



Star One Credit Union

Federally insured by NCUA

A N N U A L R E P O R T

2016

65

ABOUT US

A Legacy of Strength



Star One Credit Union is one of Silicon Valley's largest, member-owned financial institutions. We've been serving Santa Clara County for over 60 years with more than 97,000 members worldwide. With assets over \$8.7 billion, Star One is ranked tenth in total assets among over 6,000 credit unions nationally. At Star One, you can expect great personal service, above-average yields on deposits, and below-market rates on loans.

Our Mission is to help members improve their lives by delivering valuable financial services.

A Timeless Investment



When you become a member of Star One Credit Union, your membership is life-long. That means you can rely on the value that Star One provides at every stage in life.

Through sound business practices – and not gimmicky pricing – Star One has proven to be a solid investment through the decades. Year after year, our **deposit yields** are higher than most big banks, and our **loan interest rates** are consistently

lower-than-average, helping members save money and increase wealth steadily.

Brilliant Rewards

For the third year in a row, the Credit Union National Association (CUNA) recognized Star One as the **top credit union** for providing direct financial benefits to its members. For example, our **Rewards Checking** earns the same rate as a **Money Market Savings Account**, regardless of balance. And with the **Star One Visa Signature Rewards** credit card, members can earn points with every dollar spent which can be used toward cash, travel and merchandise.





OTHER VALUABLE SERVICES

Priceless Value

Every product and service Star One provides is designed with our mission and our members in mind. At Star One you'll find priceless value in services like our **Personal Auto Shopper**.

With this complimentary program, members have a dedicated person to research, find, and negotiate the best deal on the car they want. Those looking to buy or sell a home have a one-stop resource for all their real estate agent

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A man and a woman are laughing together outdoors. The man is on the left, wearing a red and blue plaid shirt, and the woman is on the right, wearing a dark jacket over a green sweater. They are both smiling broadly and laughing. The background is a bright, out-of-focus outdoor setting with trees and sunlight.

OTHER VALUABLE SERVICES

Priceless Value, *cont'd*

needs with the **HomeAdvantage**[®] program,
all at no additional cost.

We know that our member's time is precious,
which is why we offer free **Online Banking**
and **Mobile Banking** with **Mobile Deposit**
to make banking more convenient. While in
Online Banking, members can also keep an
eye on their **FICO**[®] **Score** for free, allowing
them to understand their credit rating and be
vigilant against fraud.

SERVICES FOR LIFE

A Treasure for Generations

Star One is proud to be part of our members' lives from generation to generation. Many have taken advantage of our completely liquid **Money Market Savings Accounts**, and straightforward **IRA** and **Certificate Accounts** to add to their retirement or legacy planning. Young members know the value of our **Student Loans** and **Student**

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SERVICES FOR LIFE

A Treasure for Generations, *cont'd*

Services to help them lay the foundation for wealth. And members of all ages can access free **Financial Counseling** and **Educational Workshops** on various critical topics like retirement, estate planning, building budgets, understanding credit, home buying, cyber awareness and much more.

A Tradition of Service

In an increasingly self-serve environment, meaningful and effective customer care is a rarity. At Star One, each employee completes a Service Enhancement Training program to refine their service skills. Every year, these skills are refreshed with new topics and perspectives.

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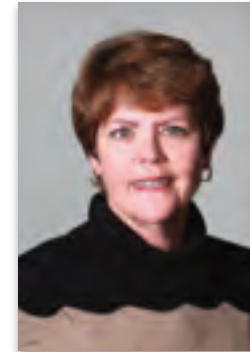
A Tradition of Service, *cont'd*

To gain feedback, Star One regularly surveys members about their service experience.

And because Star One cares about the issues that concern our members, the Branch Advisory Group was created to provide a communication channel between the member community and Star One management.



Board Report



GAE ADAMS
CHAIR

Sixty years ago a few employees of Lockheed got together to form a credit union to serve the employees at the Sunnyvale facility. Who would have known that this idea would grow to be the 10th largest Credit Union in the nation and become the

financial partner to more than 98,000 members. These first volunteers and members are the cornerstone to our success and our mission, “Help members improve their lives by delivering valuable financial services.”

Star One celebrates our 60th anniversary this year and the achievements that contribute to our successes. Our Board and Committees, comprised of volunteers, are committed to providing our fellow members

with the best possible financial products and services. These volunteers are your neighbors, friends and possibly family members. They are accountants, lawyers, engineers, teachers and business men and women who take time from their busy personal and professional lives to serve on the Board and Committees. Many have been on the Board or participated in a Committee more than 15 years. Star One has had over 110 volunteers through the years. We are thankful for their time and dedication. Through conservative business strategies and commitment to our membership, Star One has grown to serve more than 98,000 members. 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 by giving back to the community. Our conservative management strategies and policies, the

Board Report, *cont'd*



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 look for ways to gain the most from their customers, Star One looks for ways to give more back.

Member satisfaction stands at 98%. Star One believes member service is a key component to our ongoing success. The products and services we deliver are designed to provide the best value possible. 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 enhancing 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 stronger member loyalty. Star One employees rank higher than our peers for staff knowledge,

accuracy and timeliness of service.

Star One is also committed to giving back to our communities.

One of our core beliefs is to help those in need. During 2016, Star One donated more than \$200,000 while employees and volunteers donated more than 900 hours to 48 non-profit organizations. Some of the groups included the Alzheimer's Association, American Cancer Society, Family Giving Tree, Live Oak Adult Day Services, Morgan Autism Center, Second Harvest Food Bank, Silicon Valley Community Foundation, Toys for Tots and West Valley Community Services. Star One has donated more than \$1.3 million to area non-profit organizations over the years. For the second year in a row, Star One was recognized by the Silicon Valley Business Journal as one of the top 50 philanthropic businesses in Santa Clara County.

Financial literacy and education are key components to helping members achieve their financial goals. Star One sponsored 14 educational workshops covering 8 different topics 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 sponsored EverFi's Financial Literacy program at 6 different high schools and introduced our first annual Scholarship Program aimed at providing additional financial aid to members and their college age students. Star One also 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 60 years. As we embark on a new year, you can be assured Star One will continue to grow and prosper. The Board, volunteers 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 building a viable financial partner for our members as well as a strong leader in our industry and the markets we serve.

For the third year in a row, Star One was rated by the Credit Union National Association (CUNA) as providing the highest financial benefits to our members of all 6,000 plus credit unions in the nation. Star One provided more than \$60 million in direct financial benefit to our members equating to more than \$1,200 per member through lower loan rates, higher savings rates and lower fees. Bauer Financial Inc., Weiss Ratings and IDC Financial Publishing, Inc. each recognize Star One with high ratings. 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 member satisfaction stands at 98%, one of the highest in our industry. Our focus on expense control, providing the best quality products and services, and listening to our member suggestions all contribute to our success.

In 2016, many financial institutions continued to announce 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 our online application, and a record number of members applied and processed their loan requests through our website. We are achieving strong growth and utilization of our electronic services including ezDeposit, eStatements, Online Banking, Bill Pay and Mobile Banking. With the addition of our newest branch in Saratoga, our six Star One branches continue to see good activity by Bay Area members.

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. Though

President's Report, *cont'd*



absolute rates have remained low over recent years, 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 and uncertainty have had a dramatic effect on loan originations and servicing. Through all this, we are seeing strong growth in real estate and consumer loans. Loan delinquencies and charge-offs remain well below our local and national peers. In 2016, Star One granted over \$1.2 billion in loans to members, the highest in our 60 year history. Many members took advantage of our loan modification process to reduce their mortgage rates resulting in significant savings in interest charges and monthly payments. Members also 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.

Star One members continue to move towards our remote delivery channels, which provide greater convenience throughout the nation and beyond. Our ATM Network has access to more than 800,000 machines worldwide, and 30,000 surcharge-free ATMs nationwide, including 9,000 that accept deposits and 5,500 located at 7-Eleven stores. Saturday hours at three of our branches provide additional convenience for local members. The addition of the Saratoga branch has been well received in the community generating greater convenience and new memberships from the immediate area. Additionally, our Shared Branch Network has more than 5,000 full service branches in 48 states.

We continually look for ways to enhance our product offerings. During the year we rolled out the new website allowing members to view it on any device. Android Pay™ and Samsung Pay were added to complement Apple Pay®. TSA PreCheck® and Global Entry were added as special benefits to our Visa Signature Rewards Card. Members can now view their rewards points, make branch appointments, transfer

money to other Star One members and open additional accounts all from our Mobile Banking App. Members also now have the ability to view their FICO® credit score for free through Online Banking. In 2016 Bill Pay users increased by 20% while eNotice and eStatement enrollment increased by 30% and 14%, respectively. 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.

Treasurer's Report



SCOTT DUNLAP
TREASURER

Star One achieved another strong year financially. Assets grew 12.3% from \$7.86 billion in 2015 to \$8.82 billion in 2016. The Return on Assets for 2016 was 0.75%. Our Net Worth ratio remains strong at 10.40%. Our federal regulator considers a credit union with a ratio of 7.00% to be well capitalized.

Membership increased 3.6% to 98,231. A record 6,963 new members joined Star One during 2016. This was the highest membership growth in our history. More than 39% joined from our community charter, another 55% joined through family members, while 5% joined through Lockheed Martin and 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 \$575 million, up 10.9% from \$5.29 billion in 2015 to \$5.86 billion in 2016. Checking increased 15.6% to \$344 million.

Money Market Savings Accounts grew 10.9% to \$4.90 billion.

Certificate of Deposits grew 17.7% to \$241 million. 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 13.3%, to \$3.66 billion. The majority of the growth was in mortgages. Many new and existing members took advantage of the

lower mortgage rates and increasing home prices. Total first real estate loans increased 15.9%, up \$405 million for the year. Auto loans increased 8.0% to \$199 million. Consumer loan growth was strong at 4.11%. Consumer loan delinquency remained low at 0.18% in 2016. 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 \$2.02 billion in 2016. 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 our 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.

Supervisory Committee Report



CHRISTINA GOEAS
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. 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.

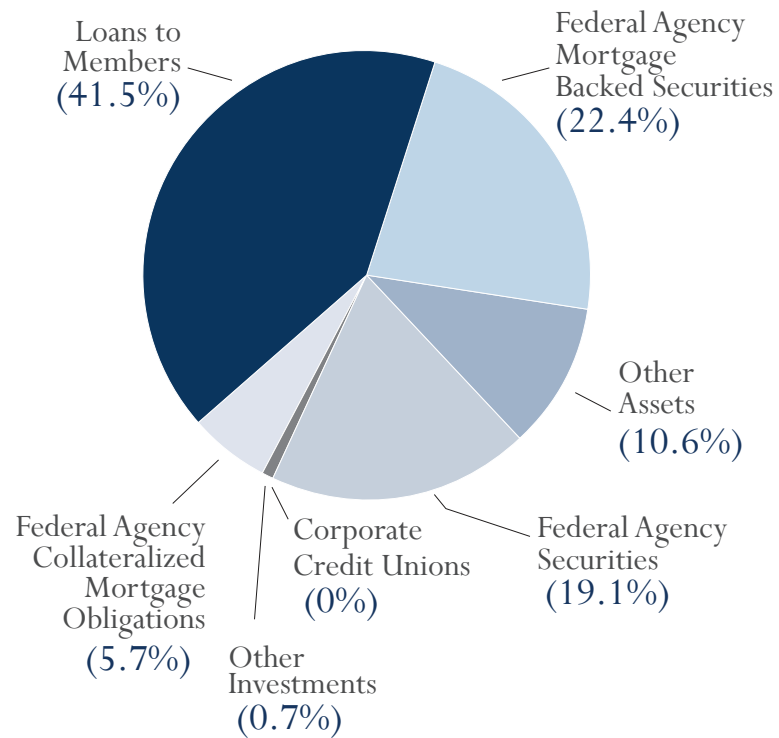
The 2016 internal audit program consisted of extensive evaluation of internal procedures and policies. Where applicable, evaluations include operating efficiencies, safeguards against fraud, and ensuring compliance with prescribed policies, established procedures and applicable regulatory requirements.

During 2016, 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.

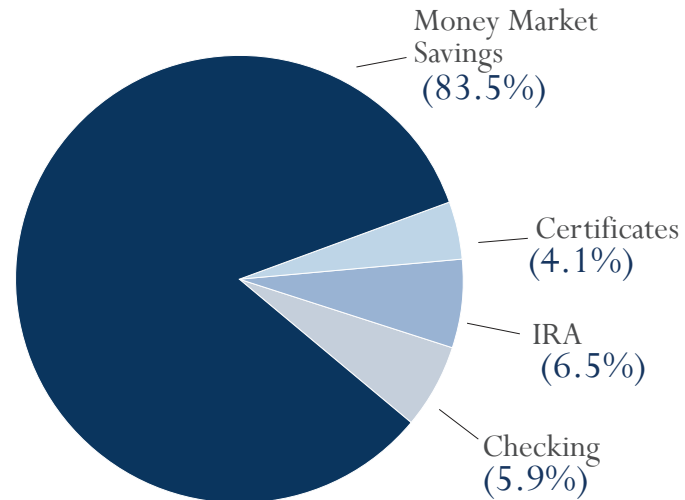
Based on the reports from Star One's ongoing internal audit program and audits performed during the year by third-party firms, the Supervisory Committee reports that Star One is operating in a sound manner. Moreover, the Credit Union's internal controls are being effectively maintained to reasonably 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.

Financial Information

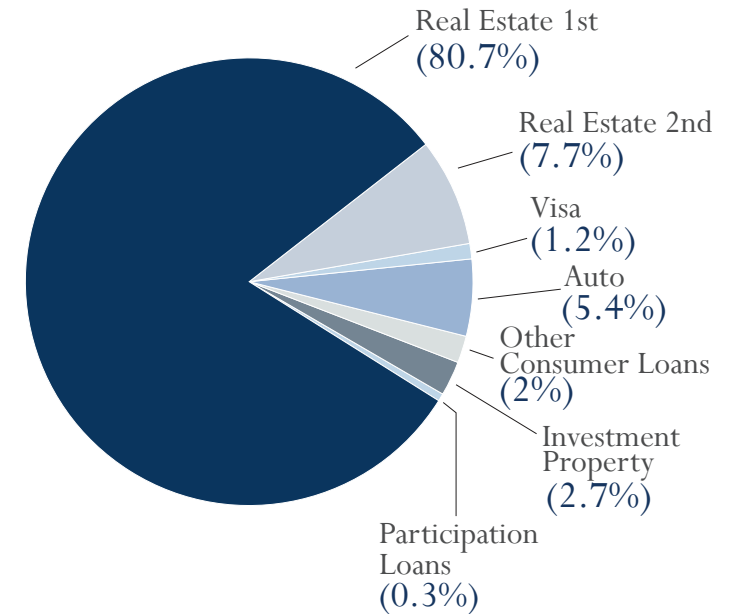
ASSETS



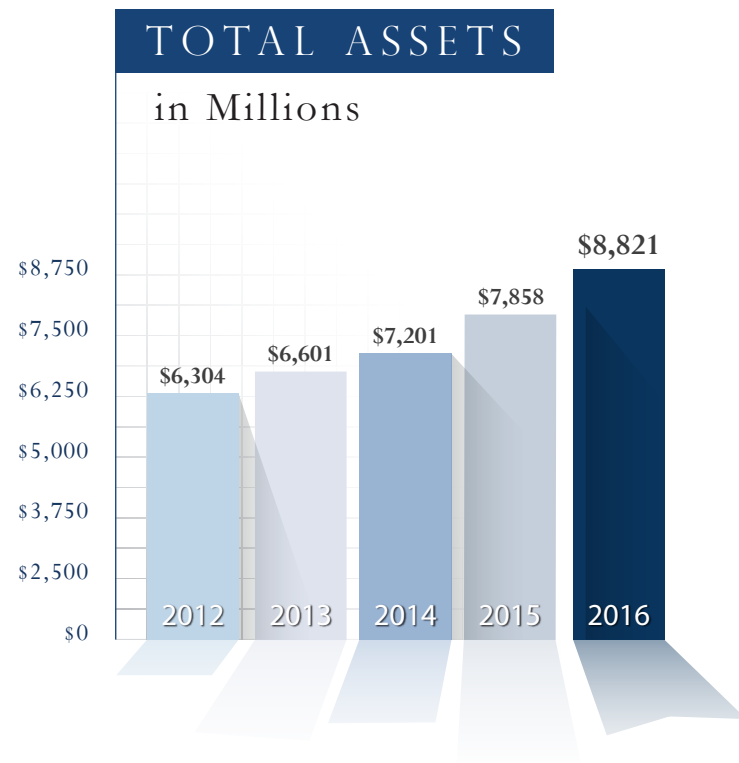
SAVINGS



LOANS



Financial Highlights





Comparative Financial Results

Year End Summary

IN THOUSANDS

	2016	2015	% Change
Total Assets	\$8,820,865	\$7,857,970	12.3%
Member Savings and Certificate Accounts	\$5,863,972	\$5,289,147	10.9%
Loans to Members	\$3,662,215	\$3,232,045	13.3%
Delinquent Loans	\$1,689	\$1,054	60.2%
Member Equity	\$881,466	\$826,353	6.7%
Cash and Investments	\$5,021,948	\$4,513,046	11.3%
Dividends Paid to Members	\$45,484	\$36,690	24.0%

Statement of Financial Condition

IN THOUSANDS

Assets	2016	2015
Cash and Investments	\$5,021,948	\$4,513,046
Loans to Members	\$3,662,215	\$3,232,045
<i>Less: Allowance for Loan Losses</i>	<i>(\$4,214)</i>	<i>(\$4,059)</i>
Land, Building & Equipment	\$15,571	\$11,530
Accrued Interest Receivable	\$19,567	\$18,856
Deposit-Share Insurance Fund	\$46,409	\$43,139
All Other Assets	\$59,369	\$43,413
Total Assets	\$8,820,865	\$7,857,970
Liabilities & Member Equity	2016	2015
Member Savings & Certificate Accounts	\$5,863,972	\$5,289,147
Accounts Payable	\$5,711	\$7,906
Borrowed Funds	\$2,024,400	\$1,698,400
Regular Reserves	\$56,851	\$56,851
Undivided Earnings	\$862,071	\$799,939
Unrealized Gain (Loss) on Investments	<i>(\$24,237)</i>	<i>(\$10,840)</i>
OCI Derivative Market Gain/(Loss)	\$14,057	\$988
Accumulated Other Comprehensive Income	<i>(\$27,276)</i>	<i>(\$20,585)</i>
Accrued Liabilities	\$45,316	\$36,164
Total Liabilities & Member Equity	\$8,820,865	\$7,857,970



Comparative Financial Results, *cont'd*

Statement of Operations IN THOUSANDS

Income

	2016	2015
Interest on Loans	\$116,564	\$107,613
Investment Income	\$63,133	\$58,035
Other Operating Income	\$8,143	\$7,743
Total Income	\$187,840	\$173,391

Operating Expenses

Employee Compensation	\$25,717	\$27,169
Office Occupancy	\$2,296	\$2,145
Office Operations	\$7,359	\$6,737
Loan Servicing	\$5,346	\$5,151
Professional & Outside Services	\$2,664	\$2,364
Provision for Loan Losses	\$1,184	\$84
Operating Fee	\$462	\$429
Other Operating Expenses	\$3,710	\$3,679
Total Operating Expenses	\$48,738	\$47,758

Income from Operations

Non-Operating Income (Expense)	\$477	\$8
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Net Income Before Distribution

Dividends	\$45,484	\$36,690
Interest on Borrowed Money	\$31,964	\$31,923

Added to Reserves & Undivided Earnings	\$62,131	\$57,028
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Radiating Light in the Community

The entire Star One family, from employees to management and Board, recognizes the importance of contributing to the **community** we serve and being a strong corporate citizen.

We work directly and indirectly with various organizations throughout Santa Clara County to support and provide resources. Through direct financial donations and other in-kind contributions and by participating in local public service activities, Star One is an active partner with these worthy organizations throughout Santa Clara County.

2016 Beneficiaries

ALS Association - Golden West Chapter

Alzheimer's Association

American Cancer Society

American Diabetes Association

American Heart Association

Assistance League of San Jose

Autism Speaks

Bay Area Cancer Connection





Blossom Birth Services

Breathe California of the Bay Area

Cake4Kids

Crohn's and Colitis Foundation of America Inc.

Cystic Fibrosis Research, Inc.

Cancer CAREpoint

Citizen Schools

Employment & Community Options

Family Giving Tree

Family Supportive Housing, Inc.

FLY - Fresh Lifelines for Youth

Friends of Stevens Creek Trail

Happy Hollow Park & Zoo

Health Trust - Meals on Wheels

HomeFirst - Programs for Veterans

Humane Society Silicon Valley

Jacob's Heart

Live Oak Adult Day Services

Lucile Packard Foundation for Children's Health

Lupus Foundation

Morgan Autism Center

National Alliance on Mental Illness (NAMI)





Iron Construction — Operation: Care and Comfort

Nephcure Kidney International

Nike Animal Rescue Foundation

Organ's R Us

San Jose Day Nursery

Sacred Heart Community Services

Saratoga Area Senior Coordinating Council

Second Harvest Food Bank

Silicon Valley Community Foundation

Silicon Valley FACES

Special Olympics Silicon Valley

Stanford University Prostate Cancer Research

Stroke Awareness Foundation

Sunday Friends

Sunnyvale Community Services

The Tech Museum of Innovation

Toys for Tots

VMC Foundation Valley Homeless Healthcare

West Valley Community Services



DONATIONS

Community Letters



“Through donations like yours,
**Special Olympics Northern
California** is changing the way
the world looks at children and adults
with intellectual disabilities. Your
donation will help us continue to
enrich the lives of our athletes and
enable us to reach out to more
individuals who could benefit from
our program.”

DONNA ROMERO,
VICE PRESIDENT
SPECIAL OLYMPICS NORTHERN CALIFORNIA



“Your gift is creating opportunities for both young and those not-so-young to interactively participate in challenging, fun, interactive activities and exhibits. It is our hope that their experiences here at **The Tech** will open their minds to using our world's ever expanding technology to potentially solve many of our world's existing needs.”

TIM RITCHIE
PRESIDENT AND CEO, THE TECH MUSEUM OF INNOVATION

“Thank you for your donation, which has been used to purchase blankets, warm socks, beanies and gloves for homeless folks living on the streets.

Valley Homeless Healthcare Program

provides Cold Weather Outreach to homeless individuals during the very cold winter months. In addition, our mobile clinics throughout Santa Clara County aims at helping the vulnerable homeless population.”

JANET KOHL
RN
VALLEY HOMELESS HEALTHCARE PROGRAM

Thank you notes



My picture for you

ANGELITA N.,
AGE 80

From: Angelita N., age 80

I am saying thank you very much for your donation. My children are very happy and it's very useful for my family.

Something about me

My nickname is Lily. I live in San Jose. I live with my family. I cook good food for them. I am a volunteer in Green Oaks Developmental Center. I am an aide at the Center. I am teaching the children how to read and write.

My 3 wishes for my children

Love God.

Love your neighbor.

Sharing is caring.

Thank you notes



My picture for you

VIDRIANA H.

From: Vidriana H.

Thank you for your cash donation which was used to purchase gifts for Sunday Friends' Holiday Treasure Chest. These gifts are useful to us because we won't have to buy any and we will save money.

Something about me

I live with both of my parents and with my two little sisters. One of them is 5 years old while the other one is 8 years old. All of my family loves coming to the Sunday Friends program.

My family is special because

We are always together.

BOARD OF DIRECTORS

Gae Adams
Chair
David Daggett
1st Vice Chair
Doug Flowe
2nd Vice Chair
Scott Dunlap
Treasurer

Jeff Gaut
Secretary
Bruce Bachant
Assistant Secretary
Martin Eng
Director
Patricia Humecke
Director

Leslie Varr
Director
Bill Lewis
Emeritus Director
Jack McElravey
Emeritus Director

SUPERVISORY COMMITTEE

Christina Goeas
Chair
Ponprom (Mel) Flynn
Secretary

Richard Aochi
Member
Triny Lee
Member

Cyrus Tabari
Member

COMMITTEE ASSOCIATES

Bernard Barlow

Melissa Henck

Brian Lawler

MANAGEMENT

Rick Heldebrant
President & CEO
Gary Rodrigues
Executive Vice President,
Operations
Brian Ross
Executive Vice President,
Finance & Administration
Kevin Collins
Senior Vice President,
Loan Services

Richard Aubrey
Senior Vice President, Treasurer
Lynn Brubaker
Vice President,
Deposit Services
Joe Fagenstrom
Vice President, Marketing
Koji Fukumoto
Vice President, Audit
Russ McAlpine
Vice President, Information Systems

Sandra Moix
Vice President,
Branch Services
Margarete Mucker
Vice President,
Remote Services
Regina Rutledge
Vice President,
Human Resources
Ann Sebastian
Vice President, Controller

STAR ONE BRANCHES

Information

DE ANZA BRANCH | CUPERTINO

10991 N. De Anza Boulevard, Cupertino, CA 95014

EL CAMINO BRANCH | PALO ALTO

3903 El Camino Real, Palo Alto, CA 94306

BLOSSOM HILL BRANCH | SAN JOSE

1090 Blossom Hill Road, San Jose, CA 95123

STEVENS CREEK BRANCH | SAN JOSE

3136 Stevens Creek Boulevard, San Jose, CA 95117

BIG BASIN BRANCH | SARATOGA

14411 Big Basin Way, Saratoga, CA 95070

ENTERPRISE BRANCH | SUNNYVALE

1080 Enterprise Way, Suite 150, Sunnyvale, CA 94089

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