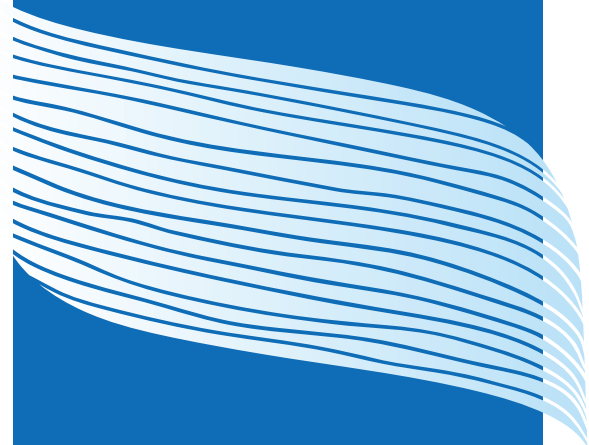


AlaskaUSA
Federal Credit Union[®]

Annual Report 2011



Federally insured by NCUA

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The Board of Directors' and President's Report

Bobby W. Alexander
Chairman

Darrel E. Cavender
1st Vice Chairman

Ken D. Campbell
2nd Vice Chairman

Gary L. Sholly
Secretary-Treasurer

Gene M. Burkner

Diane S. Carlson

James A. Fena

William B. Eckhardt
President & CEO

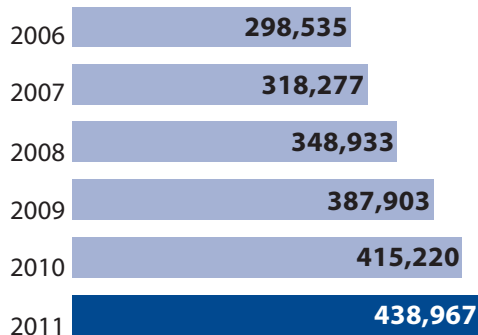
These remain challenging times for Alaska USA as we operate in an environment characterized by constant change, intense competition, a lingering recession and unprecedented political and regulatory involvement. In spite of the uncertainty created by this environment, we successfully met the challenges of 2011 and are pleased to present this Annual Report as it summarizes the best year in Alaska USA's history in terms of member service and financial performance.

Since chartered in 1948, the credit union's mission has been to provide financial services to members, affordably, conveniently and professionally. Over the past 63 years, the credit union's success in achieving this mission is evident by its growth in membership, assets and regulatory capital. In 2011, over 23,700 new members joined the credit union for a total membership of 438,967. At year end, assets totaled \$4.71 billion with regulatory capital of \$413 million.

The credit union's successful and record-setting performance in 2011 is particularly significant given the recession, but also because of the challenges associated with the political environment and the federal government's efforts to stabilize the economy and reform Wall Street. The government's actions have profoundly impacted planning and the cumulative complexity of the regulatory compliance burden on the financial services industry. These actions have changed, and will continue to change, the way financial services are structured, provided and priced and require the commitment of increasingly significant resources to assure statutory and regulatory compliance.

As stated in the enclosed Treasurer's Report, in terms of financial performance, 2011 was the most successful year in the credit union's history. In addition, over 83,000 new loans were granted during the year totaling \$2.98 billion. The majority of this loan volume was consumer loans as demand for credit increased as the economy continued to slowly recover and members were in a position to benefit from Alaska USA's historically low loan interest rates. Alaska USA was honored during the year to once again receive an award recognizing Alaska USA as the community based lender providing the largest number of SBA 504 loans in the Pacific Northwest. True to its purpose, the credit union remains a reliable partner, providing members a safe place to save and earn highly competitive rates on savings and, at the same time, an available source of low-cost credit.

MEMBERS



Alaska USA, as a member-owned cooperative, transfers value to members by providing services more cost effectively than other financial organizations. To measure the credit union's success in this regard, the value transferred is rigorously calculated based on the dollar benefit Alaska USA members receive from higher rates on deposits, lower loan rates and lower fees compared to those of competing banking institutions. We are pleased to report that this value transfer to members in 2011 was \$69.1 million for an average of \$157 per member.

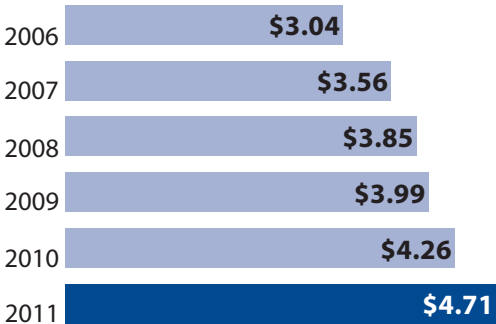
Another way the credit union measures its success in serving members is to conduct regular surveys asking members their opinion about the level of service the credit union provides. This member service survey has been conducted each month for the last 13 years. In 2011, the survey revealed high levels of member service satisfaction each month, with the average for the year setting a new record. In addition, the credit union was selected by consumers as the favorite financial institution in the two largest market areas in Alaska, the credit union's largest market area in California and Alaska USA was rated number one in service among Washington financial institutions. The credit union's mortgage subsidiary was also rated as the best mortgage company in two major markets in Alaska and one market in Washington.

Alaska USA has a long history and successful record of serving members and helping them through difficult times while operating in a recessionary economy. Alaska USA is uniquely positioned to do so because of its strong balance sheet, membership diversification by geography and industry, experienced management and staff, significant earnings capacity and diversified business activities. These business activities operate as subsidiaries of the credit union and include Alaska USA Insurance Brokers, Alaska USA Mortgage Company, Alaska USA Title Agency and Alaska USA Trust Company.

We are confident that Alaska USA's experience, sound business philosophies and practices and strong financial foundation position the credit union well to meet the many challenges and opportunities that lie ahead. We are certain that Alaska USA's 64th year of operation will be another year of success in serving members' financial needs.

We want to thank the membership for their 63 years of support and participation in the credit union. We also want to congratulate and thank the volunteer officials and all the employees for their hard work and contributions to Alaska USA in 2011.

ASSETS (in billions)



Lending Report

Lorran Skinner
Chief Lending Officer

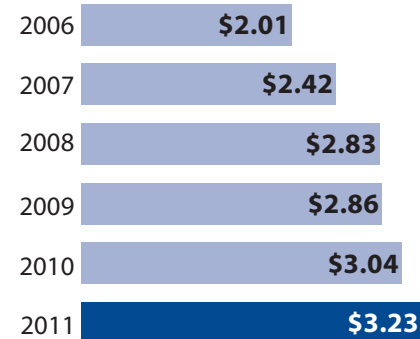
The credit union continued to experience positive performance from its portfolio of loans in 2011. The negative effects of the economic recession that impacted most of the country other than Alaska have continued to abate and are reflected in the improved performance described below. Although loan delinquencies and charge offs were still higher than the years before the recession, the credit union's loan portfolio performance showed noticeable improvement in 2011.

The credit union continued to make loans to members throughout the recession. Total funding of new loans by the credit union and its subsidiary mortgage company during 2011 was over \$2.98 billion, up from \$2.83 billion the previous year. A total of over 83,000 consumer, real estate, and business loans were approved and closed by the credit union during the year. Loans outstanding at December 31, 2011, totaled 289,704, for over \$3.23 billion. During the credit union's 63-year history, over 2.2 million member loans totaling nearly \$25.7 billion have been granted to members by Alaska USA.

Total outstanding consumer loan and credit card balances increased \$192.7 million or over 8.4% during the year to over \$2.47 billion. The basic soundness of the overall loan portfolio and the quality of underwriting are reflected in the 1.14% delinquent loan ratio at year end, up somewhat from 1.07% in 2010, but still well below the national average of 1.60% for similar loan portfolios.

Member business loans outstanding grew 16.08% in 2011, with \$150.9 million in new business loans granted during the year. Business loans in portfolio at year end totaled 916 for \$279.8 million and none were reportable delinquent.

LOANS (in billions)



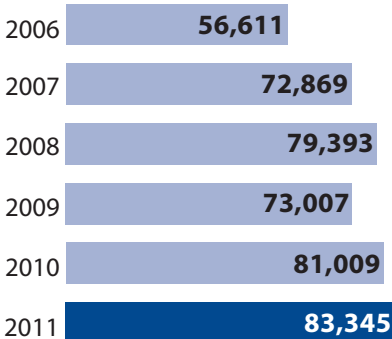
Real estate loans held in portfolio and held for sale declined \$22.6 million in 2011, to a total of \$528.7 million. Throughout 2011, the real estate markets in Alaska remained relatively healthy, but the markets in Washington and California continued to deteriorate somewhat. Short-term real estate loan delinquency decreased from .96% in 2010 to .83% this year, but mortgage loan delinquency increased from 3.23% in 2010 to 4.74% this year, primarily a result of the backlog in foreclosure actions.

The credit union and its mortgage subsidiary granted \$1.22 billion in mortgage and real estate loans during 2011. Most of the mortgage loans were sold to secondary market investors or pooled into mortgage-backed securities and sold in the financial markets. By taking this approach, the credit union is able to offer members a wide variety of mortgage programs and, at the same time, significantly reduce the credit and interest rate risks associated with portfolio real estate lending. The credit union retains the servicing rights on many of those sold loans, thereby providing borrowers with quality servicing from a trusted source. At year end, the credit union's mortgage loan servicing portfolio included 22,341 loans totaling over \$3.86 billion.

Net loan charge offs in 2011 were \$22.6 million, down from \$35.5 million in 2010. The majority of these charge offs were from members located throughout the continental United States that have been adversely impacted by the recession.

The credit union remains committed to ensuring that all members receive comprehensive consumer, mortgage, and business loan services, and a fair and timely review of their loan requests. Given the challenges represented by the economy, the credit union has taken appropriate action to ensure the loan portfolio continues to grow and remains strong in the years ahead. These actions will also ensure the credit union maintains its 63-year tradition of being a trusted and reliable source of credit for members.

LOANS GRANTED



Treasurer's Report

Gary L. Sholly
Secretary-Treasurer

In terms of growth and financial results, 2011 was the most successful year in the credit union's 63-year history.

At year end, membership totaled 438,967, an increase of 23,747 members, or 5.71% over 2010. Member deposits totaled \$4.38 billion, an increase of \$441.08 million, or 11.18% over 2010. Loans in portfolio grew by 6.42% to \$3.23 billion. Assets at year end totaled \$4.71 billion, which represents an increase of \$451.97 million, or 10.61% over 2010.

Operating revenue for the year totaled \$311.01 million, an increase of \$8.76 million, or 2.89% over 2010.

Operating expenses totaled \$217.29 million, an increase of \$16.09 million, or 7.99% over 2010. The operating expense-to-average-asset ratio for 2011 was 3.75%, which is a decrease from the prior year.

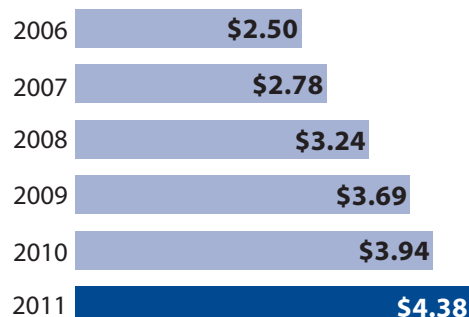
Net income and the related contributions to reserves in 2011 were at record levels. Net income was \$41.74 million, which is an increase of \$14.65 million, or 54% over 2010 net income.

Alaska USA's regulatory capital at year end totaled \$413.79 million, exceeding the record level set in 2010 by 11.21%. The regulatory capital to assets ratio was 8.73% at year end, far exceeding the 7% threshold that is required to be considered "well capitalized" by the National Credit Union Administration, the credit union's federal regulatory agency.

Total Reserves, including regular reserves, allowances, and undivided earnings at year end totaled \$454.8 million, an increase of \$41.5 million, or 10% over 2010.

The credit union's 2011 financial reports reflect solid and efficient performance in virtually every operational area. Similar performance is expected in 2012, with budgeted operating revenue of \$339 million and net income of \$37.5 million. Regulatory capital is expected to exceed \$451 million by the end of 2012.

DEPOSITS (in billions)



Supervisory Committee Report

Ron Lee
Chairman

Dan Nelson
Secretary

Nathan Braspeninckx

Paul Freund

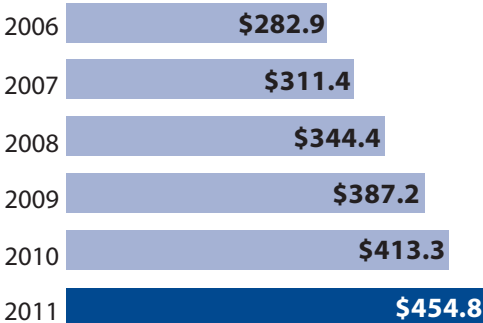
Kurt Schimmel

The credit union's Supervisory Committee is comprised of five volunteer members who function as the credit union's audit committee. It is the Committee's responsibility to ensure that internal controls are effectively maintained; accounting records and reports are promptly prepared and accurately reflect the results of operations; the operation of the credit union is in accordance with the policies and procedures established by the Board of Directors; and member account inquiries are promptly and fairly considered. Your Supervisory Committee has fulfilled these responsibilities during the past year as follows:

- Retained Crowe Horwath, a certified public accounting firm, to conduct the credit union's annual audit;
- Worked with the credit union's Internal Audit Department to ensure that internal controls were maintained;
- Responded directly to members with account inquiries;
- Completed a random sample verification of member account balances and of closed accounts through direct correspondence; and
- Met regularly, and as required, to consider matters that were within the Supervisory Committee's area of responsibility.

It is our opinion that the enclosed financial statements fairly and accurately reflect the financial condition of Alaska USA Federal Credit Union on December 31, 2011, and that the credit union operates and is managed on a sound basis, in accordance with current federal regulations.

TOTAL RESERVES, ALLOWANCES, AND UNDIVIDED EARNINGS (in millions)



Consolidated Statements of Financial Condition

Alaska USA Federal Credit Union and Subsidiaries Years Ended December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	\$584,159,745	\$271,294,956
Interest-bearing deposits	<u>6,578,642</u>	<u>17,245,582</u>
Total cash and cash equivalents	590,738,387	288,540,538
Certificates of deposit	983,000	4,788,173
Investment securities available for sale	548,994,759	605,809,801
Member loans		
Loans to members, net	3,078,769,932	2,901,895,384
Loans held for sale	<u>157,078,884</u>	<u>138,534,541</u>
	3,235,848,816	3,040,429,925
Deposits in National Credit Union Share Insurance Fund	37,997,833	35,924,460
Federal Home Loan Bank stock	15,897,300	15,897,300
Accrued interest receivable	11,053,676	11,043,358
Other receivables	15,159,253	22,691,051
Premises and equipment, net	149,651,371	139,263,288
Assets acquired in liquidation of loans	10,122,202	9,250,904
Goodwill	22,133,403	22,080,680
Intangible assets	8,531,591	9,442,245
Mortgage servicing rights	27,882,737	28,345,696
Net pension asset	31,024,418	19,854,058
Other assets	<u>4,364,784</u>	<u>5,049,962</u>
Total assets	<u>\$4,710,383,530</u>	<u>\$4,258,411,439</u>
Liabilities and Members' Equity		
Liabilities		
Members' share accounts	\$4,386,970,440	\$3,945,890,098
Accrued expenses and accounts payable	<u>88,823,206</u>	<u>80,403,271</u>
Total liabilities	4,475,793,646	4,026,293,369
Commitments and contingencies (Notes 7, 11, and 12)		
Members' equity		
Statutory reserves	42,658,006	42,658,006
Undivided earnings	371,139,349	329,398,923
Accumulated other comprehensive loss	<u>(179,891,523)</u>	<u>(140,675,987)</u>
Total members' equity	233,905,832	231,380,942
Noncontrolling interest	<u>684,052</u>	<u>737,128</u>
Total equity	<u>234,589,884</u>	<u>232,118,070</u>
Total liabilities and members' equity	<u>\$4,710,383,530</u>	<u>\$4,258,411,439</u>

Consolidated Statements of Income

Alaska USA Federal Credit Union and Subsidiaries Years Ended December 31, 2011 and 2010

	2011	2010
Interest income		
Interest and fees on loans	\$182,303,120	\$183,597,230
Interest on investment securities	11,953,852	12,785,113
Other interest income	<u>45,139</u>	<u>52,288</u>
	194,302,111	196,434,631
Interest expense		
Dividends on members' shares	29,476,673	38,383,786
Borrowings	<u>1</u>	<u>5,205</u>
	29,476,674	38,388,991
Net interest income before provision for loan losses	164,825,437	158,045,640
Provision for loan losses	<u>22,575,277</u>	<u>35,494,278</u>
Net interest income after provision for loan losses	142,250,160	122,551,362
Noninterest income		
Service fees and charges	\$61,920,703	\$62,802,696
Interchange fees	22,132,534	20,372,914
Gain on sale of loans	12,053,065	9,392,451
Loss on restructuring of investment securities	(3,108,693)	(10,498,648)
Other	<u>23,717,171</u>	<u>23,752,390</u>
Total noninterest income	116,714,780	105,821,803
Noninterest expense		
Compensation and benefits	\$128,881,786	\$118,863,747
Occupancy and equipment	37,929,944	36,056,118
Impairment of stock in corporate credit unions	-	537,026
Insurance premiums	9,422,681	9,183,522
Other	<u>41,043,179</u>	<u>36,568,421</u>
Total noninterest expense	217,277,590	201,208,834
Net income	41,687,350	27,164,331
Net loss (income) attributable to noncontrolling interest	<u>53,076</u>	<u>(74,849)</u>
Net income attributable to Alaska USA Federal Credit Union	<u>\$41,740,426</u>	<u>\$27,089,482</u>

2010 Officials

Board of Directors

Bobby W. Alexander, Chairman
Darrel E. Cavender, 1st Vice Chairman
Ken D. Campbell, 2nd Vice Chairman
Gary L. Sholly, Secretary-Treasurer
Gene M. Burkner
Diane S. Carlson
James A. Fena

Supervisory Committee

Ronald E. Lee, Chairman
Daniel J. Nelson, Secretary
Nathan Braspenninckx
Paul C. Freund
Kurt V. Schimmel

2011 Executive Staff

William Eckhardt, President & CEO
Robert Rylander, Executive Vice President
Lorran Skinner, Chief Lending Officer
Norm West, Chief Financial Officer
John Shipe, Chief Information Officer
Wayne Bailey, Chief Risk Officer
Randy Pugh, President, Alaska USA Insurance Brokers
Glenn Cipriano, President, Alaska USA Trust Company
Dave Hamilton, Executive Director, Business & Commercial Services
Jerry Reed, Executive Director, Mortgage & Real Estate Lending
Jack Simmonds, Executive Director, Retail Financial Services
Doug Smith, Executive Director, Consumer Lending
Susan Ferrell, Senior Vice President, IM Technical Services
MaryLynn Harned, Senior Vice President, Mortgage & Real Estate Operations
Kay Huebner, Senior Vice President, Member Service Center
Mark Johnston, Senior Vice President, Insurance Operations
John Kerley, Senior Vice President, Operations
Kent Logan, Senior Vice President/General Manager, Alaska Option
Mike Longlet, Senior Vice President, IM Applications
Nelson Lowe, Senior Vice President, Treasury
Geofferey Lundfelt, Senior Vice President, Branch Administration
Dan McCue, Senior Vice President, Corporate Administration
Rachel Norman, Senior Vice President, Human Resources
Robert Shake, Senior Vice President, Commercial Sales, Alaska USA Insurance Brokers
Troy Shelden, Senior Vice President, Secondary Marketing
Paul Sliman, Senior Vice President, Special Credits
Brian Spink, Senior Vice President, Internal Audit
Janell Adams, Vice President, Branch Administration, AK Division
Marci Aguayo, Vice President, Branch Administration, CA Division
Liz Behlke, Vice President, Marketing
Sue Bove, Vice President, Mortgage Operations
Tamara Budahl, Vice President, Special Credits
Vilma Chavez, Vice President, Commercial Services Administration
Camille Cohen, Vice President, Operations
Mendy Daugherty, Vice President, Member Service Center, CA
Cindy Fry, Vice President, Branch Administration, WA Division
Scott Hansen, Vice President, Direct Consumer Lending
Tod Miller, Vice President, Indirect Consumer Lending
Crystal Peltola, Vice President/General Manager, Alaska USA Title Agency
Bob Thompson, Vice President, Corporate Properties & Supply

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