

## 2008 Independent Auditor's Report

We have been engaged to audit the balance sheet of First South Credit Union as of December 31, 2008, and the related statements of income, members' equity, and cash flow for the year then ended. The objective of our audit is the expression of an opinion as to whether First South Credit Union's financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The audit complies with the examination requirement of the National Credit Union Administration (NCUA) Rules and Regulations and the State of Tennessee. As of March 17, 2009, the date of First South Credit Union's annual meeting, our audit of the financial statements of 2008 will be in process. Upon completion of our audit, the reports will be issued to the audit committee of First South Credit Union.

Reynolds, Bone & Griesbeck, PLC  
 Certified Public Accountants  
 Memphis, TN

## Financial Information

	2007	2008
<b>Assets</b>		
loans to members net	\$ 147,522,802	\$ 159,149,107
cash (in bank, petty cash, change fund)	44,472,672	36,386,796
investments	119,597,815	120,580,796
all other assets	14,299,033	16,904,448
<b>Total Assets</b>	<b>\$ 325,892,322</b>	<b>\$ 333,021,146</b>
<b>Liabilities and Capital</b>		
Shares	\$ 248,289,739	\$ 246,103,848
Dividends Payable	413,943	325,671
Other Liabilities	7,416,959	7,373,990
Regular Reserve	7,697,091	7,697,091
Undivided Earnings	62,074,591	71,520,546
<b>Total Liabilities &amp; Capital</b>	<b>\$ 325,892,322</b>	<b>\$ 333,021,146</b>
<b>Income and Expense</b>		
Operating Income	\$ 30,835,772	\$ 29,353,216
Operating Expenses	14,524,235	14,495,969
Income Before Dividends	16,311,536	14,857,246
Dividend Expense	7,160,861	5,419,395
Other Nonoperating Income, net	4,929	8,104
<b>Net Earnings (Contribution to Capital)</b>	<b>\$ 9,155,604</b>	<b>\$ 9,445,955</b>

## Board of Directors

Ed Dean <i>Chairman</i>	Robert Kennedy <i>Director</i>
Gaylon Hall <i>Vice Chairman</i>	Gary Rick <i>Director</i>
Gary Rick <i>Secretary</i>	Gene Douglass <i>Associate Director</i>
Herb Stacy <i>Treasurer</i>	Rob Kamery <i>Associate Director</i>
Tom Dean Jr. <i>Director</i>	Deb Ross <i>Associate Director</i>
Lita Hilton <i>Director</i>	

## Locations

<b>Bartlett</b> 6471 Stage Road Bartlett, TN 38134	<b>Southaven</b> 185 Goodman Road West Southaven, MS 38671
<b>Cordova</b> 1575 N. Germantown Parkway Cordova, TN 38018	<b>St. Jude Hospital</b> 262 Danny Thomas Place Memphis, TN 38105
<b>Highland</b> 633 S. Highland Memphis, TN 38111	<b>Tiger Banking Center</b> 209 Rawlins Service Court Memphis, TN 38152
<b>Midtown</b> 1940 Madison Avenue Memphis, TN 38104	<b>Whitehaven</b> 1250 Shelby Drive East Memphis, TN 38116
<b>Millington</b> 7792 Church Street Millington, TN 38053	<b>Winchester</b> 7166 Winchester Road Memphis, TN 38115
<b>Naval Support Activity</b> 7645 Tarawa Avenue Millington, TN 38054	<b>Worldwide Sales and Service Center</b> 6445 Stage Road Bartlett, TN 38134
<b>Raleigh</b> 3731 Austin Peay Highway Memphis, TN 38128	

First South Credit Union  
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STRENGTH,  
 GROWTH  
 & STABILITY



## 2008 Chairman's Report

Two thousand and eight saw major upheaval in the financial market that had massive repercussions in all sectors of our economy. But even as the economy slid into a recession and many financial institutions received help from the federal government, First South remained as strong and stable as ever. In fact, 2008 was our strongest year financially since our inception in 1957. Both IDC and Bauer's recognized our long history of receiving high marks for our outstanding financial performance. And we have also received a 5 star rating from bankrate.com for our financial strength and stability.

Member satisfaction remained high for 2008; **3.95 on a 4.0 scale.** Additionally in 2008 we implemented tracking of the Net Promoter Score (NPS). This score is a proven indicator of member loyalty since it asks how likely a member would be to recommend First South to a friend, family member or colleague. **At the end of 2008, our NPS was 75.34%, well above average for most industries.**

Technological improvements were a major focus in 2008. Several staff functions that were performed manually were automated, saving staff hours and increasing efficiency. We also implemented eAlerts. This feature allows members to choose from 26 different types of alerts – from balance levels to large debit card transactions to advance notice of loan payment due dates. They are sent via e-mail and/or text message, greatly increasing the speed of notification for members over paper notices sent in the mail and dramatically reducing costs for the credit union.

Our ever increasing use of technology comes with an ever increasing need to have plans in place should that technology fail or a natural disaster strike. **We have partnered with a local firm that specializes in information and network security to ensure our plans and procedures for business continuity and risk management are continually maintained and improved.** We constantly strive to ensure all member information is safe and secure and that our business resumption plans are tested and ready. The implementation of multifactor authentication for online banking is just one small example of the steps we take to protect our members. Live Chat has also been set up on every page of our Web site, firstsouth.com. This feature allows members to communicate with us via a secure instant message environment. Members can use this channel to discuss sensitive account information in a safe and secure manner.

Staff training also underwent a major content and technological overhaul in 2008. The training topics were completely redesigned to focus on product and service knowledge as well as major regulatory issues, such as the Bank Secrecy Act and deposit insurance. Rather than using paper documents and a traditional classroom setting, the courses and exams were developed into online modules allowing access from work or home. Both the quality of the materials and the online delivery channel have been well received by staff.

Plans for two new locations continued to progress in 2008. First South will be opening a branch in the Munford/Atoka area in late 2009. Our Collierville location will open sometime after that. These new banking centers will provide even more convenience to our current and future members. Additionally, we have added another ATM to the St. Jude Children's Research Hospital campus and placed one in the cafeteria of Wright Medical in Arlington, Tennessee.

**First South's Overdraft Privilege program still receives high praise from members.** The program pays non-sufficient fund items instead of returning them, saving the member the additional costs and embarrassment associated with returned checks or debit card transactions.

Our strong financial performance can be attributed in large part to leadership of our board and management team, but especially to our President and CEO, Dr. W. Craig Esrael. Dr. Esrael celebrated his 25th year of service with First South Credit Union in 2008; a length of tenure that is almost unheard of in the financial institution industry. The board, staff and members of First South offer sincere thanks for all he has done for First South and wish him many more years of continued success.



## 2008 Treasurer's Report

First South saw yet another year of excellent financial performance. Even as the economic recession deepened sending many financial institutions into a fiscal tailspin, we were able to achieve the following:

- Our independent Net Economic Value Risk Analysis found that the **credit union has an excellent investment mix and that our balance sheet is very well planned.** It was noted that there is very little risk related to our balance sheet.
- The latest IDC score ranks First South a **perfect 300 for all of 2008**, making us the **strongest financial institution in Tennessee and the strongest credit union in the nation.** This marks the **20th consecutive quarter in which we have attained a perfect score and the longest run of perfect scores for credit unions over \$30 million dollars in assets.**
- Additionally, First South has received **59 consecutive quarters of Bauer's five star ratings.**

**Capital increased 12%** in 2008, reaching more than **\$85 million. Assets** grew to over **\$333 million**; a **2.19%** gain over 2007. **Deposits** remained steady at **\$246 million**, a bi-product of the worsening economic times; members have been drawing down their savings to either meet monthly expenses or pay off high interest rate debt. **Net loan volume increased 7.88% over 2007**, a truly remarkable feat given the state of the economy and consumer confidence in 2008. The **Delinquency Ratio** and the **Charge-Off Ratio** remained consistent with 2007 ratios, demonstrating sound lending and collection efforts.

**Our capital to assets ratio climbed to 26.03%** up **2.26%** over 2007. Our **ROA** was **2.80%** for 2008, a truly exceptional figure when compared to most other financial institutions nationwide. The **Investment Return** was **3.89%** for 2008. **Net income** rose approximately **3.0%** over 2007's figure. Our **operating expense** dropped to **4.30%** for 2008 from **4.49%** for the previous year.

The 2008 figures denote another year of financial successes which benefit all members of First South. We are well positioned to withstand the turbulent economic conditions to come in 2009.