

2011 Annual Report

**BANK LIKE
YOU OWN
the PLACE...
because
YOU
do!**

fscu.com



Annual Meeting Agenda

- 2011 / 2012 Highlights
- Call to order / ascertain quorum
- Designation of secretary/
parliamentarian
- Prior meeting's minutes*
- Chairman's Report
- President/CEO's Report
- Supervisory Committee Report
- FSCU Fiscal 2010 vs 2011
 - Mission and Values
- Unfinished Business
- New Business
 - Election of Officials
- Adjournment
- Door Prize Drawing

* Enclosed Supplement

2011/2012 Highlights

2011 Highlights

- Assets Grew 6.37%
- \$1.5 million in Dividends to Members
- \$19,148,789 in Consumer Loan Growth
- 85,216 Telephone Inquires Handled

2012 Highlights

- Development of TV and Print Campaign
- Upgrade of Mobile Banking System
- Enhancement of Mortgage Origination
and Processing
- "Instant Issue" Debit Cards in 5
Additional Branches



Chairman's Report

Wayne Taylor
CHAIRMAN OF THE BOARD

Serving on this board of directors is very rewarding ... but not in a financial sense! As you may or may not know, your board of directors is completely voluntary. That's yet another difference between credit unions and banks! And it's an important one.

Like you, each of us is a member of First Service Credit Union. We have our savings here. We may have loans here. And we have a vested interest in overseeing OUR financial institution. We take that responsibility very seriously. It is our fiduciary responsibility to each and every one of you to make sure we are establishing strong, clear policies that direct the management and staff in their day-to-day operations of First Service Credit Union.

We receive periodic training and frequent regulatory updates to ensure we have the knowledge to uphold our duties on your behalf, particularly in the wake of an avalanche of new regulations as a result of the Wall Street meltdown.

Our duty is also to uphold the mission of First Service Credit Union. In this high speed, high tech world, it would be easy to lose our direction. Even as our credit union seeks to offer more convenience to the members, we must never lose track of our core mission which is to serve people.

I'd like to think that our "people helping people" philosophy and mission contributed to the mass influx of new credit union members this past fall. We are a not-for-profit financial cooperative focused on our members ... real people with real needs. That mission obviously has begun to make sense to a huge number of people. While they initially may have abandoned their bank because of ridiculous fees on their debit or credit cards, it is our job as members of their NEW credit union to help them understand that the credit union membership means more than simply lower fees.

We are well positioned to be your primary financial service provider. In other words, we can do what a bank does, but we do it better because our credit union is not out to nickel and dime our members in order to maximize profits.

Most importantly, we must help those around us understand that being part of the credit union means you are treated as a person...and not as a faceless number viewed as a potential profit center to boost a bank's stock value. ▶

Chairman's Report

◀ **WE ARE OWNERS OF FIRST SERVICE CREDIT UNION.** Each and every one of us.

As I bring this speech to a close, I want to assure you that I, along with my fellow board members understand that we serve entirely at your pleasure. At the end of the day the only investors we have to satisfy are our members. **YOU AND ME.**

Our credit union's management and staff has done an excellent job of helping First Service Credit Union emerge from a tough recession while being accountable to the high standards demanded by our membership and board of directors. I thank them just as I thank you for taking the time to be involved in your credit union. We should all appreciate that thanks to such a "team" effort, we are looking forward to a successful 2012.

Wayne Taylor
Chairman of the Board

Board of Directors



Wayne Taylor
CHAIRMAN



David Itz
VICE CHAIR



Paul Love
SECRETARY



Gary Godwin
TREASURER



Jack Bartell
DIRECTOR



Doug Esmond
DIRECTOR



James Harkrider
DIRECTOR



Janet Hill
DIRECTOR



Andrea Mangiavacchi
DIRECTOR



Thomas Smith
DIRECTOR

2012 PROPOSED CANDIDATE TO BOARD OF DIRECTORS



Merv Swan

President & CEO's Report



David Bleazard
PRESIDENT/CEO

Reflections on 2011

As we reflect on the past year, we are reminded that 2011 was an outstanding year filled with significant accomplishments. First, we completed the merger partnership of two large credit unions to create the new First Service Credit Union. The merger entailed not only combining data processing systems, and products and services, but also combining employees and cultures all while providing you with the “Outstanding Service” you deserve.

Second, we combined product lines to create world-class offerings with industry leading rates and terms. Unfortunately, as the banking sector has continued to struggle, they have resorted to imposing substantial new fees on consumer accounts, which have negatively impacted millions of everyday American consumers. Fortunately, your credit union has continued to thrive and is still offering many products and services with low or no fees. In fact, FREE checking is still alive and well here at your credit union.

Third, we have seen solid growth in nearly every aspect of credit union operations. Assets finished 2011 at \$317 million, up \$19.04 million or 6.4%. Member deposits finished at \$278 million, up 7.3 million or 2.7%. Loans ended the year at \$215 million, up just under \$1 million or .4%. Net income finished at \$1,039,420 which added to reserves nicely, and retained earnings or net worth ended 2011 at just over 8%. All considered this is an extraordinary result in the first year of the merger partnership.

Fourth, we have seen many other notable successes, such as the addition of the new Halliburton Northbelt Branch to serve the members of one of our core sponsor companies. We have seen huge success with the Financial Planning Services team that is helping members establish and plan for future financial goals. Most wonderfully, in our annual survey of the membership, we received the highest member service ranking in recorded history!

Looking to the Future

As we look to the future, we expect to continue to improve the credit union by pursuing a path of continued growth and improved earnings. A major effort is being made to improve the lending process to get credit into our members' hands for all the important things in life such as, college, homes, autos, boats, credit cards, and more.

Bank like you Own the Place

We have plans to improve our eBranch and electronic banking services, and implement innovative new products and services. These efforts will make it easier for you to do business with FSCU whether you're around the block or on the other side of the world. And rest assured, these exciting improvements will not come by nickel and diming our members.

Rather, we will be hard at work reducing costs and streamlining operations. In fact, we have initiated a long-term strategy of improving efficiency and reducing mistakes in our efforts to serve you by implementing the Lean Six Sigma management philosophy. This will bring faster and more effective services with fewer errors and less waste.

“Bank like you own the place” Finally, we want to bring attention to our marketing and information campaign that highlights the differences and benefits of credit union membership. Our new commercials use the slogan “Bank like you own the place, because at First Service Credit Union you do” to explain one of the key factors that make credit unions different.

When you become a member of a credit union, you are more than just a customer, you become a member owner. In fact, the Board of Directors are members just like you that serve the credit union to help it succeed. Because we are a not-for-profit financial cooperative, we do not have stockholders and are, therefore, freed from Wall Street pressures to maximize profits. As a financial cooperative our structure is different and so our goals are different. A well known maxim has guided credit unions for years — “Not for profit, not for charity, but for service”. The power of ownership means you have a voice in the organization and it assures that you are our only focus. As a not-for-profit entity, the staff is solely focused on serving you, the member owner. Why not let your friends and family experience the power of member ownership today by encouraging them to join our ranks.

I look forward to a bright future serving the financial needs of our growing membership.

A handwritten signature in black ink, appearing to be "J. J. J. J.", is centered at the bottom of the page.

Statements of Financial Condition

As of December 31, 2011

Members: 45,184

Assets

Cash	21,260,643
Investments	55,853,930
Net Loans	213,755,893
Accrued Interest Receivable	884,150
Premises and Equipment, Net	10,699,776
National Credit Union Share Insurance Fund Deposit	2,771,226
Other assets	12,709,832
Total Assets	<u>317,935,450</u>

Liabilities & Members' Equity

Liabilities	14,349,978
Members' Shares and Deposit	278,018,347
Member's Equity	25,567,125
Total Liabilities & Members' Equity	<u>317,935,450</u>

Income and Expense Statement

Total Income	21,082,943
Operating Expenses	(16,283,014)
Provision for Loan Losses	(2,372,295)
Interest and Dividends Expense	(1,590,002)
Non-Operating Income (Loss)	201,788
Net Income	<u>1,039,420</u>



Steven L. Nearman, CPA, CFE
Cecil D. Maynard, CPA, MPA, CFE, FCPA
Christopher J. Vallez, CPA, MBA, CICA
Jennifer N. Hoskins, CPA, MPA, CTGA
Ellen E. Vargo, CPA, CFE, FCPA

INDEPENDENT AUDITOR'S REPORT

February 23, 2012

Supervisory Committee
First Service Credit Union
Houston, TX

We have audited the accompanying statement of financial condition of First Service Credit Union as of December 31, 2011, and the related statement of income, members' equity, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Service Credit Union as of December 31, 2011, and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs

Atlanta

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Supervisory Committee Report

The Supervisory Committee monitors the credit union's operations and procedures on behalf of the membership. Our responsibilities include overseeing the direction and focus of the internal audit function, initiating an annual external audit of the credit union's financial records and control structure, commissioning member account verification and ensuring an ongoing review of closed accounts. We also assist members who have questions regarding the credit union operations.

Each year we have an annual audit performed by an independent CPA firm to ensure that the credit union's financial statements accurately and fairly present the financial condition of the credit union and that management practices and procedures safeguard members' assets. This past year, we contracted Nearman, Maynard, Vallez, CPAs & Consultants, P.A. to conduct the annual financial audit.

The financial statements as of December 31, 2011 fairly present, in all material respects the credit union's financial position, results of operations and cash flows.

I extend thanks to the members of the Supervisory Committee, the Board of Directors and the credit union staff for their cooperation, assistance and support.

David Itz

Chairman, Supervisory Committee



David Itz
CHAIRMAN SUPERVISORY
COMMITTEE



Doug Esmond
MEMBER



"Mack" Mayhew
MEMBER



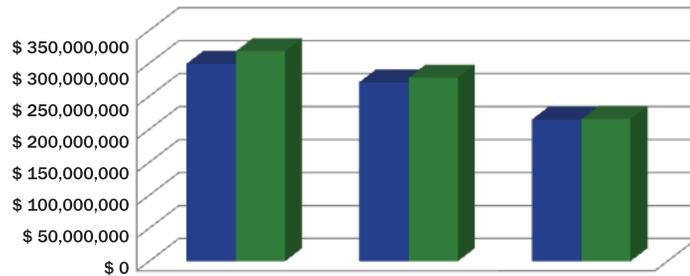
Douglas Chee
MEMBER



Marco Casso
MEMBER

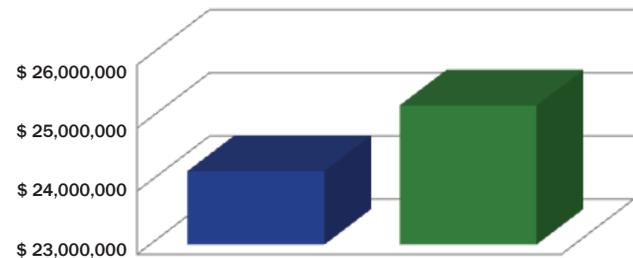


FSCU Fiscal 2010 vs 2011



	Assets	Deposits	Loans
■ Dec 31 / 2010	\$298,897,342	\$270,811,136	\$214,462,377
■ Dec 31 / 2011	\$317,935,450	\$278,018,347	\$215,252,611

Net Worth 2010 vs 2011



	Dec 31/2010	Dec 31/2011
	\$24,162,257	\$25,201,678

Mission and Values

Our Mission

Provide Financial Services
that Enhance Members' Lives

Our Values

- Treat Others with Honesty and Respect
- Serve with Accuracy, Integrity and Safety
- Maintain Financial Stability and Strength
- Comply with Laws, Regulations and Policies

Our Branches

Northwest Branch/Corporate Office
9621 W Sam Houston Parkway N
Houston, TX 77064

Clinton Branch
4101 Clinton Drive
Houston, TX 77020

KBR Tower Branch
601 Jefferson Street
Basement Level, Suite A-104
Houston, TX 77002

Brookshire Branch
3923 5th Street
Brookshire, TX 77423

CenterPoint Energy Branch
1111 Louisiana, 5th Floor
Houston, TX 77002

The Woodlands Branch
9110 Grogan's Mill Road
The Woodlands, TX 77380

Bellaire Branch
4300 Bissonnet
Bellaire, TX 77401

Gulf Freeway Branch
8980 Clearwood Street
Houston, TX 77075

Halliburton Oak Park Branch*
10200 Bellaire Boulevard
Room 1, NW 30
Houston, TX 77072

South Texas Project Branch*
12090 FM 521
Wadsworth, TX 77483

North Belt Branch*
Life Center Building
3000 N Sam Houston Parkway E
Houston, TX 77032

Fry Road Branch
7025 Fry Road
Cypress, TX 77433

***Restricted Access**



713.676.7777 ■ www.FSCU.com



Your savings federally insured to at least \$250,000 and backed by the full faith and credit of the United States Government. National Credit Union Administration, a U.S. Government Agency. First Service Credit Union is an Equal Housing Lender.