

2009 ANNUAL REPORT



JOINT REPORT OF CHAIRMAN AND PRESIDENT

While 2008 was dominated by a “financial” crisis, many economists predicted, and were correct, that 2009 would be a year when the bad news comes from the economy and from the non-financial corporate sector. At the time, all the forward-looking surveys and indices implied gloomy conditions for many months to come. The driving forces that had lifted the U.S. economy out of every recession since World War II would prove to be of little help this time around. Inventory rebuilding, household spending, home construction and payroll growth - the forces that powered, to a greater or lesser extent, each recovery since 1945 – were missing for much of 2009. A glut of unsold properties also kept the housing market depressed, while diminished or non-existent savings discouraged consumer spending. In all, 2009 was an extraordinarily challenging year for businesses and the American public.

Not a pretty picture by any measure! There is some good news, however. Notwithstanding extraordinary challenges in the recovery from a prolonged recession that dominated 2009, Police FCU was able to once again end the year with a strong balance sheet. We strengthened our membership base and opened new lines of services and conveniences all while many other financial institutions were struggling to preserve their capital. Not us...we used our capital to help better serve the membership, and yet we closed out 2009 with a reserve (10.31%) that far exceeds regulatory requirements (6.00%).

Herein below are examples of some of the financial results for 2009 due principally to your support of the credit union and the hard work of our dedicated team of employees and volunteers:

- **Share Growth...deposits increased by 11.61 percent**
- **Increased membership by 4.78 percent...ended year with 11,677 members**
- **Increased total share accounts by 8.23 percent...ended year with 19,783 accounts**
- **Increased draft accounts by 22 percent...ended year with 3,220 accounts**
- **Increased money market accounts by 2.41 percent...ended year with 1288 accounts**

- Increased the number of members with loans by 11 percent...additional 383 members
- The ratio of loans to shares decreased to 58.52 percent compared to 64.86 in 2008...due to growth in deposits and a slack in demand for loans
- The loan portfolio balance increased by a .70 percent...ended year with \$78,429,971
- Delinquent loans to total loans climbed to 2.55 percent (lead by recession related problems affecting member households)
- Net loan charge offs to average loans increased to 1.02 percent...slightly less than the national average of 1.04 percent
- Net worth to total assets is 10.31 percent (required minimum is 6.00%)
- Return of average assets -0.21 percent
- Equity increased by \$453,940...at year-end total equity is \$16,475,454

Each year brings new opportunities and challenges, and each year the Police Federal Credit Union finds new ways to respond to those challenges while striving to provide the best in products and services to our members. And while most estimates predict modest improvements in 2010, we shall remain committed to finding opportunities to reach out to our members and serve their financial needs. We are confident that with your continued support and the hard work and dedication of the volunteers and the professional staff, we will together meet the challenges that lay ahead.

Today as we reflect on our 75-year history as a credit union that serves the law enforcement community let us not forget the "Founders" whose wisdom and concern for their fellow police officers gave rise to this organization in August 1935. The famous Winston Churchill quote comes to mind..."never was so much owed by so many to so few." Indeed all of us are grateful to the Founders for their vision in forming a credit union on the principle of "Police Helping Police."

We thank you for your continued support for your credit union.

Respectfully submitted,

Clay W. Goldston
Chairman, Board of Directors

Danny C. Gregg
President/CEO

TREASURER'S REPORT

There is no ignoring the fact that tough times hit this country hard in 2008 and remained with us all through 2009. In so many ways, 2009 was a memorable year. Though some financial institutions did not survive the credit crisis, and others are still struggling with the lingering-effects, I am pleased to report that Police FCU is strong and secure. Despite the turmoil in the financial industry members found protection from the financial storm with Police FCU and, as a result, total assets increased by \$16.6 million ~ a 11.61% increase over 2008.

The net worth ratio is a good gauge of resource management in credit unions. In 2009 we ended the year with a net worth to total assets of 10.31%, well above the regulatory requirement of 6.00%. This ratio indicates that our credit union is well capitalized, and is capable of withstanding a protracted downturn in the economy without any serious consequences to the delivery of services to the membership.

During 2009 the credit union continued its strategic marketing campaign to reach out to the local law enforcement community and educate them on the value of membership in the Police Federal Credit Union. The efforts proved to be successful; our membership increased by almost 5% in an otherwise declining market. The total number of accounts at the credit union increased by over 8% ~ staff opened 1515 new accounts...a good indicator of member usage of available products and services.

One rather startling banking statistic is the reported huge decline in lending in 2009 – over \$587 billion or 7.5% nationwide according to FDIC. The Washington Post reported it as the largest decline in loans since the 1940s. Despite the grim reminders of a weakened credit market, in 2009 the Police FCU experienced a very modest .70% growth in its total loan portfolio. The consumer loan portfolio, however, performed slightly better with an increase of 4.15% over 2008. While loan demand diminished in 2009, the rate of delinquency and net charge offs increased. The provisions for loan losses in 2009 exceeded one million dollars. Our allowance for loan losses was increased in 2009 to cushion the credit union against further losses as the recovery from the recession is slated to be muted for the foreseeable future.

In the absence of a demand for credit and the Fed Funds rate at a historically low level, the need to invest new money (\$16.6 mm) created a challenge for maximizing

returns. The credit union saw its investment portfolio grow by over 31% while the effective yield declined. Nevertheless, to manage interest rate risk and to meet future liquidity demands, the investment portfolio has been strategically laddered to effectively respond to an increasing interest rate environment. This is of course good news.

The declining real estate values have had an adverse affect on some of the 28-Corporate Credit Unions that were heavily invested in mortgage backed securities. Although Police FCU did not sustain any direct costs related to the investment losses at Corporate Credit Unions, the decision of the NCUA to use the National Credit Union Share Insurance Fund to help support the Corporate Credit Unions will affect us for many years to come. The NCUA's decision to inject one billion dollars into the Corporate Credit Union system from the NCUSIF has resulted in all natural person federal credit unions (like Police FCU) paying an annual assessment to restore the insurance fund to its regulatory mandated level. That premium may cost Police FCU close to a million dollars spread-out over a seven year period. The assessment charged to Police FCU in 2009 was \$188,053.

Herein are just a few of the indicators we review regularly to help us discern how our credit union is performing as compared to others in the financial industry.

One of the goals of the Police Federal Credit Union has always been to provide the membership with a competitive rate of return on their investments and low interest rates on credit, while maintaining strong financial stability. We have been able to achieve this goal year after year and will strive to continue to do so, focusing on serving the needs of our members and protecting their financial futures.

Respectfully Submitted,

Robert V. Boggs

Treasurer, Board of Directors

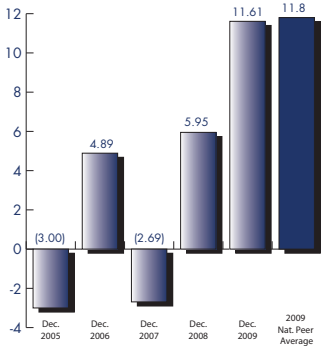
(The accompanying figures and charts will provide you with a snapshot of your credit union's performance for the year 2009.)

STATEMENT OF FINANCIAL CONDITION

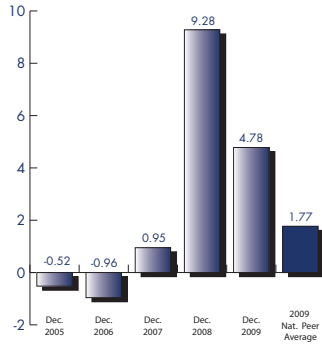
ASSETS:	2009	2008
Cash	\$ 8,494,905	\$ 3,313,509
Investments	\$ 53,283,727	\$ 43,789,939
Loans (net of Allowance for Loan Loss)	\$ 78,208,869	\$ 77,923,395
Prepaid Expenses	\$ 274,165	\$ 330,300
Land	\$ 1,862,603	\$ 1,862,603
Building	\$ 6,257,531	\$ 6,187,177
Furniture & Equipment	\$ 2,134,963	\$ 2,113,427
Accumulated Depreciations	\$ (886,566)	\$ (679,921)
Accrued Income & Other Assets	\$ 1,100,246	\$ 1,376,085
NCUA SIF	\$ 1,253,683	\$ 1,164,736
Total Assets:	\$ 151,984,126	\$ 137,381,250
LIABILITIES & EQUITY:		
Accounts Payable/Other	\$ 341,793	\$ 172,127
Accumulated Unrealized Gain/(Loss)	\$ 807,896	\$ 53,471
Regular/Draft Shares/Money Market Funds	\$ 134,958,631	\$ 120,918,887
Dividends Payable	\$ 207,248	\$ 269,721
Reserve	\$ 3,707,139	\$ 3,707,139
Undivided Earnings (* adj. A/I Loans)	\$ 11,961,419	\$ 12,259,905
Total Liabilities & Equity:	\$ 151,984,126	\$ 137,381,250
INCOME & EXPENDITURES:		
Operating Income	\$ 8,808,593	\$ 8,803,958
Operating Expenses	\$ (5,939,327)	\$ (5,225,356)
Dividends Paid	\$ (2,985,227)	\$ (3,825,155)
Net Income/(Loss) Before Sale of Investments and NCUSIF Impairment & Premium Assessment	\$ (115,962)	\$ (246,553)
NCUSIF Impairment & Premium Assessment	\$ (991,721)	\$ -
Gain/(Loss) on sale of Investments	\$ 5,528	\$ -
NCUSIF Impairment Recovery	\$ 803,668	\$ -
Net Gain/(Loss) on Sale of Investments and NCUSIF Impairment and Premium Assessment	\$ (182,525)	\$ -
Net Income/(Loss)	\$ (298,487)	\$ (246,553)

If you desire more detailed information, a copy of the credit union's audited financial statement is available for inspection in our main office during regular business hours.

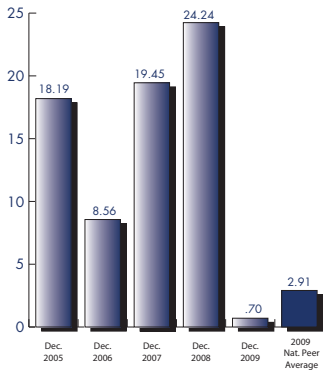
SHARE GROWTH (Deposit Growth)



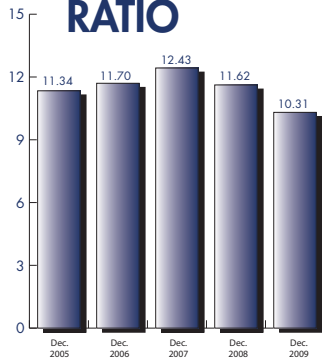
MEMBERSHIP GROWTH



LOAN GROWTH



NET WORTH RATIO



ASSET GROWTH



Dec. 2005 \$125,058,509
Dec. 2006 \$132,627,146
Dec. 2007 \$131,210,698
Dec. 2008 \$137,381,250
Dec. 2009 \$151,984,126

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, created under the Federal Credit Union Act and appointed by the Board of Directors, operates independently on behalf of Police Federal Credit Union members to assure the financial integrity of the credit union. The committee is responsible for the safety and soundness of the credit union by ensuring compliance with the Credit Union Act, the Credit Union bylaws and policies, and the regulations of the National Credit Union Administration. Our mission is to provide assurance that Police FCU members' interests are protected, the credit union's financial records and operations are in order, and to ensure the performance of elected officials and employees.

One of the primary duties of the Supervisory Committee is to ensure an outside audit and a verification of member accounts are completed annually. To fulfill this obligation, the Supervisory Committee, in 2009, contracted with the independent auditing firm of LarsonAllen to perform audits in accordance with generally accepted accounting standards. It is the opinion of our auditor, LarsonAllen, that the financial records and statements fairly reflect the financial condition of the credit union.

Our goal is for all Police FCU members to receive quality service in a professional manner. The Supervisory Committee is prepared to assist members in resolving any credit union related concerns they may have. Should a member find an error or experience a problem of any kind with their financial statements or with services provided, we encourage them to contact the Supervisory Committee immediately at the following address:

**Supervisory Committee
Police Federal Credit Union
9100 Presidential Parkway
Upper Marlboro, MD 20772**

Despite a year of turmoil in the financial markets, in our view the Police Federal Credit Union remains financially sound and well-positioned to meet the challenges of the future. We indeed appreciate the cooperation and support of management and staff during the past year, and look forward to continuing our work on behalf of our loyal membership in 2010.

Respectfully Submitted,

Henry C. Banks

Chairman, Supervisory Committee

POLICE FEDERAL CREDIT UNION 2009 ANNUAL MEETING MINUTES

The 2009 Annual Meeting of the Police Federal Credit Union (PFCU) was convened on Saturday, May 2, 2009, at the Bolling Club, Bolling AFB in Washington, DC.

President Danny Gregg welcomed the attendees, introduced the management and professional staff, and thanked them for their service to our members. The President provided a detailed overview of the Corporate Stabilization Act and its impact on the Police FCU.

Chairman Clay Goldston called the meeting to order at 5:15 P.M., declared a quorum present and led the assembly in the recitation of the "Pledge of Allegiance."

The chair accepted a motion by Tom Pilot to waive the reading of the Minutes of the 2008 Annual Meeting.

Chairman Goldston provided an overview of our 2008 accomplishments:

- Membership grew by 6%...to 11,144 members
- Increased total share accounts by 24%...to 18,278 accounts
- Extended the 10% youth CD special...produced 491 new youth accounts
- Increased draft accounts by 28%...ended the year with 2,631 accounts
- Increased money market accounts by 11%...to 1,288 accounts
- The loan portfolio balance increased by 24%...to 78,429,971;
- The net loan charge off to average loans was maintained below 1%...at 0.71%
- Net worth to total assets was 11.62% whereas the regulatory minimum is 6%
- Equity increased by \$237,185 for over \$16 million in reserve.

The Chairman then introduced the members of the Board of Directors, making special mention of the vacant chair in honor of Board member, Christopher Scapper, who passed away on April 6th. He then introduced Chairman Henry Banks and Supervisory Committee members Junis Fletcher and Anthony Medero. The Chairman then introduced Chairman Frank Gallagher and Loan Review Committee members George Hill and Alfonza Kelly.

A motion was made and accepted to alter the regular order of business to conduct the election for two vacancies on the Board of Directors. Gary Hankins, Chair of the Nominations Committee, introduced committee members Stanley Organ and Ernest Grant. Chairman Hankins then presented the incumbents Joseph Akers and Junis Fletcher. Chairman Goldston resumed the chair and opened the floor for additional nominations. As there were none, the nominations were closed, and on a motion by Joseph Mazur that was seconded by Anthony Medoro, the body voted to declare the candidates elected by acclamation.

The regular order of business was resumed.

Treasurer Robert Boggs presented the Treasurer's Report that highlighted the following:

- 2007-2008 we have \$3.7 million less cash (liquidity either loaned)
- \$5.7 million less in investment thus making more money available for loans
- \$15 million in loan growth
- Total assets increased \$6,170,000
- Operating expenses \$1.7 million higher due in part to the new building and staffing
- For 2008, the PFCU realized a 6% increase in membership
- PFCU assets have steadily increased from \$66.7 million in 2000 to \$144.5 million as of April 2009
- We recently began offering IRA accounts

In closing, the Treasurer conveyed that people trust this credit union, they have confidence in this credit union, and they know that they get great rates thus the growth in so many indices.

The Treasurer's Report was accepted.

The Chair then called for the report of the Supervisory Committee. Chairman Henry Banks presented the report of the Supervisory Committee that highlighted the following:

- An overview of the responsibilities of the Supervisory Committee
- The Committee has contracted with the firm LarsenAllen to perform the annual audit, and the last audit reflects that the Police FCU is being operated in an efficient manner and in compliance with applicable laws and regulations
- The goal of the Supervisory Committee is, "to insure quality service in a professional manner to all members of the Police FCU"
- There were 956 new accounts audited by the committee in 2008
- There were 316 closed accounts audited by the committee in 2008
- The committee reviewed for accuracy 75 accounts/loans that were charged off

The Supervisory Committee Report was accepted.

The Chair called for unfinished business and there was none.

The Chair called for new business.

President Gregg and Chairman Goldston presented a plaque to Janice Coles-Caldwell for her service to the PFCU which Curtis Braxton accepted on her behalf.

President Gregg and the staff awarded door prizes.

With there being no further business Curtis Braxton offered the benediction and Chairman Goldston adjourned the meeting at 6:40 P.M.

Respectfully submitted:

Joseph C. Akers, Jr.
Secretary
Attest:

Clay Goldston
Chairman

BOARD OF DIRECTORS

Clay W. Goldston, Chairman
Gary W. Hankins, Vice Chairman
Robert V. Boggs, Treasurer
Joseph C. Akers, Secretary
Junis T. Fletcher, Director
Francis Gallagher, Director
George R. Suter, Director

LOAN COMMITTEE

Francis Gallagher, Chairman
George M. Hill II, Member
Chanel Crews-Dickerson, Member

SUPERVISORY COMMITTEE

Henry C. Banks, Chairman
Alfonza Kelly, Member
Anthony J. Medoro, Member

MANAGEMENT

Danny C. Gregg,
President & CEO
Norman F. Mann II,
Executive Vice President of Finance
Kristie R. Mangum,
Executive Vice President of Operations

Headquarters and Branch Office
9100 Presidential Parkway
Upper Marlboro, MD 20772

Downtown DC Branch Office
300 Indiana Avenue NW, #4067
Washington, DC 20001

Telephone: 301-817-1200 | Toll-Free: 877-ARU-PFCU
Website: www.policefcu.com

Designed & printed by Superior Creative 4/10

