

Annual Report 2012



 ARIZONA STATE CREDIT UNION

Federally insured by NCUA

Working as one!

Credit Union members take advantage of our construction loans to build a home in Troon North, a master-planned community in Scottsdale, Arizona.



Arizona Housing Market on the Rise

There is no doubt the Arizona housing market is beginning to recover from the recession. In order to take advantage of the improving economy, Arizona State Credit Union has added construction loans to our home loan portfolio, which features an array of products to ensure we can best meet members' needs with competitive rates and terms.

2012 was the year of the cooperative for Arizona State Credit Union. The organization's sustainable model allowed for a collaborative spirit to be shared among members and associates, helping them achieve common goals and reaching great successes during the year.

There remained a strong commitment to create a deeper understanding of the benefits members receive when money acts as a renewable resource. With loyal members and dedicated associates, the Credit Union posted a record net income of \$18.4 million. Additionally, assets totaled \$1.4 billion and our capital rose to 9.34%. This is well above industry standards and signifies a well-capitalized financial institution capable of growth with the ability to withstand tough economic times.

Arizona State Credit Union's delinquency ratio was below 1% and deposits increased by 6.8% from last year. Additionally, loans increased by 8.4%. This upward trend is a positive indicator that the economy will continue to grow even stronger in the year ahead.

This year, the Credit Union repositioned itself to more closely align with the cooperative model, allowing members who fully participate to receive the most benefits. With a sustainable model, the financial cooperative returns Credit Union dollars to the communities we serve while leveraging our lending flexibility to assist local businesses and members with loans that they may not otherwise receive – all to help better the local Arizona economy.

In response to the extensive amount of foreclosures the housing market faced, Arizona State Credit Union offered the government-funded Home Affordable Refinance Program (HARP 2.0). Since the program's roll out in March 2012, the Credit Union saved over 600 members more than \$2 million annually. With the average member saving \$369 on monthly mortgage payments, this program has greatly impacted members' well-being.

In an effort to provide even better member service to Arizona residents that have been loyal to their local Credit Union, we expanded our Oro Valley and Chino Valley branches. We celebrated these branch enhancements with grand re-openings where local officials were in attendance.

We continue to bring forth the latest in technology advancements. In 2012, we introduced our myAZSTCU mobile app for the iPhone and Android, which gives members the financial services they need at their fingertips, including the ability to deposit checks from their phone. New products such as these offer our members convenience and allow the Credit Union to remain a strong competitor in the financial services industry.

The Credit Union was honored to receive more than 30 awards in 2012, including the number one credit union for the seventh consecutive year by Ranking Arizona: *The Best of Arizona Business*, Peter Barron Stark's Workplace Excellence award, Phoenix Business Journal's Healthiest Employer, and The Principal 10 Best Companies for Employee Financial Security. By maintaining an associate focused and member centered culture, associates can better provide the quality member service that differentiates the Credit Union from other financial institutions.

In closing, we are encouraged by the improving economy where home values are again increasing. We began positioning the Credit Union to take advantage of the improving housing market in 2012 by adding construction loans to our mortgage portfolio and will continue to find innovative ways to benefit from market conditions in the coming year.

We've started our transition to a more sustainable business model in order to better serve our members today as well as tomorrow. A review of the Credit Union's service models allows us the opportunity to deepen the member value proposition we provide across Arizona. As we keep pace with the changing of the times to ensure continuous value in our products and services, I thank you for your continued support of your local Credit Union.



David E. Doss
President/CEO

David E. Doss

Arizona State Credit Union was founded more than 60 years ago as a financial cooperative that encourages members to work together in order to benefit each other. Our priority is to preserve this sustainable model so that it will serve us and future members well in years to come. For this reason, we have an even greater focus on our commitment to rewarding members for their loyalty.

One of the most important tasks as the Credit Union's Board of Directors, is to look to the future to ensure we have the resources needed to best serve members now and in the future. The current recession has required us to change our business model; business as usual is an idea of the past. We are committed to finding new and better ways to serve the Credit Union's membership.

As another outcome of the recession, Arizona State Credit Union, along with other credit unions, continues to remain at a disadvantage in the financial services industry. This is due to Congress' failure to take action on increasing our ability to provide loans to grow businesses for our members. Credit unions continue to be trapped by regulations that penalize us when we grow deposits too quickly. We have asked Congress to grant us access to supplemental capital to solve this problem. But to date, no action has been taken. Both of these proposals would provide increased services to our members and create more than 1,000 jobs in Arizona at no cost to tax payers.

At a time when members have turned to the Credit Union as a safe haven for their deposits and banks have stopped lending, outdated regulations prevent the Credit Union from providing much needed assistance. It is our hope that our Arizona federal representatives speak out on behalf of all financial cooperatives. We are proud to have two Credit Union members elected to Congress this year and look for their support of local financial cooperatives as local deposits create local loans. And local loans drive local business and that creates jobs.

Despite the lingering effects of challenging economic times, we continue to adapt to change at a fast pace. Years ago, we never envisioned that our members would one day be able to deposit checks from their phones or open a new membership online. As we reach these high-tech milestones and begin to search for new opportunities in this arena, we begin to see this is just the beginning of our technological capabilities. We will continue to serve members in our traditional locations across Arizona and in other avenues that afford speed, convenience and value to our members. With each enhancement, we remain focused on our commitment to ensure these new technologies fully benefit our members.

I am greatly encouraged by where the Credit Union is headed as we strive to continue meeting your needs today and in the future. As we better position ourselves to take advantage of initiatives that benefit the cooperative, Arizona State Credit Union is here with advanced services and community outreach initiatives to help build a thriving local economy. As your Chairman, it remains a privilege to serve our members, and I thank you for your valued support and membership.



Sam Wheeler
Chair

Board of Directors



From left to right;
top to bottom:
Quentin Bogart, Director Emeritus
Jon Borge
Frank Felix, Treasurer
Ray O'Connor
Connie Ohanesian, Secretary
Martha Rozen
Shane Siren, Vice Chair
Joseph C. Smith
Sam Wheeler, Chair
Marquette White
Bill Vandenbosch, Advisory

Senior Management Team



From Left to Right;
Front Row:
David E. Doss,
President/CEO
Dyan Mashman,
SVP Chief Information Officer
Michael Emanuelli,
EVP Administration
Second Row:
Paul B. Stull,
SVP Strategy and Brand
Bryan Nielsen,
SVP Support Services
Kim Reedy,
EVP Chief Financial Officer
David Sweiderk,
EVP Chief Operating Officer
Robert Gibboni,
SVP Risk Management



Deposits

*Money is
a renewable
resource*

State Employee Portia Kearns looks to Arizona State Credit Union to handle all of her financial matters, including using direct deposit and establishing a savings account for her grandson.



Jobs

The assistance a business loan provides allows organizations to further grow and create more jobs. With a business loan from the Credit Union, the Children's Success Academy is able to hire administrative staff and faculty to assist with the learning and development of students.



- *Good for our community*
- *Good for local business*
- *Good for you*

Deposits, like Portia's, allow the Credit Union to offer loans to local people. Dan Fanelli has two auto loans with the financial cooperative largely due to our competitive rates and the high level of member service associates offer.



Loans

Communities



Helping individuals reach their financial goals and participating in community outreach programs are core values for the Credit Union. In the spirit of assisting the local Arizona communities we serve, Arizona State Credit Union provides financial support to the Arizona Sundogs, a professional hockey team in Prescott Valley.

Supervisory Committee Report



From left to right;
top to bottom:
Hal Folette, Chair
Sandra Bufford
Bill Vandenbosch
Felix Adjei
not pictured:
Sara Click

Your Supervisory Committee volunteers are appointed by the Board of Directors. The committee is charged with protecting members' interests and ensuring that the assets of the Credit Union are safeguarded. These responsibilities are accomplished through regular meetings with management to review Credit Union activities and audit results.

As of June 30, 2012, the Arizona State Department of Financial Institutions and the National Credit Union Administration jointly completed their annual regulatory examination. In addition, a national CPA firm, with recognized expertise in the credit union industry and Generally Accepted Accounting Principles, was contracted to complete a certified audit of the financial statements as of December 31, 2012. Within the scope of their review, the CPA firm found no significant deficiencies or material weaknesses in internal controls.

Arizona State Credit Union remained a strong and stable financial institution throughout 2012. With capital reserves the strongest they have ever been, the Credit Union recognized record net income for the year ended 2012 of \$18.4 million. Assets were also at a record high, \$1.4 billion, and illustrate the Credit Union's strong financial performance this year.

As of December 31, 2012, real estate loan origination increased 132% from 2011 and totaled \$393.4 million. This is largely due to the Credit Union's participation in the Home Affordable Refinance Program (HARP 2.0). As one of the few financial institutions in Arizona to offer the program, the Credit Union accepted over 1,040 applications to help underwater homeowners obtain more affordable mortgages. This equates to saving more than 600 members over \$2 million annually, with the average member saving \$369 on monthly mortgage payments.

The Credit Union experienced a total loan growth of \$70.6 million, an increase of 8.4% from 2011. Membership also increased in 2012 allowing deposits to increase 6.8% totaling \$1.2 million. This is evidence that members are seeing the value in belonging to a local financial cooperative and believe in the benefits our sustainable model offers.

Our capital ratio grew to 9.34%, which is considered well-capitalized by our regulators. The Arizona State Department of Financial Institutions and the National Credit Union Administration (NCUA) receive detailed information from Arizona State Credit Union on a quarterly basis to measure our strength and net worth. Together, with our independent auditing firm and the Credit Union's management team, we continually measure financial success.

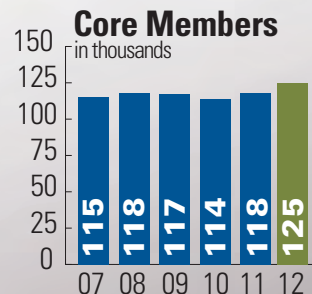
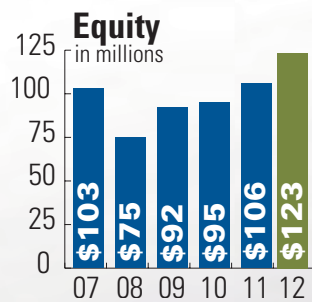
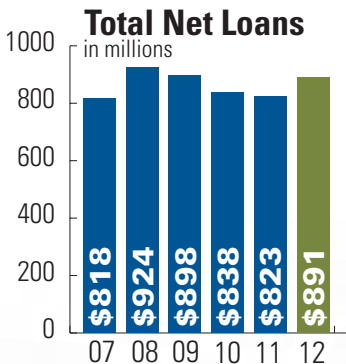
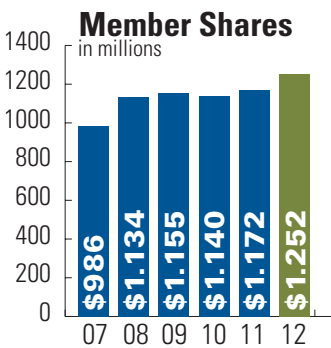
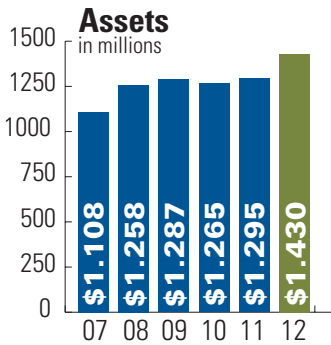
Credit unions continue to receive annual assessments from our federal regulator, the NCUA, to help stabilize the Corporate Credit Unions. In 2012, these assessments totaled \$1.1 million, down 1.7% from 2011.

Our products and services have allowed us to develop a brand members can trust. As we look to the future, we will continue our commitment to providing quality products and services to help members achieve financial success. I am pleased to report that with strong operational, financial and membership growth in 2012, the Credit Union is well positioned for future growth.



Frank Felix
Treasurer

Financial Statements



STATEMENT OF FINANCIAL CONDITION (unaudited)

	2012	2011
ASSETS - December 31		
Cash and cash equivalents	\$163,158	\$52,416
Investment securities:		
Available for sale	266,146	302,744
Other investments	22,045	27,672
Federal Home Loan Bank stock	7,161	5,967
Loans held for sale	7,568	2,499
Loans to members, net of allowance for loan losses	891,137	823,648
Accrued interest receivable	3,165	3,899
Foreclosed assets	3,613	8,351
Premises and equipment, net	47,121	47,468
NCUSIF deposit	11,895	11,096
Other assets	7,922	9,430
TOTAL ASSETS	\$1,430,930	\$1,295,190
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share accounts	\$1,252,347	\$1,172,130
Borrowed funds	35,000	-----
Pension plan funded status	9,937	8,605
Accrued expenses and other liabilities	9,715	8,213
Total Liabilities	\$1,306,999	\$1,188,948
MEMBERS' EQUITY		
Total members' equity	\$123,931	\$106,242
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$1,430,930	\$1,295,190
STATEMENT OF INCOME (unaudited)		
	2012	2011
Net interest income	\$44,146	\$47,114
Provision for loan losses	8,022	12,528
Net interest income after provision for loan losses	36,124	34,586
Non-interest income	38,477	27,355
Non-interest expenses	56,221	53,603
NET INCOME	\$18,380	\$8,338





One State of Mind

On behalf of Congressman Ron Barber, Representative Tom Alston read a letter from the Congressman addressing the importance of credit unions during Oro Valley's ribbon cutting ceremony.

Branches Celebrate Grand Re-Openings

The Credit Union expanded two branches in 2012 and celebrated the enhancements with grand re-openings. Several prominent figures were in attendance at both events; Chino Valley Mayor Chris Marley and the Arizona Sundogs Mascot Bernie assisted with the ribbon cutting ceremony at Chino Valley's grand re-opening while Tucson Mayor Jonathan Rothschild and a representative from the office of Congressman Ron Barber attended our Oro Valley grand re-opening in Tucson.



Working as One

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Phoenix, AZ 85027
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OFFICE LOCATIONS
602.467.4081 / 800.671.1098
www.azstcu.org

CHINO VALLEY
1021 N. Highway 89, Suite 106

COTTONWOOD
601 W. State Route 89A

FLAGSTAFF
321 S. Beaver Street
5200 N. Highway 89

GILBERT
2277 W. Guadalupe Road
2721 S. San Tan Village
Parkway, Suite 104

GLENDALE
8285 W. Union Hills
Drive, Suite 106
ASU West Campus -
4701 W. Thunderbird Road

PAYSON
104 E. Highway 260, Suite C

PHOENIX
1812 W. Monroe Street
2355 W. Pinnacle Peak Road

PRESCOTT
550 E. Gurley Street
1335 Gail Gardner Way

PRESCOTT VALLEY
7111 Pav Way

SAFFORD
280 W. Main Street

SCOTTSDALE
6501 E. Greenway Parkway,
Suite 133

TEMPE
ASU Main Campus -
Memorial Union
1290 S. Normal Drive
840 E. Southern Avenue,
Suite 101

TUCSON
777 S. Alvernon Way
6456 N. Oracle Road
1001 N. Park Avenue

