

Report of the Treasurer

Larry Gratz

As in previous years, I am pleased to report that the results for the Credit Union of Denver (CUD), fiscal year 2010, were strong in relation to the many problems within the financial community as a whole. In 2010, 157 banks and 28 credit unions failed. The CUD, on the other hand, increased its Net Worth Ratio from an adjusted 9.43% at the end of 2009 to 9.75% at the end of 2010.

This increase in Net Worth Ratio was accomplished using a conservative approach of investing and lending – an approach that the CUD has employed for many years and that we should not abandon.

As was the case last year, however, our loan program has not advanced in the way we had originally hoped. In 2009 our outstanding loan portfolio fell by about \$2 million. In 2010 the loans outstanding fell again by another \$12.5 million. This is a trend that causes some consternation, since we are philosophically married to the concept of granting loans as the best driver for improving Credit Union income. An ever-increasing and solidly performing loan portfolio also allows us to increase the interest rates we pay our members.

For the past several years we have been unsuccessful in increasing loans outstanding. All our well-intentioned promotions, good rates, and congenial and knowledgeable staff have not as yet turned this trend around. It is time to be realistic about whether this trend may be indicative of consumer behavior that is beyond our control.

The Current Consumer Debt Trend

To analyze and project a consumer debt trend, the Federal Reserve Board collects household debt information. As stated by the Federal Reserve on its website, the ideal data set for such a calculation would have the required payments on every loan held by every household in the United States. Such a data set is not available, and so what the Federal Reserve provides is an estimate, through statistical sampling, of the current debt service ratio faced by the majority of Americans.

This estimate may be useful to the CUD. In my opinion the two most important and germane data sets for our purpose are the debt service ratio (DSR) and financial obligations ratio (FOR).

- The household debt service ratio is an estimate of the ratio of debt payments to disposable personal income. Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt.
- The financial obligations ratio adds automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance, and property tax payments to the debt service ratio.
- The homeowner mortgage financial obligations ratio includes payments on mortgage debt, homeowners' insurance, and property taxes, while the homeowner consumer financial obligations ratio includes payments on consumer debt and automobile leases.

The Federal Reserve publishes the statistics for each quarter, beginning with the year 1980 all the way through the last quarter of 2010. The years in which we are most interested for the purposes of this report are the recent period of recession from 2007 to 2010. To summarize just two ratios, the household debt service ratio from the first quarter of 2007 to the last quarter of 2010 fell about 15%, and the homeowner consumer financial obligations ratio fell about 20% during the same period.

What this tells us is that a majority of Americans are paying off their mortgage, automobile and consumer debts – and they are not taking out new loans. It is difficult to predict when and if this consumer debt trend might end.

The numbers reported by the Federal Reserve more than suggest that increasing loans in an environment of decreasing individual personal debt is unrealistic. It would be foolish to predict that loans will increase until we see a reversal of these statistics. It would seem reasonable to assume that the downward leveraging of personal debt will slow and probably reverse when we move toward full employment. If this is true, then the CUD has many years ahead before we can begin to significantly grow loans.

Our conservative approach of investing and lending is timeless and allowed us to stand out in the financial community while other institutions continue to falter in this tough economy. Let's look forward to a good year.

The opinions presented above should not be construed to be those of management or the Board as a whole, but are those expressed independently by the Treasurer of the Credit Union of Denver

Report of the Supervisory Committee

Jacqueline Ganger, Chairperson

The Supervisory Committee's duty is to review and evaluate the performance of the credit union. We determine that accounting records and reports are not only prepared promptly, but that they accurately reflect operations and their results. Our committee determines that established internal controls are maintained and adequately protect the credit union and its members. The committee accomplishes these standards by ensuring that periodic financial and internal audits are performed.

In 2010, the committee once again retained Tinucci, Jones and Company, P.C., to perform an annual audit of the credit union's financial statements. We also retained Credit Union Resources, Inc. to perform the monthly audits. The monthly audits are directed by the committee and may review State and Federal regulation compliance issues and specific areas of operations. Our goal is to ensure that the credit union's operations remain efficient and safe. I am happy to report that there were no significant findings this year.

I would like to thank the management and the staff for their hard work and dedication. I would also like to thank the volunteers who make up the Board of Directors, the Credit Committee and my fellow Supervisory Committee members for their time, wisdom, knowledge, and their expertise in making the Credit Union of Denver the best that it can be. Our Supervisory Committee members are Donna Piazza, Philip Wilson, Don Petersen, Sharon Reimer and Robin Morthland.

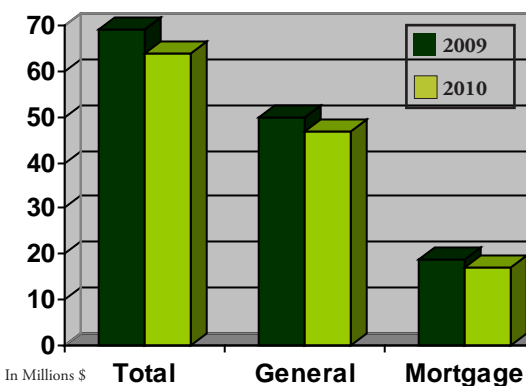
Report of the Credit Committee

Pauline Borquez, Chairperson

The Credit Committee has continued to face difficult and challenging times as the extraordinary economic conditions continue to be uncertain. As a result of the fallout from the economic downturn loan demand has been weak as many consumers adjust their personal spending.

The Credit Committee continues to operate with the vision of "People Helping People." We continue to believe that working with our members to meet their lending needs will build a secure, safe, and strong credit union for tomorrow.

I would like to thank all of the Credit Committee volunteers for their hard work and dedication over the last year. Our members are Lee Allen, David Domagala, Cynthia Harris, Sheila Perry, and Dee Purdy.



Looking Back at 2009 & 2010

| Category | 2010 | 2009 |
|-----------------------|-------|------------------|
| Total Loans | | |
| 2010 | 4,182 | \$ 63,728,697.01 |
| 2009 | 4,401 | \$ 69,039,254.17 |
| General Loans | | |
| 2010 | 3,956 | \$ 46,613,643.18 |
| 2009 | 4,170 | \$ 50,239,162.90 |
| Mortgage Loans | | |
| 2010 | 226 | \$ 17,115,053.83 |
| 2009 | 231 | \$ 18,800,091.27 |

2010 Annual Report

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Report of the President/CEO

Keith Cowling

In September 2010, the National Bureau of Economic Research announced that the Great Recession officially ended in June 2009. However, the fall-out from the worst economic downturn since the 1930's persisted in many areas. The unemployment rate was above 9% from May 2009 through all of 2010...the longest stretch since World War II. After increasing 32% in 2009, personal bankruptcy filings grew by another 9% in 2010. Home foreclosures hit a record high in 2010 as nearly 2.9 million foreclosure notices were filed and over one million people lost their homes.

All the problems of the last couple years took its toll on financial institutions. There were 157 bank failures in 2010, the most since the end of the savings & loan crisis in 1992, and up from 140 failures in 2009. Credit unions were not immune to the effects of the recession as 28 credit unions failed in 2009 and another 28 failed in 2010.

Despite all the challenges, Credit Union of Denver had a very respectable year:

- Net income for 2010 was nearly \$3.4 million, giving us a Return on Assets (ROA) of 0.66% compared to our national peer group average of 0.57%.
- Our Net Worth Ratio grew to 9.75% as of year-end 2010...well above the 7.0% regulatory minimum for a well-capitalized credit union.
- Our asset quality remained strong. Loan delinquency was less than 1.5% of loans outstanding as of year-end and loan losses for 2010 were less than 1% of average loans outstanding during the year. Both figures were lower than our national peer group.
- Membership increased by 1,360 to end the year with nearly 49,000 members.

Your credit union has been successful and remained strong through these turbulent times by staying true to our purpose of providing more overall value for our members. We did not take excessive risks or short cuts, but focused on the fundamentals of prudent lending while keeping operating expenses low, membership returns high and making member satisfaction a top priority.

Operating expenses in 2010 were more than 9% under budget for the year and only 1.6% above 2009's actual expenses. Our ratio of operating expenses to assets was 2.79% in 2010 compared to our national peer group average of 3.23%. This cost advantage helped us offer better rates and charge fewer fees than most other financial institutions.

Although we have weathered the recession and financial crisis very well, many storm clouds remain. One of our biggest challenges is growing our loan portfolio as interest on loans is a vital source of income for the credit union. High unemployment, declining home values and efforts by many people to reduce their debt load has softened loan demand during the last couple years. Our loans outstanding declined by nearly 5% in 2010. Rather than pushing our members to take on more debt, we have encouraged members to move their existing loans from other lenders to the credit union in order to improve their financial position by reducing their interest rates and lowering their monthly payments. Although this has been a successful strategy, loan growth remains challenging.

Looking forward to 2011...we will celebrate our 80th anniversary in August. This is an impressive achievement, especially in light of all the recent financial institution failures. However, our longevity is not simply about survival. It is the result of a long-term goal of providing real value for our members while maintaining the financial strength of the credit union. With that in mind, I want to thank our volunteer Board of Directors for their vision and commitment to the credit union and its members. I also want to thank our Supervisory Committee and Credit Committee along with the credit union staff for their hard work and dedication. Lastly, I want to thank you, our members, for your continued loyalty and support.

Report of the Chairman

Joseph Walchuk

2010 has been a year of successes and challenges for the Credit Union of Denver. Net income for the year was \$3,400,000. This income enabled the credit union to build its reserves. The net worth of the Credit Union grew to \$49.4 million to protect our members in cases of continued downturns and to better provide the products and services that will help you reach your financial goals. Net loan losses were 11% below 2009. These lower losses on loans means we are able to provide better loan and savings rates. Our investment in Centennial Lending, a credit union service organization has also enabled us to provide more first mortgages and business loans.

The continued state of the economy has provided challenges for the credit union. Decreases in lending and low investment rates have made it very challenging to generate income to pay dividends to those members who have invested their savings. Thanks to management and staff we have been able to meet these challenges and provide some of the best rates in the area, without charging larger fees for services.

It was another year in which fall-out from the bank and real estate crisis had a large impact on the credit union. New laws and regulations intended to prevent such crises in the future resulted in substantial increases in cost and effort to implement.

What are the plans for 2011? We are looking for additional ways to continue providing quality loans at reasonable rates to our members. To provide the services many of you want and need we will be upgrading our online banking services, including mobile banking access. In order to encourage savings and investment by our young members we are starting a high yield youth account to help them recognize the benefits of saving. We will continue to be cost conscious and keep our expense to asset ratio as low as possible and return as large a percentage of our net income as possible to you.

I thank you our members, the management and staff, my fellow Board members and the volunteers of the Supervisory Committee and the Credit Committee for making the Credit Union of Denver one of the first class financial institutions in the state. I also wish you all a very successful 2011.

Statement of Financial Condition at December 2009 & 2010

| | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Assets | | |
| Loans to members, net allowance for loan losses | \$ 245,819,303 | \$ 258,535,316 |
| Business loans to non-members | 2,073,640 | 2,077,838 |
| Cash | 35,393,489 | 2,195,334 |
| Investments, SunCorp Credit Union | 25,522,443 | 95,998,106 |
| Securities available-for-sale | 185,509,387 | 115,893,497 |
| Investments, other | 1,691,776 | 41,695,207 |
| Accrued interest receivable | 2,082,934 | 2,134,883 |
| Property and equipment, net | 3,344,576 | 3,611,120 |
| NCUSIF deposit | 4,332,836 | 4,048,724 |
| Other assets | 1,316,125 | 824,370 |
| | <u>\$ 507,086,509</u> | <u>\$ 527,014,395</u> |
| Liabilities and Member's Equity | | |
| Members' shares and savings accounts | \$ 453,872,596 | \$ 435,970,141 |
| Non-members' savings accounts | 250,000 | - |
| CU SIP loan | - | 40,000,000 |
| Accrued expenses and other liabilities | 2,598,775 | 2,513,071 |
| | <u>\$ 456,721,371</u> | <u>478,483,212</u> |
| Members' equity, substantially restricted | 50,365,138 | 48,531,183 |
| | <u>\$ 507,086,509</u> | <u>\$ 527,014,395</u> |

Statement of Income at December 2009 & 2010

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Interest and dividend income: | | |
| Loans to members and others | \$ 16,361,256 | \$ 17,181,161 |
| Investments | 3,955,238 | 5,163,839 |
| Total interest dividend income | <u>20,316,494</u> | <u>22,345,000</u> |
| Interest and dividend expense: | | |
| Members' shares and savings accounts | 4,972,008 | 6,821,801 |
| Other borrowed funds | 4,508 | 232,574 |
| Total interest and dividend expense | <u>4,976,516</u> | <u>7,054,375</u> |
| Net interest income | 15,339,978 | 15,290,625 |
| Provision for loan losses | 2,708,000 | 3,659,000 |
| Net interest income after provision for loan losses | <u>12,631,978</u> | <u>11,631,625</u> |
| Non-interest income: | | |
| Fees for member services | 1,832,384 | 1,877,705 |
| Plastics and outlet income | 2,715,119 | 2,467,549 |
| Other operating income | 291,859 | 185,627 |
| Gain (Loss) on sale or exchange of assets | 363,118 | (447,020) |
| Total non-interest income | <u>5,202,480</u> | <u>4,083,861</u> |
| Non-interest expense: | | |
| Compensation and benefits | 6,485,398 | 6,308,109 |
| Office occupancy expense | 1,045,638 | 1,008,862 |
| Service center, ATM and plastics expenses | 2,566,785 | 2,859,304 |
| NCUSIF premium assessment | 1,114,174 | 607,309 |
| Other operating expenses | 3,226,252 | 3,425,481 |
| Total non-interest expense | <u>14,438,247</u> | <u>14,209,065</u> |
| Income from continuing operations, before extraordinary item | 3,396,211 | \$ 1,506,421 |
| Extraordinary Item: recapitalization of NCUSIF Deposit | - | 2,362,712 |
| Net income | <u>\$ 3,396,211</u> | <u>\$ 3,869,133</u> |
| Other comprehensive income: | | |
| Unrealized (loss) gain on securities: | | |
| Unrealized holding (losses) gains arising during period | (1,588,181) | (579,085) |
| Equity share of unrealized gains of CUSN | 25,925 | 57,971 |
| Other comprehensive (loss) income: | <u>(1,562,256)</u> | <u>(521,114)</u> |
| Comprehensive income | <u>\$ 1,833,955</u> | <u>\$ 3,348,019</u> |

Statement of Members Equity at December 2009 & 2010

| | Regular Reserve | Accumulated Other Comprehensive Income | Undivided Earnings | Total |
|-----------------------------|----------------------|--|----------------------|----------------------|
| Balances, December 31, 2008 | \$ 14,564,152 | \$ 3,010,417 | \$ 27,608,595 | \$ 45,183,164 |
| Statutory transfers, net | - | - | - | - |
| Net income | - | - | 3,869,133 | 3,869,133 |
| Other comprehensive income | - | (521,114) | - | (521,114) |
| Balances December 31, 2009 | 14,564,152 | \$ 2,489,303 | \$ 31,477,728 | 48,531,183 |
| Statutory transfers, net | - | - | - | - |
| Net income | - | - | 3,396,211 | 3,396,211 |
| Other comprehensive (loss) | - | (1,562,256) | - | (1,562,256) |
| Balances, December 31, 2010 | <u>\$ 14,564,152</u> | <u>\$ 927,047</u> | <u>\$ 34,873,939</u> | <u>\$ 50,365,138</u> |