

2010



CoastHillsTM
FEDERAL CREDIT UNION

Annual Report

Report President's and Chairman's Report

Financial Strength, People, Community, Relationships.

These four pillars provide the foundation for our Credit Union. Our focus on and commitment to these pillars in 2010 allowed us to emerge better capitalized, more efficient, and well positioned for successful growth in 2011 and beyond.

Working in tandem with your volunteer Board of Directors, we continue to make headway with our earnings, despite the prevailing issues facing the financial services industry. Although 2010 can best be described as a year of stabilization, our ability to meet the financial challenges of our members and of our communities was never stronger.

Our proactive loan modification strategies not only kept members in their homes and in their vehicles, but also provided guidance to help them navigate through the waters ahead. Examiners and Auditors who review our modification programs indicate that we have set the standard for loan modifications in our industry, and that other financial institutions should model their efforts after those that we have worked into our strategic plan.

As a preferred lender with the Small Business Administration (SBA) in 2010, we established ourselves as one of the leading SBA lenders on the Central Coast. This will continue to be a focus for us in the future, as the number of local financial institutions willing and able to lend to the business community continues to shrink.

With banking technology progressing at warp speed, we must continue to be nimble and innovative. We are committed to making the entire banking experience as easy and efficient as possible, be it at our branches, at home on your personal computer, or with your smart phone in hand. We will continue to identify your needs and offer solutions.

Building strong, lasting relationships with members has always been the foundation of our Credit Union. Our high dividend SuperReady checking provides an unmatched checking option to more than 10,000 members. We continued to increase our lead in market share in vehicle lending as well. We now offer "lifestyle lending" for members who need help with life's challenges such as medical bills.

In 2011, we will introduce new mortgage products that give our members an array of options when it comes time to buy or refinance a home. And, with a more robust credit card portfolio, we give our members every reason to think of us first for all of their financial needs.

The ongoing commitment of our employees and volunteers to our communities allowed us to surpass 4,000 hours of community service in 2010. Plus, we provided support to more than 150 organizations at a time when community support wasn't always a priority for Central Coast businesses. In September, our Community Foundation's fourth annual Rancho Vino fundraiser set a new mark for CoastHills' fundraising, allowing us to donate \$45,000 to the Santa Barbara Cottage Children's Hospital and Children's Miracle Network.

On behalf of our dedicated staff and volunteers, it is both an honor and a privilege to provide leadership for your Credit Union. The guarded optimism that guided us through a successful 2010 remains a cornerstone of our 2011 strategy. As we focus on our people, on building relationships with our members, and on giving unmatched support to our communities, we are confident that the financial strength of your Credit Union will continue to grow.

That's So CoastHills.



Jeff York
President/CEO

Hugh Rafferty
Chairman, Board of
Directors

Treasurer's Report

The 2010 financial statements accompanying this annual report reflects the period of January, 2010 through December, 2010. Despite many challenges facing our industry, your Credit Union finished the year with a positive net income of more than \$2.5 Million. Foreclosures and loan charge-offs brought about by the trying economic times, and the corporate credit union impairment and subsequent impact on our insurance fund continued to shape our decision making. However, we experienced a growth in net income that further solidified our strength as a financial institution.

The 2010 audit results from Clifton Gunderson LLP, Certified Public Accountants and from the National Credit Union Administration, our Federal regulator, found no material weaknesses in the manner in which we operate your Credit Union. We continue to receive feedback from our auditing entities that our financial practices and controls are among the highest in our industry.

Like many of our peer credit unions, we continued to tighten our balance sheet in 2010. We ended the calendar year with \$614 Million in assets, which indicates an annual decrease of \$331 Thousand. We also saw a decrease in loans of \$12.0 Million. Our net worth ratio, a key measure of financial security, was at 8.4 percent, which indicates that we are well capitalized as we move into 2011.

We continued our focus on business member loans and deposits in 2010, providing further diversification to our portfolio. This sector also provides us with an excellent foundation for further growth. The entire staff has done an outstanding job of guiding CoastHills through these difficult times. As a shareholder and member-owner of CoastHills, you can feel confident and secure about your Credit Union's future viability and ability to make a difference in our neighbors' lives.

Arthur "Chuck" Scheithauer, Treasurer/Board of Directors

Supervisory Committee Report

The CoastHills Supervisory Committee consists of five Credit Union members who volunteer their time to help make your Credit Union a safe and viable place for members to manage their financial affairs.

The committee has two primary responsibilities:

- 1) Ensure that management's financial reporting objectives have been met.
- 2) Ensure management practices and procedures safeguard members' assets.

Several actions were taken in 2010 to meet these responsibilities. The committee employed Clifton-Gunderson, LLP, Certified Public Accountants, to perform an audit covering the period of 1/1/10 through 12/31/10. The review examined the structure of the credit union's internal controls and verified the accuracy of the credit union's records.

To remain abreast of credit union activities, all committee members attended monthly board meetings, our annual strategic planning session, seminars, and monthly meetings with the CEO.

On behalf of the Supervisory Committee, I am pleased to report to the members that all audits confirm the safety and soundness of the Credit Union's financial position.

David Richardson, Chairman/Supervisory Committee

Condensed Financial Statements

(Audited)

Assets

Loans to Members, Net	\$ 478,289,467
Cash & Cash Equivalents	70,014,949
Investments	35,492,971
Property & Equipment, Net	14,255,307
Accrued Interest Receivable	1,960,006
Share Insurance Deposits	5,576,384
Other Assets	9,201,611

Total Assets \$ 614,790,695

Liabilities & Members' Equity

Accounts Payable & Other Liabilities	\$ 17,949,242
Members' Shares and Savings	544,765,860
Retained Earnings & Reserve	52,075,593

Total Liabilities & Equity \$ 614,790,695

Income

Interest on Loans to Members	\$ 26,808,711
Investment Income	845,727
Other Income	9,500,403

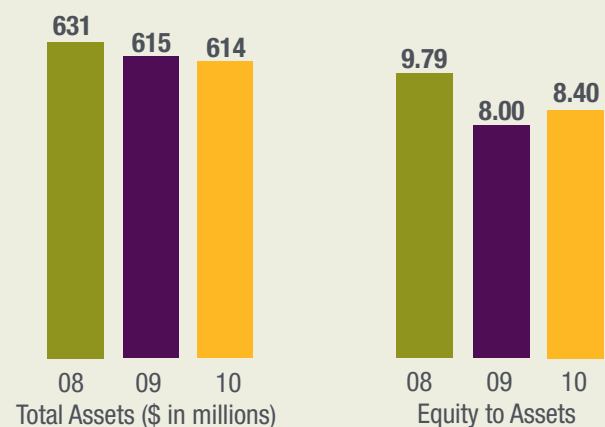
Total Income 37,154,841

Expenses

Dividends on Members' Shares & Savings	4,961,856
Salaries & Benefits	10,603,100
Operations	8,199,320
Occupancy	1,861,311
Interest on Borrowed Funds	275,692
Loss on Disposition of Assets	36,950
Share Insurance Assessments	1,593,000
Provision for Loan Losses	7,067,664

Total Expenses 34,598,893

Net Income \$ 2,555,948



Financial statements as of December 31, 2010.

Branches

Paso Robles
1402 Spring Street

Atascadero
8900 Pueblo Avenue

San Luis Obispo
1106 Walnut Street

Five Cities
1580 West Branch St.

Nipomo
532 W. Tefft Street

Santa Maria
1203 South Broadway

Crossroads
2364 S. Bradley, Suite F1

Orcutt
1157 E. Clark Avenue

Vandenberg AFB
Building #10375

Vandenberg Village
3880 Constellation Road

Lompoc
1320 North H Street

Board of Directors



Hugh Rafferty
Chairman



Robert McIntire
1st Vice Chairman



Bill Anders
2nd Vice Chairmen



Chuck Scheithauer
Treasurer



Ted Eckert
Secretary



Bruce Coggin
Director



Pete Reed
Director



Shirleen Sladek
Director



Rick Velasco
Director



David Richardson
Chairman



Pete Moeller
Secretary



Darrell Gabel
Member



Larry Gooch
Member



Roger Welt
Member

Supervisory Committee

Thanks, Dr. McIntire!

2011 will mark the end of Dr. Robert McIntire's tenure on our Board of Directors, as he transitions to Emeritus status. Bob served as a volunteer director for 18 years, nine as Chairman of the Board. His demeanor remained calm, confident, and steady through challenging times and through times of prosperity. We are grateful for his wisdom, his commitment, and his leadership, and look forward to his continued contributions as an Emeritus member to our Board.

