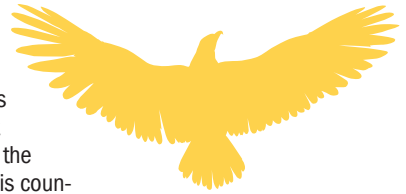




2010 ANNUAL REPORT

SPREADING OUR WINGS

FROM YOUR CHAIRMAN



As I began to reflect on the past year, two things came to mind: the challenges we Americans face to improve our economy and how these challenges impact your credit union and its membership. Air Force FCU has maneuvered through the challenges in what has been chronicled as one of the worst recessions that this country has ever seen. Our economic problems have been compounded by bail-outs on top of bankruptcies, home foreclosures and high unemployment rates. Many experts are still uncertain how long it will take the country to recover completely.

I am pleased to report to you that, in spite of the country's poor economic conditions, 2010 was another successful year for Air Force Federal Credit Union. There were many major contributors to this success: First, and above all, all of you—our members—who continue to demonstrate your loyalty and patronage; Second, our dedicated team of professional leaders, from the CEO and other executives to the branch and department managers who conduct the day-to-day operations of your credit union. Thanks to their conservative management initiatives, your credit union continues to remain a safe and strong financial institution; and last, the pool of talented and energetic staff who serve you directly and indirectly behind the scenes every day.

We have maintained, and will continue to do so, a strong commitment to excellent service to you and your family. We constantly strive to live up to our strong Mission Statement "To be the one financial institution that best understands and meets the needs of our members wherever they are." This promise reinforces our commitment to you. In order to fulfill this mission, our board members and management team have had to carefully consider many variables to achieve success. As part of our strategic planning process, we made one of the most drastic changes since the credit union was founded. We expanded our field of membership, one that has been in existence since the credit union was founded in 1952, with a new charter. As a result, we now serve all active duty and retired military, Department of Defense civilian employees and their families that serve or work at military installations in five states. This revised field of membership includes the entire states of Texas, Oklahoma, Louisiana, Arkansas, and Mississippi. As the military makes mission changes, such as the DoD Joint base reorganizations, so too will your progressive credit union expand to accommodate members where they live and work. In the coming years, our strategic plans call for expansion of branches and services to make deeper and direct connections to our members in these new geographic areas we serve.

For a number of years now, we have been planning, preparing and initiating measures for growth in order to better serve our members worldwide. Here are just a few of the major programs and products of 2010 and beyond to facilitate growth:

- We rolled out a comprehensive, interactive online account-opening and lending interface. You can now join our credit union, open a deposit account or apply for a loan right from the comfort of your computer at anytime and from anywhere in the world.
- Another new service in 2010 was the introduction of Mobile MAT—our mobile banking application to allow members access to online banking through their mobile and smart phones. Since its launch, over 7,000 members have used it to check their accounts, find a branch or ATM location, or to contact us.
- Check images are now part of your monthly statements. Whether you still receive paper statements or have signed up for eStatements, you can see a scan of any check you have written that has cleared when you are logged into CyberMAT Online Banking. This is very helpful in verifying recipients, amounts and dates of your paper check transactions. This enhancement is easy to use and is provided without any extra fees to you.
- One of the principles of our service guidelines is that we listen to you. Most members tell us that they prefer talking to a member service representative about their accounts instead of typing messages. Our telephone lines continue to remain open 24 | 7 | 365, even on holidays, to talk to you and assist you any way we can.
- The credit union continued to provide competitive rates for all of our deposit products. To empower members with modest funds to start to build wealth, we launched the Booster Share Certificate program in 2010. A Booster Share Certificate is a "starter" savings program where you can open the account with only \$100, and when your deposits reach \$1,000, then your account will get "boosted" to a higher-rate share certificate.
- In 2010 we worked very hard to provide you with the best consumer loan rates available. Our very competitive auto loan and home mortgage rates were some of the lowest we have ever offered to our members. We understand times are hard, and we want to make sure we serve your financing needs at the lowest possible cost.
- Finally in 2011, we have aggressive plans to open two new branches: one in Del Rio and another one in San Antonio, Texas. Details will be forth coming on locations and opening dates.

Your credit union will continue to add the products and services that you need to do your banking with us. In the near future, we will look to have mobile text messaging, and we will be upgrading our online banking services to keep up with the latest technologies.

As a credit union serving the American Military, we are conscious of the many hardships and sacrifices that service men and women and their families must endure. We have continued to actively support many organizations both on- and off-base at Lackland AFB. These programs include the Fisher Houses, home-away-from-home facilities that house families while their loved ones are treated at Wilford Hall Medical Center, the Lackland Officer's Spouses Club that provides scholarships to worthy students, the First Sergeants Association, and the 802nd Force Support Squadron who manage a long list of social activities, public events and fund-raisers on base.

Also noteworthy is our continued support of Credit Unions for Kids, which celebrated its 25th anniversary in 2010. CUFK has benefited from Air Force FCU employees' volunteer assistance and fundraising support over its entire 25-year history. This grassroots organization was founded in San Antonio by credit union members and has since spread nationwide. In the spirit of the credit union creed of "People Helping People," the funds we raise locally benefit CHRISTUS® Santa Rosa Children's Hospital, a very worthy cause in the San Antonio community.

As we move forward, the credit union will continue to spread its wings to serve the community that has sacrificed so much for our freedom and way of life. Our goal is to continue to provide services that exceed your expectations and products that meet your financial needs. We will continue to support our membership community, building on each relationship, one member at a time.

Your Board of Directors, management team and dedicated, loyal employees truly appreciate your support in making Air Force Federal Credit Union the strong and successful credit union it has become. Thank you for trusting and believing in us. We pledge to continue to provide the best of service to you and your family in the coming year and beyond.

Sincerely,

**Sam V. Farace, Jr., Col Ret, USAF
Chairman**

YOUR BOARD OF DIRECTORS



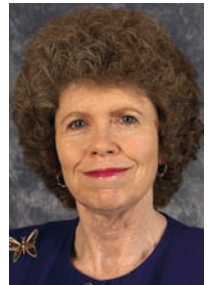
Chairman
Col Sam V. Farace, Jr.
USAF (Ret)



Vice Chairman
James E. Goodgion, III



Treasurer
Melvin J. Moczygemba,
CPA



Secretary
Joan B. Lopez



Director
CMSgt Ronald R.
Applegate
USAF (Ret)



Director
TSgt Michael M.
Buecher, CCD,
CCO USAF (Ret)



Director
Amber G. Martin



Director
CMSgt Brian K.
Rawls USAF (Ret)



Director
Georgia S.
Snodgrass, CCUV

FROM YOUR PRESIDENT

POSITIONING FOR THE FUTURE



Whether it's in your personal life or your professional life, the key to success is having a clear vision and focused direction. It was a rough journey navigating through 2010, as we encountered some formidable challenges. Your credit union is now poised to take advantage of new opportunities coming our way, and I can assure you, Air Force Federal Credit Union knows where it is going and we have a clear path to get there.

There is no sugar coating in this report. I am being very frank about our financial performance for 2010, the special circumstances that we faced, and the prospects for our future.

THE 2010 CHALLENGES

The economy was poor. Consumers were unwilling to make significant purchases—the exception being those few instances where there were large tax inducements. This led to lower than anticipated loan demand.

- The corporate credit unions were under significant stress because of the meltdown in the mortgage market which resulted in several institutions being conserved by the National Credit Union Administration (NCUA). The actions taken by NCUA led to an obligation that will be borne largely by the Natural Person Credit Unions such as Air Force Federal Credit Union. In order to meet this obligation, NCUA assessed fees from the credit unions which were at historic levels and these fees will be assessed for several years to come.
- In our case, in addition to the assessment of fees by NCUA, we had to recognize the full impairment of the credit union's investment in our corporate credit union. In 2010 we had to recognize an extraordinary expense of \$273,200 as we wrote-off the remainder of our investment in Southwest Corporate Federal Credit Union—one of the corporate credit unions.
- Congress passed a number of laws that adversely impacted the fees revenues that financial institutions had become dependent upon to fund their operations. Many financial institutions responded by eliminating free services and imposing higher balance requirements to avoid fees on products that already produced revenue. Unfortunately, the full impact of some of these laws has yet to be felt. Some of the proposed regulations currently under consideration to implement some of the mandated changes are ominous when you consider the potential implications to the revenue streams of financial institutions.
- One such proposal is the Interchange Regulation that was inserted at the “eleventh hour” in the passage of the Dodd-Frank Banking Bill passed late in the last session of Congress. The Senate did not debate the insertion nor did the House of Representatives. If the regulation goes forward as currently proposed, your credit union will have between \$1.5 and \$2 million less revenue annually to support our operation. This money is not being distributed to individuals but rather is being awarded to merchants, particularly the so-called “big box” merchants, who are under no mandate to lower the costs of the products and service they provide consumers. The final outcome of the regulation's form will directly determine if rewards programs on debit and credit cards can continue and if checking accounts which have been fee-free for years will be able to remain so.
- Lastly, Air Force Federal Credit Union was chastised last year by the NCUA. For decades Air Force FCU operated with the interpretation that our field of membership as described in our charter included all military members eligible to receive benefits at Lackland Air Force Base. In August 2009, we were approached by the NCUA who challenged this interpretation by stating that they felt our field of membership was limited to those who were eligible to receive benefits from Lackland AFB, but that they must also actually be receiving benefits at the time they joined the credit union. We concurred that there was such a limitation on a portion of those who had been qualified to join, but we felt differently about the remaining larger group. However, when considering the cost of fighting for our historical interpretation that had been practiced for so many years, we felt that such a fight would be very costly and hurt the members of the credit union. So we agreed to work with NCUA to reach a conclusion to the matter. The formal agreement required Air Force FCU to identify those who were allegedly improperly admitted to membership. Certain specific timelines were provided in the agreement. All of the timelines were met. Ultimately, the NCUA made a determination in May 2010 that we would be required to divest ourselves of these disputed members—selling their loans and returning their share balances.

At the same time Air Force FCU petitioned the NCUA to be allowed a larger field of membership. At the time of the order to divest was made, we were awarded a newly defined field of membership. The new field of membership includes all military—active duty, reserves, or retired; all Department of Defense civilian employees or retirees, employees of contractors for the DoD who live or are attached to units in the states of Texas, Oklahoma, Arkansas, Mississippi or Louisiana. We are most pleased with the opportunities the new Field of Membership offers the credit union for future growth.

However, there were costs associated with the divestiture of the loans. The vast majority of the loans were able to be sold with no loss associated with the sale. However, a small group of loans, with unique characteristics were left as a remainder. The total balance of these loans amounted to less than \$10 million at the time of the sale. The NCUA gave us sixty days to market these loans and to move through the sale. Because the loans were not homogeneous and there was a limited time to sell the them, there were very few bidders on the loans. These loans had to be sold at a loss of approximately \$2.7 million.

Since the sale of the loans was completed, the NCUA has issued a letter releasing us from our agreement, and we retain the expanded field of membership going forward.

THE 2010 FINANCIAL PERFORMANCE

Our financial performance aside from the extraordinary items was very good.

Despite all the challenges we faced, your credit union remains very safe and sound. Our capital at year end was 9.14% which far exceeds the 7% requirement to be considered well-capitalized.

Had we not had the write-off of the losses associated with the sale of the loans mandated by the NCUA and the loss on the investment in the corporate credit union, we would have had a profitable year. If assessments by NCUA had been more normal, our earnings for 2010 would have been approximately \$1,000,000.

Loan Delinquency and Net Charge-off reductions aided us as we struggled with the extraordinary. The Delinquency rate improved throughout the year, ending with a rate of 0.60%. This compares very favorably with the delinquency rate of 1.62% that was posted by credit unions our size, and our delinquency rate at the end of 2009 of 0.79%. Our net charged-off loans for 2010 amounted to 15.36% less than the net charged-off loans in 2009.

Growth was not a goal in 2010. Our goals were to deal with the NCUA's issue and maintain a profitable and financially strong credit union.

OUTLOOK FOR 2011 AND BEYOND

While none of us know how fast the economy will rebound, we are on the brink of initiating some very exciting growth while retaining our profitability throughout the coming years.

With the change in our Field of Membership, we have dedicated ourselves to expanding our branch network to leverage the new franchise.

- A new branch is opening in Del Rio, Texas to serve the Airmen stationed at Laughlin Air Force Base and those employed there who qualify for membership in the first quarter of 2011. This will be the first branch we have opened since 2002.
- And lest anyone think we are abandoning San Antonio, we want to make you aware that we have plans here as well. The plan is to open a branch close to Fort Sam Houston in the late second or very early third quarter of 2011. The process of making this a reality is underway and should be fully negotiated by the time you are reading this at our annual meeting.
- The branch expansion does not stop after these two. We have certain financial metrics we want to attain in these offices, but we believe that over the next seven to ten years we should be able to open two new branches per year. Tentatively scheduled for 2012 are branches in northeast San Antonio and in San Angelo, Texas. Our strategy is to place branches in locations not being served by shared branching facilities first.

The new year brings a new emphasis on real estate lending. Over the past year we have established processes which will allow us to offer mortgages that are competitively priced. These loans will be underwritten using the standards of the secondary market, so they are not only a way for us to employ the shares you deposit with us, but they are also a tool for us to manage our balance sheet.

You will notice a new online loan application for consumer loans on our website. This new application facilitates added speed to our processing of your loan requests. Because of changes in regulations, we can no longer use the multi-featured open-end credit plan documents to facilitate loans after the initial request. We will need to obtain signatures for each request. But because our members are far-flung, we are developing ways to enable you to sign those forms electronically. You will receive an email that directs you to a website run by Doc-U-Sign. You will sign into that website and be presented a copy of the documents that are fully completed. Once you apply your electronic signature, your loan documents are returned to us almost instantaneously.

As we spread our wings, service quality is not something we will sacrifice. We remain dedicated to the best in member service—regardless of **where** we serve our members.

As always, I remain in service to you,

**Robert A. Glenn
President/CEO**

FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF INCOME

12.31.2010

INTEREST INCOME

Interest and Fees on Loans	\$ 13,533,124
Interest on Investments	<u>1,078,359</u>
	14,611,483

INTEREST EXPENSE

	<u>4,341,290</u>
Net Interest Income	10,270,193
Provision for Loan Losses	<u>1,735,093</u>
Net Interest Income after Provision for Loan Losses	8,535,100
Other Operating Income	<u>3,789,787</u>

OPERATING INCOME

Before Operating Expenses	<u>\$ 12,324,887</u>
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OPERATING EXPENSE

Employee Expense	\$ 7,249,815
Operating Expense	<u>7,966,331</u>

TOTAL OPERATING EXPENSE

	15,216,146
Net Operating Income	-2,891,259
Non-Operating Gain/(Loss)	<u>0</u>

NET INCOME

\$ -2,891,259

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

12.31.2010

ASSETS

Cash and Cash Equivalents	\$ 68,140,830
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LOANS TO MEMBERS

Less: Allowance for Loan Losses of \$1,502,211	163,952,558
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INVESTMENTS

90,065,641

OTHER ASSETS

11,830,070

TOTAL ASSETS

\$ 333,989,099

LIABILITIES AND MEMBERS' EQUITY

Members' Share Accounts	\$ 299,572,268
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Payable and Other Liabilities	<u>5,212,475</u>
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TOTAL LIABILITIES

304,784,743

TOTAL MEMBERS' EQUITY

29,204,356

TOTAL LIABILITIES AND MEMBERS' EQUITY

\$ 333,989,099

NOMINATING COMMITTEE REPORT



Air Force Federal Credit Union will have three 3-year term vacancies on the Board of Directors in 2011.

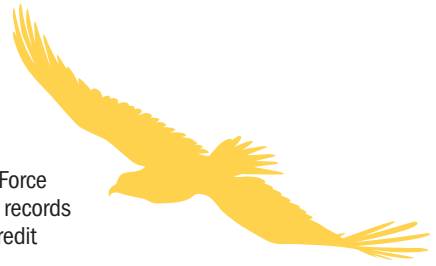
It is the duty of the Nominating Committee to nominate at least one member for each of these positions, with the election to be held at the Credit Union's annual meeting. The Nominating Committee received submissions from three individuals indicating their desire to serve on the Board. The Nominating Committee found the candidates qualified and agreeable to having their names placed in nomination. The nominees for the Air Force Federal Credit Union Board of Directors are Sam V. Farace, Jr., Colonel, USAF (Ret), James E. Goodgion, III and Michael M. Buecher, TSGT, USAF (Ret), CCD, CCO.

There were no nominations by petition. According to Article V of the Bylaws, when only one member is nominated for each position to be filled, the election will not be conducted by ballot and there will be no nominations from the floor. The nominees will be declared elected by general consent, acclamation or voice vote at the Annual Meeting on March 24, 2011.

Respectfully submitted,
Brian K. Rawls, Chairman
Melvin J. Moczygomba
Joan B. Lopez

— Nominating Committee

SUPERVISORY COMMITTEE REPORT



The Supervisory Committee, which is appointed by the Board of Directors of Air Force Federal Credit Union, is responsible for ensuring that the credit union's financial records are in order and that internal controls are in place to protect the assets of the credit union for its members.

To meet these goals, the Supervisory Committee is responsible for determining whether your credit union managers have:

1. Established and maintained effective internal controls to achieve the credit union's financial reporting objectives.
2. Promptly prepared accounting records and financial reports to accurately reflect operations and results.
3. Properly administered the relevant plans, policies and control procedures established by the Board of Directors.
4. Established policies and control procedures that safeguard against error, carelessness, conflict of interest, self-dealing and fraud.

Section 115 of the Federal Credit Union Act states that the Supervisory Committee is responsible for the credit union's annual audit and that the results are reported to the Board of Directors and the membership. To assist in carrying out these responsibilities in 2009, the committee engaged the firm of Clifton Gunderson LLP, to perform an independent audit and to provide an opinion on the financial condition of your credit union for the period ending 09/30/2010 (although this date does not coincide with year end; it is the date that our financial audit is historically done). The goals of this audit are to determine the reliability and integrity of the financial and operating information and to determine compliance with generally accepted accounting principles (GAAP). The committee also engaged CastleGarde to perform an Information Systems risk assessment, a multi-factor authentication assessment, a website compliance review and assessment and a third party service provider information security due diligence and oversight assessment. In addition, the committee engaged Credit Union Resources, Inc. to perform our Internal Audit Program, under the direction of the Supervisory Committee. The internal audit program includes an annual inspection of internal controls, cash, member loans, bank secrecy/anti-money laundering, and other assets of your credit union. The audit program for the year 2010 was completed as planned with no unresolved issues. The Supervisory Committee followed and offered guidance to our internal auditors during the year. It approved the annual internal audit plan, worked with the compliance officer to ensure compliance training programs were administered to staff, and met with credit union management to discuss detailed operation information.

The committee is pleased to report your credit union continues a tradition of excellent financial management and compliance. The committee will continue to monitor the credit union's controls as it faces the challenges and opportunities in the upcoming year.

Respectfully submitted,
Michael M. Buecher
Chairman, Supervisory Committee



AIR FORCE FEDERAL CREDIT UNION CORPORATE HEADQUARTERS

1560 Cable Ranch Road, Suite 200 ■ San Antonio TX 78245

210.673.5610 ■ 800.227.5328 ■ airforcefcu.com

YOUR AIR FORCE FCU EXECUTIVES:

President/CEO – Robert A. Glenn

Executive Vice President/COO – Robert Sherwood

Senior Vice President/CIO – Rick Sulfridge

Vice President Member Services – Cathy Miller

Vice President Lending – Kathy Johnson

Vice President Finance – Lisa Rodriguez

Vice President Compliance – Molly Schmalfeldt

Vice President Remote Services – April Mann

Vice President HR – Stephanie Norwood

Vice President Marketing – Danny Sanchez



Your savings federally insured to at least \$250,000 by the National Credit Union Administration, a U.S. Government Agency, and backed by the full faith and credit of the United States Government.