



Star One Credit Union

Federally insured by NCUA

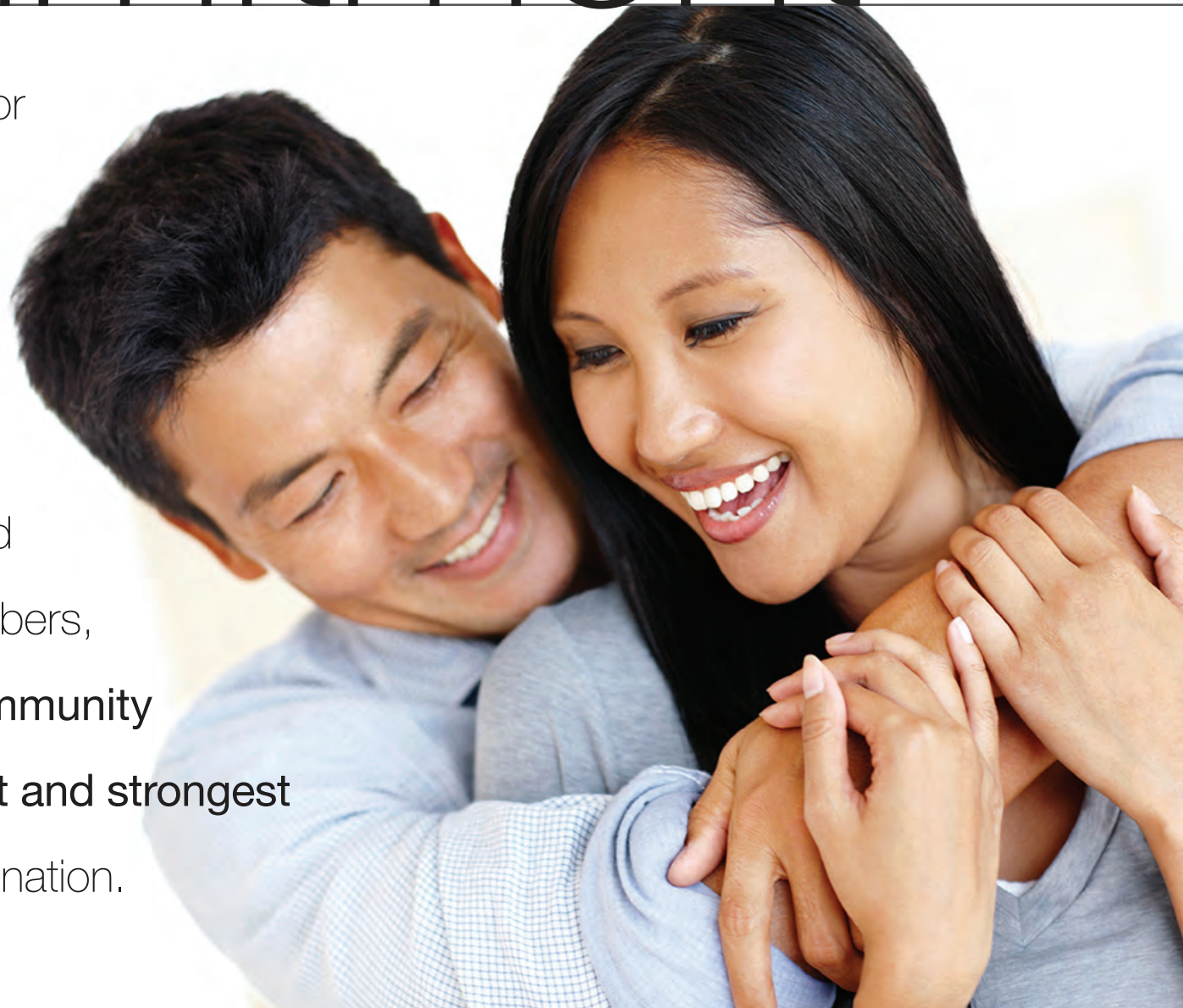
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ANNUAL REPORT



Commitment

Commitment is the state or quality of being dedicated to a cause. It is also known as a pledge or an undertaking. At Star One, we are strongly committed to taking care of our members, **supporting our local community** and being one of the **safest and strongest** financial institutions in the nation.



Strength

Over the past few years, Star One has weathered the economy when many banks and credit unions failed. Star One is in a strong financial position to continue serving the needs of our members for many years to come. In fact, Star One is always committed to achieving higher standards and has **outperformed** most other financial institutions.



Superior

“Excellent”

Star One was awarded the highest financial rating of A+

— WEISS RATINGS

“★★★★★”

Rated Superior with five stars based on safety and financial soundness

—BAUER FINANCIAL, INC.

“Superior”

Star One was awarded the highest financial rating

—IDC FINANCIAL PUBLISHING, INC.



Exemplary



Exemplary member service is more than a concept at Star One. It's inherent to our culture and in the way we transact business with members. Over the years, we have been dedicated and committed to delivering superior products and services to help **improve our members' financial lives.**



Satisfaction

As a testament to Star One's commitment to member service, our satisfaction ratings are consistently high. Over 97% of members say they are satisfied or extremely satisfied with Star One, and over 75% say they would refer someone to Star One, according to surveys by **Raddon Financial Group.**



About us

Star One Credit Union is Silicon Valley's largest member-owned financial institution. We've been serving Santa Clara County for over **56 years** with more than 90,000 members worldwide. With Star One, you can expect great personal service, above-average yields on deposits, and below-market rates on loans.



OUR MISSION

Help members improve their lives by delivering valuable financial services.



“

I've been a Star One Member for 23 years, and I continue to stay with Star One—even though I live 3,000 miles away—because your customer service is impeccable, and is mostly due to the folks at the Credit Union. I just talked to Joy, one of your IRA specialists, and she's excellent. She explained about IRA accounts, Roth, and all the forms I needed. I'm rolling over my 401K into a **Star One IRA** because I trust Star One. And Joy is another good reason why. She is very professional, extraordinarily knowledgeable, patient, great at explaining details of all the accounts and the processes involved. Thank you Star One for people like Joy, she's one of the many reasons I continue to stay with you!

Kim M.
Alexandria, VA

”

“

I can't even begin to thank you enough for helping me change the rate of my car loan. I truly believe Star One staff went above and beyond what others will do. When I came in, as I would normally, ... I met a Star One teller who truly took an interest in what he does in helping others. He suggested I sit down with a loan officer and together they helped me modify my **car loan** rate from 4.75% to a new rate of 2.99%. I immediately had a savings of \$652.52. With interest over the rest of the life of the loan it will be a savings of over \$1,000. This savings is enormous considering I have just gotten back to work a few months ago. I have been a Star One member for 24 years and you just have no idea how grateful I am.

”

Tammy M.
Sunnyvale, CA



“

It is with great gratitude that I send my thanks to Judy for the services she extended to me during my **loan** process. Unfortunately, I have dealt with many professional people such as loan officers, banks and customer service personnel who were unable to answer questions or explain the process and procedures involved. Judy was able to answer my questions and did so in a timely and professional manner. She is an exceptional employee who goes the extra mile in customer service, and that is a great asset to Star One Credit Union. Thank you once again to Judy and Star One for not only granting me this loan, but for making the process less stressful.

Mark C.
Livermore, CA

”

A silver pen is positioned diagonally across the right side of the image, resting on a document. Below the pen, the word "Signature" is printed in a large, bold, serif font, underlined. The background is a soft-focus image of the document and the pen.

Signature

Board Report

GAE ADAMS
CHAIR



Through conservative business strategies, commitment to our membership we serve with our dedicated staff and volunteers, Star One has grown to serve more than 90,000 members. This past year while we saw many institutions increase their fees and tighten their Lending guidelines, Star One continued to actively pursue better ways to serve the needs of our membership. Star One remains focused on improving the lives of our members by delivering good value, financial products and services that fulfill the needs of our membership and giving back to the community. In 2012, Star One achieved balanced growth in loans, deposits and membership, as well as a strong return on assets. Our conservative

Continues

Continued management strategies and policies, the skills of our employees, and the commitment of our Board and Committees all combine to provide our members with valuable financial products that meet their changing needs. As many other financial institutions continue to struggle with high loan delinquency and low growth in loans and deposits, Star One continues to thrive.

Member satisfaction stands at 96.9%. Star One believes member service is a key component to our ongoing success. Our service quality scores continue to outpace our peers and place us in the 97th percentile for members who said they were “Very Satisfied” or “Satisfied” with our service. Star One routinely solicits member feedback and looks for ways to improve our service, product features and delivery channels. Each employee is required to participate in our service enhancement program which focuses on how we enhance member service, identifying and satisfying member needs and taking personal responsibility. Through our commitment to service and training, we consistently achieve higher service scores, better member service and strong member loyalty. Star One employees rank higher than our peers for staff knowledge, accuracy and timeliness of service.

Our five branches in the Santa Clara County, extensive surcharge-free ATM network of more than 30,000 machines and the Shared Branch network, our full service **Online Banking** system, Phone Service team and **Mobile Banking** applications provide convenient channels for members to access their accounts.

As rates decreased steadily throughout the year, many members took advantage of record low auto and mortgage loan rates. Star One offers conventional real estate loans and does not offer or participate in any of the subprime mortgage loans. Our conservative lending policies provide good value to our membership while maintaining balanced returns and risk levels for future growth of the Credit Union.

During 2012, Star One donated more than \$100,000 and employees and volunteers donated time and raised more than \$22,000 in cash and non-cash donations for many local community groups and non-profit organizations. Some of the groups included the Alzheimer's Association, American Cancer Society, Family Giving Tree, Live Oak Day Services, San Jose Repertory Theatre, Santa Clara Family Health Foundation, Second Harvest Food Bank, Silicon Valley Education Foundation, Toys for Tots and VA Palo Alto Health System.

Financial literacy and education are key

components to helping members achieve their financial goals. Star One sponsored 11 different educational workshops throughout the year. These free workshops were well attended by members, their families and prospective members. They included such topics as Retirement Planning, First Time Home Buyer, Mobile Banking, and Identity Theft Solutions to name a few. Star One also worked closely with the Sunnyvale, Cupertino, Mountain View, Palo Alto, Santa Clara and San Jose Chambers of Commerce. Through event sponsorship, program development and business mixers, Star One is a leading member within the Santa Clara County business community. Star One sponsored the Leadership Sunnyvale's Business Day, a program that provides business tools, training and leadership skills for area business people. The session participants learned how local governments and non-profits work together to provide essential services and leadership for their citizens.

Star One is one of the strongest credit unions in the nation. Our commitment to serve the financial needs of our membership has contributed to our success for over 56 years. As we embark on a new year, you can be assured Star One will continue to grow and prosper. The Board and employees look forward to serving our members now and in the future.



President's Report

RICK HELDEBRANT
PRESIDENT & CEO



As the staff and volunteers of Star One are committed to challenge ourselves to improve, we remain steadfastly committed to our mission statement, "Help members improve their lives by delivering valuable financial services." Bauer Financial Inc., Weiss Ratings and IDC Financial Publishing, Inc. each recognize Star One with their highest rating. However, our ratings by outside independent organizations are only one measure of our success. A better measure is member loyalty. Star One members bank with us longer than customers of other financial institutions. Our focus on expense control, providing the best quality products and services and listening to our member suggestions all contribute to our success.

Continues

Continued In 2012, many financial institutions announced product changes and fee increases to their products and services. Conversely, Star One's fees remain some of the lowest in the industry. Existing members continue to refer many of their friends and family. More and more members are joining through the online application on our website, and a record number of members applied and processed their loan requests online. We are achieving strong growth and utilization of our electronic services including **ezDeposit, Online Statements, Online Banking, Bill Pay** and Mobile Banking. Our five Star One branches continue to see good activity by Bay Area members. Additionally, our Shared Branch Network has more than 6,700 full service branches in 48 states. Online Banking and Bill Pay usage continues to grow. Over 66% of members now use Online Banking and over 9,800 use our Bill Pay service. In 2012, more than 7,000 members signed up for Mobile Banking.

The interest rate environment has made for a challenging business environment. As we balance the income side of investments and loans with deposits, we have seen our margins become squeezed. While absolute rates have dropped significantly, we continue to pay competitive deposit rates while maintaining our profitability for long-term growth and

sustainability. We balance member needs and risk on loans while providing the lowest possible loan rates to our members. The economy has been particularly challenging in terms of loans. Low rates, high unemployment and uncertainty has had a dramatic effect on loan originations and servicing. Through all this, we are seeing strong growth in real estate loans, and reasonable activation in auto and credit card loans. Loan delinquencies and charge-offs decreased for the year, remaining well below our local and national peers.

In 2012, Star One granted over \$856 million in loans to members. Just over 3,200 members took advantage of our loan modification process to reduce their mortgage rates resulting in significant savings in interest charges and monthly payments. Between new loans granted and loan modifications, we processed more than \$2.129 billion in loans during the year. Many members took advantage of our **auto buying services, student loans, Visa credit cards** and **Home Equity Loans** and **Lines**.

Because of our commitment to sound lending and investment policies we have grown to be one of the largest credit unions in the nation. Throughout the year Star One conducts a series of surveys and research to gauge member attitudes for quality service, product usage and future product offerings. This past

year, Star One ranked in the 100th percentile for average deposit and loan balances compared to other similar credit unions. This is a testament to the value we deliver to our members. Members are staying with us longer and have more loans and deposits with us as compared to other credit unions. This is a key focus of our long term strategy. Through various surveys we encourage member feedback and suggestions. Member suggestions have led to product enhancements and modifications to our delivery channels and service programs.

In a marketplace with many different financial service providers, Star One stands apart by delivering competitively priced products, charging much lower fees, providing higher quality service and looking for ways to better serve our members. As a cooperative institution, we rely on our member-owners to refer fellow family members, friends, and coworkers, to use more of our products and services while providing feedback on how we can better serve their needs. The staff, Board and volunteers stand ready to serve our members and remain committed to delivering valuable financial products and services while preserving Star One's strong posture as a sound financial institution you trust and are proud to belong to.



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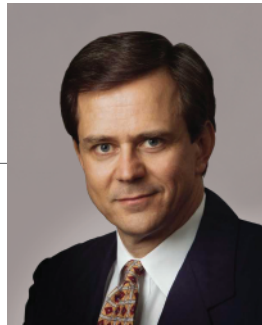
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Treasurer's Report

SCOTT DUNLAP
TREASURER



Star One achieved another strong year financially. Assets grew 6.3% from \$5.93 billion in 2011 to \$6.30 billion in 2012.

The Return on Assets for 2012 was 0.94%.

Our Net Worth ratio remains strong at 10.95%.

Our federal regulator considers a credit union with a ratio of 7.00% to be well capitalized.

Membership increased 2.0% to 90,603. Just over 5,100 new members joined Star One during 2012. More than 47% joined from our community charter, another 45% joined through family members, while 7% joined through Lockheed Martin Space Systems Co.,

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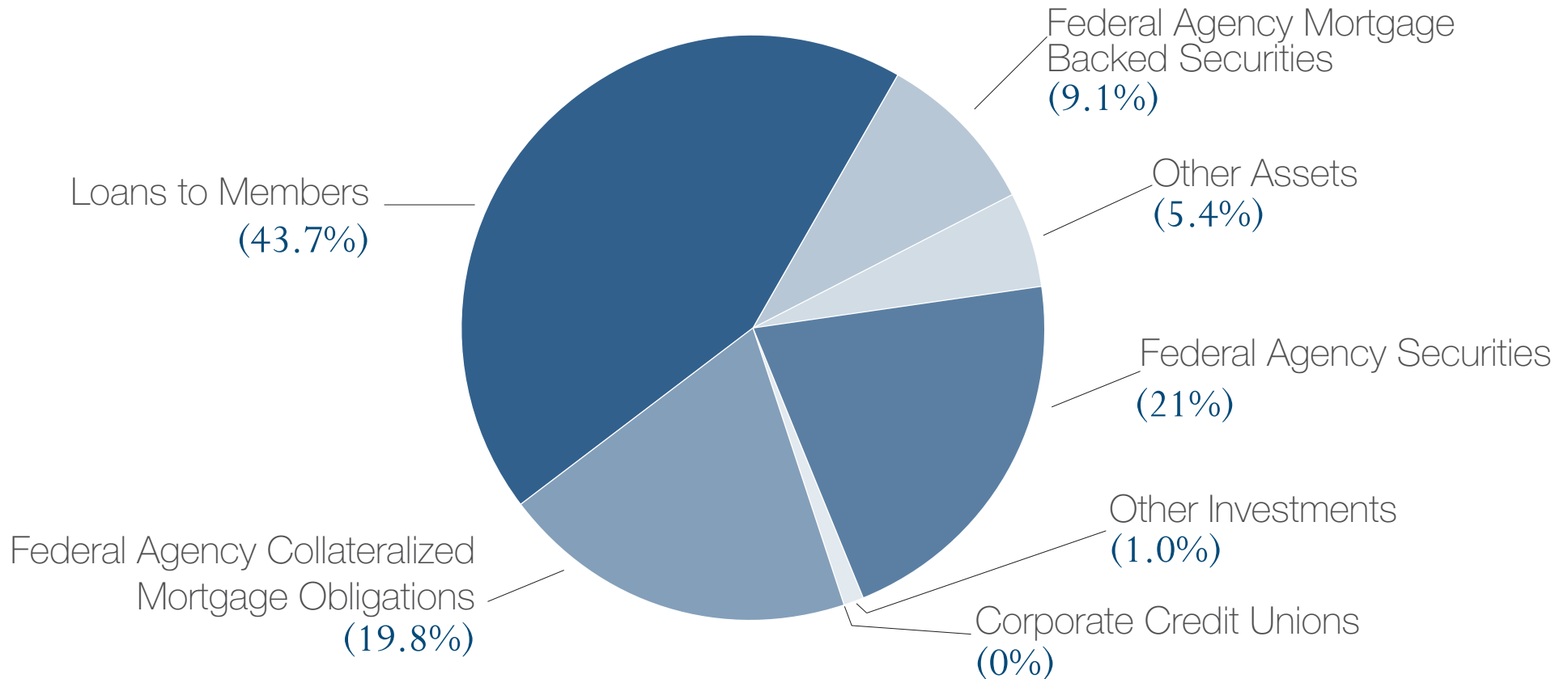
Continued Yahoo! and our other member companies. Over the past few years we have seen very strong growth in new members coming from the Santa Clara County region. Deposits grew \$171 million, up 4.1% from \$4.18 billion in 2011 to \$4.36 billion in 2012. Checking increased 18.2% to \$213 million. Money Market Savings Accounts grew 4.5% to \$3.54 billion. Star One continues to pay higher deposit rates than most other financial institutions and does so without the “gimmick” products many other institutions offer. Loans grew 7.3%, to \$2.76 billion.

The majority of the growth was in mortgages. Many new and existing members took advantage of the lower mortgage rates and lower home prices. Total first real estate loans increased 9.5%, up \$193 million for the year. Student loans grew \$8 million to \$31 million. Auto loans increased 4.2% to \$122 million as many members purchased vehicles from auto dealerships. Consumer loan delinquency decreased from 0.33% in 2011 to 0.17% in 2012. Our loan portfolio continues to perform much better than other credit unions and banks both locally and nationally. Our investment portfolio provides

strong returns while maintaining safety and security. Star One does not invest in subprime debt. Borrowings increased to \$1.184 billion in 2012. Star One does not borrow funds to leverage more earnings, but rather to mitigate the interest rate risk associated with long-term fixed rate mortgages held in the portfolio. Our loyal membership and their extensive use of products, services and automated delivery channels 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. ■

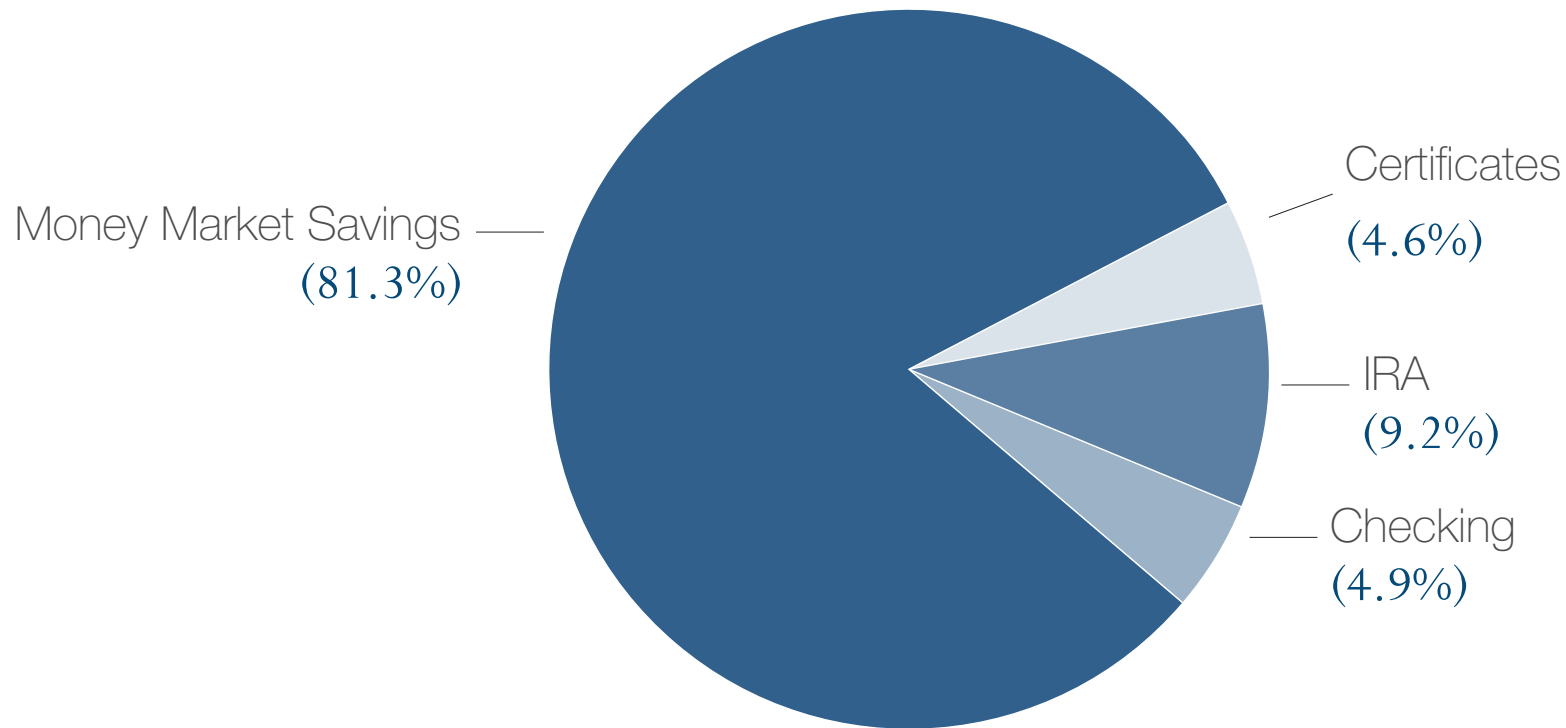
Financial Information

Assets



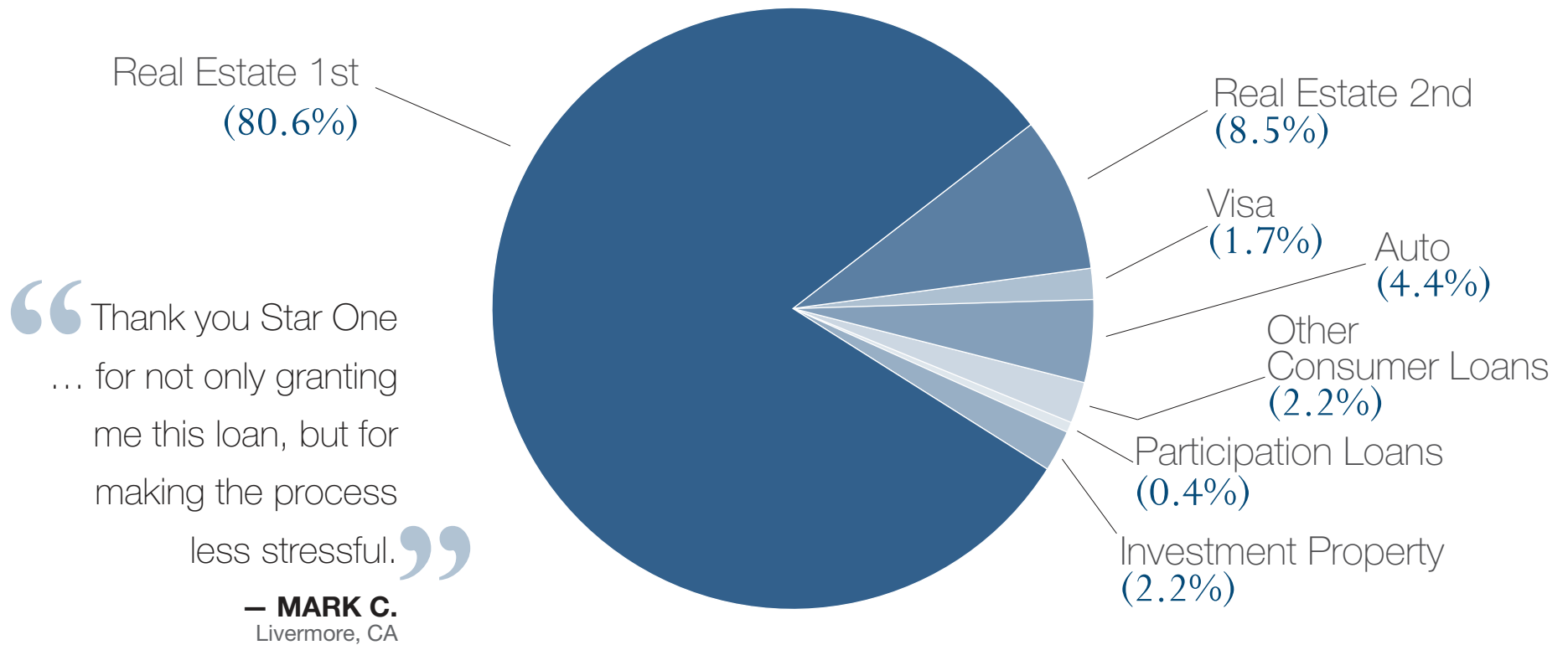
Financial Information

Savings



Financial Information

Loans

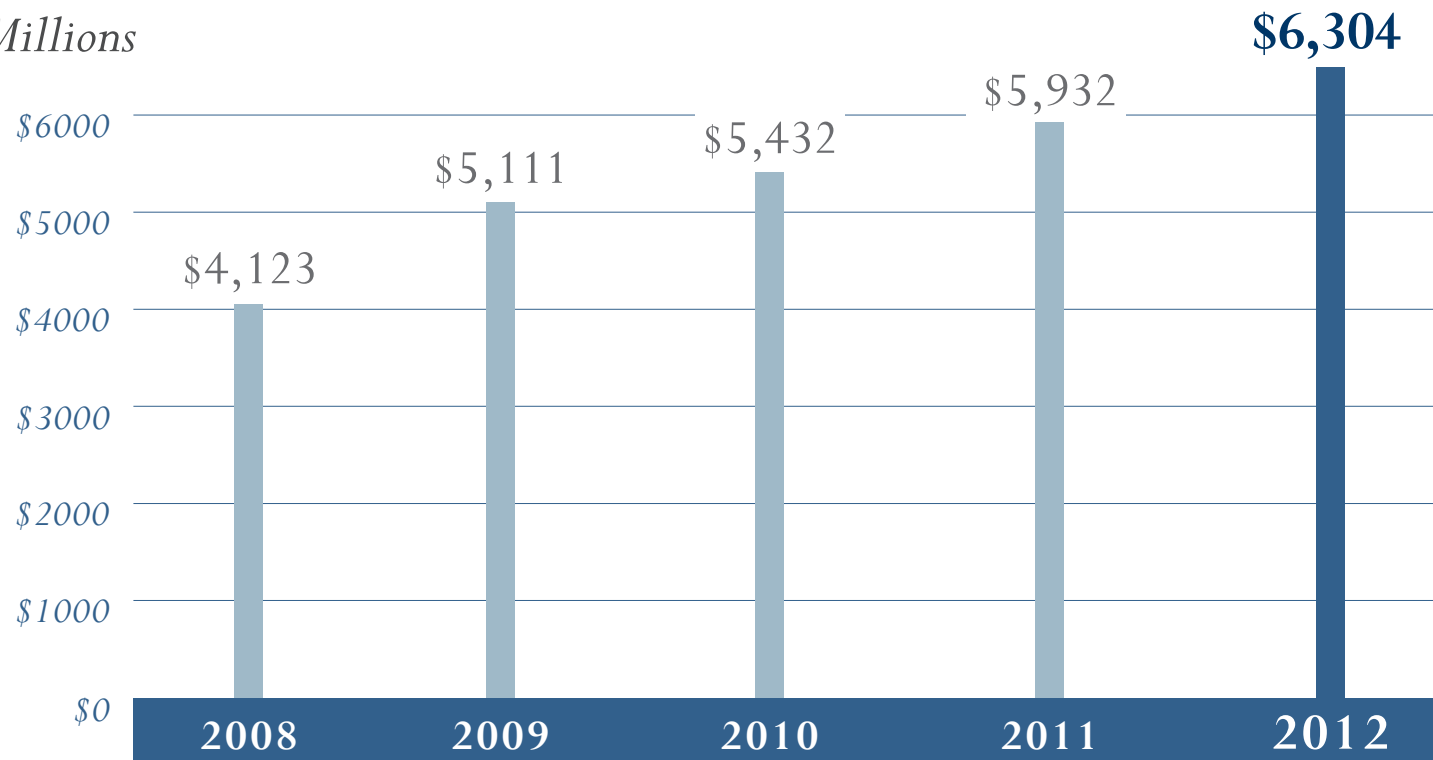


Financial Highlights

Assets

Total Assets

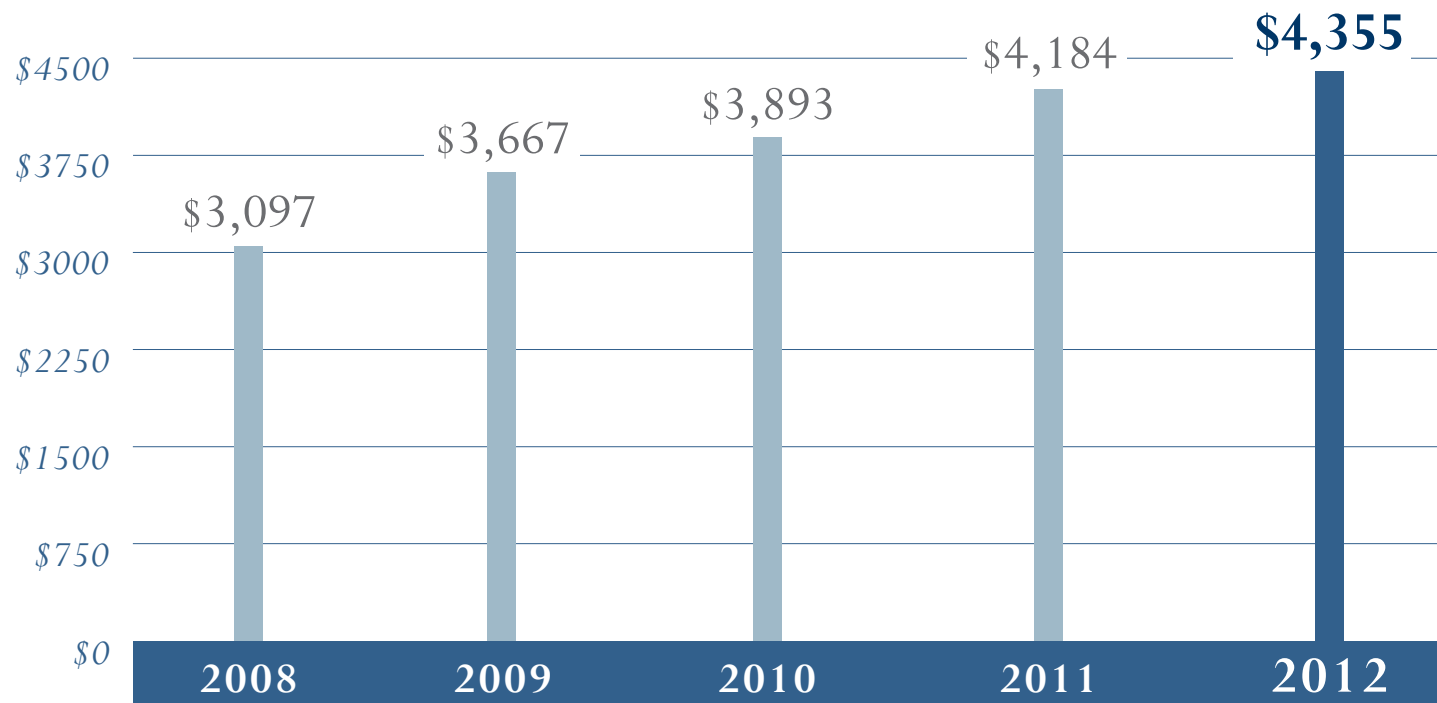
in Millions



Financial Highlights

Savings

Total Savings *in Millions*

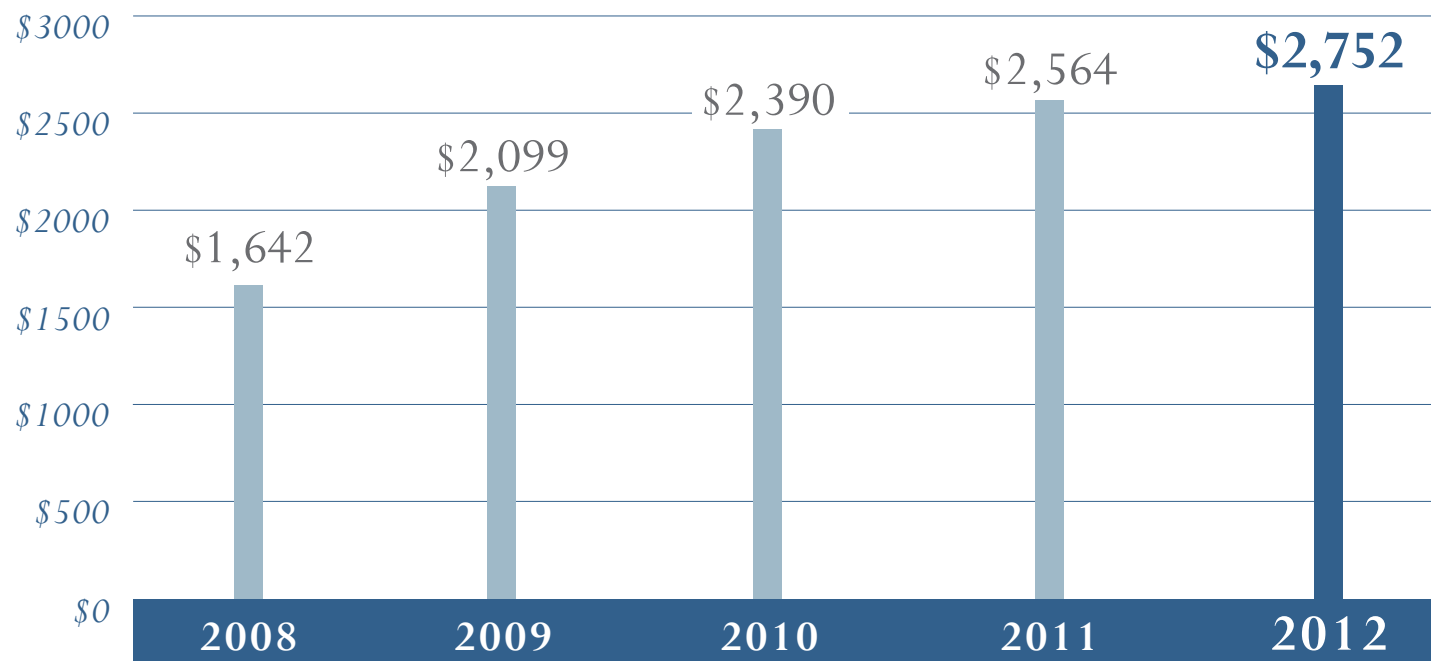


Financial Highlights

Loans

Total Loans

in Millions



Comparative Financial Results

Year End Summary *in Thousands*

	2012	2011	% Change
Total Assets	\$6,304,274	\$5,931,869	6.3%
Member Savings and Certificate Accounts	\$4,355,321	\$4,184,353	4.1%
Loans to Members	\$2,752,369	\$2,563,711	7.4%
Delinquent Loans	\$3,520	\$5,639	-37.6%
Member Equity	\$716,766	\$662,589	8.2%
Cash and Investments	\$3,453,908	\$3,273,029	5.5%
Dividends Paid to Members	\$26,758	\$35,829	-25.3%

Statement of Financial Conditions *in Thousands*

Assets	2012	2011
Cash and Investments	\$3,453,908	\$3,273,029
Loans to Members	\$2,752,369	\$2,563,711
Land, Building & Equipment	\$12,231	\$13,460
Accrued Interest Receivable	\$16,836	\$17,061
Deposit-Share Insurance Fund	\$38,340	\$35,985
All Other Assets	\$30,590	\$28,623
Total Assets	\$6,304,274	\$5,931,869

Liabilities & Member Equity	2012	2011
Member Savings & Certificate Accounts	\$4,355,321	\$4,184,353
Accounts Payable	\$8,936	\$7,544
Borrowed Funds	\$1,184,417	\$1,045,317
Regular Reserves	\$56,851	\$56,851
Undivided Earnings	\$633,718	\$575,682
Unrealized Gain (Loss) on Investments	\$43,706	\$44,059
Accumulated Other Comprehensive Income	(\$17,508)	(\$14,003)
Accrued Liabilities	\$38,833	\$32,066
Total Liabilities & Member Equity	\$6,304,274	\$5,931,869

Comparative Financial Results

(continued)

Statement of Operations *in Thousands*

Income	2012	2011
Interest on Loans	\$102,081	\$103,641
Investment Income	\$48,212	\$58,829
Other Operating Income	\$11,311	\$8,396
Total Income	\$161,604	\$170,866

Operating Expenses

Employee Compensation	\$23,229	\$23,597
Office Occupancy	\$2,161	\$2,151
Office Operations	\$6,480	\$6,363
Loan Servicing	\$2,219	\$2,203
Professional & Outside Services	\$1,668	\$1,466
Provision for Loan Losses	\$2,229	\$3,084
Operating Fee	\$507	\$443
Other Operating Expenses	\$6,694	\$8,834
Total Operating Expenses	\$45,187	\$48,141

Income from Operations	116,417	122,725
Non-Operating Income (Expense)	1,495	1,146

Net Income Before Distribution	\$117,912	\$123,871
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Dividends	26,758	35,829
Interest on Borrowed Money	33,118	33,005

Added to Reserves & Undivided Earnings	\$58,036	\$55,037
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Supervisory Committee Report

RICHARD AOCHI
CHAIR



The Supervisory Committee is responsible for monitoring the financial safety and soundness of Star One. We ensure 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 2012 internal audit program consisted of extensive evaluation of internal

Continues

Continued procedures and policies.

Internal controls include policies and procedures within the Credit Union to safeguard assets and verify the accuracy and reliability of Star One's accounting data. Where applicable, evaluations include operating efficiencies and safeguards against fraud ensuring compliance with prescribed policies, established procedures and applicable regulatory requirements.

During 2012, the Supervisory Committee directed a comprehensive audit of operating processes selected for their risks across all of the Credit Union's products and services. The Supervisory Committee also contracted with specialized external firms to perform independent reviews of selected Star One business practices throughout the year.

Based on the reports from Star One's ongoing internal audit program and 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 being 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

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 live, work or attend school 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. A list of events and organizations in which Star One was involved throughout 2012 in the Santa Clara community follows.



AAUW – Gifts for Teens

Able People Foundation

ALS Association, Golden West Chapter – Walk to Defeat ALS

Alzheimer's Association – Silicon Valley Walk to End Alzheimer's

American Cancer Society – Daffodil Days

American Diabetes Association, San Jose Chapter

American Heart Association – Silicon Valley Heart Walk



■ **American Heart Association – Wear Red Day**

Annie's Blankets Drive

Assistance League of San Jose – Hug a Bear

Breast Cancer Connections

Breathe California of the Bay Area

Cake4Kids

California Theater Center

Crohn's & Colitis – Take Steps for Crohn's & Colitis Walk

Cystic Fibrosis Research, Inc. – Annual CFRI Golf Tournament



EHC LifeBuilders – Sunnyvale Armory &
Rivers of Chocolate

Employment & Community Options

Family Giving Tree – Back-to-School & Holiday Drive

Family Supportive Housing, Inc.

FLY – Fresh Lifelines for Youth

Friends of Stevens Creek – Trailblazer Race

Happy Hollow Park – 2nd Hoot & Howl Gala

KARA

Live Oak Day Services

Lockheed Martin Street Fair

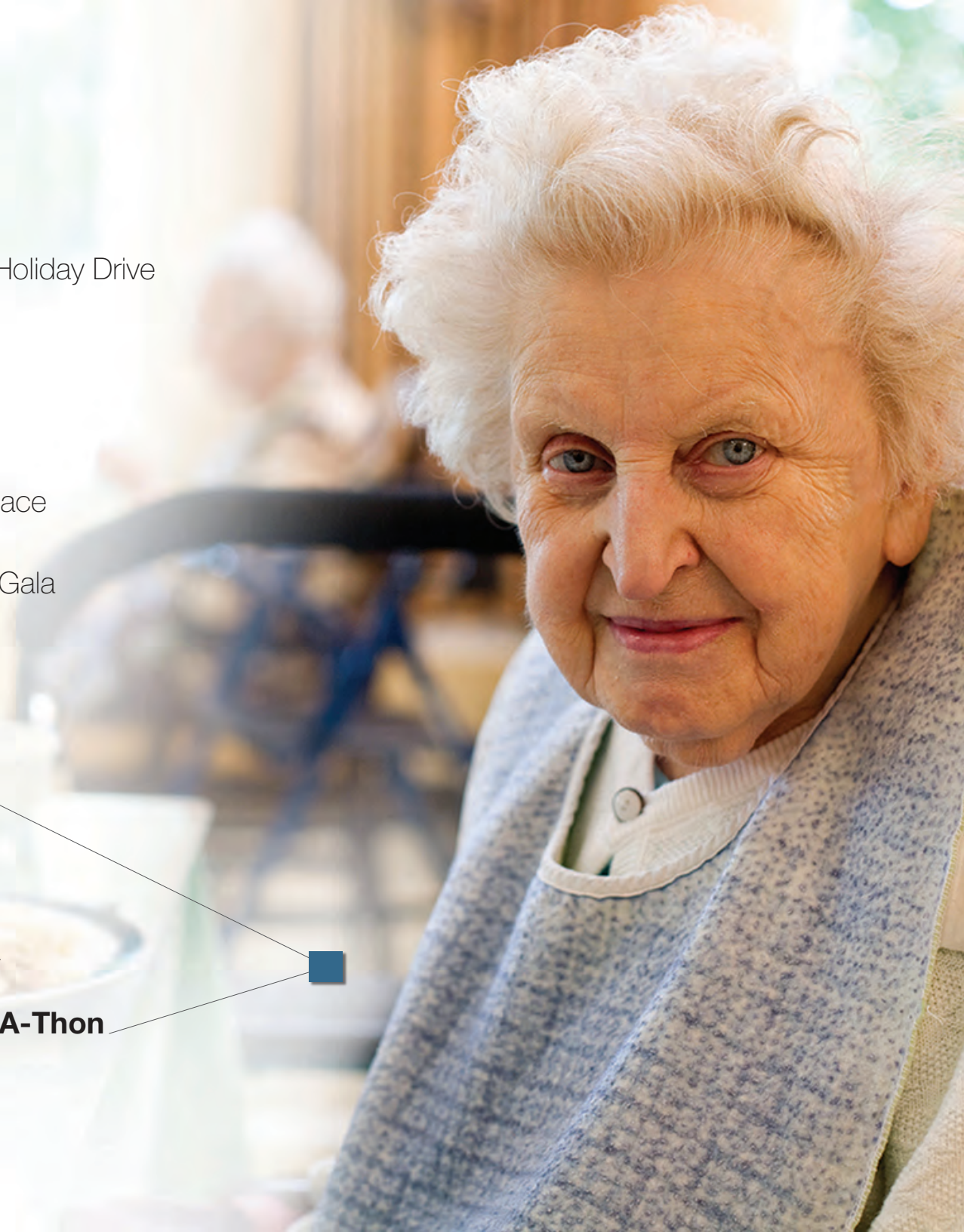
Lucile Packard Children's Fund

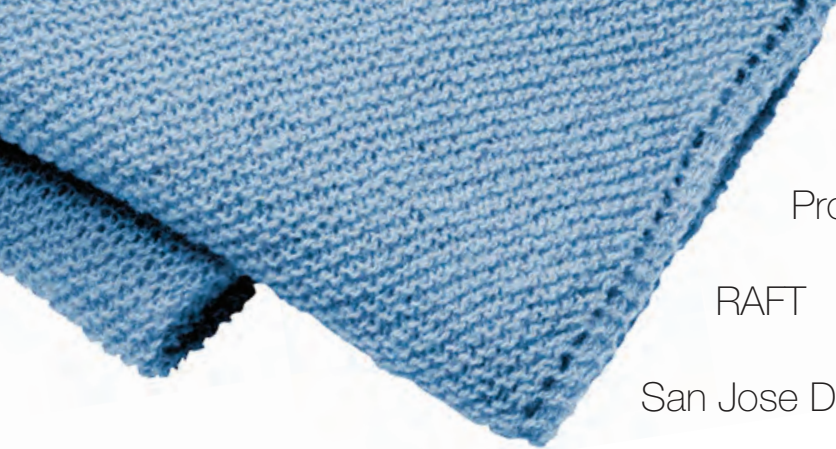
Lupus Foundation of Northern California

Meals on Wheels – Star One Bowl-A-Thon

Mountain School

Operation: Care and Comfort





Project Linus

Prostate Cancer Research – Stanford University

RAFT

San Jose Day Nursery

San Jose Repertory Theatre

Santa Clara Family Health Foundation

Second Harvest Food Bank – Holiday Drive

Silicon Valley Education Foundation

Special Olympics – Power Pull

Sunday Friends

Sunnyvale Community Services

Support Network for Battered Women

The ARC of San Francisco – The Cure for Autism

Toys for Tots



TurningWheels for Kids

VA Palo Alto Health Care System



Letters



“ Your gift helps us provide much-needed support to those coping with death and dying. ”

— **MICHAEL DONOHUE**
EXECUTIVE DIRECTOR
KARA

“ The generous donation from Star One helps encourage and motivate other local businesses to donate as well. ”

— **ELAINE BENOIT,**
DIRECTOR
AMERICAN ASSOCIATION OF UNIVERSITY WOMEN, GIFT FOR TEENS



PHOTOS IN THIS SECTION ARE FOR ILLUSTRATION PURPOSES ONLY

Letters



“ Donors such as you provide us with the encouragement and support to continue providing life-sustaining services. ”

— **COLLEEN HUDGEN,**
EXECUTIVE DIRECTOR
LIVE OAK ADULT DAY SERVICES

“ Star One Credit Union's recent grant for our **Meals On Wheels** program will help ensure consistent, healthy meals and personal connections for homebound, isolated Santa Clara County residents. We are very grateful for your generosity! ”

— **MICHELLE SMITH**
SENIOR GRANT WRITER
FUND DEVELOPMENT TEAM
THE HEALTH TRUST
MEALS ON WHEELS PROGRAM

Board of Directors

Gae Adams
Chair

Dan Manassau
First Vice-Chair

Dan Abihider
Second Vice-Chair

Scott Dunlap
Treasurer

Doug Flowe
Secretary

David Daggett
Assistant Secretary

Bruce Bachant
Director

Jeff Gaut
Director

Patricia Humecke
Director

Bill Lewis
Emeritus

Jack McElravey
Emeritus

Supervisory Committee

Richard Aochi
Chair

Mojan Khaghani
Secretary

Marty Eng
Christina Goeas

Leslie Varr

Board/Supervisory Committee Associates

Teresa Chavez

Cy Tabari

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

Sandra Moix
Vice President – Branch Services

Margarete Mucker
Vice President – Remote Services

Jim Nichols
Vice President – Audit

Regina Rutledge
Vice President – Human Resources

Ann Sebastian
Vice President – Controller

Star One Information

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