

Callahan & Associates, Inc.

The Quarterly Report: 4Q 2011

2011 Trends to Remember

- **Members:** Total membership rose by nearly 1.3M, double the increase of 628,000 during the previous year. In the fourth quarter alone, credit unions posted an increase of 440,000 in net new members.
- **Checking:** Driven by Bank Transfer Day and media attention on free checking, credit unions recorded a record increase in the number of new checking accounts. In 2011 members opened 1.8M checking accounts, a 4.1% annual increase.
- **Core Deposits:** Share balances increased 5.2% over the last 12 months, led by share draft balances.
- **Loans:** Credit unions originated \$262.1B in loans in 2011, a 4.6% increase over 2010 levels. Fourth quarter volume of \$73.5B is the highest fourth quarter on record for the industry.
- **Asset Quality:** Delinquency increased a single basis point from September to 1.61%, still down 15 basis points from December 2010. The coverage ratio (Allowance for Loan Losses/Delinquent Loans) decreased slightly to 96.0% as credit unions “spent-down” excess reserves.
- **The Bottom Line:** Net income is up 40.7% annually. Pre-assessment earnings of \$8.3B are the highest on record for credit unions.

4Q Economic Trends

- Outstanding consumer credit grew by 7.6% in the fourth quarter, a substantial increase over the 1.5% change posted in the third quarter of 2011.
- Real GDP increased at an annual rate of 3.0% in the fourth quarter of 2011, up from the revised 1.8% increase in the third quarter of 2011. Unemployment fell to 8.3% in January.
- Auto sales increased 8.9% over 2010 levels, with credit unions capturing 14.6% of auto loan originations in 2011 and posting the first growth in the auto loan portfolio since 2009.
- The Federal Funds Target Rate remained at the historic low 0-25 basis points range driving the net interest margin down to 3.16% as members paid down debt.

Credit Union Statshot at 12.31.11

- 7,240 Credit Unions (-251)
- \$974.2B Assets (+5.1%)
- \$578.9B Loans (+1.1%)
- \$838.5B Shares (+5.2%)
- \$108.6B Capital (+6.4%)
- 93.1M Members (+1.4%)

Watch & Learn

Callahan’s Jay Johnson and Chip Filson interpret what these numbers mean for the industry in our 4Q Trendwatch webinar, ready for on-demand viewing now.

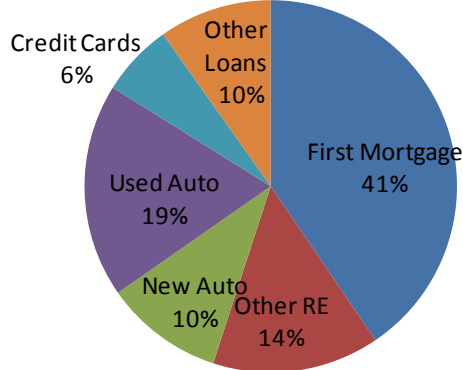
www.creditunions.com/TW

In addition to reviewing industry trends, John Olivo presents Goldman Sachs Economic Forecast for 2012 and Alan MacEachin discusses what Navy FCU accomplished in 2011 and its plans for 2012.

Loans

Credit Union Loan Portfolio

\$578.9B as of December 31, 2011

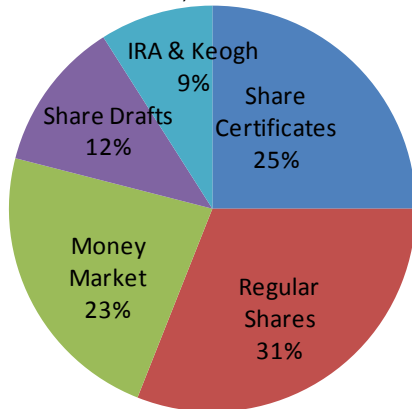


- Loan balances increased 1.1% in 2011, a significant improvement from the 1.4% decline posted at year-end 2010.
- Real estate loan growth came primarily from first mortgages, which grew at 4.2% annually as other real estate balances fell.
- New auto loan balances declined through December, though the steep rate of decline eased from earlier in the year. Combined with a 5.1% growth in used autos, the total auto portfolio increased 32 basis points annually, the first increase since 3Q 2009.
- The credit card portfolio increased at a modest pace. Balances totaled \$37.8 billion in December, a 3.9% increase from the previous year.

Shares

Credit Union Share Portfolio

\$838.5B as of December 31, 2011

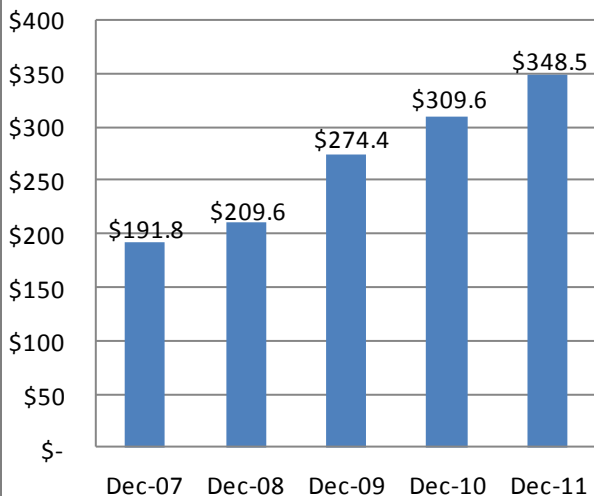


- Credit union shares increased 5.2% on an annual basis. Growth remains strong as credit unions added more than \$41B in new balances in 2011.
- Share drafts and regular shares accounts each posted double-digit growth during the past year. Share drafts increased 11.9% and now total over \$102B.
- Regular shares and deposits, the largest component of the share portfolio, increased to \$259.6B over the course of the year, posting a 10.8% increase from the previous December.
- Money market share accounts posted a strong annual increase of 7.6% to \$191.4B.

Investments

Total Investments (in \$ Billions)

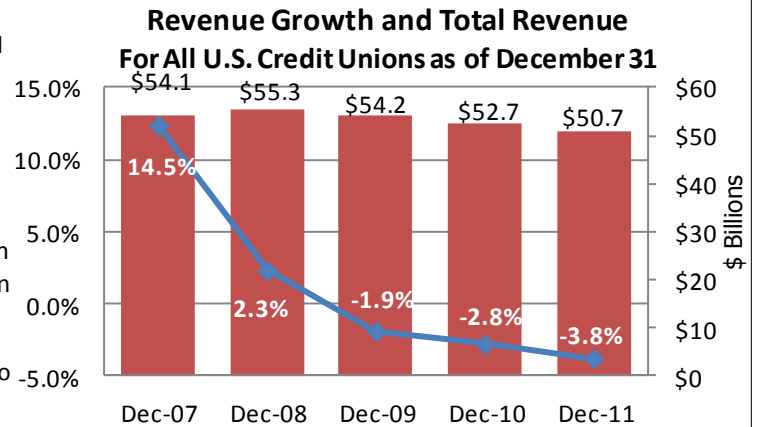
For All U.S. Credit Unions as of December 31



- Total credit union investments reached \$348.5B in December, a 12.6% annual increase. Investment balances are at record highs.
- Government and agency securities are the largest component of the credit union investment portfolio. Government and agency securities totaled \$183.3B in December, up 26.9% from the year before.
- Investments in Banks and Savings & Loans are now the second largest component of the credit union investment portfolio, exceeding holdings in corporate credit unions. Funds held at those depository institutions total \$44.6B, growing 4.1% over the past year as investments in corporate credit unions declined 35.5% to \$38.1B.
- Credit unions have extended their investment maturities over the last year in an attempt to generate a higher rate of return. Now, 53.9% of the portfolio is in holdings with maturities of more than one year.

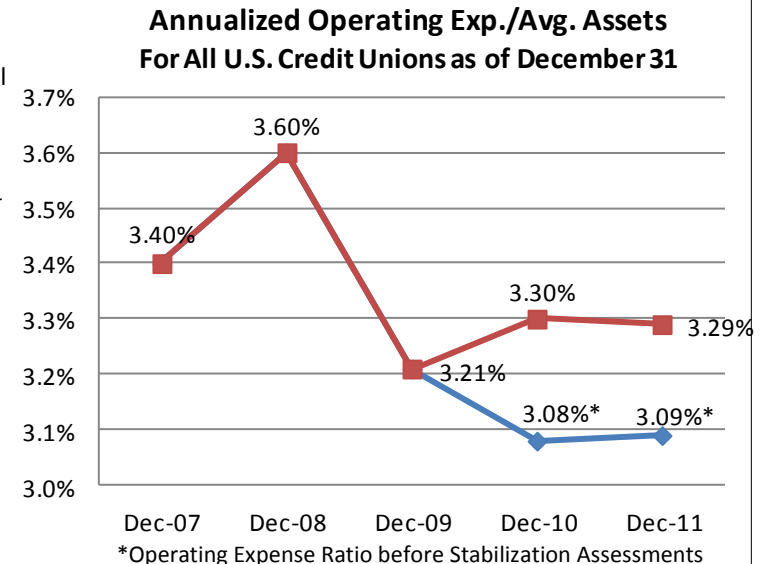
Revenue

- Total revenue is down \$2.0B from 2010. In 2011 credit union income totaled \$50.7B, a decline of 3.8% from levels reported in 2010.
- Credit union operating revenue (net interest income + fee income + and other operating income) increased 0.6% to \$42.0B for the year.
- Total non-interest income grew 1.6% on strong increases in other operating income, a category which includes gains on mortgage sales to the secondary market.
- Credit unions reduced their provision expenses by one-third to \$4.7B, down from \$7.1B in 2010 driving an increase in the bottom line.



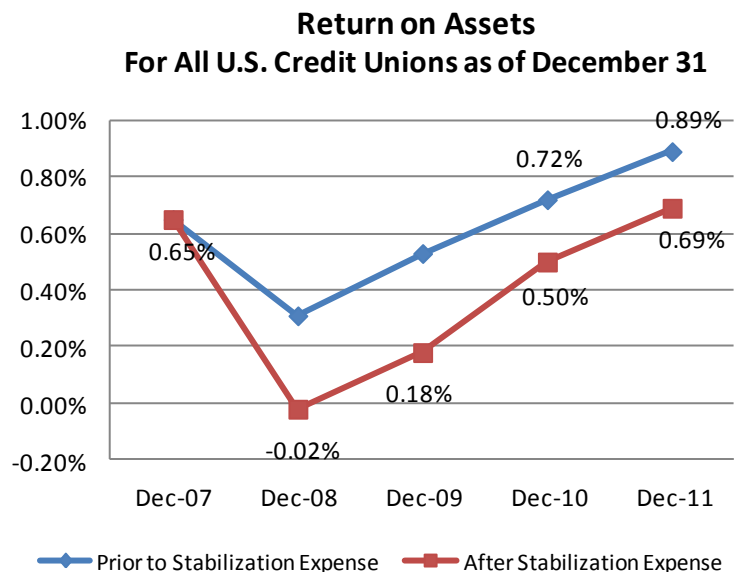
Operating Expenses

- Including corporate credit union assessment expense recorded in the third quarter, the operating expense ratio fell one basis point from 2010 to 3.29% for 2011.
- Excluding the stabilization expenses, the OpEx stands at 3.09%, as operating expenses increased 3.5% annually, on-pace with asset growth.
- Total employee compensation and benefits, the largest component of operating expenses, reached \$14.7B through 2011, a 3.4% annual increase.
- Loan servicing expenses posted the fastest growth of expense categories, up 8.2% from 2010 levels to \$2.0B.
- Marketing and promotion expense rebounded in 2011, up 8.0% from 2010 levels.



Operating Earnings and Capital

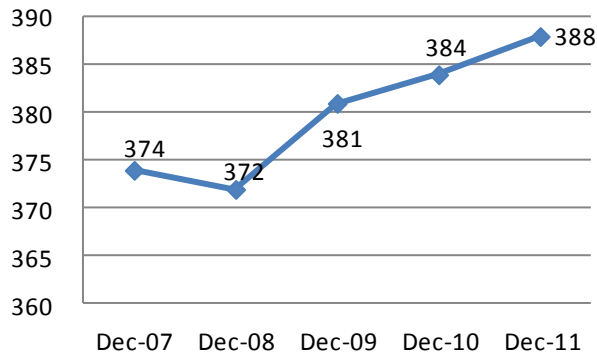
- Credit unions reported record net income. The pre-assessment figure of \$8.3B resulted in an ROA of 89 bps, in-line with levels from before the economic crisis.
- ROA after the stabilization assessments rose as well, coming in at 69 basis points, up 19 basis points from 2010.
- The Net Interest Margin narrowed on lower interest income, down to 3.16% from 3.26% in December 2010.
- Credit union capital increased 6.4% to \$108.6B.
- The net worth-to-assets ratio stands at 10.2% as of December, up from 10.0% last December.



Productivity

Members per Employee

For All U.S. Credit Unions as of December 31

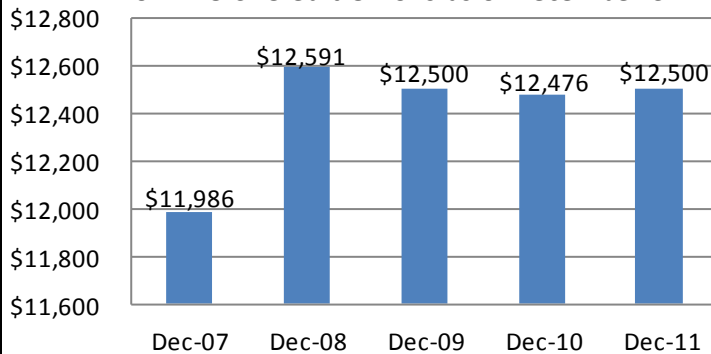


- Membership increased 1.4% while the employee base grew just 35 basis points. This resulted in a higher members per employee ratio, which averaged 388 as of December.
- For 2011, credit unions reported an average annualized loan origination per employee of \$1.09M, up from \$1.05M in the third quarter.
- Annualized income per employee fell slightly over the past 12 months, coming in at \$212K in December 2011.
- On average each credit union employee services 913 loan and share accounts, a slight increase from the 906 accounts in December 2010.

Member Relationships

Average Loan Balance

For All U.S. Credit Unions as of December 31



- The average loan balance increased slightly from the previous December to \$12,500.
- The average share balance was \$9,011 in December, a 3.7% annual increase.
- Share draft penetration increased once again in the fourth quarter as members opened a record number (1.8M) of checking accounts at their institutions. The current share draft penetration rate stands at 49.6% as of December, up from the 48.1% reported in the prior year.
- Credit card penetration increased to 14.8% from 14.6% in 2010.

Want more? |

Dive deeper into the numbers in the **2011 Credit Union Industry Annual Report**, included in the upcoming edition of Callahan's quarterly performance journal, *Credit Union Strategy & Performance (CUSP)*. In this special feature, our analysts break out loan and share portfolio performance trends across 8 peer groups. Also presented is an analysis of productivity and efficiency across those same peer groups.

Armed with this data, you can answer questions:

- What does the balance sheet composition look like for peer credit unions?
- Where are peers of similar size finding growth in their loan portfolio?
- Are my growth trends in line with that of my peers for specific product types?
- Do members see the value in our loan and share accounts compared to peer credit unions?
- With margins tightening, how are peer credit unions changing their business model?
- How do peer credit unions' operating expenses breakdown compared to mine?
- Are my employees as efficient and productive as those at similar sized credit unions?

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