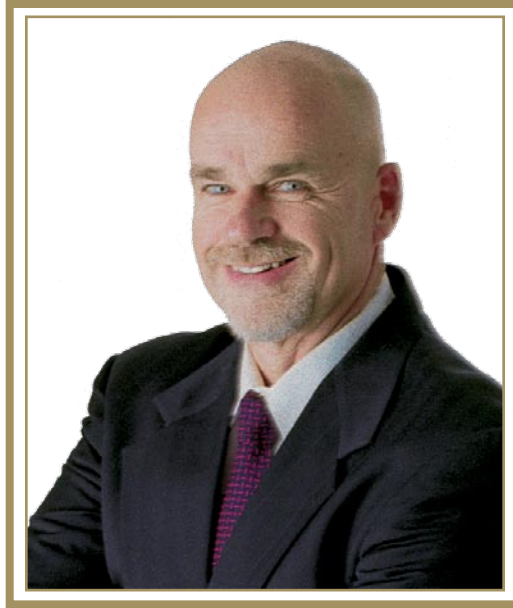




STAR ONE CREDIT UNION
2008 annual report

TABLE *of contents*

<i>4</i>	2008 Board Report
<i>6</i>	2008 President's Report
<i>8</i>	2008 Treasurer's Report
<i>11</i>	Financial Information
<i>13</i>	Financial Highlights
<i>15</i>	Comparative Financial Results
<i>19</i>	2008 Supervisory Committee Report
<i>21</i>	Community Involvement
<i>23</i>	Board of Directors, Supervisory Committee & Management
<i>25</i>	Credit Union Information



Bruce Bachant
Chair

BOARD *report*

Amid a year of turmoil and uncertainty throughout the financial industry as well as the economy as a whole, Star One Credit Union continues to grow and thrive. The strength and soundness of Star One is a testament to the loyalty of our membership, our conservative management strategies and policies, the skills of our employees and the commitment of our Board and Committee members. In 2008, Star One achieved balanced growth in savings and membership, record growth in loans and strong return on assets.

Star One ended the year at \$4.1 billion in assets, 15.4% over 2007. During a time when many lenders were tightening their real estate lending guidelines or stopped lending altogether, Star One achieved record growth in real estate loans. Much of this growth was from new and existing members taking advantage of the record low loan rates and the decrease in home prices. Some members took advantage of the changes in the real estate market to purchase second homes or investment properties. Star One was here to assist them with their needs. Star One continues to offer conventional real estate loans and does not offer or participate in any of the subprime mortgage loans other lenders offered that caused many of the problems throughout the mortgage industry. We maintain conservative lending policies and work hard to offer good value to our membership while maintaining balanced returns and risk levels for future growth of the Credit Union.

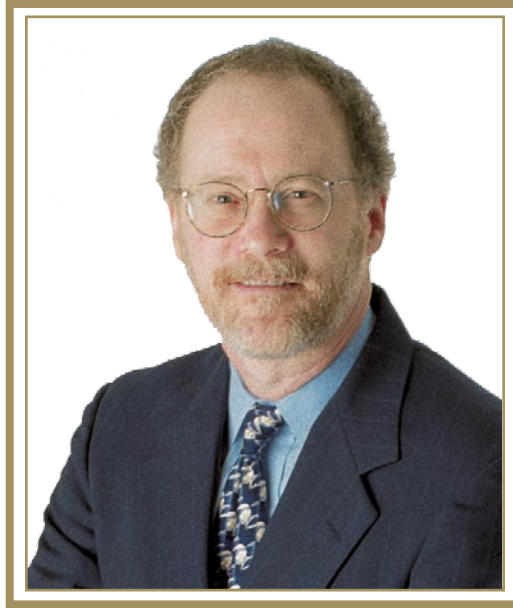
Service quality is a key component of Star One's success. Our service quality scores continue to outpace our peers. Although, we have had challenges during the course of the year meeting the dramatic increase in demand for

key products, Star One has worked hard to isolate procedures that impede member service without creating undue risk to the Credit Union. Throughout the year, Star One conducts a series of surveys to evaluate member service across all our product lines and delivery channels. Star One employees continue to rank higher than our peers for staff knowledge, accuracy and speed of service. Member satisfaction stands at 97.3%, nearly 3% above our peers.

The relocation of the 8th Avenue branch to Enterprise Way provided challenges and opportunities. The original Star One headquarters building was sold as part of the larger development of the Moffett Park area. This caused us to move many of our staff to other sites and open a beautiful new retail branch. Now with four retail branches throughout Santa Clara County, our ATM and Shared Branch networks nationwide, as well as full service Online Banking, Star One members can access their accounts easily and conveniently.

Star One remains as committed as ever to giving back to the communities we serve. During 2008, the Board, management and employees donated time and raised nearly \$145,000 for 46 different local community groups and non-profit organizations. Some of the groups included the American Cancer Society, Humane Society of Silicon Valley, Junior Achievement, Make-A-Wish Foundation, Second Harvest Food Bank, Special Olympics, Toys for Tots just to name a few. Star One's Beneficiary and Retiree Services Department continues to work with nearly 30 other financial institutions, community groups and government agencies to draw awareness to elder financial abuse prevention.

The Board, volunteers and staff are committed to maintaining Star One as a safe and sound financial institution while providing exceptional products and services to our members. The Board and employees will continue to work on all aspects of Star One's performance to ensure that it remains a respected, strong and sound financial institution for many years to come.



Rick Heldebrant
President & CEO

PRESIDENT'S *report*

Despite the many challenges of 2008, Star One achieved strong financial growth and earnings. Star One remains one of the strongest, well capitalized, financial institutions in the nation. Our commitment to sound lending policies, conservative investment strategies and membership service continue to produce good results for the organization and our membership. Star One is the 16th largest and one of the strongest credit unions nationally.

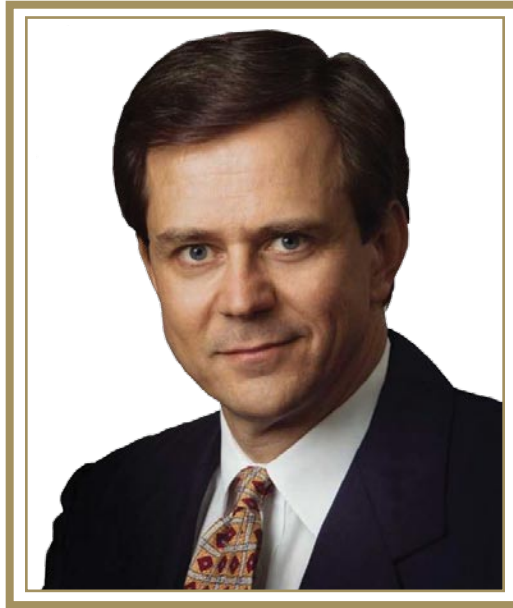
We continue to see strong growth in membership as consumers look increasingly for better value and service from their financial services providers. Nearly 6,000 new members joined Star One during 2008. More than 52% joined from our community charter, another 38% joined through family members, while 8% joined through Lockheed Martin, Yahoo! and our other member companies. Star One now serves 79,850 members nationwide.

Deposits grew a respectable 4.6% to \$3.096 billion. During the year, federal insurance on deposits was increased from \$100,000 to \$250,000. This increase enabled some members to restructure the ownership on their accounts to receive substantially more coverage than they have been afforded in the past. We continue to see many institutions offer deposit products with a wide range of gimmicks. Many offer special products for "new money only" and complicated pricing schemes that are designed to attract unsuspecting consumers. Star One does not price our products in that manner and believes that strategy only hurts customer loyalty in the long run. We consistently monitor and adjust our pricing to pay consistently high yields on our deposit products while charging very competitive loan rates.

During the year many institutions incurred substantial setbacks due in part to the subprime lending crisis. Star One does not offer, nor invest in these types of mortgage products. We continue to provide the best possible financial products and services to our members while maintaining our strong lending practices. In 2008, when some institutions were curtailing their lending, Star One achieved record growth in real estate. Members took advantage of low mortgage rates and lower home prices to refinance loans and purchase new real estate. Overall, lending grew more than \$553 million to \$1.645 billion. Delinquency and charge-offs remained significantly below industry averages at 0.09% and 0.11% respectively.

Star One members continue to migrate to our remote delivery channels. Through our affiliation with various national delivery channels, Star One is able to provide greater convenience to members throughout the nation. Our ATM Network now has more than 28,000 surcharge-free ATMs nationwide, 9,000 deposit taking and 5,500 located at 7-Eleven stores. Our four Star One branches continue to see good activity by Bay Area members. Additionally, our Shared Branch Network has expanded to more than 5,500 full service branches in 47 states. Online Banking and Bill Pay usage continues to surpass growth and usage goals. More than 55% of our members now use Online Banking and over 18% of them use our Bill Pay service. Star One has one of the highest usage rates for these two products compared to our peers. Members use our web site for educational research, evaluation of product offerings and review of transactions. Many members also use our web site to apply and activate mortgage, auto and credit card loans from their home or work. The Member Phone Service Center handled more than 200,000 calls in 2008, an increase of 6% over 2007. The toll free phone number and expanded hours provide added convenience to thousands of members worldwide.

Star One will continue to develop more convenient ways for members to access their accounts. The Board and staff are committed to providing effective service to our members as we continually look for efficient ways to serve our members needs. Through the use of new technologies, modifications to existing procedures and development of new processes, Star One will continue to grow and prosper. The loyalty and commitment of the membership as well as extensive usage of efficient automated services enables Star One to maintain a very low cost structure, thus returning the excess profits back to the membership. Star One Credit Union is committed to providing our members with the best possible products while continuing to build a sound and strong financial institution to serve many more generations in the future.



Scott Dunlap
Treasurer

TREASURER'S *report*

While many financial institutions are struggling with high loan delinquency and low growth in deposits and loans, Star One achieved another strong year financially. Assets grew 15.4% from \$3.572 billion in 2007 to \$4.122 billion in 2008. The Return on Assets for 2008 was up from 0.34% for 2007 to 1.36% for 2008. We anticipated this would happen as deposit, loan and investment rates continued to fluctuate throughout the year. Star One has more than \$494 million in reserves to provide protection against adverse economic conditions, rising interest rates and higher than expected expenses.

Membership increased 5.6% to 79,850. Nearly 50% of all members now live outside the Bay Area. More than 53% have a loan at Star One. More than 58% of member households have a Star One Checking account. Nearly 45,000 members use our Online Banking service and 8,102 members use the Bill Pay service. The Online Banking system handled more than 1.6 million member transactions in 2008, up more than 9% from 2007. The high concentration of members using multiple products and automated services reduces our costs and enables Star One to continue to provide deposit and loan products priced aggressively against the competition, thus providing more return to the membership.

Deposits grew 4.6% from \$2.959 billion in 2007 to \$3.096 billion in 2008. IRAs grew 8.3% to \$373 million as members continue to look for better returns on their retirement funds. The Money Market Savings Account grew 4.2% to \$2.396 billion. Star One's deposit growth rate tracked slightly below the credit union and industry aver-

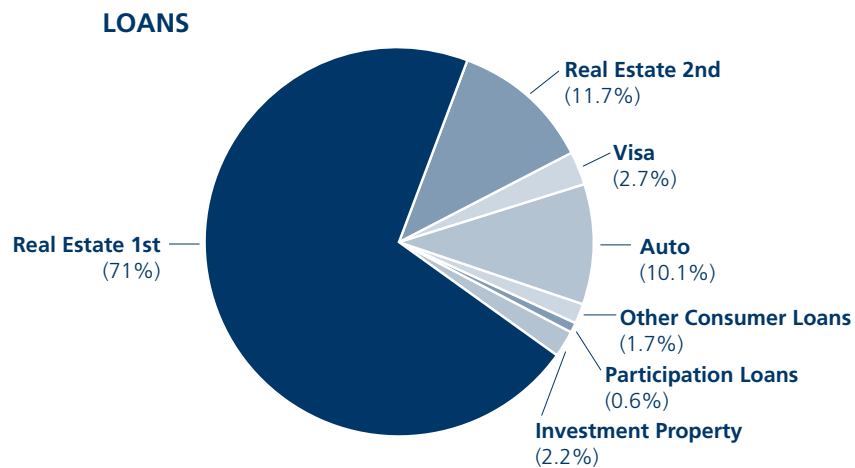
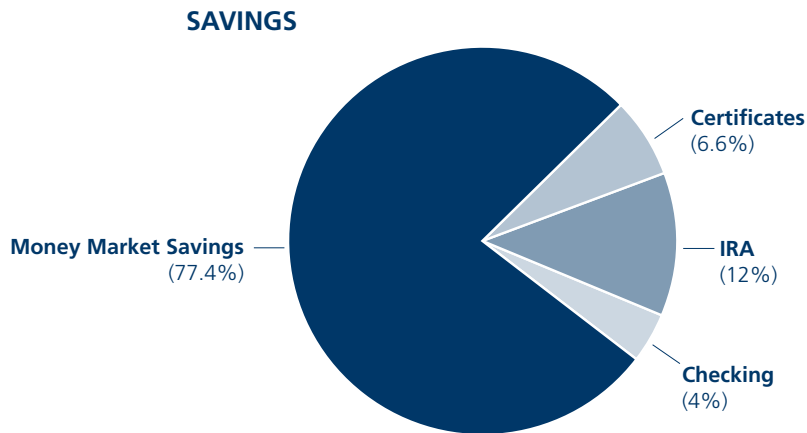
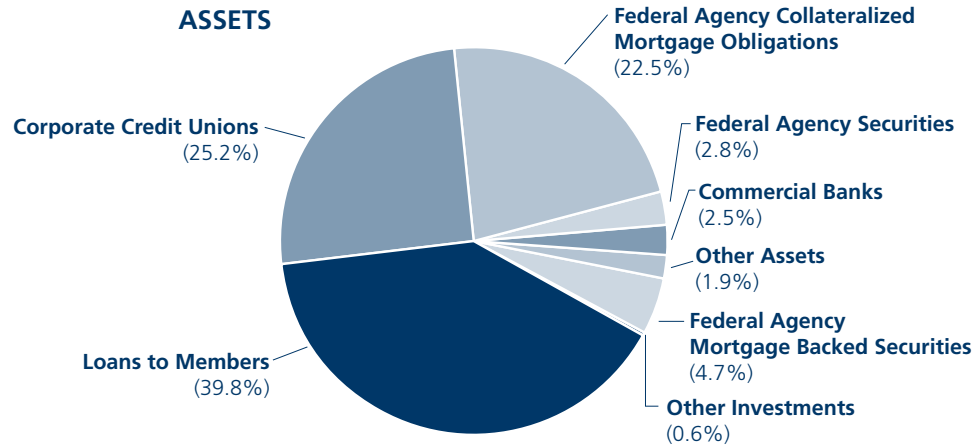
age of 5.8% (through September 2008), but higher than Bay Area institutions. Star One continues to pay higher deposit rates than most other financial institutions and does so without the “gimmick” products many are currently offering.

Loans grew 50.6%, to \$1.642 billion. The majority of the growth was in mortgages including 30 year fixed, fixed to adjustable and second trust deeds. Total real estate loans increased 64.3%, up more than \$546 million for the year. Star One continues to see increased growth in our investment property loans which grew to \$37 million. During the year, many new and existing members took advantage of the lower mortgage rates and lower home prices. Consumer loans grew nearly 3% to \$238 million. Many members consolidated consumer loans including credit cards, lines of credit and auto loans to reduce their monthly expenses. Star One’s ratio of Delinquent Loans to Total Loans outstanding increased slightly from 0.04% in 2007 to 0.09% in 2008. This continues to be one of the lowest in the credit union industry, reflecting the soundness of our loan policies and our members’ dedication to meeting their obligations.

Our Investment portfolio continues to provide exceptional returns, safety and liquidity for Star One. As of year-end 2008 our \$2.4 billion portfolio had an unrealized gain of \$15.2 million with no impaired securities. Star One does not make or invest in subprime mortgages and has continued to have one of the highest returns in the industry. As of the third quarter 2008, Star One’s investment portfolio yield ranked 5th out of 117 credit unions over \$500 million in assets in our NCUA region. These high returns are another reason that we have been able to maintain great rates on both our deposit and loan products.

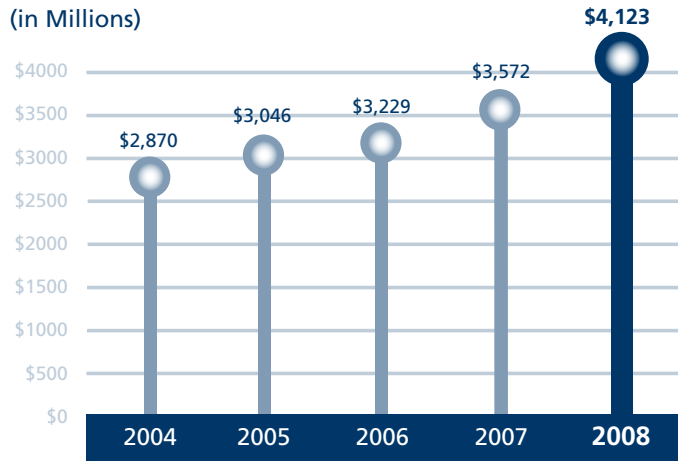
During a year when many institutions were struggling just to survive, Star One continues to grow and thrive. Over the years, the commitment of the Board, the volunteers and the staff have built Star One into one of the strongest, most respected financial institutions nationwide. Our loyal membership and their extensive use of products, services and automated delivery channels continues to provide the resources for Star One to thrive in difficult times and deliver lower priced loans, higher yielding deposits and automated services with no or low fees. I am proud to be a member of the Board and involved in such a well respected organization that continues to influence the financial lives of so many individuals.

FINANCIAL *information*

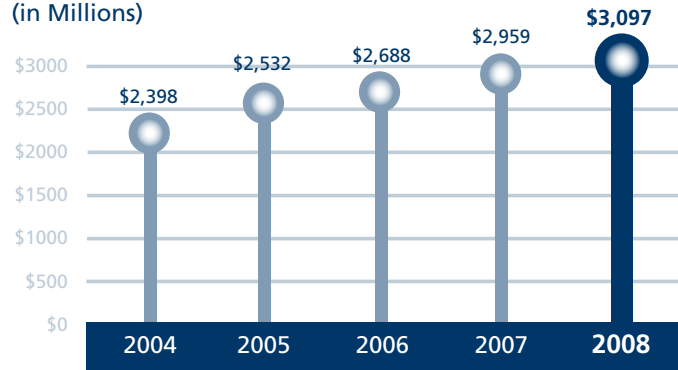


FINANCIAL *highlights*

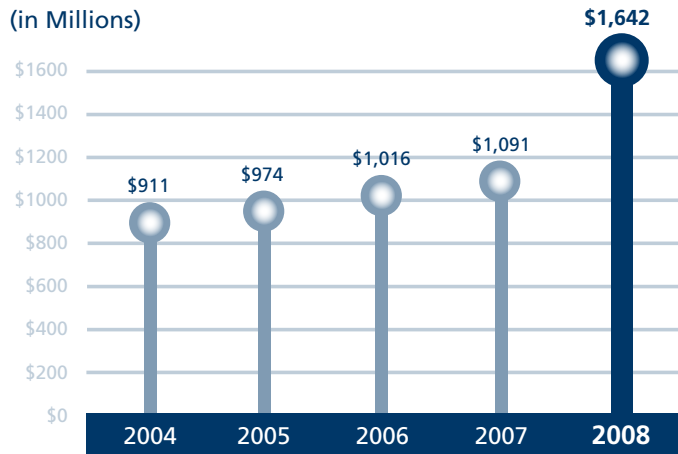
TOTAL ASSETS (in Millions)



TOTAL SAVINGS (in Millions)



TOTAL LOANS (in Millions)



COMPARATIVE FINANCIAL

results

YEAR END SUMMARY (in Thousands)	2008	2007	% CHANGE
Total Assets	\$4,122,580	\$3,572,167	15.4%
Member Savings and Certificate Accounts	\$3,096,804	\$2,959,347	4.6%
Loans to Members	\$1,641,930	\$1,091,243	50.5%
Delinquent Loans	\$1,679	\$535	213.9%
Member Equity	\$487,710	\$429,393	13.6%
Cash and Investments	\$2,414,929	\$2,412,676	0.1%
Dividends Paid to Members	\$96,570	\$131,782	-26.7%

STATEMENT OF FINANCIAL CONDITION (in Thousands)

ASSETS	2008	2007
Cash and Investments	\$2,414,929	\$2,412,676
Loans to Members	\$1,641,930	\$1,091,243
Land, Building & Equipment	\$15,420	\$15,483
Accrued Interest Receivable	\$24,532	\$27,627
Deposit-Share Insurance Fund	\$24,092	\$23,012
All Other Assets	\$1,677	\$2,126
Total Assets	\$4,122,580	\$3,572,167

LIABILITIES & MEMBER EQUITY	2008	2007
Member Savings & Certificate Accounts	\$3,096,804	\$2,959,348
Accounts Payable	\$1,136	\$2,759
Borrowed Funds	\$520,034	\$165,930
Regular Reserves	\$56,851	\$56,851
Undivided Earnings	\$422,579	\$369,534
Unrealized Gain (Loss) on Investments	\$15,230	\$7,723
Accumulated Other Comprehensive Income	(\$6,950)	(\$4,715)
Accrued Liabilities	\$16,896	\$14,738
Total Liabilities & Member Equity	\$4,122,580	\$3,572,167

COMPARATIVE FINANCIAL

results (continued)

STATEMENT OF OPERATIONS

(in Thousands)

INCOME	2008	2007
Interest on Loans	\$75,190	\$61,854
Investment Income	\$113,045	\$110,625
Other Operating Income	\$15,004	\$5,823
Total Income	\$203,239	\$178,302

OPERATING EXPENSES	2008	2007
Employee Compensation	\$19,809	\$15,498
Office Occupancy	\$1,858	\$1,456
Office Operations	\$6,141	\$5,081
Loan Servicing	\$1,913	\$1,404
Professional & Outside Services	\$1,317	\$1,329
Provision for Loan Losses	\$3,942	\$327
Operating Fee	\$206	\$160
Other Operating Expenses	\$3,050	\$2,663
Total Operating Expenses	\$38,236	\$27,918

INCOME FROM OPERATIONS	\$165,004	\$150,384
Non-Operating Income (Expense)	(\$2,377)	(\$494)
Net Income Before Distribution	\$162,627	\$149,890
Dividends	\$96,570	\$131,782
Interest on Borrowed Money	\$13,768	\$6,349
Added to Reserves & Undivided Earnings	\$52,289	\$11,759



Dan Abihider
Chair

SUPERVISORY COMMITTEE

report

The Supervisory Committee's primary responsibility is to assure that internal operating controls are established and effectively maintained and that the Board of Directors' plans, policies and procedures are being properly administered by management. The 2008 internal audit programs consisted of extensive evaluation of internal procedures and policies as well as the hiring of outside audit firms to provide third-party evaluation of selected Star One business practices.

Internal controls comprise the methods and measures within the Credit Union to protect its assets and verify the accuracy and reliability of Star One's accounting data. They also promote operating efficiencies and provide safeguards against fraud and ensure compliance with prescribed managerial policies, established procedures and applicable regulatory requirements.

During 2008, the Supervisory Committee directed a comprehensive 'risk based' audit program. Specific audit techniques and methods were applied to operating processes selected for their risks across all of the Credit Union's products and services. The Supervisory Committee contracted with specialized external firms to perform independent reviews. The annual financial opinion audit was performed by the accounting firm of McGladrey & Pullen, LLC, and the annual Pension and Retirement Fund audits were performed by the accounting firm of Turner, Warner, Hwang and Conrad, AC. Additionally, CU Defense, a division of PM Systems Corporation, was hired to perform a comprehensive review of Star One's automated network system and processing controls.

Based on the reports from ongoing internal audit programs and the audits performed during the year by third-party firms, the Supervisory Committee reports that Star One is operating in a sound manner. Moreover, the Credit Union's internal controls are effectively maintained to reasonably ensure that the Board of Directors' plans, policies and procedures are being properly administered, and that the financial results are fairly and accurately represented in communications to the members.

COMMUNITY *involvement*

Star One Credit Union is proud to be affiliated with the Santa Clara County, California community. In addition to providing quality financial products and services to members who reside in the area, Star One also makes a commitment each year to be a positive force in our community through sponsorships, volunteerism and donations to various programs and organizations located in the area. Listed below are events and organizations with which Star One was involved throughout 2008 in the Santa Clara community.

AAUW Gifts for Teens	Marine Science Institute
ACCESS	Meals on Wheels
Alzheimer's Association	Parents Helping Parents, Inc
American Cancer Society 2008 Daffodil Days	Project Linus Make a Blanket
American Diabetes Association	RAFT
American Heart Association Wear Red/Jeans Day	The Role Model Program
American Liver Foundation	San Jose Day Nursery
The ARC of San Francisco	San Jose Fire Fighter's Burn Foundation CCUL Golf Tournament
Crohn's & Colitis Foundation	Santa Clara Family Health Foundation
Cystic Fibrosis Golf Tournament	Second Harvest Food Drive
Family Giving Tree	Special Olympics
Friends of Stevens Creek Trail	Sunday Friends
Humane Society Silicon Valley	Susan G. Komen Breast Cancer Foundation Passionately Pink for The Cure
Iron Construction, Inc 2008 Charity Golf Classic	Susan G. Komen Breast Cancer Foundation Rally For The Cure Golf Tournament
Junior Achievement of Silicon Valley	Support Network for Battered Women
KARA	SWE Endowment Fund/Mary Ross Scholarship
Live Oak Day Services	Toys for Tots
Lockheed Martin Street Fair	Turning Wheel for Kids
Lucile Packard Children's Fund	UC Regents "In Honor of Gary Raddon"
Lupus Foundation	West Valley Community Services, Inc
Make-A-Wish	

BOARD OF DIRECTORS

supervisory committee & management

BOARD OF DIRECTORS

Bruce Bachant
Chair

Jack McElravey
First Vice Chair

Janet Morelli
Second Vice Chair

Scott Dunlap
Treasurer

John Palochak
Secretary

Gae Adams
Director

Doug Flowe
Director

Patricia Humecke
Director

Dan Manassau
Director

Bill Lewis
Emeritus

SUPERVISORY COMMITTEE

Dan Abihider
Chair

Richard Aochi
Secretary

Marty Eng

Christina Goeas
Gene Lum

BOARD/SUPERVISORY COMMITTEE ASSOCIATES

David Daggett

Jeff Gaut

Leslie Varr

MANAGEMENT

Rick Heldebrant
President & CEO

Gary Rodrigues
Executive Vice President - Finance &
Administration

Carol Safberg
Executive Vice President - Operations

Kevin Collins
Senior Vice President - Loan Services

Brian Ross
Senior Vice President - Treasurer

Lynn Brubaker
Vice President - Deposit Services

Joe Fagenstrom
Vice President - Marketing

Russ McAlpine
Vice President - Information Systems

Lisa Mead
Vice President - Administration

Sandra Moix
Vice President - Branch Services

Margarete Mucker
Vice President - Remote Services

Jim Nichols
Vice President - Audit

Ann Sebastian
Vice President - Controller

CREDIT UNION

information

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San Jose, CA 95123

PALO ALTO BRANCH

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