

Dedication
Security
Safety
Passionate
Strong
Service Oriented



Commitment
Investment for the Future
Sustainable
Focused
Sound

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Board Report

Jack McElravey, Chair

Star One Credit Union continues to grow and deliver valuable products and services to our members. At a time when many other financial institutions are struggling with high loan delinquency and low growth in loans and deposits, Star One continues to thrive. In 2010, Star One achieved balanced growth in loans, deposits, and membership, as well as a strong return on assets. Our conservative 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.

We are now the 13th largest credit union out of 7,500 nationally. During a time when many institutions were increasing their fees and tightening their lending guidelines, Star One continued to serve the needs of our membership.

A large part of our growth in loans was due to new and existing members taking advantage of the low loan rates and the decrease in home prices. 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 much of the problems throughout the mortgage industry. We maintain conservative lending policies and work to offer good value to our membership while maintaining balanced returns and risk levels for future growth of the Credit Union.

Growth was steady throughout the year, even as interest rates in the marketplace continued to decrease to record levels. This is a testament to the competitive products we offer and the trust our members place in Star One to manage their financial services during these turbulent times.

Much of the savings growth came from members concerned about the safety and security of their deposits at other institutions. While the interest rate environment remains at one of the lowest points in our history, members find our rates to be consistently very competitive without confusing terms and many of the account fees charged by others.

Star One continues to focus on service quality and believes it is a key component to our ongoing success. Our service quality scores remain higher than our peers. Star One continues to identify and improve procedures that increase 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%. Star One opened a fifth branch in Santa Clara County during the year to better serve a large number of members living in the nearby area. Our national ATM and Shared Branch networks, as well as full service Online Banking, and Phone Center also provide convenient channels for members to access their accounts no matter where they are located.

Star One remains committed as ever to giving back to the communities we serve. During 2010, Star One donated more than \$75,000 and the employees and volunteers donated time and raised over \$8,200 for 47 different local community groups and non-profit organizations. Some of the groups included the Alzheimer's Association, American Cancer Society, Organs 'R' Us, Second Harvest Food Bank, Special Olympics, and Toys for Tots just to name a few. Star One's Beneficiary and Retiree Services Department continues to work with many other financial institutions, community groups and government agencies to draw awareness to elder financial abuse.

As we look forward to 2011 and beyond, you can be assured Star One will continue to grow and prosper. 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.



President's Report

Rick Heldebrant, President & CEO

Star One is one of the strongest financial institutions in the nation. As a member, you can be assured our commitment to sound lending policies, conservative investment strategies, and member service continue to be a priority. While growth for growth's sake has never been our strategy, Star One has grown to become one of the largest and financially strongest credit unions nationally.

Amid the challenges last year, Star One continues to outperform our peers locally and nationally. Although we saw loan delinquency and charge-offs increase due to the financial challenges many members are experiencing, Star One delinquencies and charge-offs remained relatively low. While many banks have seen extraordinary losses in their loan portfolios, credit unions nationally are experiencing much lower losses, and Star One is experiencing substantially lower losses than other credit unions. The weak job market and lower home valuations throughout California and the nation continue to affect members' ability to pay their obligations.

The low interest rate environment for investments, loans and deposits has created a challenging business environment. For all three, rates hit an all-time low this past year. While the yield on our investments is a priority, we also balance risk with return. Our investments are conservative and laddered for maximum yield without creating undue risk to the organization. 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. We continually balance member needs and loan risk while providing the lowest possible rates to our members. Through all this, we continue to see strong growth in real estate loans, reasonable activation

in auto and credit card loans, and below average delinquency and charge-offs. As we balance the income side of investments and loans with deposits, we have seen our margins become squeezed. Deposit rates have decreased to an all-time low. While absolute rates have dropped significantly, we continue to pay competitively while maintaining our profitability for long-term growth and sustainability. We see many institutions offering special deposit products with complicated pricing schemes for “new money only.” We believe this kind of strategy only hurts member loyalty in the long run. Star One maintains a strategy of offering an easy-to-understand product line without confusing pricing tiers or gimmicks. We pay competitive yields on our deposit products while charging very competitive loan rates and minimal fees. Star One continues to rank in the 90th percentile for return to member and efficiency. This is a key component to providing the very best value we can to our savers, borrowers, and overall membership.

Many institutions continue to incur 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 deliver valuable financial products and services to our members while maintaining our strong lending practices. In 2010, when some institutions were curtailing their lending, Star One achieved record growth in real estate loans.

In 2010, Star One granted over \$2.18 billion in loans to members. Nearly 2,600 members took advantage of our streamlined loan modification process to reduce their mortgage rates resulting in significant savings in interest charges, refinancing fees, and monthly payments. Many members took advantage of our auto buying services to purchase new and used cars as well as transfer their loans from other institutions to Star One. Nearly 440 students have taken advantage of our expanded student lending program with more than \$7.5 million granted in 2010 alone. Our student lending program has grown to more than \$11 million over the past three years.

Star One members continue to migrate to remote delivery channels. By the use of various delivery channels, Star One is able to provide greater convenience to members throughout the nation and beyond. Our ATM Network has more than 28,000 surcharge-free ATMs nationwide, with 9,000 that take deposits and with 5,500 located at 7-Eleven® stores. Our five Star One branches continue to see good activity by Bay Area members. Additionally, our Shared Branch Network has more than 6,400 full service branches in 48 states. Online Banking and Bill Pay usage continues to grow. Over 37,000 members now use Online Banking and over 9,100 use our Bill Pay service. Star One has high usage rates for these two services 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. Our ezDeposit service continues to see strong growth. Using this service, Online Banking members can deposit a check via their scanner from home or work. In 2010 alone, members deposited over \$1.3 million remotely. Our Member Phone Service Center handled more than 172,000 calls in 2010. The toll free phone number and expanded hours provide added convenience to thousands of members worldwide.

Star One continues to look for more convenient ways for members to access their accounts. The Board and staff are committed to effectively serve our members' needs.



Treasurer's Report

Scott Dunlap, Treasurer

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 6.27% from \$5.11 billion in 2009 to \$5.43 billion in 2010. The Return on Assets for 2010 was 1.11%.

We continue to see moderate growth in membership as consumers look increasingly for better value and service from their financial services providers. Membership increased 2.7% to 85,866. Nearly 5,365 new members joined Star One during 2010. More than 49% joined from our community charter, another 43% joined through family members, while 7% joined through Lockheed Martin, Yahoo! and our other member companies. Over the past few years we have seen very strong growth in new members coming from Santa Clara County.

Deposits grew more than \$226 million, up 6.18% from \$3.67 billion in 2009 to \$3.89 in 2010. IRAs remained level at \$411 million. Money Market Savings Accounts grew 7.4% to \$3.11 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 13.9%, to \$2.40 billion. The majority of the growth was in mortgage loans. Total real estate loans increased 15.7%, up more than \$292 million for the year. Many new and existing members took advantage of historically low mortgage rates and lower home prices. Consumer loans (excluding auto loans) grew 10.4% to \$92 million. Auto loans decreased 17% to \$129 million as auto purchasing was down across the nation and many consumers were holding on to their cars longer. Consumer loan delinquency decreased from 0.96% in 2009 to 0.69% in 2010. Our loan

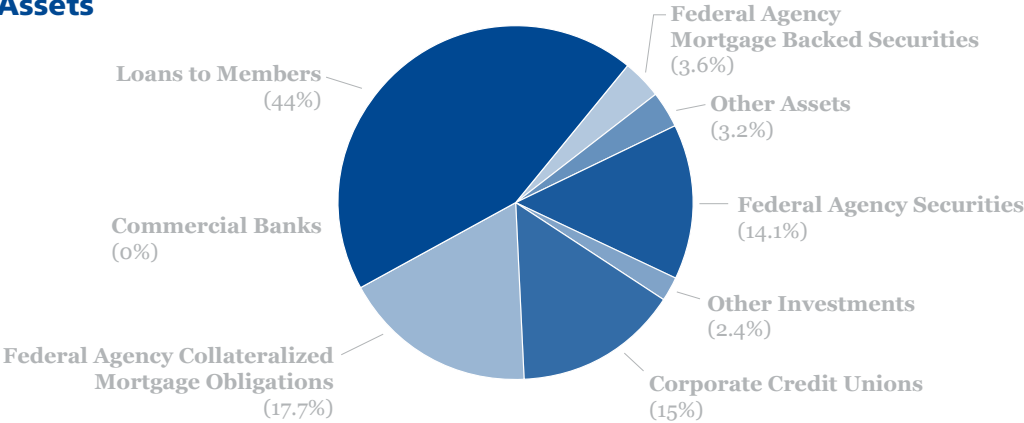
portfolio continues to perform much better than other credit unions and banks nationally.

Our investment portfolio continues to provide good returns while maintaining safety and security. Star One does not make or invest in subprime loans. Our investment portfolio yield is usually in the top 25% of other large credit unions nationally. Borrowings were increased to \$906 million in 2010. Star One borrows funds to mitigate the interest rate risk associated with long-term fixed rate mortgages held in portfolio. Star One does not borrow to leverage more earnings.

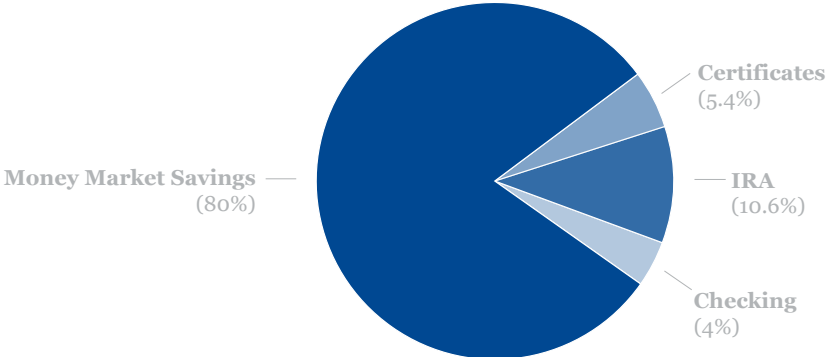
Our loyal membership and their extensive use of the products, services, and automated delivery channels we offered continues to provide the resources for Star One to thrive in difficult times and deliver lower priced loans, higher yielding deposits and automated services with no or low fees.

Financial Information

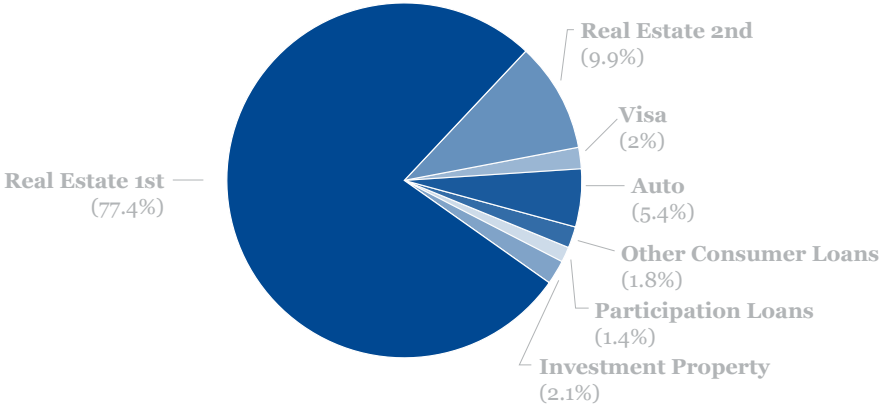
Assets



Savings

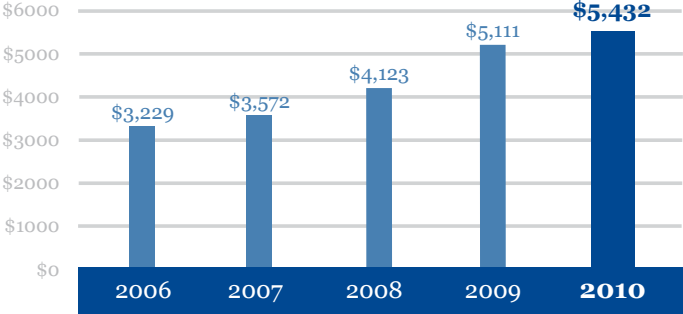


Loans

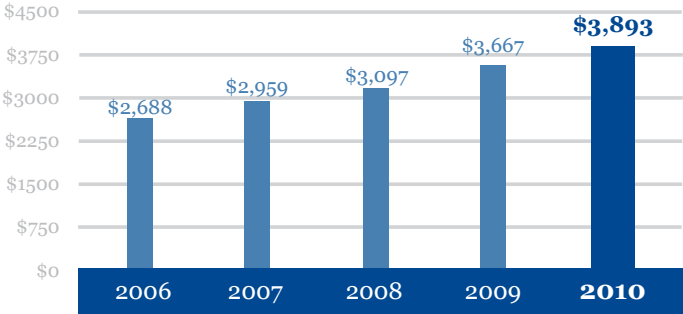


Financial Highlights

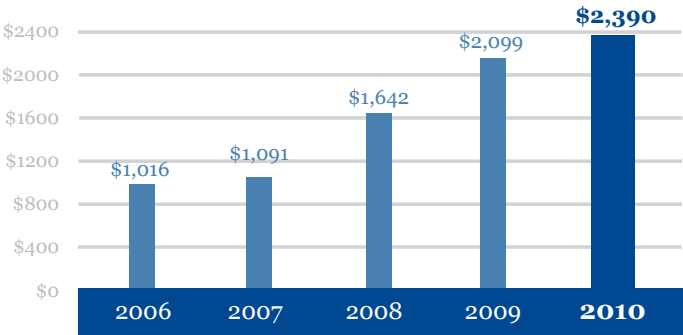
Total Assets (in Millions)



Total Savings (in Millions)



Total Loans (in Millions)



Comparative Financial Results

Year End Summary (in Thousands)	2010	2009	% Change
Total Assets	\$5,431,540	\$5,111,220	6.3%
Member Savings and Certificate Accounts	\$3,893,439	\$3,666,978	6.2%
Loans to Members	\$2,390,295	\$2,098,677	13.9%
Delinquent Loans	\$6,697	\$6,093	9.9%
Member Equity	\$597,897	\$542,384	10.2%
Cash and Investments	\$2,944,527	\$2,944,177	0.0%
Dividends Paid to Members	\$42,442	\$65,806	-35.5%

Statement of Financial Condition (in Thousands)

Assets	2010	2009
Cash and Investments	\$2,944,527	\$2,944,177
Loans to Members	\$2,390,295	\$2,098,677
Land, Building & Equipment	\$14,695	\$14,270
Accrued Interest Receivable	\$15,904	\$20,139
Deposit-Share Insurance Fund	\$34,543	\$32,186
All Other Assets	\$31,576	\$1,771
Total Assets	\$5,431,540	\$5,111,220

Liabilities & Member Equities	2010	2009
Member Savings & Certificate Accounts	\$3,893,439	\$3,666,978
Accounts Payable	\$4,242	\$5,259
Borrowed Funds	\$906,367	\$872,300
Regular Reserves	\$56,851	\$56,851
Undivided Earnings	\$520,645	\$462,690
Unrealized Gain (Loss) on Investments	\$31,178	\$33,742
Accumulated Other Comprehensive Income	(\$10,777)	(\$10,899)
Accrued Liabilities	\$29,595	\$24,299
Total Liabilities & Member Equity	\$5,431,540	\$5,111,220

Comparative Financial Results (Cont.)

Statement of Operations (in Thousands)

Income	2010	2009
Interest on Loans	\$103,119	\$95,121
Investment Income	\$71,688	\$98,299
Other Operating Income	\$8,777	\$7,198
Total Income	\$183,584	\$200,618
Operating Expenses	2010	2009
Employee Compensation	\$21,266	\$19,028
Office Occupancy	\$2,103	\$1,728
Office Operations	\$6,187	\$6,417
Loan Servicing	\$2,149	\$2,252
Professional & Outside Services	\$1,606	\$1,847
Provision for Loan Losses	\$7,134	\$10,844
Operating Fee	\$388	\$299
Other Operating Expenses	\$14,883	\$24,800
Total Operating Expenses	\$55,716	\$67,215
Income from Operations	\$127,868	\$133,403
Non-Operating Income (Expense)	\$371	(\$3,003)
Net Income Before Distribution	\$128,239	\$130,400
Dividends	\$42,442	\$65,806
Interest on Borrowed Money	\$27,841	\$24,483
Added to Reserves & Undivided Earnings	\$57,956	\$40,111



Supervisory Committee Report

Richard Aochi, Chair

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 2010 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 2010, 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.

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 safe and 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 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. Listed below are events and organizations with which Star One was involved throughout 2010 in the Santa Clara community.

Able People Foundation

ACCESS

ALS Association Lou Gehrig's Disease

Alzheimer's Association - Silicon Valley Memory Walk

American Cancer Society - Daffodil Days

American Diabetes Association, San Jose Chapter

American Heart Association - START! Walk

American Heart Association - Wear Red Day

American Liver Foundation, Northern California Chapter

Annie's Blankets Drive

Breathe California of the Bay Area

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

Cystic Fibrosis Foundation, Northern California - Golf Tournament

Deer Hollow Farm

EHC LifeBuilders - Rivers of Chocolate Festival

Employment & Community Options

Family Giving Tree - Back to School & Holiday Drive

Family Supportive Housing, Inc.

Fresh Lifelines for Youth "FLY"

Friends of Stevens Creek Trail - Trailblazer Race

Gifts for Teens

KARA

Live Oak Day Services

Lockheed Martin Street Fair

Lucile Packard Children's Fund

Lupus Foundation of Northern California

Make-A-Wish Foundation

Meals on Wheels - Star One Bowl-A-Thon

Mountain School

Operation: Care and Comfort

Organs 'R' Us

Passionately Pink for The Cure

Prostate Cancer Research - Stanford University

San Jose Day Nursery

Santa Clara Family Health Foundation

Second Harvest Food Bank - Holiday Drive

Special Olympics - Power Pull

Sunday Friends

Sunnyvale Armory

Support Network for Battered Women

The Arc of San Francisco - The Cure for Autism

The Role Model Program

The Tech Museum of Innovation

Toys for Tots

Trace Elementary School Fire Fund

TurningWheels for Kids

United Way

Walden West Foundation

Board of Directors, Supervisory Committee & Management

Board of Directors

Jack McElravey
Chair

Gae Adams
First Vice Chair

Janet Morelli
Second Vice Chair

Scott Dunlap
Treasurer

Dan Manassau
Secretary

Dan Abihider
Director

Bruce Bachant
Director

Patricia Humecke
Director

Doug Flowe
Assistant Secretary

Bill Lewis
Emeritus

Supervisory Committee

Richard Aochi
Chair

Leslie Varr
Secretary

David Daggett

Marty Eng

Christina Goeas

Gene Lum
Emeritus

Board/Supervisory Committee Associates

Jeff Gaut

Mojan Khaghani

Kathy McDonell

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

Board of Directors & Supervisory Committee



(From left to right)

Back Row: Bruce Bachant, Gene Lum, Jeff Gaut, Jack McElravey, David Daggett, Scott Dunlap, Dan Manassau

Middle Row: Leslie Varr, Dan Abihider, Patricia Humecke, Mojan Khaghani, Kathy McDonell

Front Row: Gae Adams, Bill Lewis, Janet Morelli

Not Pictured: Richard Aochi, Marty Eng, Doug Flowe, Christina Goeas, Cy Tabari

Credit Union Information

Cupertino

10991 N. De Anza Boulevard
Cupertino, CA 95014

Palo Alto

3903 El Camino Real
Palo Alto, CA 94306

San Jose

1090 Blossom Hill Road
San Jose, CA 95123

San Jose

3136 Stevens Creek Boulevard
San Jose, CA 95117

Sunnyvale

1080 Enterprise Way, Suite 150
Sunnyvale, CA 94089

Mailing Address

P.O. Box 3643
Sunnyvale, CA 94088

(408) 543-5202

(866) 543-5202 toll free

(408) 543-5203 fax

Administration Office

1306 Bordeaux Drive
Sunnyvale, CA 94089

www.starone.org

Our Mission

Help members improve their lives by delivering valuable financial services.



P.O. BOX 3643
SUNNYVALE, CA 94088

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