



ANNUAL REPORT
2013

Federally Insured by NCUA

A MESSAGE TO OUR *Members*



CONSUMERS CAN RELY ON CREDIT UNIONS TO BE THE ONE FINANCIAL INSTITUTION THAT CONTINUES TO DRIVE ITS BUSINESS DECISIONS WITH THE MEMBERS' BEST INTEREST IN MIND. AS A NOT-FOR-PROFIT ORGANIZATION, UNITUS EMPLOYS THIS MEMBER-CENTRIC MODEL TO GUIDE US IN PROVIDING CONSUMER-FRIENDLY PRODUCTS THAT ADD VALUE TO MEET OUR MEMBERS' NEEDS. WE CONTINUOUSLY MONITOR FEEDBACK FROM OUR MEMBERS, USING TOOLS SUCH AS THE NET PROMOTER SURVEY, TO IDENTIFY HOW WE ARE DOING AND WHAT WE CAN DO BETTER.

We evaluate many of these suggestions for new products or services against a backdrop of numerous requirements from a variety of regulatory agencies impacting financial institutions, including credit unions. With today's business environment influenced by these growing compliance rules and regulations and a fluctuating economy, our Board of Directors continue to enhance its governance model to meet the demands and increased responsibilities.

Over the past five years, we've prepared to meet these challenges by embracing strong best-governance practices. We enhanced our nominating process, introduced term limits and broadened our reach to attract new board candidates from our expanded field of membership communities. We expanded our time commitment to strategic planning initiatives. Additionally, we continuously offer ongoing educational opportunities for members of our Official

Family (Board and Audit Committee members). Our Board is prepared and engaged in providing an appropriate vision for our Credit Union's future.

During 2013, the Credit Union advanced a number of strategic initiatives and increased services to the membership. Product penetration increased in many areas and member service satisfaction continued to be a major focus. The Credit Union experienced an extraordinary financial loss in the investment portfolio due to mortgage securities containing financially stressed borrower loans. While this loss was not foreseen, management has since taken action to significantly minimize exposure to any such loss in the future. Our Net Worth remains strong at 9%.

For the second consecutive year, *Oregon Business Magazine* honored Unitus as a Top 100 Best Company to work for in Oregon, placing #13 in the Large Company category based on the results of employee surveys. Additionally, Unitus was named a Most Admired Company in Oregon and topped Portland Business Journal's Commercial Lenders, Residential Mortgage Lenders, and Corporate Philanthropy lists. While these awards make us proud, they are just manifestations of the work we've done serving our members and communities. Unitus was honored with two regional awards in 2013 unique to the credit union movement: the "Louise Herring Philosophy In-Action" award for our Money Quest program—a six-week challenge that educated members and helped them achieve personal financial goals—and the "Dora Maxwell Social Responsibility Community Service" award for our community service efforts. Our local 'wins' were advanced to the national competition where Unitus earned 2nd place for the Dora Maxwell award and garnered an honorable mention for the Louise Herring Philosophy In-Action award.

Our staff continued a six-year tradition of surprising area residents with Random Acts of Kindness. These spontaneous acts of giving, performed on a monthly basis, showcase the credit union difference and enhance the Unitus brand, all while giving back to the community. We conducted financial education lessons via Financial Beginnings and brought our mascot, Hamilton, to a local school to teach 3rd graders about saving, spending and giving.

The culture of community service at Unitus is demonstrated by the outpouring of donations and volunteer hours offered up not only by our employees, but by our members as well. With their support, we raised money for Credit Unions for Kids, affiliated with the Children's Miracle Network, collected toys and school supplies for area children, and created holiday gift boxes filled with personal items for Oregon's most needy.

Our Credit Union management and staff continue to find ways to provide unique financial products and services to enhance our members' financial wealth. We look forward to serving our members and continuing to make a difference in our communities in the coming year.


Susan Iggulden, Chair



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Board of Directors

Susan Iggulden, Chair
Jim Lewis, Vice Chair
Lora Dakin, Secretary

Gordon Akeson, Director
Tom Faulkner, Director
Don Mason, Director
Scott Thompson, Director

Audit Committee

Luke Watson, Chair
Somnath Banerjee, Committee Member
Rhonda Cramer, Committee Member
Mike Stepan, Committee Member
Natalya Vasilenko, Committee Member



MOVING *forward* WITH CONFIDENCE



- TO MOVE FORWARD WITH CONFIDENCE, YOU HAVE TO
- SEE CLEARLY—THE PATH IN FRONT OF YOU AND THE
- ONE YOU LEFT BEHIND. THE KNOWLEDGE OF WHAT
- HAS BEEN ALLOWS YOU TO FOCUS, ADJUST COURSE,
- AND LOOK AHEAD WITH RESOLVE.

Unitus Community Credit Union is a financial cooperative, founded on the principles of pooling resources to promote wealth, provide credit and mitigate risks for its members. Operating within those prudent parameters for over 76 years has allowed Unitus to build a strong and stable foundation. We continuously monitor and manage the financial aspects of our organization while addressing the future needs of our members. This includes listening to our members and responding to their suggestions and comments for products and services to help them prudently manage their financial affairs.

In 2013, we increased assets to \$933.2 million, a 2.2% increase over 2012, and grew gross loans by \$32.3 million or 6.1%. Our net charge-offs dropped from 0.46% in 2012 down to 0.24% in 2013, demonstrating strong loan quality for both years. Business loans increased by \$11.5 million, representing a 29.4% increase. Vehicle loans increased \$19.9 million, representing an 8.7% increase. Credit card balances increased by more than \$2.4 million, representing a 7.5% increase. The Unitus credit card has been rated as one of the most consumer-friendly credit cards in the country by Credit Card Connection for four consecutive years.

TOTAL LOANS ORIGINATED

YEAR	DOLLARS ORIGINATED	DOLLARS CHANGED	% CHANGE
2009	281,858,627	67,107,457	31.3%
2010	332,973,860	51,115,233	18.1%
2011	311,638,757	(21,335,103)	-6.4%
2012	409,947,125	98,308,368	31.6%
2013	418,058,106	8,110,981	2.0%

Shares and deposits grew by \$21.8 million, or 2.7%, and membership relationships continue to deepen with increased penetration in checking accounts and electronic services, including mobile banking. Overall, more and more members are using Unitus as their primary financial institution, averaging just over four services per account. Approximately 64% of our members now have checking accounts with us, a clear sign of member satisfaction and primary usage, and we continue to see strong growth in this product. We experienced a successful and widespread adoption of SnapCheck, our new mobile check deposit service that enables members to deposit checks anywhere and anytime – more than 54,000 check deposits were snapped for almost \$25 million!

CHECKING GROWTH (Share drafts)

YEAR	CHECKING BALANCES	DOLLARS CHANGED	% GROWTH
2009	72,497,986	17,969,467	33.0%
2010	81,454,670	8,956,684	12.4%
2011	100,568,378	19,113,708	23.5%
2012	122,396,448	21,828,070	21.7%
2013	137,690,555	15,294,107	12.5%

At year-end, we made the decision to stop offering the Smartway Advisors program, which started approximately five years ago. This program helped credit-challenged members, who would have normally paid an above market loan rate, attain financing at a reasonable rate and offered budgeting assistance to ensure affordability of the loan. During this time, we helped over 4,000 people in our community—almost 1,500 of whom were Unitus members. This contributed to an increase in the Credit Union’s loan portfolio with \$22.3 million in high yielding auto loans. The program was discontinued due to competition from lending alternatives available in the marketplace.

During 2013, we experienced a net loss resulting from some challenging investments, a decline in our mortgage revenues and an interest rate environment that continued to challenge our net interest income. The loss in our investment portfolio was caused by mortgage securities located in geographic pocket areas that continue to experience a high level of unemployment and

a lackluster real estate market. We were required to reduce the carrying amount of these mortgage securities by \$4.0 million—the single largest contributor to our net loss. We took additional steps during 2013 to reduce further exposure by selling a majority of the remaining private label mortgage securities. Net worth remains strong at 9% and plans are in place for strong performance in 2014.

MEMBERSHIP GROWTH

YEAR	TOTAL MEMBERS	NEW MEMBERS	% GROWTH
2009	67,372	3,389	5.3%
2010	71,575	4,203	6.2%
2011	77,052	5,477	7.7%
2012	80,165	3,113	4.0%
2013	83,462	3,297	4.1%

Continued Enhancements in Membership Service

Unitus took great strides in 2013 to enhance the member experience at every touchpoint. Our social media footprint is growing, enabling us to reach more members faster and on-the-go. Our Facebook page has nearly 4,000 friends enjoying tips on increasing savings, credit score improvement strategies, as well as pictures and updates on our community and branch events.

We transitioned our mortgage processing to a service provider that now allows members to make mortgage payments, view statements and get tax forms online. We also centralized our consumer loan processing, providing members with a streamlined and more efficient delivery of those services. We introduced SnapCheck, which quickly grew to more than 11,000 users—or 13% of our member base. Now members can use their smartphones and tablets to quickly and easily deposit checks into their Unitus accounts without making a special trip to a branch lobby.

Management was excited to unveil Version 3.0 of uOnline in 2013. We upgraded encryption for a safer online experience. We added multi-account access for easier linking between accounts for family members. And, we redesigned the interface for easier and more intuitive navigation.

Our members reacted very positively to the introduction of our Money Quest Financial Challenge last year. Unitus launched the six-week financial boot camp to help members make measurable progress towards personal financial goals. More than 850 participants—including a few non-members—received weekly challenges designed to assist them in taking concrete steps to save money, pay down debt, establish a budget, strengthen credit scores, take part in financial education, or secure the right insurance coverage. Participants were assigned a Unitus counselor, who tailored each challenge to the individual and served as a financial coach. Here is what some of our members said about this program:

- It was just the right amount of information, and exciting because it was action-based. It demanded change, but change that was achievable.
- I'm excited to be back on track! Thanks for the tip. I've bookmarked this email, so I can refer to it over and over for the great tips!
- Here I was, thinking that I had my payments under control, and I thought I wouldn't learn much this week. Oh - I did. Now, I know how to better pay off my credit cards (and sooner!)
- I am excited about utilizing these financial tools that Unitus has to offer. It's been something I have been meaning to do and with this Money Quest, it's motivated me to get it going. Thanks so much for your support!

Thanks to Money Quest, many members have established their first automatic savings plan, discovered how to manage their credit score, began paying down debt, or completely refocused their overall financial strategy.

Forward Thinking with Technology

As technology developments move faster, we've prioritized providing these services to our members and continue to encourage their adoption. We saw an increase in mobile banking penetration from 25% to 38%, and, among our uOnline users, mobile usage saw outstanding growth to 88% in 2013 versus 63% in 2012. Utilization for eStatements increased from 36% to 45% of member accounts. More of our members used the Bill Pay feature within uOnline, increasing from 21% to 28%.

TECHNOLOGY GROWTH

YEAR	MOBILE BANKING	eSTATEMENTS	BILL PAY
2012	25%	36%	21%
2013	38%	45%	28%

Our members continue to ask for more convenience in managing financial services, so we created Porter in 2013. More than a virtual branch, Porter is a one-stop shop for financial needs. Accessible by smartphone, tablet, or PC, Porter gives members access to:

- uOnline
- Mobile Banking
- Online Bill Pay
- eStatements
- Telephone Teller
- Shared Branching locations/ATMS
- SnapCheck Mobile Deposit
- Total Finance

This technology today is laying the framework for the Unitus membership of tomorrow—one un-tethered to a physical location but joined instead by convenience and access. One that allows our members to share the benefits of credit union membership with more and more family members. One that can spread the credit union difference beyond the confines of a physical branch.

A solid growing infrastructure, forged from the hard work and employee commitment of last year, will position us enthusiastically, strongly and resolutely in 2014. We're moving forward with confidence, fully committed to making a positive impact on our members' lives and in the communities we serve.

Patricia E. Smith

Patricia E. Smith, CEO/Treasurer





REPORT OF THE *Audit Committee*

The Audit Committee is made up of five volunteer members appointed by the Board of Directors whose primary responsibilities are to retain services for an annual report on the financial condition of the Credit Union, coordinate the verification of member accounts, and monitor the review of internal controls, compliance with laws and regulations, and code of conduct activities.

As part of fulfilling its duties, the committee engaged the independent accounting firm Moss Adams LLP to conduct the financial audit, manage the process to verify member accounts, and provide an opinion of the consolidated financial statements as a whole. Summarized consolidated financial statements prepared by management have been included in this annual report. In preparing the consolidated financial statements, management depends upon the Credit Union's system of internal controls in meeting its responsibility for reliable information. The Committee relies

on internal audit to review, measure, and report on the internal control environment and regulatory compliance activities of business processes.

It is the opinion of the Audit Committee that Unitus Community Credit Union's financial operations and system of internal controls are sound based on reports and information received. I'd like to thank the Audit Committee members for their commitment, energy, and enduring effort throughout 2013.

Luke Watson, Chair



REPORT OF *Independent Auditors*

To the Board of Directors and Audit Committee
Unitus Community Credit Union and Subsidiary
Portland, Oregon

The accompanying summary financial statements, which comprise the summary consolidated statements of financial condition and the related summary consolidated statements of income, comprehensive (loss) income, and changes in members' equity, are derived from the audited consolidated financial statements of Unitus Community Credit Union and Subsidiary (the Credit Union) as of and for the years ended December 31, 2013 and 2012. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 28, 2014.

The summary financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States of America. Reading the summary financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Credit Union.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion about whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the summary financial statements with the related information in the audited consolidated financial statements from which the summary consolidated financial statements have been derived.

Opinion

In our opinion, the summary financial statements of the Credit Union as of and for the years ended December 31, 2013 and 2012 referred to above are consistent, in all material respects, with the audited consolidated financial statements from which they have been derived.

Moss Adams LLP
Portland, Oregon
February 28, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2013	2012
Assets		
Cash and cash equivalents	\$ 155,382,132	\$ 148,551,895
Trading securities, at fair value	2,753,306	372,755
Investment securities available for sale, at fair value	190,504,818	210,179,547
Restricted equity securities	3,269,000	3,391,600
Loans receivable, net	556,713,563	524,858,964
Accrued interest receivable	2,704,705	2,952,976
Property and equipment, net	8,739,023	10,118,193
National Credit Union Share Insurance Fund deposit	8,030,591	7,574,423
Other assets	5,123,648	5,073,660
Total assets	\$ 933,220,786	\$ 913,074,013
Liabilities		
Members' share and savings accounts	\$ 824,322,362	\$ 802,553,690
Borrowed funds	15,000,000	15,004,833
Accrued expenses and other liabilities	11,984,653	10,527,874
Total liabilities	851,307,015	828,086,397
Controlling Interest in Members' Equity		
Regular reserves	23,423,471	23,423,471
Undivided earnings	60,639,932	62,026,913
Accumulated comprehensive (loss) income	(2,149,632)	267,460
Noncontrolling Interest in Subsidiary	—	(730,228)
Total members' equity	81,913,771	84,987,616
Total liabilities and members' equity	\$ 933,220,786	\$ 913,074,013

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2013	2012
Interest Income		
Loans receivable	\$ 23,939,496	\$ 24,782,805
Investments and cash equivalents	6,108,335	7,879,578
Total interest income	30,047,831	32,662,383
Interest Expense		
Dividends on members' share accounts	5,933,438	6,779,955
Borrowed funds	538,066	1,420,671
Total interest expense	6,471,504	8,200,626
Net Interest Income	23,576,327	24,461,757
Provision for loan losses	1,818,090	2,237,386
Net interest income after provision for loan losses	21,758,237	22,224,371
Non-Interest Income		
Service charges and fees	12,522,919	11,902,004
Mortgage banking and loan servicing income	4,003,477	5,457,766
(Loss) gain on investment securities		
Gain on sale of investment securities, trading	267,244	—
Unrealized gain on trading securities	726,544	372,755
(Loss) gain on sale of investment securities, available-for-sale	(268,215)	3,106,632
Total other-than-temporary impairment losses	(4,020,844)	(2,565,315)
Total (loss) gain on investment securities, net	(3,295,271)	914,072
Total other non-interest (loss) income	(10,673)	39,897
Total non-interest income	13,220,452	18,313,739
Non-Interest Expense		
Compensation and benefits	17,422,190	16,885,864
General and administrative	17,520,805	18,778,108
National Credit Union Administration assessments	642,447	719,570
Total Non-Interest Expense	35,585,442	36,383,542
Net (loss) income	(606,753)	4,154,568
Noncontrolling interest in net loss of subsidiary	110,852	223,726
Controlling interest in net (loss) income	\$ (495,901)	\$ 4,378,294

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended December 31,	
	2013	2012
Net (loss) income	\$ (606,753)	\$ 4,154,568
Other Comprehensive (Loss) Income		
Unrealized (losses) gains on securities available-for-sale	(6,706,151)	12,123,223
Reclassification adjustment for realized losses (gains) on securities available-for-sale	268,215	(3,106,632)
Reclassification adjustment for other-than-temporary impairment realized in net income	4,020,844	2,565,315
Total other comprehensive (loss) income	(2,417,092)	11,581,906
Comprehensive (Loss) Income	\$ (3,023,845)	\$ 15,736,474

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	CONTROLLING INTEREST IN MEMBERS' EQUITY				
	Total Members' Equity	Regular Reserves	Undivided Earnings	Accumulated Comprehensive (Loss) Income	Noncontrolling Interest in Subsidiary
Balance at December 31, 2011	\$ 69,251,142	\$ 23,423,471	\$ 57,648,619	\$ (11,314,446)	\$ (506,502)
Net income	4,154,568	—	4,378,294	—	(223,726)
Other comprehensive income	11,581,906	—	—	11,581,906	—
Balance at December 31, 2012	84,987,616	23,423,471	62,026,913	267,460	(730,228)
Net loss	(606,753)	—	(495,901)	—	(110,852)
Purchase of noncontrolling interest in subsidiary	(50,000)	—	(891,080)	—	841,080
Other comprehensive loss	(2,417,092)	—	—	(2,417,092)	—
Balance at December 31, 2013	\$ 81,913,771	\$ 23,423,471	\$ 60,639,932	\$ (2,149,632)	\$ —



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