



MEMBER INSPIRED

*more than  
just money*



# *volunteer*

## **BOARD OF DIRECTORS**

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*Jim Wadhwani, Vice Chairperson*

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*Joseph Farmer*

*Gary Beil*

*Sheila Boze*

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*Don Hyun*

*Roger Mauldin*

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## **SUPERVISORY COMMITTEE**

*Jack Byeman, Chairperson*

*Gary Beil*

*Sheila Boze*

*Don Hyun*

*Geoffrey Carpenter*

Usually, the Chairperson's report features a summary of growth goals reached, milestones attained and new products and services launched in the past year. While this year's report is no exception to that standard, I want to take a somewhat different approach—and begin with you.

As a BECU member, you're an owner, which means you come first. At the end of the day, our goal is to return as much value as we possibly can to each one of our members. Many times that means giving you a better rate. Sometimes it means providing a new or improved service. And often, it means giving back to the community where you live. Every decision that we make and everything we do at BECU is made with the consideration of how it will benefit our members.

We made a lot of decisions in 2006. These decisions ultimately led to one of our most successful and productive years yet. Most importantly, though, a strong year at BECU provides us the ability to give back even more to members and our communities as we look forward.

As you read the Treasurer's report, you will see that we enjoyed healthy growth tempered by the preservation of strong safety and soundness measures. We ended 2006 with a reserve to asset ratio of 8.22%; well within our target range. Our deposit and loan growth measures were far beyond that of our peers in the industry. Membership grew to over 473,800 members, and assets increased to \$7.18 billion by the end of the year. This healthy growth allowed us to accomplish great things for our membership in 2006, and helps pave the way for more enhancements in 2007.

We made big strides in introducing new and enhanced products and delivery channels in 2006—most notably our Member Advantage and Early Saver programs. With the savings rate in the U.S. at an all-time low, BECU developed this program to encourage and reward members for starting a strong savings habit. Through our Member Advantage and Early Saver programs, members earn substantially higher rates on the first \$500 they keep in a savings or checking account. We do require that our Member Advantage customers use both our online banking and eStatement services, which ultimately reduce costs and allows us to return the savings to our members with these exceptional rates.

Convenient access is a major factor for providing good service to members. In 2006, we opened three new Neighborhood Financial Centers (NFCs), contributing to increased access to BECU. These NFCs, located in the Renton Thriftway, the Bothell/Canyon Park Safeway, and Broadway Market, join 35 additional NFCs, spanning the distance from Mt. Vernon to Olympia.

Security and information protection remains a constant concern, especially in today's online environment. We continued to emphasize the extreme importance of protecting the financial information of our members this past year, and remained fiercely committed to improving opportunities to prevent member privacy intrusions and attempted fraud. A key part of this plan included the introduction of Intelligent Authentication, which safeguards the online banking login process with a protection feature using security questions for account verification.

In 2006, we continued to be active in our members' communities. In addition to the activities that the NFC staff members carry out in their neighborhoods, BECU helped more communities grow by committing \$100 million in Home Loan Payment Relief loans last year. This allowed hundreds of members to become homeowners who would otherwise not have been able to afford a standard mortgage. Also, we continued to work with local and regional agencies to support development of affordable housing.

We strongly believe that financial literacy is the best defense against falling into financial distress. For more than a decade, we've provided financial education to our members, our schools, and our communities—all at no charge. And 2006 was no exception. Complimenting our financial literacy focus, BECU was also instrumental in developing BizKid\$ last year. BizKid\$ is a collaboration among PBS, Junior Achievement and credit unions to put financial literacy on the air and in the classrooms. The first episode will air this spring on PBS.

## **BECU REMAINS DEDICATED TO PROVIDING EXCE**

In our broader efforts on the national scene, the Board and BECU Executive Management traveled to Washington, DC to meet our congressional delegation, and discuss the credit union difference. The Board used this opportunity to talk to our representatives on important issues regarding regulatory improvements, financial literacy, affordable housing, data security and protecting the privacy of consumers—all issues vital to preserving the unique way credit unions serve their members.

Indeed, 2006 was a year marked by growth and accomplishments. However, our top priority is always to continue to earn your trust with superior service, relevant products and some of the best rates in the marketplace. BECU is building and will continue to build on the momentum of delivering new products, enhancing existing services, sustaining great rates and making a positive impact in our communities. We will do this while staying focused on the simple cooperative spirit of your credit union and by making every decision with you in mind.

With the support of our Board, management, employees and most of all, our members, BECU will remain strong and vital—able to meet your needs now and well into the future.

— Christopher Sales, Chairperson

## SUPERVISORY COMMITTEE REPORT

It is the responsibility of the Supervisory Committee of BECU to monitor the financial safety and soundness of the Credit Union and to oversee compliance with various financial and regulatory requirements.

In the opinion of the Committee, BECU and its subsidiaries have conducted business in a fiscally sound manner in accordance with applicable federal regulations and Washington State law relating to credit unions and the BECU bylaws.

In the process of reaching this opinion, we have engaged the services of the independent public accounting firm of Moss Adams LLP to perform an opinion audit of BECU's financial statements. In addition, we hold monthly reviews with BECU Executive Management and the internal audit staff relative to internal audit reports, financial statement trends, information protection status, potential fraud issues, risk assessments and internal control practices. The committee also closely monitors the results of the annual state and federal examinations.

New for 2006 is an online process whereby members can directly contact the Board regarding ethics, fraud, service, and safety and soundness issues.

— *Jack Byeman, Chairperson*  
*Gary Beil, Sheila Boze, Don Hyun, Geoffrey Carpenter*

## PTIONAL VALUE AND SERVICE TO OUR MEMBERS



*Donald Q., Auburn*



*Cristina T., Renton*

## BECU AND SUBSIDIARIES CONSOLIDATED SUMMARY STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31

<i>(in thousands)</i>	2006	2005
Interest Income	\$370,212	\$283,102
Dividend and Interest Expense	191,995	113,867
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Net Interest Income	178,217	169,235
Provision for Loan Losses	10,130	18,613
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Net Interest Income after Provision for Loan Losses	168,087	150,622
Service Fees and Non-Interest Income	77,518	72,594
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<b>Non-Interest Expense</b>		
Compensation and Benefits	58,314	55,713
Product Servicing	35,257	33,698
Occupancy and Equipment	30,896	30,084
General and Administrative	23,568	21,891
Other Operating Expense	10,525	6,748
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	158,560	148,134
<b>Net Income</b>	<b>87,045</b>	<b>75,082</b>
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<b>Other Comprehensive Income (Loss)</b>		
Unrealized losses on securities available for sale	(65)	0
Minimum pension liability	0	789
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<b>Comprehensive Income</b>	<b>\$86,980</b>	<b>\$75,871</b>

## BECU AND SUBSIDIARIES CONSOLIDATED SUMMARY STATEMENTS OF MEMBERS' EQUITY

<i>(in thousands)</i>	
Balance at January 1, 2005	\$427,928
Net Income for 2005	75,082
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<b>Other Comprehensive Income</b>	
Minimum pension liability	789
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Balance at December 31, 2005	503,799
Net Income for 2006	87,045
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<b>Other Comprehensive Loss:</b>	
Unrealized losses on securities available for sale	(65)
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<b>Balance at December 31, 2006</b>	<b>\$590,779</b>

**BE CU AND SUBSIDIARIES CONSOLIDATED**  
**SUMMARY STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31**

<i>(in thousands)</i>	2006	2005
<b>ASSETS</b>		
Cash and Cash Equivalents	\$190,474	\$254,959
Loans Receivable, Net	5,845,410	4,862,708
Investments	463,043	482,777
Collateral for Securities Lending	278,702	240,939
Interest-Bearing Deposits and FHLB Stock	205,962	113,512
Interest Receivable	41,152	33,104
Premises and Equipment, Net	61,899	68,752
NCUSIF Deposit	45,484	39,411
Other Assets	54,448	41,616
<b>TOTAL</b>	<b>7,186,574</b>	<b>6,137,778</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities</b>		
Member Savings Deposits	\$1,568,971	\$1,834,869
Money Market Accounts	1,524,451	987,483
Individual Retirement Accounts, Variable	118,266	155,563
Certificates	2,354,254	1,733,229
Share Checking Accounts	678,450	618,041
	<b>6,244,392</b>	<b>5,329,185</b>
Dividends and Interest Payable	6,639	4,311
Obligation for Securities Lending Collateral	278,702	240,939
Other Liabilities	66,062	59,544
	<b>351,403</b>	<b>304,794</b>
<b>Members' Equity</b>		
Accumulated Other Comprehensive Loss:		
Unrealized losses on securities available for sale	(80)	(15)
	<b>590,779</b>	<b>503,799</b>
<b>TOTAL</b>	<b>\$7,186,574</b>	<b>\$6,137,778</b>

2006 turned out to be another outstanding year for BECU and our members. Providing great value with exceptional service has been our hallmark over the past few years. It's always been our belief that if you provide great value accompanied with great service the members will utilize their credit union, and 2006 was no exception. BECU is able to deliver outstanding value on both sides of the balance sheet to members—reflected in our exceptional loan and deposit rates. Our rates encourage more of our members to use more of our products and services; which in turn, allows BECU to offer even more value to the membership. This cycle truly represents the cooperative spirit of the credit union.

2006 saw the end of the Federal Open Market Committee's tightening at the current 5.25%, signaling that growth in jobs, housing and the general economy were beginning to cool somewhat. The flat yield curve of mid-year became inverted and has remained there to this point. As margins continued to see some pressure during the first half of the year, we were relatively aggressive in reacting to marketplace movements of loan rates, while also maintaining competitive spreads of our deposit products. As loan and investment portfolio yields take a much longer time to shift in reaction to rate changes, we continued to see the anticipated improvements throughout the second half of the year which have helped to solidify our overall margin position.

The loan portfolio continues to grow and provide a solid stream of revenue. In 2006 BECU originated \$4.7 billion in loans, led by \$1.1 billion in auto loan originations. BECU also realized substantial growth in both the home equity and mortgage portfolios with originations of \$1.2 billion and \$750 million respectively. As a result of the home equity volume, our year over year balance grew 23%, while our mortgage portfolio, tempered by member prepayments and our policy of selling long term fixed rate products, grew by 5%.



Liz K., Auburn

## ND BUILDING ON OUR SOLID FINANCIAL STRENGTH

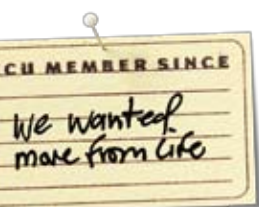
Risk management is a primary focus of both management and the Board of Directors. BECU manages many types of risks, such as interest rate, credit, competitive and operational. All are analyzed and managed at the appropriate levels. For example, as noted above in managing interest rate risk, BECU sells the majority of long term fixed rate mortgages on the secondary market while maintaining the relationship with the member by retaining the servicing rights. Also, by our very nature we manage credit risk within BECU's loan portfolio. BECU delinquencies have been and continue to be well below industry experience standards. BECU's delinquencies have averaged .28% over the past two years while the industry average has been .64%.

During a year when the financial services industry struggled to attract liquidity, with overall industry growth limited to 3%, our value proposition provided to our membership resulted in 17% growth in deposits. Deposit growth was led by our money market account which grew 55% and was closely followed by the growth in CDs and IRA CDs at 36%. In October, BECU proudly launched the new Member Advantage account paying a rate of 7.50% (APY) on the first \$500 in both savings and checking. As of December 31, 2006, 94,000 members had taken advantage of this exciting new product.

BECU's reserve to assets ratio, a key measure of financial soundness, ended 2006 at 8.22%, well above the regulatory minimum for "well capitalized" credit unions. BECU deposits, when not loaned, are only invested in high quality, low risk investments such as U.S. Treasuries, agencies, and highly rated bank obligations. These measures provide members with the financial security that they desire and deserve.

The credit union industry is a highly regulated segment of the financial marketplace. We strive everyday to maintain the safety and soundness of your credit union and focus on providing unsurpassed member service and great rates. We are committed to enhancing value to the individual member and the entire membership, while earning member trust each and every day.

— *Desiree Serr, Treasurer*



## COMMUNITY OUTREACH

**It is our philosophy and firm belief that it is our responsibility as a credit union to help build stronger communities. In 2006, we focused our community efforts in the following areas:**

### **HOME LOAN PAYMENT RELIEF LOANS**

In an effort to make homeownership more affordable, BECU has committed over \$300 million in Home Loan Payment Relief Loans (HLPR, pronounced “helper”, Loans) for January, 2006 through December, 2007. HLPR Loans provide lower mortgage costs for members of modest means, allowing more people to buy homes and begin building personal wealth as the equity in their home accumulates. In 2006, over 550 BECU members were assisted with HLPR Loans.

### **\$5.5 MILLION TO IMPACT CAPITAL**

BECU has committed \$5.5 million to the Impact Capital organization in grants and low-interest loans over the next 10 years. These funds will serve as a catalyst to create new housing opportunities for individuals and families of low to moderate income in the Puget Sound region.

### **BECU FINANCIAL LITERACY PROGRAM**

For more than decade, BECU has provided financial education to our members, schools and communities—at no charge. In 2006 alone, we conducted over 500 free seminars to more than 6,700 individuals. Our financial education programs also support Boys & Girls Clubs, Head Start, Seattle Jobs Initiatives, and the Urban League.

### **BECU GRANT & SCHOLARSHIP PROGRAMS**

Local schools can apply to BECU for up to \$5,000 in grant money to use for classroom and teaching materials. We awarded over \$65,000 in grants since August, 2006, reaching over 35 schools in 13 different school districts, from Marysville to Tumwater. We also awarded thirty-two \$2,000 college scholarships to graduating seniors or continuing college students.

### **CORPORATE GIVING**

BECU has a policy of supporting organizations whose missions are to enhance education, assist with homeownership and/or provide financial literacy. Some of the organizations we've assisted this year include PBS Biz Kid\$ TV series, Everett Community College, Highline Schools Foundation, Washington Business Week, Habitat for Humanity, and YWCA.

*For more information on BECU's Community Outreach efforts or to view our 2006 Community Report please visit [becu.org](http://becu.org).*

**BEU MEMBER SINCE**

We rewarded  
ourselves with an  
amazing vacation!



*Mihaela M., Renton*

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