

***Message from the Officer in charge of Operations:***

I want to take this opportunity to thank the membership of Service 1<sup>st</sup> Credit Union for their continued support during the 2011 year. Within the entire financial services industry, 2011 has been a year of uncertainty and concern. Despite the challenges we have faced, you can be proud of the excellent job your employees and your elected board members have done in serving those who seek a financial institution that exemplifies stability, soundness, and serves as a safe harbor from the recklessness displayed by others within the financial services industry.

For 57 years, Service 1<sup>st</sup> Credit Union has continued to remain united in our quest to provide fair and equitable services to our membership. During the past year, we have been forced to scale back the scope of our previous decade of expansion. This time of pause and redirection comes at a time when most of the global financial markets as well as corporate credit unions face some very serious problems. The lowered interest rate markets coupled with the credit union's short duration on loans and investments made it impossible for us to provide an earnings stream without a reduction to our expense structure. In addition to the continued pressure on margins, in 2011 the NCUA mandated another stabilization assessment to natural person credit unions, and our correspondent credit union, Southwest Corporate Federal Credit Union, after being put under conservatorship by the NCUA during 2010, was merged with Georgia Corp. Even with those changes, we were able to remain with our processor, and our membership base did not experience any changes in the manner in which their financial transactions were processed.

Throughout 2012, the staff and board will continue our diligent effort to assist the membership with all of its' financial services needs.

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The Credit Union began 2011 with Total Assets at \$ 47.8 million. Throughout the year it became evident that the explosive growth experienced during the past few years would continue, as the credit union would end the year at \$ 49.2 million in Total Assets. Due to economic conditions within the U.S. financial industry, member share deposit base continued to grow to \$ 44 million. With this increase in deposits, our investment and loan totals continued to increase to \$ 31.3 million and \$15.3 million respectively. These changes resulted in the liquidity of Service 1<sup>st</sup> remaining at all time highs.

The slight increase in loan demand throughout the second half of the year was an encouraging sight. That change coupled with consistent fee income and reduced expenses, during the second half of the year, helped moderate a large slide in investment earnings caused by the continued global low rate environment and the failure of so many credit unions and banks throughout the nation. With positive fee income trends and reduced expenses, our income from operations for 2011 was marginally positive. With continued pressure within the world markets as a whole, and historic decreasing investment yields, your Board of Directors held term share and regular share dividend rates steady during the second half of 2011. Despite these market conditions, your Board is optimistic that the compression within the interest rate markets throughout the next few years will stabilize.

After a very challenging four years, in 2011 the credit union began to show a profit from operations. Our operational profit of \$ 50,281.00, was reduced additionally by loan loss provisions made during the year totaling \$43,500.00, and Stabilization and Corporate capital losses totaling \$106,006.00. Overall profitability from operations over the past 2 years has not met original budgeted projections, due to prolonged unforeseen market conditions.

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Even with increasing loan volumes over the past 6 months and decreasing operational expenses, the low loan yields and decreasing investment yields made it necessary to make additional changes in 2011 that would affect the membership as a whole as well as all employees.

During 2011 your Board of Directors continued the 3-year amended operations plan that froze some salaries, cut benefits, reduced expenses, reduced the types of products offered, added charges for some services, increased fees in various areas, and placed emphasis on all the lending products we have to offer.

These changes did produce positive results in our income from operations, during the last quarter of 2011, and allow our capital ratio, prior to stabilization and insurance assessments, to remain relatively stable throughout 2011 at 10.35%. Our year end capital ratio of 10.35% continues to be above the Board of Directors adjusted target capital ratio of 10% and remains well above the 7% Credit Union Department “benchmark” and our 4% required “risk-based” capital ratio.

Our delinquency ratio has remained well below our one year average of .86%. Service 1<sup>st</sup> Credit Union was able to reduce our total delinquency ratio to .38% for year ended 2011. This level also continues to be much lower than our peer group average of 1.70%. Efforts to maintain this ratio throughout 2012, on loan underwriting procedures and collection measures, should result in continued stable levels.

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As a member and staff of Service 1<sup>st</sup>, I would also like to thank each of the volunteer Board of Directors for their dedication and service to the organization. Each board member accepts the responsibility, volunteers many hours of their time with no financial reward, and does this all for the benefit of the membership. If you see a Board member or staff member, be sure to thank them on a job well done. Your current Board of Directors is:

Mike Andreola - Chairman  
Tim Jones - Vice-Chairman  
Jo Ann East - Treasurer/Secretary  
David Roberts  
Fred Hite Jr.  
A. D. Williams  
Ross McClain  
Tammy Bryant  
Mike Glenday

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In conclusion, you, as owner/members, should be proud of the continued prosperity of your Credit Union, and should you have any questions, feel free to call any of your staff listed below:

Sherri Houston	Sr. Vice President	x6740
Deneice Little	Sr. Vice President	x4666
Linda Bundick	Mortgage Lender	x7014
Kim Hammack	Consumer Lender	x6715
Dianna Turner	Controller	x4628
Deavon McNair	Operations	x4688
Janet Leroy	Head Teller	x7006
Susan Ingram	Member Services	x4677
Karen Lopez	Member Services/Lending	x4706
Tina Moore	File Clerk/Mbr Svc./Recpt.	x6705
Steffany Smith	Wesley Drive-up teller	455-1730
Jeneice Holley	Receptionist/Member Svc.	X7023
Joyce Perez	Teller/Asst./Accounting	x7006
Nancy Kennedy	Management Asst./Operations	x7020
Donna Ross	Wesley Drive-up teller	455-1730
Andrew Penland	Teller/Asst. Investments	x7006
Melonie Murray	Teller/Operations/Collections	x7024

Mike Bailey, President x4687

