



Sb1 Federal Credit Union

2008

ANNUAL REPORT



The way forward.

Common sense for uncommon times.

CHAIRMAN'S REPORT

It seems like just yesterday we were watching a funny commercial featuring a kid who couldn't sleep because he was worrying about his family's financial future. The little guy explained his concerns on matters such as whether his parents' retirement plan provided predictability of income and protection against market risk before he was assured by his father that everything would be okay, because after all...they were with AIG.

That was before the bailout. Before the government stepped in to prevent AIG and other large financial institutions from folding. The severity of the crisis we were facing took our nation by surprise. In the past 18 months the Dow Jones Industrial Average has lost half its value. From a record high above 14,000 in October 2007 to the 6,500 range in March of this year.

As I sit down to write this year's letter there is a chance we could be seeing the beginnings of a turnaround. However there is also a chance that we are not done sliding yet. As I reflect on years past with some perspective, it seems like the signs for trouble were looming. Two years ago we noted the first time in American history since the Great Depression where the average American had a negative savings rate. In 2007, the bursting housing bubble was the main topic. Last year, it was the irresponsible lending practices of our banking system that took center stage. Leveraging is a great tool for investing. But the door swing both ways, and in 2008 we learned that lesson the hard way.

As the Chairman of the Board of Directors it is my duty to you, the shareholders of the Credit Union, to ensure that Sb1's senior management is acting in your best interests. It is with great pleasure that I can report in 2008, amid all the economic challenges, your Credit Union performed admirably.

Sometimes, in a down year, a business might consider a "good year" to be losing less than everyone else. In 2008 our assets increased by 9.2% over last year to a total of \$454.5 million. We added 14 new Select Employer Groups. And while we saw slight declines in the deposit balances of our basic share accounts, we more than made up for them with a combined increase of over \$38 million in our higher earning Money Market and IRA/Share Certificate accounts.

I'm proud to report your Credit Union remains strong. On behalf of the Board of Directors I would like to thank Sb1's senior management team and the staff for their hard work this past year. And to our members, we thank you for your continued trust in Sb1 to keep us as your trusted financial institution. All the best in 2009.

Robert King

Chairman of the Board

PRESIDENT'S REPORT

It's no secret that dramatic events in the financial markets placed tremendous pressure on financial companies in the fourth quarter of 2008. I want to assure you that Sb1 was prepared to withstand the market downturn and is in very good position to adapt to the challenges ahead in this tough economy.

For companies entrusted to help people reach their long-term financial goals, the most critical elements to examine today are financial strength and management practices. Sb1's financial position remains strong. Our management philosophy is directed by our business strategy which centers on balancing the needs of our members, our employees and the Credit Union itself. All three groups must prosper together for Sb1 to be successful.

We entered 2008 with the second-highest capital position (9.86%) in our history. During 2008 we were able to slightly grow capital to 9.90%, despite the economy. We continue to lend. Our 2007 average monthly loan volume was \$15.8 million. The 2008 average was \$19.9 million.

In Sb1's history, we've navigated a variety of economic and financial conditions. In that time, our distinctive business strategy has set our Credit Union apart and gives us an advantage in the current environment. For example:

- ▶ We never got involved in exotic investments that are little understood by even most financial experts.
- ▶ We have a commitment to a conservative approach to managing our shared assets. This strategy was born out of our respect to you as our member and your trust in us as a financial institution.
- ▶ We have liquid funds and continue to make loans in the interest of our members.
- ▶ We ended 2008 with a profit and have increased our reserves.
- ▶ Our management team and Board of Directors has years of experience successfully dealing with financial challenges.

All things considered, it was a successful year for our Credit Union. Successful, because unlike the over-leveraged investment firms, we don't measure success in profits. We measure success in terms of financial health, stability and the ability to continue lending to our members.

My heartfelt thanks goes out to all of our employees and volunteers for their hard work in 2008. And most importantly, I thank you, the member. Thank you for putting your trust in Sb1. We want you and all members to be confident that your trust in us is well-placed.

We look forward to continue earning it in 2009 and the years to follow.

Tom Swierzy

President/CEO

SUPERVISORY COMMITTEE REPORT

The primary function of the Supervisory Committee is to conduct an annual audit of Credit Union records. The purpose of the audit is threefold. First, it determines that accounting records and reports are prepared to date and that they accurately reflect the operational status of the Credit Union. Secondly, the Supervisory Committee assures that established internal controls are maintained. Third, it helps the committee determine that plans, policies and procedures are properly carried out.

The Supervisory Committee also has other responsibilities. As the members' representative, members of the Supervisory Committee may informally investigate complaints and attempt to resolve them. The committee members also review appeals from members who have been denied a loan or who have had account privileges revoked.

Our formal audit is being performed by Reinsel Kuntz Leshner LLP, Certified Public Accountants. As a result of their audit, we anticipate Reinsel Kuntz Leshner LLP to express a certified opinion that the financial statements and the financial position of the Credit Union are presented fairly in all material aspects and that our operations conform with generally accepted accounting practices. This committee is satisfied that the assets of the Credit Union are properly safeguarded and the general operations are within the scope defined by law and policies of the Board of Directors.

We thank the members for their support of the Credit Union staff and the Board of Directors for their cooperation this past year. We look forward to serving you again in 2009.

Mary Kilpatrick

Chairperson

TREASURER'S REPORT

Since this past year proved to be a dynamic one for our economy, it is with great pride that I report that 2008 proved to be a solid year for Sb1. The Credit Union's management team navigated the challenges with confidence and clarity and highlights what a belief in time tested values can provide an organization. Your management team's long standing commitment to safe, conservative investments and aversion to risk, served our institution well this year - especially considering the economic climate.

While in years past the Federal Reserve raised or lowered the federal funds rate only a few times (and by small increments), this year proved to be extraordinary. All in all, the rate was lowered seven times for a total decline of 4.50%. These drastic measures were the Fed's attempt to spur economic activity. Once the rate drops were exhausted new strategies in the form of economic stimulus packages were pursued.

All these measures contributed to the challenging environment Sb1 faced in 2008. However, our financial position remained strong and our book net worth stood at 9.77% at the end of the year. While many institutions were forced to restrict their lending practices, Sb1 continued to lend money to members who were looking to borrow. In 2008 our loans were up over the prior year by more than \$23 million. We also managed to increase cash by 11% and investments by 17.4%. Although 2008 was a challenging year, Sb1 fared well.

On behalf of Sb1's management, our Board and our employees, thank you for placing your trust in Sb1. We will continue to secure the Credit Union's financial position in 2009 and the years to come.

Audrey Klajian

Treasurer

OUR MISSION

To provide quality financial services, diverse products, information, and convenience that exceeds members' expectations while maintaining financial viability.

OUR STRATEGY

Sb1's strategy is to take care of stakeholders, provide superior service, develop a strong brand, and remain profitable.

The management team at Sb1 recognizes the importance of articulating a specific strategy over the next few years based on market conditions and consumer trends as well as the capabilities of the Credit Union. Sb1's strategy involves an emphasis on four specific areas that we believe are essential to our success and the benefit of our membership: caring for stakeholders, service, brand, and profitability.

COMPARATIVE FINANCIAL AND STATISTICAL REPORT

ASSETS	2007		2008		% Change
Net Loans	\$316,531,895		\$340,279,037		7.5%
Cash	\$35,339,780		\$39,224,537		11.0%
Investments	\$52,156,586		\$61,233,896		17.4%
Other Assets	\$12,182,575		\$13,776,657		13.1%
Total Assets	\$416,210,835		\$454,514,128		9.2%
LIABILITIES & EQUITY					
Shares	\$80,975,975		\$79,971,710		(1.2%)
Share Drafts	\$43,371,805		\$40,947,579		(5.6%)
Money Market	\$80,795,810		\$94,391,386		16.8%
Share Certificates	\$109,196,745		\$125,039,553		14.5%
IRA Accounts	\$40,084,187		\$49,543,766		23.6%
Retained Earnings	\$40,511,790		\$43,022,715		6.2%
Other Liabilities	\$21,274,525		\$21,597,420		1.5%
Total Liabilities and Equity	\$416,210,835		\$454,514,128		9.2%
OPERATING INCOME					
Interest on Loans	\$20,968,106		\$21,338,368		1.8%
Investment Income	\$4,031,088		\$2,535,217		(37.1%)
Misc. Operating Income	\$3,843,542		\$3,770,419		(1.9%)
Total Income	\$28,842,736		\$27,644,004		(4.2%)
DISTRIBUTION OF INCOME					
	2007	%	2008	%	
Dividends to Members	\$12,790,489	44.3%	\$11,305,687	40.9%	(11.6%)
Operating Expenses (Less PLL)	\$11,580,915	40.2%	\$12,137,728	43.9%	4.8%
Provision for Loan Losses (PLL)	\$1,497,413	5.2%	\$1,919,405	6.9%	28.2%
Retained Earnings	\$2,973,919	10.3%	\$2,281,185	8.3%	(23.3%)
TOTAL	\$28,842,736	100.0%	\$27,644,005	100.0%	(4.2%)
Number of Members	34,423		33,571		(2.5%)
Number of Loans	23,359		22,168		(5.1%)

*Unaudited Financial Statements