



VSECU
REDEFINING BANKING

2010
Annual Report
of VSECU



Chairman's Report

M. Jerome Diamond

For over 64 years VSECU has been in the business of serving its members by providing financial products and services to help individuals and families reach their personal goals. With each passing year our financial cooperative has grown — in both stable and uncertain times and in strong and weak economies. This past year was no exception. In good and bad times, consumers increasingly recognize the benefits offered by a not-for-profit banking alternative. And we are thrilled to be able to say that we are the only credit union that can provide this alternative solution to every person in Vermont. Nearly 48,000 Vermonters rely on us today.

Our focus to bring greater value to all Vermonters and the communities in which we live was not derailed by the slow and anemic recovery experienced in 2010. In a time where some organizations' natural tendency was to retreat or pull back until the skies cleared, we forged ahead with our plans to tell the world who we are and who could do their banking with us. We stayed on track to develop a new website with improved online features so that regardless of where any person lives, he or she can do business with VSECU without ever having to step into a branch. We kept the momentum going to approve the construction of a new branch in Rutland to begin in 2011. We reached out to support communities with our resources to reduce hunger, improve healthcare access for the uninsured, educate the young on financial literacy and sponsored many small town activities across Vermont. But of all our achievements, none is greater than the support we give to each individual member.

We worked hard to show our members that we are here for them now and for years to come. The economic curve ball thrown our way two years ago has had both a positive and negative impact on our members. Although Vermont experienced a much lower unemployment rate of 5.7% compared

to the national rate of 9.8% by year-end, we saw families who struggled and feared how to make ends meet with lost income. We helped by keeping our loan rates low, and we experienced booming refinance activity in mortgage and auto loans.

One of the upsides of the curve ball is that it has changed consumer behavior, and members are saving more and de-leveraging by paying off debt. We continue to strive to make both savings and lending rewarding and affordable at VSECU.

As we continued to grow and expand, we paused internally for a reality check at VSECU this past year. It's important to your Board and everyone working for your benefit to fully understand who we are and what we're all about, and not lose our way as a result of growth. We spent many months revisiting what members have said about us, their concerns, dreams and needs, their praise and their complaints. Our purpose must be in alignment with the people we serve and the attributes that are at the core of our existence.

On behalf of the Board of Directors and all staff at VSECU, I say with great pleasure that we have reaffirmed our commitment to our guiding light — you. Our purpose and mission today and in the future is to maximize the benefits of cooperative banking to help improve the quality of life for all Vermonters.

Thank you for trusting us in helping you and our community thrive. We truly believe that everything unique about a credit union is amplified at VSECU, and we're eager to demonstrate how we're redefining banking in a world that needs it more today than ever before.

Respectfully submitted,
M. Jerome Diamond, Chairman, Board of Directors



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Treasurer's Report

Wayne C. Hersey

Despite the economic uncertainty that existed at both the State and National levels throughout much of 2010, your credit union experienced strong growth in most of the key financial measurements. Total assets grew by better than 9% and ended the year at a new record level of nearly \$539 million. Total deposits increased \$42.3 million to nearly \$481 million, which represented a 9.6% growth factor for the year. Total loan balances increased \$51.4 million, or by 16%, reaching a year-end level of \$362 million. Mortgage and vehicle lending combined accounted for 80% of the growth in loan balances during the year.

As we enter the New Year your credit union's liquidity position remains quite adequate. The combination of existing short term investments, operational cash flows and unused borrowing capacity provide the resources necessary to meet members' loan requests and easy access to funds on deposit.

Your credit union achieved 2010 earnings of \$2.9 million, which was about 25% more than previously budgeted and about 11% more than the 2009 results. The 2010 earnings would have been \$0.6 million higher if it had not been for additional assessments made by the National Credit Union Administration. These assessments were made to "shore" up the deposit insurance fund that was adversely impacted by the recent financial crisis.

A key ratio that declined slightly in 2010 from the previous year is the relationship of accumulated undisbursed earnings to the total resources or assets of the organization. Despite a slight reduction in this capital ratio, your credit union remains well capitalized. This position provides a sound foundation for future growth.

Respectfully submitted,
Wayne C. Hersey, Treasurer, Board of Directors

Supervisory Committee Report

Normand Desrochers

According to the provisions of Title 8, Vermont Statutes Annotated, Chapter 221, Section 31306, the Supervisory Committee oversaw an extensive audit of the books and affairs of VSECU for the twelve months ending August 31, 2010, performed by Wolf and Company of Boston, Massachusetts. We have reviewed the audited financial statements and supporting footnotes to the financial statements. The Committee has presented the results of the audit to the Board. The Committee is satisfied that the work received from the audit firm is accurate and complete.

A copy of the opinion and financial statement audit report presented by Wolf and Company is available upon request. Please contact the credit union for more information.

Respectfully submitted,
Normand Desrochers, Chair, Supervisory Committee
Joseph Healy
Sarah Miller



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Statement of Financial Condition

	2010	2009
Assets		
Cash and Cash Equivalents	\$ 19,220,008	\$ 17,947,079
Investments	\$ 138,204,574	\$ 146,352,370
Loans to members, net of the allowance for loan losses	\$ 342,321,110	\$ 302,480,500
Loans held for sale	\$ 18,604,342	\$ 7,102,365
Property and equipment	\$ 9,622,308	\$ 9,381,488
National Credit Union Share Insurance Fund deposit	\$ 4,574,763	\$ 4,157,727
Other Assets	\$ 6,095,200	\$ 5,238,173
Total Assets	\$ <u>538,642,305</u>	\$ <u>492,659,702</u>
Liabilities and Equity		
Liabilities	\$ 3,140,187	\$ 2,674,321
Borrowed Funds	\$ 9,282,394	\$ 9,858,732
Commitments and contingent liabilities	\$ 0	\$ 0
Members' shares	\$ 480,946,093	\$ 438,571,885
Equity		
Retained earnings, substantially restricted	\$ 43,569,220	\$ 40,664,758
Other Comprehensive Income	\$ 33,808	\$ 53,433
Net unrealized gains (losses) on available-for-sale investments	\$ <u>1,670,603</u>	\$ <u>836,573</u>
Total Equity	\$ <u>526,219,724</u>	\$ <u>480,126,649</u>
Total Liabilities and Equity	\$ <u>538,642,305</u>	\$ <u>492,659,702</u>
Statement of Income		
Interest Income		
Interest on loans to members	\$ 17,545,876	\$ 18,254,154
Interest on investments and cash equivalents	\$ <u>2,809,521</u>	\$ <u>2,427,872</u>
	\$ 20,355,397	\$ 20,682,026
Interest Expense		
Dividends on members' shares	\$ <u>6,547,899</u>	\$ <u>8,312,156</u>
Net Interest income	\$ 13,807,498	\$ 12,369,870
Provision for loan losses	\$ <u>400,000</u>	\$ <u>254,833</u>
Net interest income after provision for loan losses	\$ 13,407,498	\$ 12,115,037
Non-interest income	\$ <u>5,912,575</u>	\$ <u>4,975,020</u>
	\$ 19,320,073	\$ 17,090,057
General and administrative expenses	\$ <u>16,415,612</u>	\$ <u>14,478,621</u>
Net Income	\$ <u>2,904,461</u>	\$ <u>2,611,436</u>



Credit Committee Report

Nellie Gillander

Although consumer demand to finance new purchases was low in 2010, we still experienced healthy loan volume as a result of the low interest rate environment. We encouraged members to take advantage of this opportunity to save money and refinance existing loans with other lenders to VSECU.

The area with the most activity was in the mortgage area. We originated 1,583 mortgage loans for a total of \$171.3 million. Most of the business came from first mortgages of \$148.8 million, and we generated another \$22.5 million in home equities. Approximately 82% of the first mortgage activity was refinanced from other lenders or mortgages previously held by VSECU.

Consumer loan activity was strongest during the second half of the year exceeding the budgeted forecast by 20%. Total consumer loan production, excluding credit cards and lines of credit, was \$58.8 million. Most of this loan demand was to purchase new or used vehicles or to refinance existing auto loans with other lenders.

Several operational activities also helped spur loan activity. VSECU has expanded its relationship with auto dealers around the state to offer greater convenience through indirect lending. As a result, Vermonters can purchase a new or used vehicle and obtain financing from VSECU through this program at participating dealers.

Another step we took in 2010 to improve access and convenience was to offer secure online lending. Existing and new members can apply for a mortgage, auto loan, credit card or other type of loan online any day of the week without ever having to visit a branch.

A fairly new but growing area for us is in the area of energy efficiency programs. We've partnered with a handful of statewide organizations that promote the benefit of efficient energy and offer discounted loan rates for energy improvement projects. We look forward to expanding our role in helping more Vermonters finance their green initiatives.

We're helping members and lending responsibly. Two key metrics that illustrate our well-managed lending include a low delinquency rate of 0.62%, down slightly from the previous year, and an increase in the total loans-to-shares ratio of 75.2% from 70.8%. VSECU is not only a safe place to save — but also a safe place to borrow.

*Respectfully submitted,
Nellie Gillander, Chair, Credit Committee
Richard J. Cron
Helen Weed*



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President/Chief Executive Officer's Report

Steven D. Post

The year 2010 was a great year for VSECU as indicated by our financial performance, lending activity and membership growth. Thank you for relying on us to help you navigate these unusual and difficult economic times. We strive to be the best place for you to do your banking, and we appreciate having the opportunity to demonstrate that commitment every day.

It's hard to imagine a more appropriate time for Vermonters to put their energy and resources behind building a banking co-op that serves everybody in the state, is chartered right here in Vermont and is committed to credit union principles. This is the time for VSECU to take center stage in the Vermont financial services industry. The events of the past few years should make it clear to everyone that banking is not about short-term profits, speculative investments or blue-light specials. Banking at VSECU is about helping people improve their quality of life and supporting our communities. Our approach is about promoting thrift, using credit wisely and helping Vermonters prosper.

With those principles in mind we are setting out to redefine banking. Our reputation for prudent management and fundamental principles, honestly applied, is growing. Our membership grew at a faster monthly rate last year than any other year. Though there may be times we are imperfect, our intent is to always be your best banking alternative.

Looking ahead, I see a bright future for cooperative banking in Vermont and see VSECU at the forefront of that evolution. We'll continue to earn your trust by treating you fairly, equitably and with respect. We promise to walk the talk. We know our member owners will be watching us closely. We're

ready, excited and eager to meet and exceed these standards. I'm confident that 2011 will bring more evidence of why all Vermonters should belong to VSECU.

*Respectfully submitted,
Steven D. Post, President/CEO*



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Minutes of the Sixty-Third Annual Meeting of the Members of VSECU

Convened March 24, 2010 — Reconvened April 21, 2010

The 63rd Annual Meeting of the members of the Vermont State Employees Credit Union was convened at the Barre Civic Center, Barre, Vermont, on March 24, 2010.

Board Vice Chairman Kimberly Cheney introduced himself and explained that Board Chairman Jerry Diamond was out of state and regretted being unable to attend the meeting. He thanked the audience for attending and expressed his appreciation to the staff of Sambel's Restaurant and Catering for bringing back prime rib to the Annual Meeting dinner. He then introduced the volunteer members of the Credit Committee, Supervisory Committee and Board of Directors:

Credit Committee

Nellie Gillander, Chair
Richard Cron
Helen Weed

Board of Directors

M. Jerome Diamond, Chairman
Paul Hill, Jr., Treasurer
Judy P. Rosenstreich, Secretary
Todd Bailey
Wayne Hersey
Agnes Hughes
Thomas Joslin
Terence Macaig
Robert Morgan
Giovanna Peebles

Supervisory Committee

Normand Desrochers, Chair
Joseph Healy
Jana Bagwell

He also introduced Jana Bagwell and Edward Friihauf, who had been selected by the Nominating Committee to fill two of the three positions on the Board of Directors that were up for election in 2010. The third candidate selected by the Nominating Committee was Thomas Joslin, who currently serves as a Director. Directors Hill and Hughes had chosen not to run for another term.

Cheney then called the 63rd Annual Meeting of the VSECU to order at 7:30 PM.

Determination of a Quorum:

Article 5; Section 1 of the VSECU Bylaws states that 1% of the membership must be present at the meeting in order to constitute a quorum. As of the meeting date, there were 45,863 members of the Vermont State Employees Credit Union, and therefore 459 members needed to be present to officially conduct the business of the Annual Meeting. Cheney stated that 137 member tickets had been sold for the dinner. There were another 13 members who had come for the meeting for a total of 150 members in attendance. He declared that a quorum was not present and noted that 1964 was the last time this size group of attendees would have constituted a quorum.

Cheney announced that the Annual Meeting would reconvene at 5:00 PM on the evening of Wednesday, April 21, 2010, on the third floor of the VSECU main office in Montpelier. He called for a motion to adjourn the meeting and set the date and time for the reconvened the Annual Meeting.

At 7:38 PM, Steven Post moved to adjourn the 63rd Annual Meeting and reconvene at 5:00 PM on Wednesday, April 21, 2010, on the third floor of VSECU's Montpelier Office. The motion was seconded by Edward Miller and carried.

Call to order of Reconvened Meeting:

At 5:00 PM on the evening of April 21, 2010, in the Third Floor Conference Room at the Montpelier Office of the Vermont State Employees Credit Union, Board Vice Chairman Kimberly Cheney reconvened the 63rd Annual Meeting of the VSECU and called it to order.



Minutes, *continued*

Proof of Notice of Annual Meeting & Determination of Quorum:

Cheney stated that the Annual Meeting had been reconvened in accordance with Article 5; Section 2 of the VSECU Bylaws. Notice for the date originally set for the meeting, March 24, 2010, had been mailed to all members and posted in the offices of the Credit Union. Certification will be kept on file at the credit union that both the posting and the mailing were done within the time frame set forth in the Bylaws. A quorum was not present at that time, and the time, date and location for the reconvened Annual Meeting was announced prior to the meeting being adjourned on March 24. Therefore the notice requirement for the reconvened Annual Meeting had also been met. He asked all members in attendance to raise their hands and announced that 16 members were in attendance when the meeting was called to order. In accordance with the Bylaws, Cheney declared that a quorum was present.

Appointment of Parliamentarian:

Cheney proposed the meeting be conducted under Robert's Rules of Order and would appoint a Parliamentarian if the need arose. There were no objections.

Reading of the Minutes of the 62nd Annual Meeting:

Cheney entertained a motion to dispense with the reading of last year's minutes and accept them as printed.

Judy Rosenstreich moved to approve the 62nd Annual Meeting Minutes; the motion was seconded by Wayne Hersey and carried.

Officer Reports and 2009 Annual Report:

Cheney stated that the Annual Report contained written reports from the Chairman, Treasurer, Supervisory Committee, Credit Committee and the CEO.

Cheney called for a motion to accept the reports as printed.

Giovanna Peebles moved to accept the Reports as printed. Joseph Healy seconded the motion, which carried.

Election of Officers:

Cheney stated there were three three-year positions up for election this year. He expressed his appreciation to the three members who served on the Nominating Committee: Chair Sarah Miller, Brian Aitchison and Robert Shattuck. He thanked them for their work, noting that the Report of the Nominating Committee was printed on the front side of the Agenda. The Committee had nominated the following three members: Jana Bagwell, Edward Friihauf and Thomas Joslin. He explained that the Bylaws also provide an alternate means by which a member can be nominated to serve as Director: submission of a petition to the Supervisory Committee. The Report of the Supervisory Committee also appeared on the front side of the Agenda. No members had submitted a petition.

The Nominating Committee had also selected one candidate for the single open position on the Credit Committee: Nellie Gillander.

Under these circumstances and in accordance with the Bylaws, a balloted election was not required. Cheney called for a motion for the Secretary to cast one ballot for the slate of Director nominees and the Credit Committee nominee. *Jerome Diamond moved to have the Secretary cast one ballot for the nominees. The motion was seconded by Judy Rosenstreich and carried.*

New Business:

Cheney explained that Vermont's credit union statute empowers the Board of Directors to borrow funds to carry on the functions of the Credit Union and establishes a borrowing limit of 20% of assets unless a higher limit is approved by the Commissioner of the Department of



Minutes, *continued*

Banking, Insurance, Securities and Health Care Administration. Thus there was no need for a motion to vote on borrowing limits.

Other Business:

CEO Steven Post noted that two Directors had chosen not to run again this year: Paul Hill, Jr., and Agnes Hughes. He read the text from the plaques:

“Presented to Paul Hill, Jr., Director 2001-2010, Treasurer 2006-2010, in appreciation of your dedicated service and outstanding contribution to VSECU.”

“Presented to Agnes Hughes, Director 2004-2010, in appreciation of your dedicated service and outstanding contribution to VSECU.”

Post noted that Hill had received his plaque at the meeting on March 24. Hughes will be presented with her plaque at a later date.

Cheney asked if there was any other business to discuss. Robert Lorenz spoke regarding the “opt out” provision contained in VSECU’s Privacy Notice. He felt an “opt in” policy would be better. He said he had presented Post with some written suggestions for changes to the Privacy Notice. Cheney said the Board would review the suggestions and thanked Lorenz for his feedback.

In 2009 when VSECU held its last reconvened Annual Meeting, the discussion from the original meeting date, although not part of the official Minutes, was included for informational purposes. That practice will be continued in 2010.

Adjournment:

A motion was made by Robert Lorenz and seconded by Bob Morgan at 5:12 PM to adjourn the Sixty-Third Annual Meeting. The motion received unanimous approval.

Respectfully submitted, Perry H. Thompson, Recording Secretary
Approved: M. Jerome Diamond, Chairman
Judy P. Rosenstreich, Secretary

The following summary of the discussion on March 24, 2010, is included in the Minutes of the 63rd Annual Meeting, although the discussion did not occur during the Annual Meeting.

Vice Chairman Cheney introduced Director Giovanna Peebles to report on the work done by the Board’s Annual Meeting Committee.

Peebles said the Board had formed the Annual Meeting Committee after the Annual Meeting in 2009 failed to draw a quorum. The Committee and the Board had discussed several options that could help attain a quorum in future years. One idea was to separate the social event from the Annual Meeting. Or, if the two were kept together, another idea was to change the social event from a dinner to an ice cream social or something similar. She said VSECU’s members are allowed to vote in Board elections and on Bylaw amendments whether they are at the Annual Meeting or not. Therefore, if the quorum requirement was reduced to 15, which is the standard number used by most credit unions, it would not affect members’ ability to participate in the governance of VSECU.

Peebles then asked for members’ comments and suggestions regarding the future of the Annual Meeting. Joe Healy suggested holding the Annual Meeting at a fairground, serving a BBQ and offering a large prize that the winner would have to be present to win. Hal Lawrence noted the VSEA holds its Annual Meeting at varying locations from year-to-year and also holds smaller regional meetings. Tom Clougher noted that local service clubs have also been having a difficult time getting younger people to attend/join their meetings. He



Minutes, *continued*

suggested finding a way to encourage younger people to attend the meeting. Bernard Byrne suggested using Vermont Interactive Television as a means to get people together for the meeting. Andy Adams and Larry Wade both noted that if the goal was to get as many people as possible to the meeting or event, then moving it away from Central Vermont would likely be counterproductive. Peebles thanked the group for its feedback and encouraged everyone to look for more information from the Board regarding changes to the Annual Meeting.

Cheney introduced CEO Steven Post, saying that the leadership shown by Post and the professionalism of his staff had helped to make 2009 into an extraordinary year. Post noted that two Directors were retiring from the Board. Agnes Hughes has been a Director for the past six years. She lives in Springfield and, in addition to being a valuable member of the Board, her dedication to serving the credit union was apparent each time she began the long drive home from Montpelier after a late Board meeting. The audience gave a round of applause.

The other retiring Director was Treasurer Paul Hill. Post said that Hill had been a Director for nine years, and had been the Treasurer for the last five years. Hill's knowledge of the financial services industry had made him a great asset to the credit union and to the Board. Post then presented Hill with a plaque to commemorate his years of service, which read:

“Presented to Paul Hill, Jr., Director 2001-2010, Treasurer 2006-2010, in appreciation of your dedicated service and outstanding contribution to VSECU”.

Hill thanked Post, the Board and the members for allowing him to serve for the last nine years. He said it had been a very rewarding experience for him, and he credited the pro-

fessional staff and management of the credit union for orchestrating its growth to a half-billion dollar institution during such tough economic times.

Door Prize Winners:

Cheney introduced Recording Secretary Perry Thompson to conduct the drawings for the door prizes. Thompson entertained the crowd as he drew the winning numbers and the various prizes were distributed. The prizes and their winners were as follows:

Backpack and “Camper in a Bottle”	Jennie Brown
Electronic Dart Board & Cabinet	Kathy Town
BlongoBall Game Set	Raymond Stone
Mightylite Lamp and Flashlight	Heather Maclay
Maxcold 40 Quart Wheeled Cooler	Tressena Manning
Binoculars with 12x25 View	Mary White
Sport Duffel Bag	Linda White
Deluxe Backpack Lounger Chair	Theresa Vasseur
Snowshoes and Poles	Benjamin Field
Cannon PowerShot Digital Camera	Edward Miller
\$500 Cash	Harold Lawrence

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