

December 31	2009	2010
Assets		
Cash	11,472	11,074
Investments	209,945	224,906
Loans (Net)	428,400	448,705
Fixed Assets (Net)	33,975	34,866
Other Assets	19,717	27,806
Total Assets	703,509	747,357
Liabilities & Members' Equity		
Members' Shares	625,076	661,284
Liabilities	6,956	8,421
Members' Equity	71,477	77,652
Total Liabilities & Members' Equity	703,509	747,357

Income Statement

(Unaudited, in Thousands)

December 31	2009	2010
Loans	26,029	26,928
Investments	8,223	6,135
Interest Income	34,252	33,063
Dividends & Interest Expense	8,441	6,087
Net Interest Income Before Provision for Loan Loss	25,811	26,976
Provision	3,114	3,107
Net Interest Income	22,697	23,869
Operating Income	13,380	14,178
Operating Expenses	27,668	30,213
Net Income From Operations	8,409	7,834
Non-Operating Income (Expense)	(69)	
NCUSIF Stabilization Expense	(1,544)	(1,573)
Net Income	6,796	6,261

Credit Committee

Scott Butterworth, Chairman
Davina Napier, Secretary
Debbie Casey, Member

Supervisory Committee

Damien Stella, Chairman
Marietta Hall, Secretary
Carl Markon, Member

Board of Directors

Roger Aldrich, Chairman
Tim Craig, Vice Chairman
Colin Baxter, Secretary
Joe Towslee, Treasurer
Steve Cavin, Director
Carl Markon, Director
John Weddleton, Director
Fred Stassel, Director Emeritus

Executive Management

Ms. Leslie Ellis, President/CEO
Lisa Monsen, Executive Vice President

Branch Locations

Anchorage

Abbott - 1941 Abbott Rd.
DeBarr - 4020 DeBarr Rd.
Downtown - 824 W. 8th Ave.
Eagle River - 11544 Business Blvd.
Federal Building - 222 W. 7th Ave.
Midtown - 3525 Eureka St.
Mountain View - 115 N. Bragaw St.
South Anchorage - 8935 Old Seward Hwy.
West High School - 1700 Hillcrest Dr.

Fairbanks

1st Avenue - 909 1st Ave.
University - 1453 University Ave. S.

Ketchikan - 2444 Hemlock St.

Kodiak - 111 Lower Mill Bay Rd.

Nome - 110 Front St.

Soldotna - 44758 Sterling Hwy.



Contact Credit Union 1 at:
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