

Annual Report 2012



Lending Solutions, Community Commitment.



“Our stores are in communities where the quality of service can’t be compromised. That’s the way CoastHills treats us. With CoastHills, we feel like VIPs. Their merchant program fits so well with our business needs that it was a no-brainer to move our account over.”

Tony Castillo and Adam Graves
Owners/Operators of Cal Deals
Business Members since 2011

President’s and Chairman’s Report



Jeff York
President/CEO

Hugh Rafferty
Chairman, Board of Directors

Lending Solutions, Community Commitment.

In January of 2012, we declared this to be “the year of the loan.” This came at a time when other central coast financial institutions were finding more reasons not to lend. Although our stated goal focused on loan growth, the true measure of success would come in growing relationships with our members throughout the central coast.

Through an efficient approval process, extremely competitive rates and strong relationships with our auto dealer partners, we strengthened our position as the market leader in auto lending. CoastHills is the #1 provider of vehicle loans in all of Santa Barbara and San Luis Obispo Counties.

Driven by innovative mortgage solutions, we nearly doubled the number of members who have their first mortgage loans with us. We were also able to help hundreds of members lower their mortgage payments through the second phase of the Home Affordable Refinance Program (HARP). This program assisted members who maintained a current status on their existing mortgage despite being “under water.” In many cases, the refinancing program saved members more than \$500 in monthly payments. When all was said and done, CoastHills was the #1 local financial institution for mortgage loans in Santa Barbara and San Luis Obispo Counties.

Capitalizing on our status as a preferred small business lender, we progressed from building awareness to building prominence as one of the premier business lenders in both Santa Barbara and San Luis Obispo Counties, ranking #1 for SBA loans for local financial institutions.

We also saw our credit card portfolio grow by more than 45 percent, adding thousands of new credit card holders and converting existing card holders to platinum rewards status.

Finding lending solutions was just a part of our commitment to our members, so the continued focus on our four pillars – financial strength, relationships, people, and community – was the true blueprint for our continuing prosperity.

Our commitment to community prosperity shined brightly in 2012 as well. We raised funds for hundreds of Central Coast nonprofit organizations through our Community Foundation – \$65,000 for the Mission Hope Cancer Center during our signature event “Rancho Vino.” We provided every High School in our Field of Membership with scholarships for seniors continuing their education. Finally, our staff and volunteers donated more than 5,000 hours of their time in the community. While other financial institutions become less attached to our community, we continue to be more involved.

In 2013, we are looking for people to “Make the Move” from other financial institutions to CoastHills. We will earn the business away from the large conglomerate banks and the dwindling community financial institutions. No matter how you choose to do business with us or what types of products and services you need, we can deliver. As a ‘Member’ of CoastHills, you are an owner, and we make decisions that benefit our owners. We don’t have stockholders or accept government bailouts. We simply do the right things for our 60,000 Member/Owners.

On behalf of our dedicated staff and volunteers, it is both an honor and a privilege to provide leadership for your Credit Union.

Treasurer's Report

The 2012 financial statements accompanying this annual report reflect the period of January 1, 2012 through December 31, 2012. Your Credit Union finished the year with a positive net income of more than \$5.5 million. We had \$689 million in assets, which indicates an annual increase of \$56 million in assets. We also saw an increase in loans of \$56.8 million, which is well above our peers and represents our strong commitment to lending money throughout our field of membership. Our net worth ratio, a key measure of financial security, was at 8.54 percent, which indicates that we are well capitalized as we move into 2013.

The 2012 audit results from CliftonLarsonAllen LLP, Certified Public Accountants and the examination by the National Credit Union Administration, our Federal regulator, found no material weaknesses in the manner in which we operate your Credit Union. We continue to receive feedback from our auditing entities that our financial practices and controls are among the best in our industry.

Our significant loan growth was achieved through diversified lending, including home mortgages, credit cards, auto loans, and business loans. We can attribute our across-the-board lending strength to efficient systems, underwriting expertise, competitive rates, and the willingness to find lending solutions. The entire staff has done an outstanding job of guiding CoastHills through a year of tremendous growth and prosperity. As a shareholder and member-owner of CoastHills, you can feel confident and secure about your Credit Union's future viability and ability to make a difference in our neighbors' lives.

Arthur "Chuck" Scheithauer, Treasurer/Board of Directors

Supervisory Committee Report

The CoastHills Supervisory Committee consists of five credit union members who volunteer their time to help make your Credit Union a safe and viable place for members to manage their financial affairs.

The committee has two primary responsibilities:

- 1) Ensure that management's financial reporting objectives have been met.
- 2) Ensure management practices and procedures safeguard members' assets.

Several actions were taken in 2012 to meet these responsibilities. The committee employed CliftonLarsonAllen, LLP, Certified Public Accountants, to perform an audit covering the period of 1/1/12 through 12/31/12. They reviewed the structure of the Credit Union's internal controls and verified the accuracy of the Credit Union's records.

To remain abreast of Credit Union activities, all committee members attended monthly board meetings, our annual strategic planning session, seminars, and monthly meetings with the CEO.

On behalf of the Supervisory Committee, I am pleased to report to the members that all audits confirm the safety and soundness of the Credit Union's financial position.

Larry Gooch, Supervisory Committee Chairman



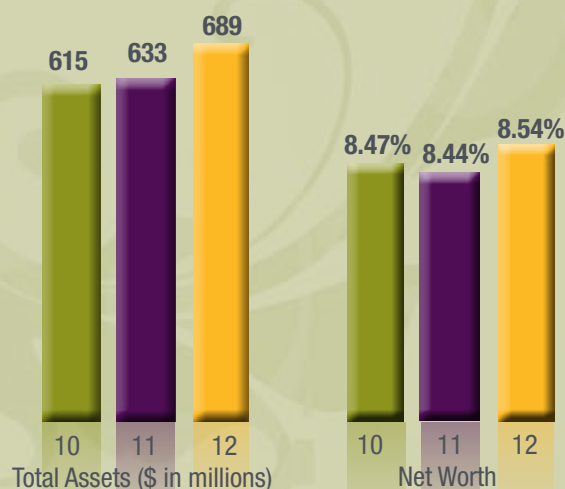
"CoastHills is very supportive and personable — they make all of us feel welcome. CoastHills understands our mission as a non-profit and does everything they can to support us."

Teresa Tardiff - Director of CASA,
San Luis Obispo County

Condensed Financial Statements

(Audited)

	2011	2012
Assets		
Loans to Members, Net	\$ 492,131,439	\$ 548,976,105
Cash & Cash Equivalents	68,006,375	70,969,939
Investments	44,619,322	32,114,734
Property & Equipment, Net	14,155,329	14,042,375
Accrued Interest Receivable	1,824,698	1,824,555
Share Insurance Deposits	5,399,924	5,785,114
Other Assets	7,171,144	15,229,066
Total Assets	\$ 633,308,231	\$ 688,941,888
Liabilities & Members' Equity		
Accounts Payable & Other Liabilities	\$ 20,634,185	\$ 36,460,283
Members' Shares & Savings	559,251,239	593,654,045
Retained Earnings & Reserve	53,422,807	58,827,560
Total Liabilities & Equity	\$ 633,308,231	\$ 688,941,888
Income		
Interest on Loans to Members	\$ 25,071,967	\$ 25,351,058
Investment Income	978,846	1,102,319
Other Income	9,728,732	10,994,441
Total Income	35,779,545	37,447,818
Expenses		
Dividends on Members' Shares & Savings	3,644,157	3,029,159
Salaries & Benefits	11,083,476	12,923,845
Operations	9,014,544	10,621,206
Occupancy	1,930,443	1,938,388
Interest on Borrowed Funds	359,651	533,958
Loss on Disposition of Assets	304,192	235,028
Share Insurance Assessments	995,000	390,000
Provision for Loan Losses	7,321,029	2,245,001
Total Expenses	34,652,492	31,916,585
Net Income	\$ 1,127,053	\$ 5,531,233



Financial statements as of December 31, 2012.

Board of Directors



Hugh Rafferty
Chairman



Rick Velasco
1st Vice Chairman



Bill Anders
2nd Vice Chairmen



Chuck Scheithauer
Treasurer



Shirleen Sladek
Secretary



Bruce Coggin
Director



Pete Reed
Director



David Richardson
Director



Roger Welt
Director



Supervisory Committee



Larry Gooch
Chairman



Pete Moeller
Secretary



Kris Andrews
Member



Darrell Gabel
Member



David "DT" Thompson
Member