



2011 ANNUAL REPORT

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee of Western Federal Credit Union (Western) works in conjunction with the Board of Directors to monitor and review the Credit Union's accounting procedures and practices. Our goal is to ensure that all fiscal operations are performed accurately and in compliance with the Credit Union's Charter and federal regulations. The Supervisory Committee is also present at the monthly Board of Directors' meetings and any special meetings called by the Chairman.

To assist the Supervisory Committee in monitoring Western's fiscal activities, we retained the services of McGladrey & Pullen, LLP, Certified Public Accountants to perform an audit of the consolidated financial statements and records for the years ended December 31, 2011 and 2010. These audits were performed in addition to the National Credit Union Administration's regulatory examination. A complete copy of the audited financial statements can be obtained by calling 310-381-2300 or 877-254-9328.

After reviewing the audit reports and the financial records of Western, the Supervisory Committee is pleased to report that your Credit Union is financially strong and its fiscal operations are performed accurately and in compliance with the Credit Union's Charter, federal regulations and sound business practices.

On behalf of the Supervisory Committee, it has been a pleasure to serve the membership this past year.

Respectfully submitted,



Dave Clement
Chairman



CHIEF EXECUTIVE OFFICER'S AND CHAIRMAN'S JOINT MESSAGE

fter several financially challenging years, Western turned the corner in 2011 with strong profitability due to lower loan losses and strong revenue. While the economic environment continued to impact loan growth, with total loans outstanding declining from \$945 million at year-end 2010 to \$930 million at year-end 2011, improving credit quality in the loan portfolio resulted in reduced delinquencies and lower charged off loans. Deposits continued to increase consistent with overall consumer trends to use traditional savings products rather than seeking higher yielding alternative investments. As a consequence, total shares were \$1.484 billion at year-end 2011, up from \$1.349 billion at year-end 2010.

Although economic relief is slow to come to the financial services market, Western's business model as a multi-sponsor, multi-state credit union continues to well serve the over 130,000 Western members as evidenced by the new markets, new branches and enhanced services implemented in 2011:

- The addition of Oakland Municipal Credit Union (OMCU) to Western not only complemented the Credit Union's desire to expand services beyond South San Francisco with the addition of two branches in Oakland, but provided an opportunity to ensure the continuation of service to OMCU members. As a result, this market has now grown to approximately 7,000 members.
- The expansion of services in the northwest Arkansas market included the relocation of the Roger's branch to a location with a drive up ATM and teller and a new branch in Siloam Springs. Similar to the Oakland market, this market has also grown to over 7,000 members.
- The branch network in the Fairfax, VA market also expanded in 2011 with the addition of a new branch in Chantilly, VA. This new location was selected to not only serve members who live in this area, but to also provide more convenient access for employees of corporate sponsor groups, such as Northrop Grumman Corporation, who work in the area.
- Toyota Motor Manufacturing sites in Tupelo, MS, and Buffalo, WV were added to the list of manufacturing sites Western serves with branches under consideration at both locations. Efforts were also initiated in 2011 to upgrade the ATMs at select manufacturing locations.
- New technologies were deployed in 2011 to make it easier to conduct business with Western including custom applications for the iPhone and Android, deposit image ATMs to allow for more immediate access to funds and Personal Teller Machines which are currently deployed in two of Western's branches with plans to deploy additional devices in 2012.



- Member Business Services were also launched mid-year in the Ventura, CA market, with plans to expand this line of services to other areas in 2012 and beyond.

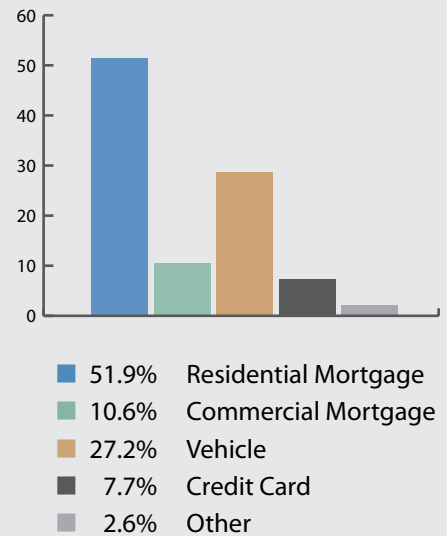
While Western has not been immune from the negative impacts of the economy over the last several years, 2011 demonstrated that a sound business model, coupled with a commitment to do what is in the best interest of Western members, can sustain the organization even in the toughest of climates. On behalf of the Board of Directors and Management team, thank you for your continued support of, and participation in, Western.

Sincerely,

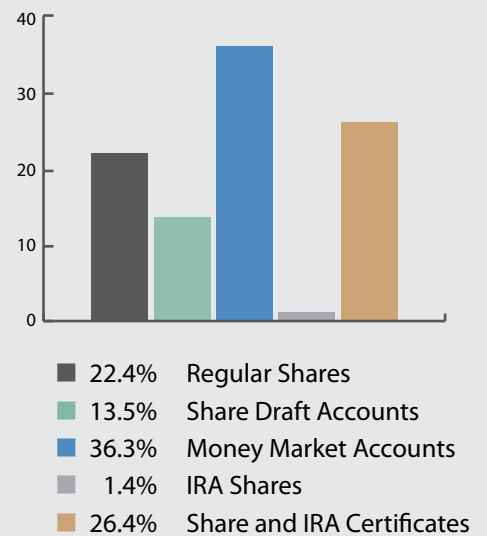
Robert B. Scott
Chairman of the Board

John A. Bommarito
Chief Executive Officer

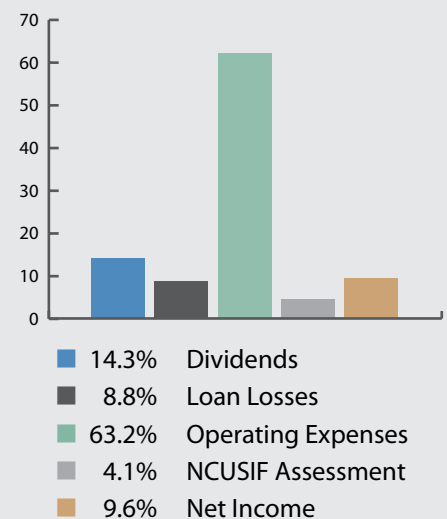
Distribution of Loans



Distribution of Members' Shares



Distribution of Operating Income



WESTERN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION—DECEMBER 31, 2011 AND 2010

		<u>2011</u>	<u>2010</u>	
Assets	Cash and cash equivalents	\$ 108,159,703	\$ 65,649,766	
	Investments			
	Available-for-sale	508,759,743	401,393,781	
	Held-to-maturity	36,302	400,469	
	Other	63,914,904	50,077,562	
	Loans receivable, net	915,068,178	928,415,110	
	Accrued interest receivable	5,185,146	4,979,648	
	Property and equipment, net	31,577,496	31,986,236	
	Share insurance deposits	14,251,256	12,873,203	
	Other assets	16,116,202	18,510,860	
	Total Assets	\$ 1,663,068,930	\$ 1,514,286,635	
Liabilities and Members' Equity	Liabilities			
	Members' shares	\$ 1,484,092,215	\$ 1,349,917,896	
	Accrued expenses and other liabilities	29,117,117	20,066,250	
		Total Liabilities	1,513,209,332	1,369,984,146
	Commitments and contingent liabilities			
	Members' equity			
	Retained earnings	155,389,335	147,146,177	
	Accumulated other comprehensive income (loss)	(5,529,737)	(2,843,688)	
		Total Members' Equity	149,859,598	144,302,489
		Total Liabilities and Members' Equity	\$ 1,663,068,930	\$ 1,514,286,635

WESTERN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME—FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

		<u>2011</u>	<u>2010</u>
Interest Income	Interest on loans	\$ 53,941,113	\$ 57,655,292
	Interest on investments and cash equivalents	8,767,096	6,934,831
		62,708,209	64,590,123
Interest Expense	Dividends on members' shares and interest expense	12,328,959	14,596,288
Net Interest Income		50,379,250	49,993,835
Provision for Loan Losses		7,567,422	20,546,223
Net Interest Income After Provision for Loan Losses		42,811,828	29,447,612
Non-Interest Income	Fees and other non-interest income	23,452,825	20,939,690
Non-Interest Expense	Salaries and benefits	29,012,482	25,884,752
	Operations	21,100,371	19,023,279
	Occupancy	4,345,828	3,970,603
	NCUSIF premium assessment	3,562,814	3,336,683
Total Non-Interest Expense		58,021,495	52,215,317
Net Income (Loss)		\$ 8,243,158	(1,828,015)



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