



2011 ANNUAL REPORT



MESSAGE FROM THE CHAIRMAN OF THE BOARD



DR. ROBERT CHAPMAN
Chairman of the Board

Before everything else, getting ready is the secret of success.

- HENRY FORD

It was a good year for DFCU Financial. We continued to build our financial strength and help members with their financial needs despite continued local economic challenges.

Though the economy did not grow as hoped, consumer discontent did.

Increased federal regulations and economic conditions squeezed profits and banks reacted to the pressure to increase revenue by raising and creating new fees. As a result, Occupy Wall Street protestors moved into city centers across the nation, placing the financial services industry in the center of controversy once again.

When consumers sought refuge from big banks, DFCU Financial was well positioned as an alternative with our free checking account, low fees and Special Patronage Dividend. We grew our deposit base by 11.4% and our loans by 5%.

We also celebrated a milestone event in 2011 – the 10th anniversary of DFCU Financial Partners*, the investment division of DFCU Financial. For 10 years, we've helped members achieve their financial goals through investing. More than 10,000 households entrust their investment plans to the professional consultants at DFCU Financial Partners.

Whether it's advising members on retirement planning or providing an account balance, we

pursue operational excellence in all we do. It's the desire to achieve excellence that continues to drive our financial stability, high efficiency level and outstanding member service scores. In 2011, DFCU Financial was ranked once again in the Top 10 credit unions in the nation for Return on Assets – an achievement that we've attained for the last 11 years.

As in 2011, this year is unfolding with similar economic, environmental and regulatory challenges. These challenges continue to strain the financial services industry, but the good news is that DFCU Financial is in a state of readiness.

Though we cannot control the external environment, we can control what we do. We've worked hard to build a financially solid credit union that can sustain economic cycles. DFCU Financial is safe, secure and well-positioned to weather what is evolving into another challenging year.

As custodians of the credit union, we will continue to make prudent choices to ensure that DFCU Financial remains strong for the future benefit of our members, team members and the communities we serve. Thank you for choosing DFCU Financial. We appreciate your continued commitment and loyalty.

A handwritten signature in black ink, appearing to read "Robert Chapman".

HIGHLIGHTS OF 2011

- Ranked in the Top 10 for financial performance among peer credit unions across the country for the last 11 years
- Issued the sixth consecutive Special Patronage Dividend for a total of more than \$110 million given to members
- Celebrated the 10th Anniversary of DFCU Financial Partners, our investment division
- Opened our 23rd branch in Novi
- Increased average loans, deposits and capital
- Named a *Detroit Free Press* Top Workplace and a Michigan Economic Bright Spot for three consecutive years
- Introduced new Healthy Credit seminar to help address members' financial needs

BALANCE SHEET

Consolidated Statements of Financial Condition

(In thousands)

December 31	2011 unaudited*	2010
Assets		
Cash and cash equivalents	\$ 24,697	\$ 209,799
Investment securities	1,679,613	1,359,372
Loans	1,266,519	1,318,858
Allowance for loan losses	(20,644)	(22,394)
Net loans	1,245,875	1,296,464
Property, buildings and equipment	31,932	33,644
National Credit Union Share Insurance Fund deposit	24,098	23,170
Accrued income and other assets	63,648	61,051
Total assets	\$ 3,069,863	\$ 2,983,500
Liabilities and equity		
Deposits	\$ 2,613,909	\$ 2,506,677
Borrowed funds	300	52,450
Accrued expenses and other liabilities	80,321	63,474
Total liabilities	2,694,530	2,622,601
Equity	375,333	360,899
Total liabilities and equity	\$ 3,069,863	\$ 2,983,500

* Crowe Horwath was retained to perform 2011 audit procedures in the spring of 2012. Crowe issued an unqualified audit opinion on the 2010 financial statements.

INCOME STATEMENT

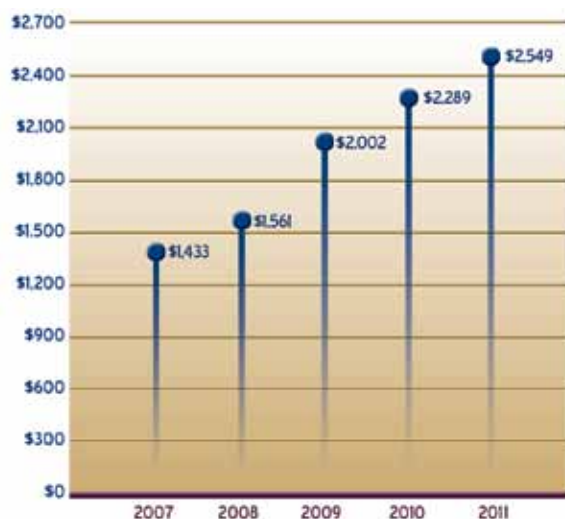
Consolidated Statements of Income

(In thousands)

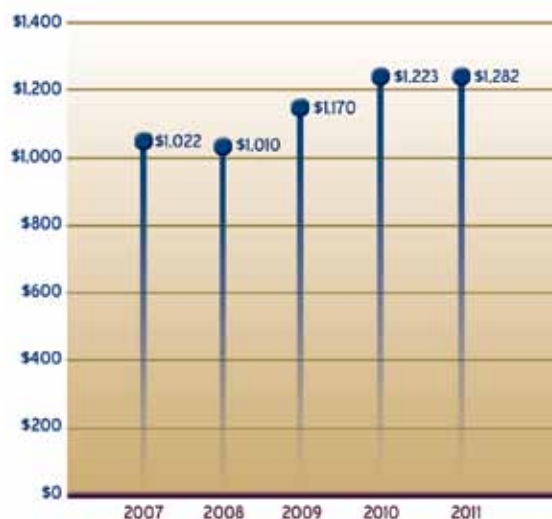
Year ended December 31	2011 unaudited*	2010
Net interest income		
Interest income	\$ 102,839	\$ 107,044
Interest expense	10,230	19,821
Net interest income	92,609	87,223
Provision for losses on loans	9,968	19,044
Net interest income after provision for losses on loans	82,641	68,179
Non-interest income		
Fees and commissions	27,196	24,412
Other non-interest income	1,489	5,710
Total non-interest income	28,685	30,122
Non-interest expense		
Compensation and benefits	31,673	29,907
Office operations and occupancy	14,393	13,080
National Credit Union Share Insurance Fund expense - net	6,024	5,514
Other	17,719	15,716
Total non-interest expenses	69,809	64,217
Net income before Special Patronage Dividend	41,517	34,084
Special Patronage Dividend	21,077	18,865
Net income	\$ 20,440	\$ 15,219

FIVE-YEAR GROWTH TRENDS

Total Deposits (Average; in millions)



Total Loans (Average; in millions)





2012 DFCU Financial Annual Membership Meeting Agenda The Henry Hotel, May 21, 2012

- Determination of a Quorum
- Approval of the Minutes from 2011 Meeting
- Report of Financial Condition and Annual Comprehensive Audit
- Report of Directors
- Unfinished Business
- New Business Other Than Election
- Election
- Adjournment
- Questions and Answers

Minutes from the 2011 DFCU Financial Annual Membership Meeting The Henry Hotel, May 23, 2011

Members were welcomed to DFCU Financial's 2011 Membership Meeting by Board Chairman Dr. Robert Chapman. Chairman Chapman introduced the officials present at the meeting. They included:

Paul Conway, director and vice chairman of the board

Jim Cowper, director and treasurer of the board

Laura Terzes, director and secretary of the board

Mark Shobe, president and chief executive officer

Beth Cafaro, director

Bill Furtwangler, director

Don Lawrence, director

Charley McQueen, director

Keith Moss, director

Chairman Chapman noted that a quorum was present and called the 2011 Membership Meeting to order at 6:06 p.m. Approximately 53 members were in attendance for the meeting. Chairman Chapman reviewed the agenda which was provided in the materials given to all meeting attendees.

2010 Minutes

These minutes were approved and made part of the official records.

Report of the Directors

Director Jim Cowper and Vice Chairman Paul Conway gave the Report of the Directors. Director Jim Cowper reviewed the financial picture for 2011. He told attendees that there was a great deal of regulatory reform that financial institutions were dealing with. In addition, credit unions were still required to replenish the NCUA Share Insurance Fund, which

was expected to cost DFCU Financial \$8.5 million in 2011.

Despite continued challenges in the industry and our local economy, DFCU Financial remained healthy and prosperous. Our continued strong financial performance allowed us to issue the fifth consecutive Special Patronage Dividend of more than \$19 million to members.

Other financial highlights from 2010 included:

- Core Net Operating Revenue rose to \$114.2 million
- Average Capital to Assets was at 12.2%, which is higher than the national average 9.1% for credit unions
- Member loans increased to \$1.22 million
- Average Deposits increased to \$2.29 million

Director Conway also reported that the merger of MidWest Financial credit union was complete with the computer systems successfully integrated. The merger brought DFCU Financial five new branches, \$180 million in assets, and more than 17,000 new members.

DFCU Financial Partners, our investment advisory service, had an outstanding year. The program ranks third nationally out of more than 150 credit unions. More than 11,000 households have an investment relationship with DFCU Financial Partners.

It was another year of accomplishments for DFCU Financial. In 2010, DFCU Financial was named a *Detroit Free Press* Top Workplace. Our Special Patronage

Dividend was given a Best Practices award by *Credit Union Journal*; and Mark Shobe was named a Champion of the New Economy, an award given by WJR Radio, *DBusiness* magazine and Junior Achievement of Southeastern Michigan.

In addition, Director Conway reported that DFCU Financial continues to reach out to the communities it serves. For the 2009/2010 school year, the credit union donated \$160,000 to public school districts where there are DFCU Financial branches. And our youth financial literacy efforts were recognized as DFCU Financial's Youth Education Coordinator RuthAnn Albus was named 2010 Youth Credit Union Advocate of the Year by the Michigan Credit Union League.

Report of Financial Condition and Annual Comprehensive Audit

Chairman Chapman referenced the Report of Financial Condition contained in the annual report and noted that members could review it further at their leisure.

Unfinished Business

There was none.

New Business

There was none.

Elections

Beth Cafaro, William Furtwangler and Laura Terzes were introduced and background information was given on each candidate. Since the three candidates were running unopposed for three vacancies, a unanimous ballot was cast.

Adjournment of Meeting

The meeting adjourned at 6:28 p.m.

Question and Answer Session

Chairman Chapman invited questions from the membership. A question and answer period followed.



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NCUA Your savings are federally insured to \$250,000 by the National Credit Union Administration, a U.S. government agency.



DFCU Financial Federal Credit Union is an equal opportunity lender.