



opportunity

Technology Credit Union | Annual Report 2013



opportunity is created by casting a wide net

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

Mical Atz Brenzel



Silicon Valley is one of the great centers of opportunity in the United States — and our credit union is fortunate to be located right in the heart of this area of growth, innovation and change.

The technology industry, and all of the economic activity it generates, creates so many opportunities for the people who live and work here, the community we serve at Tech CU. Our products and services create opportunities for our individual members to borrow, save and invest to fulfill their dreams; for our business members to expand and flourish; and for our partner companies to offer their employees best-in-class financial services.

The year 2013 provided Tech CU with an opportunity to shine. Total assets now approach \$1.8 billion, making us one of the largest credit unions in California and, indeed, the U.S. Our earnings grew to \$17 million, with prudent financial risk management and rigorous expense management validated by our financial performance. We added new members while cultivating existing ones — earning solid customer satisfaction ratings throughout the year.

Our Commercial Banking group, a key growth opportunity we identified and invested in a few years ago, experienced tremendous expansion in 2013. We are now making construction loans, financing existing commercial and residential real estate, and becoming recognized as a major player in SBA-guaranteed small business lending. Be assured that our new lending is being done by a management team that is highly experienced in this arena, utilizing the most stringent underwriting standards. Another opportunity we recognized as fruitful also experienced great success in 2013: Wealth Management. Our Investment Advisors had their strongest year ever — generating investment sales and growing our members' investment portfolios — while the Private Bankers provided specialized financial services to an increasing number of affluent members seeking highly personalized services.

The Board of Directors is proud of what we see being executed by the executives, management and staff of Tech CU. We take seriously our responsibility to ensure that the credit union provides financial opportunities to both our members and member companies in a manner that is fiscally sound, technologically secure, and rigorously managed to the highest legal and regulatory compliance standards. The credit union exists to provide you, our members, with the opportunity to realize and secure your highest financial aspirations as both individuals and businesses. And, we do this right in the epicenter of Silicon Valley — a hotbed of opportunity.

Mical Atz Brenzel

CHAIRMAN, BOARD OF DIRECTORS

*Opportunity is missed by most people
because it is dressed in overalls
and looks like work.*

—THOMAS A. EDISON



A Message from the President and CEO

Barbara Kamm

Opportunity begins with a team — the basis for all of our growth and success. From the Board of Directors to the front line, from Project Management to IT, the team at Tech CU is one that is constantly trying to improve your member experience by listening and learning. We strive for the best solutions and products to make your experience a memorable one. Strong teams make things happen, however, we work within the parameters of both our local and domestic economies — which can lead to various challenges.

As the U.S. economy continued to stabilize in 2013, our local economy was driving growth — with significant job creation, lower unemployment and rising home prices. And, while we are very fortunate to be in the middle of such a vibrant region, it also means that we operate in a highly competitive environment where the demographics of our area attract virtually every large national financial institution — all angling to take a slice of the Silicon Valley pie — and sometimes behaving irrationally to do so. We will continue to ensure that we provide our members with competitive products and services while not sacrificing our standards and our credit quality.

The current regulatory environment continues to pose challenges as well. The variety of new rules — presumably put in place to protect consumers and cover such areas as mortgages, wire transfers and overdraft protection — have taken time and resources to implement. A recent report that these regulations have added on average an additional 3,400 hours of workload and approximately \$150,000 in extra cost to credit unions would appear to be a significant understatement, not to mention the impact new regulations have on our members. While we continue to provide the same high level of service to our members, the time, money and effort we spend on new regulations diverts our attention from more productive and beneficial work. That being said, we have demonstrated that Tech CU can perform strongly in this environment — we have experienced growth while implementing vast improvements in several areas of the company.

*The pessimist sees difficulty in every opportunity.
The optimist sees the opportunity in every difficulty.*

—WINSTON CHURCHILL

Our financial centers and our mortgage, HELOC and auto lending continue to be the foundation of Tech CU, but we've also had a great year in our two specialty lines of business. The Commercial Banking Group originated \$70 million in commercial loans. By working with well-known developers and builders, we've launched our construction lending program, and we continue to seek opportunities to finance multifamily and commercial real estate projects within our community. Next year looks to be impressive as well, with growth expected to stem from the Small Business Administration (SBA) lending team we built during 2013. In addition, we have developed a full suite of loan products to meet the needs of smaller businesses through our financial centers.

Our Wealth Management Division experienced significant growth in 2013, with assets under management reaching \$533 million at year end. As new loans for our Private Banking members grew to a record level, our investment business also grew 25% over the prior year as we focused on helping members with their investment, retirement planning and insurance needs. Two of our financial advisors were inducted into the President's Club, the highest award bestowed by Cetera, our broker/dealer, for placing an outstanding level of member investment business.

As for our continuing commitment to community involvement, we're so proud of all of our members and employees who truly make a difference. We welcomed Janikke Klem in 2013 as our new vice president of Community Relations to make sure that we give back with time, effort and funding. As strong supporters of a number of local non-profits focused on STEM education and preparing at-risk kids for college, we know how critical it is for young people to have the chance to reach their full potential — witnessing this opportunity unfold for them is truly inspiring.

We know that you have many choices when it comes to choosing a financial institution, and we greatly appreciate your membership. We look forward to continuing to serve you in the years ahead and ask you to consider us for all of your future financial needs.

Barbara B. Kamm
PRESIDENT/CEO

A Message from the **Chief Banking Officer**

Joe Anzalone



This past year marked another successful period of growth for Tech CU's Sales & Marketing organization. We continue to be encouraged by an improving local and regional economy, driven by the most robust technology community in the U.S., if not the world. We are fortunate to have the support and commitment of our members, who have afforded Tech CU the opportunity to serve them.

The Sales & Marketing teams worked tirelessly to provide “best-in-class” products and services to support our members. Our Retail Division continued to promote flexibility and convenience — with impressive results. Successes in 2013 included 470 mortgage loans funded totaling \$170 million; \$26 million in consumer loans funded; 6,536 referrals for home equity loans, checking accounts, business loans, and credit cards; and 598 new memberships generated from employees of our Member Companies.

Our Wealth Management Division posted its strongest year ever as our members placed their confidence in a team that provided valued guidance and assistance with our members' private banking and investment goals. In keeping with our theme of providing best-in-class products and services, the Wealth Management Division implemented a stock-secured loan product, partnered with the Retail Division to provide an IRA transfer bonus program, and launched an advisory services line of business to complement the investment products currently offered. We were encouraged by how well our membership responded to these products and services, and we hope to continue to expand this product set in 2014 by providing trust services through our broker/dealer affiliation with Cetera.

The year also featured an expansion of our commercial lending activities — fulfilling our member requests for more commercial loan products, we responded by expanding into construction and SBA lending. Loan demand for these products, along with commercial real estate term lending, was robust, totaling approximately \$70 million in loan originations for the year. We expect continued growth in this area during 2014.

We worked hard in 2013 to continue to develop our technology platform, addressing our members' expectation that we serve them anytime, anywhere. Tech CU is committed to offering the best technology possible to accomplish this goal. Our updated mobile platform is enjoying solid adoption by our membership, with our mobile deposit capability helping many members bank from home or work. In 2014, we expect to deliver an expanded online banking service to further support our members' desire for a seamless and integrated remote banking experience.

While technology is important in our service delivery model, it is only as good as the people behind it. One of our company values is to cultivate our employees so that they can continue to grow in their roles and in their abilities to serve you. To that end, we offer two key programs to our financial center staff: One is LEAD, an 18-month plan which helps employees advance their careers by developing their professional and leadership skills. The other program focuses specifically on serving our members, with a series of Tech CU-branded training programs called “Creating Client Loyalty,” going to the heart of our desire to build a long-term banking relationship with you.

We are excited by the results achieved during 2013, and we look forward to another successful year in 2014. In striving to be your primary, if not your only, financial institution, we will continue to look for opportunities to find innovative ways to serve you with your best interests in mind.

Joe Anzalone

EVP, CHIEF BANKING OFFICER

If opportunity doesn't knock, build a door.

—MILTON BERLE



A Message from the **Chief Financial/Administrative Officer**

Todd Harris

Upon reflection, we can conclude that 2013 was a turning point in our Credit Union's financial recovery from the "Great Recession." In many ways, 2013 was the reciprocal of 2009, which marked a financial low point for Tech CU. That year, we posted a \$9 million loss, the result of a nearly \$25 million charge to provision for loan losses as a result of the real estate bubble and general economic weakness. In contrast, we posted \$16.8 million in net income in 2013, in part because of a \$5.1 million credit (or expense reversal) to provision for loan losses as a result of a rebounding housing market, improved credit quality and greatly reduced loss experience. In addition to the greatly improved credit quality, 2013 results included a return on assets (ROA) of nearly 1.00%, an all-time high capital level, and an expense reduction of over \$3 million compared to 2012.

Year over year, net income improved from \$10.3 million to \$16.8 in 2013, with by far the most significant factor being the \$7.5 million improvement in the provision for loan losses over the previous year. Provision expense is driven by credit quality and credit losses, both of which improved in 2013. All loans delinquent 15 days or more (known as total delinquency) improved from 1.85% of total loans to only 1.24% of total loans in 2013. In addition, not only did Tech CU experience very low charge-offs in 2013, but we actually recovered more principal than we charged off — yielding a net recovery of \$89,000 for the entire year. The combination of improved total delinquency and zero aggregate loss experience created an environment where loss reserves could be safely reduced, resulting in a \$5.1 million credit to the provision for loan loss compared to a \$2.4 million expense in 2012. We also dedicated last year to improving efficiency and reducing costs. To this end, we were successful in reducing operating expense by over \$3 million compared to the prior year by investing in cost-saving technology, renegotiating contracts, moving to a self-funded form of health insurance, and carefully managing staffing. Our cost savings from operations and provision expense combined to create the strongest ROA Tech CU has produced since the beginning of the economic crisis in 2008.

All that is valuable in human society depends upon the opportunity for development accorded the individual.

—ALBERT EINSTEIN

However, as strong a year as 2013 was, it was not without its challenges. On the one hand, the sustained low interest rate environment has been fantastic for our members, as it has provided low-cost borrowing. In fact, in 2013 Tech CU members originated \$170 million in mortgages, borrowed \$186 million from their HELOCs, and borrowed another \$52 million to purchase cars. On the other hand, as Tech CU sought to offer low loan rates and competitive deposit rates for our members, the Credit Union's ability to generate revenue was negatively impacted. The gap between the average rate we receive from loans and the average rate we pay on deposits has narrowed to its lowest point in memory; this phenomenon is referred to as net interest margin compression and is the result of both the low interest rate environment and our desire to provide our members with the best possible rates on loans and deposits. As a result of this, Tech CU's 2013 net interest income dropped to \$42.6 million, compared to \$44.2 million in 2012. Non-interest income decreased \$2.4 million compared to the prior year, primarily due to the sale of fewer 30-year fixed-rate mortgages than were sold in 2012. The selling of mortgages was an interest rate risk management strategy — when we attained the interest rate risk profile we desired, we no longer needed to sell as many mortgages. We used the aforementioned \$3 million in expense savings to offset the income decreases described above.

The low interest rate environment is expected to remain through 2014, and that, coupled with our desire to provide the best member rates, is expected to continue to put pressure on net interest income (margin compression). However, Tech CU will continue to look for opportunities to create expense savings while investing in leading-edge technology and maintaining, if not elevating, our level of member service. 2013 was a great year for Tech CU, credit quality was exceptionally strong, our ROA was .98%, total assets were \$1.762 billion, and regulatory capital reached a record \$181.3 million at year end. We are better positioned than ever to provide a full range of products and services to our members, and we remain steadfastly committed to being a safe and sound credit union.

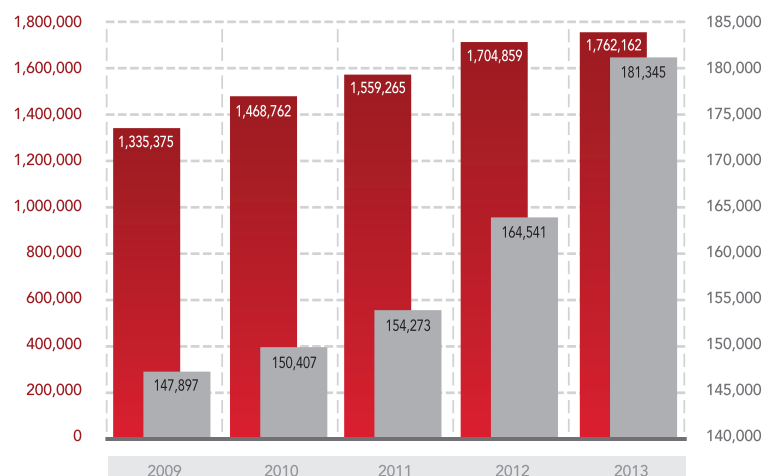
Todd Harris

EVP, CHIEF FINANCIAL/ADMINISTRATIVE OFFICER

Asset and Capital Growth

(IN THOUSANDS)

■ Total Assets
■ Regulatory Capital



Statement of Operations (audited)

(IN THOUSANDS)

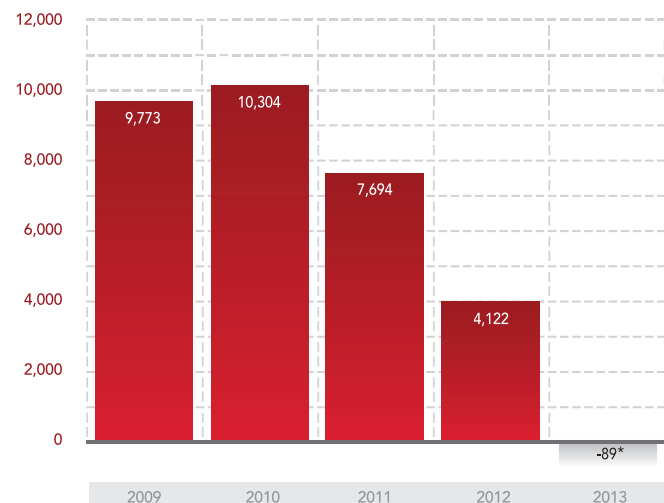
YEAR ENDED

Statement of Operations	2009	2010	2011	2012	2013
Interest on Loans	\$53,442	\$48,055	\$43,090	\$39,039	\$37,157
Interest on Investments	1,017	3,205	8,650	9,230	8,893
Total Interest Income	54,459	51,260	51,740	48,269	46,050
Dividends and Interest Expense	11,724	7,696	5,388	4,036	3,409
Net Interest Income	42,735	43,564	46,352	44,233	42,641
Provision for Loan Losses	24,917	10,003	6,879	2,411	-5,136
Net Interest Income After Provision For Loan Losses	17,818	33,561	39,473	41,822	47,777
Non-interest Income	10,778	11,133	9,828	13,638	11,112
Operating Expense and Non-Operating Expense	37,606	42,184	45,435	45,191	42,085
Net Earnings	(\$9,010)	\$2,510	\$3,866	\$10,269	\$16,804

Net Charge-Offs

(IN THOUSANDS)

■ Net Charge-Offs
■ Net Recoveries



Statement of Financial Condition (audited)

(IN THOUSANDS)

YEAR ENDED

Statement of Financial Condition	2009	2010	2011	2012	2013
ASSETS:					
Cash and Cash Equivalents	\$151,213	\$205,840	\$163,742	\$170,368	\$164,723
Investments	151,536	288,263	465,052	582,307	647,512
Loans to Members, Net	989,619	926,349	884,800	908,618	908,379
Premises and Equipment	21,590	22,006	21,372	19,602	18,304
Other Assets	21,417	26,304	24,299	23,964	23,514
Total Assets	\$1,335,375	\$1,468,762	\$1,559,265	\$1,704,859	\$1,762,162
LIABILITIES, MEMBER DEPOSITS, AND RESERVES:					
Dividends Payable	\$356	\$208	\$140	\$106	\$65
Accrued Expenses and Other Liabilities	8,201	\$7,744	6,936	8,170	8,585
Notes Payable	0	0	0	0	0
Member Deposits	1,178,921	1,314,444	1,391,496	1,525,683	1,575,375
Total Equity	147,897	146,366	160,693	170,900	178,137
Total Liabilities, Member Deposits, and Reserves	\$1,335,375	\$1,468,762	\$1,559,265	\$1,704,859	\$1,762,162

*Recoveries exceeded charge-offs in 2013.



A Message from the **Chairman of the Supervisory Committee**

Tom Hall

Technology Credit Union's Supervisory Committee is made up of five volunteer members who are not directors, officers or employees of Technology Credit Union. 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 2013, 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, 2013.

Success is where preparation
and opportunity meet.

—BOBBY UNSER

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, 2013, 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.

Respectfully submitted,

Tom L. Hall

CHAIRMAN, SUPERVISORY COMMITTEE



Bob Luong,
Vice Chairman



Steven Fisher,
Secretary



Jeffrey M. Lee



Karen Rogge

Community Relations

Tech CU is committed to giving back to Silicon Valley and our surrounding communities. Our core areas of focus are STEM education (science, technology, engineering, and math), financial literacy and affordable housing, and we support local organizations and nonprofits that provide resources and programs in these areas through community grants and volunteer time. We are proud to help Silicon Valley be a dynamic place to live and work, while supporting those organizations that provide meaningful social services. Some examples of our activities in 2013 include:

STEM Education

To further our goal of creating positive learning environments in STEM education, Tech CU has partnered with groups such as the Silicon Valley Education Foundation's Step Up to Algebra program, which helps students master important math skills — a key component for success during their college years. Another good example of this, is our partnership with the Silicon Valley Leadership Group's Women and Girls Summit, a wonderful opportunity to introduce girls from under-resourced schools to women in leadership roles. Several of our employees participated in this — helping to energize these students while stressing the value of education.

Financial Literacy and GLOW

In 2013, we continued our partnership with GLOW, a nonprofit that helps teach low-income students and their families the financial management skills necessary to pay for and complete college. Tech CU employees, trained as GLOW mentors, visit schools and other affiliate sites to educate students on the fundamentals of personal finance and budgeting — with the aim of preparing them for the responsibility of financing their college education. In this vein, Tech CU also partners with such organizations as Breakthrough Silicon Valley and the Full Circle Fund.

Affordable Housing

To help address issues of affordable housing in the Bay Area, Tech CU supports several organizations including Project We Hope, the Silicon Valley Leadership Group, and Housing Trust Silicon Valley. In 2013, Tech CU partnered with Housing Trust Silicon Valley — joining a group of seven other financial institutions that helped the Housing Trust create the first-ever affordable housing loan pool. The \$9 million fund provides loans ranging from \$500,000 to \$2 million in initial startup financing to developers working on affordable, multifamily housing projects throughout the Bay Area.

In addition to focusing on these core areas, Tech CU executives and senior managers spent this past year sharing their knowledge and expertise in finance and business leadership with students and their educational institutions, including San Jose State University's Lucas College and Graduate School of Business, Santa Clara University's Leavey School of Business, and the Foothill-DeAnza Community College District.

Life is a gift, and it offers us
the privilege, opportunity, and
responsibility to give something
back by becoming more.

—TONY ROBBINS

Every year, Tech CU employees, members and their families give thousands of dollars in monetary donations and hundreds of volunteer hours to local organizations which have a direct impact on people's lives. Below is a round-up of the organizations and programs Tech CU supported in 2013:

- Breakthrough Silicon Valley
- Bill Wilson Center
- Family Giving Tree Backpack and Supplies Donations, Toy Donations
- Full Circle Fund
- Girls For A Change
- GLOW Financial Education & College Prep program
- Laboratory for Learning for Teachers
- San Jose Museum of Art's Multipart Art program for schools
- Silicon Valley Education Foundation's Step Up to Algebra program
- SJSU's Silicon Valley Innovation Challenge
- Tech Museum Tech Challenge
- Tipping Point Community

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.
NOTE: Bob Howard-Anderson retired from the board in January 2014.

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.

