



## A Message from the Chairman of the Board of Directors

# MICAL ATZ BRENZEL

This past year was one of significant engagement between Tech CU and its members. As I look back, I am struck by the level of pride and passion we all have for Tech CU — our members, employees, management, and Board of Directors. We are brought together by our shared commitment of being part of one of the strongest, most successful credit unions in the country.

Indeed, our credit union had a record-setting year in 2012 — in consumer mortgages and auto loans, as well as in commercial and multi-family real estate lending. Our Wealth Management and Private Banking Groups continued to grow, and we donated more to the community — in both volunteer hours and cash contributions — than ever before. I am very proud of these achievements.

Last year, we also engaged our members in another way. After long and careful consideration — in the face of serious concerns about a number of challenges facing credit unions — the Board of Directors asked members to decide whether Tech CU should remain a credit union or become a mutual savings bank. The membership voted to remain a credit union, and, respecting this decision, the Board and management will continue to work within the credit union structure to maintain Tech CU's position as a premier Silicon Valley financial institution.

One of the byproducts of our charter change effort was a complete overhaul and upgrade of all of our policies and procedures, along with a thorough review of our regulatory compliance. This has made Tech CU a stronger, more efficient institution. Let me add that we were able to undertake this infrastructure overhaul because we have a highly experienced management team in place who understands what it takes to operate a financial institution in today's complex and highly interconnected global financial environment. Properly assessing and managing risk — be it operational, technological, regulatory, or creditor interest rate-based — is key to our organization's long-term success. We know that other credit unions have not performed as well — unfortunately, we are paying for their failures.

Tech CU faces other challenges. Proposed legislation threatening the non-profit status of credit unions has arisen in Congress and in several states. Efforts by the credit union industry to increase the regulatory limit on the amount of member business loans credit unions can make has been consistently thwarted by a powerful banking lobby.

Let me emphasize, however, that despite these challenges, Tech CU remains safe, strong and secure. We have a sound capital base, strong reserves, and a solid stream of ongoing earnings. We continue to serve our individual members with mortgages and other consumer loans, while diversifying our portfolio with loans to the Bay Area business community — providing financing to organizations such as the California Institute of Integral Studies in San Francisco. We "engaged" our members with the well-planned launch of new technologies, such as an enhanced mobile banking application that allows members to deposit checks with their smartphone or tablet, or send money instantly with Send Money Powered by PayPal™.

On behalf of the Board of Directors, I want to thank our members for their support, passion and pride during the past year. We, on the Board, look forward to keeping you engaged with the credit union and helping you to achieve your financial goals.

## Mical Atz Brenzel

Chairman, Board of Directors

All in all, Tech CU has been there for all my financial needs ...
It's like being part of a family.

-Tech CU Member

## A Message from the President and CEO

## BARBARA KAMM

When I think of the word "Engagement," I can't help but reflect upon the meaning of this term in its most basic incarnation — that of a promise or a pledge. And to me, nothing more clearly represents or defines what we do each and every day at Tech CU than our promise to create meaningful and exemplary interactions with our staff, our members and our community.

I have always believed that the foundation for providing superior service to our members rests on a team of fully engaged employees — those who are always willing to go that extra step. This begins with creating a work environment that allows our employees to advance their skills and their careers while being recognized for a job well done. To ensure that our employees feel highly committed to our goals as an organization and to better build this strong base of engaged employees, we conducted a survey in both 2011 and 2012 to identify ways that we could help employees feel more engaged with Tech CU. From the feedback received, we were able to identify and implement some key objectives — including the need for more robust internal communications and training for our managers on how to become more effective leaders.

We also spent much time reflecting on how we could leverage our engaged employees to provide a higher standard of service to our members. One of the steps we undertook was to provide a two-year, intensive training program to all employees. This training involves learning more effective ways to identify, understand, and meet members' needs — allowing us to create deeper, longer-lasting and more trusting relationships. Our front-line staff is now more adept at discovering what members need by asking the right questions.

And, when it comes to asking the right questions, we sent out a member communication in early 2013 geared at better understanding our members' expectations of Tech CU. We appreciate the time many of you took to respond, and we plan on future communications. Our goal with these exchanges is to gain a better sense of how to improve our engagement with members, while delving into issues that you face within the current financial environment.

In addition, as many of you may be aware, we attempted to change our charter in 2012. In the end, our members voted that we remain a credit union, and we fully respect and embrace that decision. What you may not know, is that much of the work involved in preparing for that change helped to strengthen Tech CU from a safety and soundness standpoint, as well as from a member service standpoint. Just a few of these improvements included rewriting and updating all of our policies and procedures; undergoing numerous audits to ensure that we were conforming to and could meet higher regulatory standards; strengthening our risk management and credit administration processes; and training employees on improved member communications. All of this work has positioned your credit union well, as we head into 2013, to benefit from an improving economy and our sound fundamentals.

Ultimately, 2012 was a year in which we raised the bar and advanced towards becoming what we truly want to be: a high-performing organization that can serve our members well today and in the future. Our results speak for themselves. We grew loans and deposits, and we grew capital by improving our return on assets — all while maintaining competitive rates and fees. We also improved our technologies by introducing cutting-edge products and services such as Mobile Deposit, and we expanded online banking offerings. We're excited about 2013 and the promise it brings. We look forward to working each and every day to continue to improve our service, our products and, as always, engage more fully with you, our members.

Barbara B. Kamm

President/CEO



-Tech CII Member

## A Message from the Chief Banking Officer

# JOE ANZALONE

The past year proved to be an exciting one for Tech CU's Sales & Marketing organization. We experienced growing demand for our lending products and banking services across all three member-facing divisions: Retail Banking, Wealth Management and Corporate (Business) Banking. We also introduced a variety of new products and services that enabled us to improve our engagement with members, while providing a superior banking experience.

The unique dynamic of our Silicon Valley location helped to propel solid growth in residential home loans. Rising home values, coupled with strong demand for properties and historically low interest rates, helped Tech CU achieve a record-setting 2012 — providing approximately \$542 million in total loans to our members, a 52% increase over the prior year.

The year also helped to further solidify Tech CU's place in the Bay Area as a strong commercial real estate lender for office, industrial, retail, and mixed-use properties. We expanded our commercial real estate lending activities significantly — funding over \$67 million in loans to members who invested in multifamily and commercial properties throughout the Bay Area. We expect more growth in commercial lending in 2013, with a planned expansion of SBA 504 and 7a lending, construction lending, and small- to medium-sized business lending.

Another area of focus during 2012 included the streamlining of our retail branch system. By providing additional training to our financial center employees, we have enabled them to better support more of our members' financial needs — be it simply depositing a check, taking an auto loan application or helping to open a business checking account. We also expanded and remodeled our Cupertino financial center — nearly doubling its size.

Our Wealth Management Division — consisting of Private Banking and Investment Services — also had an exceptional 2012, experiencing a 44% increase in the sales of investment products over the prior year. We increased our home equity and residential mortgage lending limits to address the specialized needs of affluent and emerging affluent members. We hope to continue adding other financial products and services in 2013 to further support our members' investing and estate planning needs.

Overall, 2012 was a very productive year for Tech CU. I am proud of all we have achieved, but I am most gratified by the collaborative way in which we, at Tech CU, work with our members. Our goal is to exceed member expectations — whether applying for an auto loan, investing in a College Savings program, sourcing special corporate discounts for your company's employees, or refinancing your office building. It is my promise and commitment that in 2013 and the years to come, we will continue to focus on providing a superior member experience to you and your family — helping you to achieve your financial goals.

### Joe Anzalone

EVP, Chief Banking Officer

Tech CU has been there for me with the best rates and the best service. Wonderful people work at Tech CU ... and those mobile services ... wow ... keep it up Tech CU!

-Tech CII Member

## A Message from the Chief Financial / Administrative Officer

# TODD HARRIS

Hindsight has shown that 2012 was less challenging from an economic perspective than anticipated. Employment showed steady gains, housing values strengthened during the year, and economic output, while modest, remained positive. These trends, combined with the strategies and key initiatives completed over the past three years, resulted in 2012 being a good year for Tech CU. Compared to 2011, we experienced improved credit quality, higher noninterest income and relatively flat operating expense. These factors combined to overcome shrinking net interest income due to the continuing decline in interest rates, and allowed Tech CU to produce net income and generate Return on Assets (ROA) approaching pre-2008 levels, while at the same time growing capital to a record high.

Tech CU generated \$10.3 million in net income in 2012, compared to \$3.9 million in 2011. The largest contributor to improved 2012 earnings was a \$4.5 million reduction in the provision for loan loss expense, compared to last year. Provision expense is driven by credit losses, and Tech CU experienced significantly fewer losses in 2012 than 2011, partly as a result of the improved economy, and partly as a result of continued proactive management of the loan portfolio. Fee income improved \$3.8 million year-over-year, primarily due to the sale of \$86 million of fixed-rate mortgages. The mortgages were sold to reduce Tech CU's interest rate risk profile; however, we retain the servicing on all mortgages we originate and those members will continue to contact Tech CU with any questions or concerns they might have regarding their mortgages. Finally, operating expense was relatively flat, decreasing \$269,000 year-over-year. Included in 2012 results was a \$1.3 million assessment charge from the NCUA, which represents a \$1.9 million decrease compared to 2011. NCUA assessments in 2012 were used to cover investment losses incurred by corporate credit unions. As the full extent of future insurance fund losses and/or corporate credit union investment losses is not readily known, future assessments are difficult to predict and could just as easily increase or decrease in subsequent years.

The low interest rate environment has provided both benefit and risk. On the one hand, it has allowed us to provide tremendous benefit to our members in the form of low-rate mortgages and home equity advances. We originated a record \$220 million in mortgages in 2012, and our members borrowed nearly \$222 million on their home equity lines of credit. On the other hand, we must prepare for the day when interest rates begin to rise. The 10-year Treasury bond has been consistently below 2% for over four years, the longest period of time over the last century that Treasury rates have been so low. Accumulating long-term, fixed-rate

assets, such as 30-year mortgages, in this interest rate environment can create tremendous interest rate risk for a financial institution when rates go up. As market rates increase, interest expense (rates paid on deposits) will go up faster than interest income (rates received on loans), putting pressure on earnings and diminishing an institution's ability to generate capital. Utilizing adaptive investment strategies and selling 30-year fixed-rate mortgages has reduced Tech CU's concentration of long-term, low-rate assets, positioning us to remain profitable, and allowing us to continue generating capital once interest rates begin to rise. In addition, the growth in our member business loan portfolio with its shorter-term, adjustable rate loans, as well as expanded efforts to grow auto loans with their shorter terms, contributed to a healthier interest rate risk position.

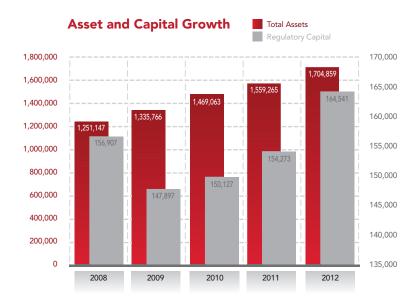
Significant 2012 milestones and accomplishments include:

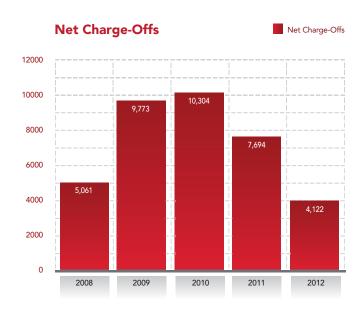
- Assets ended the year in excess of \$1.7 billion, an all-time high.
- Deposits grew \$135 million year-over-year.
- We successfully diversified our loan portfolio by growing member business loans (MBL) approximately 50% year-over-year; we also experienced improved credit quality in the MBL portfolio.
- Reportable delinquency ended at 0.39% of total loans, the lowest level since August 2008.
- Charge-offs were \$4.12 million, a significant improvement compared to 2011 and 2010 at \$7.69 million and \$10.4 million, respectively.
- We continued to strengthen our Enterprise Risk Management capabilities, implementing a new Governance, Regulation & Compliance (GRC) system to provide better management and tracking of risk management issues.

We are pleased with our 2012 results, and attribute this success to the hard work of all our employees, to our well-conceived and executed business strategies, and to an improving economy. However, many challenges remain in 2013: employment has still not reached economic expansion levels; housing prices remain dependent on low interest rates; federal, state and local governments continue to struggle with deficit budgets, with no clear path to resolution; and the onslaught of new regulation is detracting from the time, effort and resources we would like to dedicate to our members. Nevertheless, we are confident in our ability to manage through these challenges, while continuing to serve our members well. We remain steadfastly committed to being a safe and sound credit union.

### Todd Harris

EVP, Chief Financial/Administrative Officer





### **Statement of Operations** (audited)

(IN THOUSANDS)	YEAR ENDED						
Statement of Operations	2008	2009	2010	2011	2012		
Interest on Loans	\$60,472	\$53,442	\$48,055	\$43,090	\$39,039		
Interest on Investments	\$3,478	\$1,017	\$3,205	\$8,650	\$9,230		
Total Interest Income	\$63,950	\$54,459	\$51,260	\$51,740	\$48,269		
Dividends and Interest Paid	\$19,826	\$11,724	\$7,696	\$5,388	\$4,036		
Net Interest Income	\$44,124	\$42,735	\$43,564	\$46,352	\$44,233		
Provision for Loan Losses	\$9,815	\$24,917	\$10,003	\$6,879	\$2,411		
Net Interest Income After Provision For Loan Losses	\$34,309	\$17,818	\$33,561	\$39,473	\$41,822		
Non-interest Income	\$9,236	\$10,618	\$10,291	\$10,221	\$13,998		
Operating Expense and Non-Operating Expense	\$46,731	\$37,446	\$41,342	\$45,828	\$45,552		
Net Earnings	(\$3,186)	(\$9,010)	\$2,510	\$3,866	\$10,269		

### **Statement of Financial Condition** (audited)

(IN THOUSANDS)	YEAR ENDED					
Statement of Financial Condition	2008	2009	2010	2011	2012	
ASSETS:						
Cash	\$15,464	\$12,462	\$12,321	\$9,384	\$8,434	
Investments	\$114,692	\$290,946	\$482,525	\$620,471	\$744,902	
Loans to Members, Net	\$1,080,060	\$989,619	\$925,826	\$884,800	\$908,618	
Premises and Equipment	\$23,664	\$21,590	\$22,006	\$20,952	\$19,478	
Other Assets	\$16,918	\$20,758	\$26,084	\$23,658	\$23,428	
Total Assets	\$1,250,798	\$1,335,375	\$1,468,762	\$1,559,265	\$1,704,859	
LIABILITIES, MEMBER DEPOSITS, AND RESERVES:						
Dividends Payable	\$2,581	\$356	\$208	\$140	\$106	
Accounts Payable	\$8,240	\$8,201	\$7,744	\$6,936	\$8,170	
Notes Payable	0	0	0	0	0	
Member Deposits	\$1,083,070	\$1,178,921	\$1,314,444	\$1,391,496	\$1,525,682	
Total Equity	\$156,907	\$147,897	\$146,366	\$160,693	\$170,900	
Total Liabilities, Member Deposits, and Reserves	\$1,250,798	\$1,335,375	\$1,468,762	\$1,559,265	\$1,704,859	

## A Message from the Chairman of the Supervisory Committee

# TOM HALL

## Tech CU's Supervisory Committee is made up of three volunteer members who are not directors, officers or employees of Tech CU.

The Supervisory Committee is responsible for reviewing the credit union's policies and control procedures to safeguard against fraud and self-dealing, and may inspect or cause audits of the securities, cash and accounts of the credit union. The Committee also oversees the annual audit of the credit union's books and records, and reports on the assets and liabilities, receipts and disbursements of the credit union to the Board of Directors.

In performing its functions, the Supervisory Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the credit union's management, which has the primary responsibility for financial statements and reports, and of the independent auditors. The auditors express an opinion on the conformity of the credit union's annual financial statements to generally accepted accounting principles. In fulfilling its oversight responsibilities, the Supervisory Committee reviewed the audited financial statements for the fiscal year 2012, discussed them with management, and spoke with the credit union's independent auditors, Crowe Horwath LLP, without management present. The Supervisory Committee discussed with the auditors matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) as amended, including the auditors' judgment about the quality as well as the acceptability of the credit union's accounting principles, as applied in financial reporting.

Based on the Supervisory Committee's discussion with management and the independent auditors, and the Supervisory Committee's review of the report of the independent auditors to the Supervisory Committee, the Supervisory Committee recommended that the Board of Directors approve the audited financial statements for the year ended December 31, 2012.

In addition to the responsibilities described above, the Supervisory Committee is authorized under applicable law to consider potential violations of the California Financial Code or the bylaws, or any practices of the credit union which, in the opinion of the Supervisory Committee, may be unsafe or unauthorized. During the calendar year ended December 31, 2012, the Supervisory Committee did not discover any violations of the California Financial Code or the bylaws or any practices which in the opinion of the Committee were unsafe or unauthorized.

### Tom L. Hall

Chairman, Supervisory Committee

# COMMUNITY RELATIONS

Tech CU is committed to being a part of Silicon Valley and its surrounding communities. We are proud to continue our support of those organizations that provide meaningful social services, address sustainability concerns, and foster innovation — ensuring that this area continues to be a fruitful place to live and work, while providing help to those in need.

#### **EDUCATION**

Tech CU supports organizations that create positive learning environments for children to excel in STEM (science, technology, engineering, and math).

We also understand the importance of college preparation and financial literacy, and we offer programs and partner with organizations that educate college-bound students with the skills necessary to successfully manage their personal finances.

#### **TECHNOLOGY & INNOVATION**

The Valley was created by visionaries with big dreams. As a result of their creativity, design and ingenuity, we now live in the epicenter of emerging innovation and technologies.

Tech CU supports the change-makers, inventors, designers, and innovators of tomorrow who are dedicated to solving our world's greatest societal challenges.

#### **ADVOCACY**

Social and economic policy helps to ensure that communities are protected and ideas are heard. Tech CU plays an active role in supporting those policies that protect and enhance the viability of the communities in which our members live and work.

#### YOUTH WRAPAROUND SERVICES

For our students to succeed in school, basic needs such as food, clothing, shelter, and healthcare must be easily accessible. At Tech CU, we support organizations that provide social services to students and families — offering not just what they need to survive, but also what they need to thrive.

We support programs that provide counseling and opportunities for leadership development as well — further supplementing a student's educational experience and setting them on the path towards success.

#### HOUSING AND ECONOMIC DEVELOPMENT

We believe that every individual should have access to life's basic necessities — especially affordable housing. Tech CU supports the efforts of organizations striving to ensure that those who live in Silicon Valley have access to safe and affordable homes.

#### **SUSTAINABILITY**

Tech CU encourages environmentally friendly practices. We strive to provide programs that make it easier for our members to help make our community and world a more ecologically aware place.

ADVOCACY	EDUCATION	HOUSING	SUSTAINABILITY	TECHNOLOGY/ INNOVATION	YOUTH SERVICES
Silicon Valley Leadership Group San Jose Chamber of Commerce Silicon Valley Council of Nonprofits Taproot Foundation Bay Area Climate Collaborative	Silicon Valley Education Foundation Breakthrough Silicon Valley GLOW Foundation Resource Area for Teachers (RAFT) City Year 1,000 Hearts for 1,000 Minds Tutoring Initiative	Habitat for Humanity The Housing Trust	Bay Area Climate Collaborative Hope Services	Maker Faire San Jose Museum of Art Churchill Club Singularity University Palo Alto International Film Festival Tech Museum	Girls For A Change Family Giving Tree National Alliance on Mental Illness (NAMI) Project Cornerstone

#### 2012 Results

Volunteerism is a key component of life at Tech CU. We stand apart from other organizations by not only welcoming our employees to invite their friends and families to participate, but by also opening all volunteer opportunities to our members and their families.

We have donated over 4,756 hours of service to the community since 2007. In 2012 alone, we donated over 1,806 hours of community service. Over 32% of our employees report that they volunteer in the community on a regular basis.

Nearly 20% of our employees currently serve on non-profit boards or committees. And, the numbers keep growing.

Tech CU strives to have a positive impact in the communities where we operate. In addition to volunteering our time, we also donate funds, in-kind goods, and pro-bono services. Since 2007, we have donated over \$452,936 to the community in grants, community sponsorships, in-kind goods, and volunteer hours. In 2012, we donated over \$196,748.

### **BOARD OF DIRECTORS**



(From L to R): Peter Donahower, Vice Chairman; Karen Brochier; Joe Shepela; Mical Atz Brenzel, Chairman; John Paul Bruno, Barbara Kamm, CEO & Treasurer/Secretary; Bob Howard-Anderson; Robert E. Bylin; John "Jack" Wedgwood.

### MANAGING COMMITTEE



(From L to R): Jeannie Sugaoka, SVP, Support Services; Al Cadman, EVP, Chief Credit Officer; Rebecca Nelson, SVP, Wealth Management; Joe Anzalone, EVP, Chief Banking Officer; Barbara Kamm, President/CEO; Todd Harris, EVP, Chief Financial/Administrative Officer; Angie Hernandez, SVP, Credit Administration; Jeannine Jacobsen, SVP, Human Relations/Enterprise Risk Management; Debra Bowman, SVP, Retail Banking.

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