

Making all the difference

Annual Report 2009





Theresa Clark:

Theresa Clark is a graduate student and teaching assistant in the Biology Department at Northern Arizona University. The University presented an opportunity for Theresa to continue her academic studies in the field of Bryology, the scientific study of moss, and work on a research team. Theresa has always excelled in the sciences and is an aspiring artist. The study of moss has allowed Theresa to satisfy her scientific and artistic passions. "The first time you view moss through a microscopic lens, you would be amazed to see the unique patterns and vibrant colors," said Theresa.

She joined the Credit Union several years ago and opened personal accounts and an account to track all of her research expenses. With a busy academic, teaching and research schedule, she enjoys convenient access with all of the Credit Union's online banking services. As a 2009 Community Leaders Loan Reduction Grant Program recipient, Theresa was able to reduce her student loans and focus on important research.

A Message from the President/CEO

Our focus this past year was to preserve our core values while adapting our business strategies and operating practices to meet the challenges ahead. During the course of the year, we implemented numerous strategies and process improvements, while continuing to help our members and the communities we serve.

The cornerstone of our success is our members and associates. Reflecting the loyalty of our members and the hard work and dedication of our associates, we are pleased to report a positive net income of \$14.2 million for the year ended December 31, 2009. Our earnings were made up of a recapture of regulator imposed assessments totaling \$7.9 million, gains on investments of \$2.1 million and \$4.2 million from our core business operations. Our capital, which allows us to withstand challenging economic conditions and to grow the Credit Union, was reported at 8.03% at year end. This is above industry standards and signifies a well-capitalized financial institution.

Many Arizonans continue to be challenged by a difficult economy, yet we remain committed to the communities we serve by providing affordable loans. While many financial institutions have limited their financing options, the Credit Union continues to lend and expand product offerings. This strategy has supported record mortgage loan growth with the funding of more than 1,500 first mortgage loans, totaling over \$230 million.

During 2009, we expanded delivery channels, added new services and opened a convenient new branch location, providing both added value and convenience for our members. We launched a new telephone banking system and deployed Coinstar machines in many of our branches. We introduced eDeposit for businesses, a new service which allows businesses to transmit electronic images of checks to the Credit Union from their place of business.

To bring a one-stop auto buying experience to members, we launched a new discount car buying service, Arizona Auto Direct. And, to assist members in planning short and long-term financial goals, we expanded Wealth Management services to include a low-cost online financial planning tool, Plan4Tomorrow. This past year, we were pleased to open a new office in Scottsdale. The new office will increase market presence and provide added convenience for members.

Providing convenient access for members through electronic delivery channels continues to be an important priority for the Credit Union. With the introduction of online account opening, members now have the ability to open an account online in minutes. This new channel rounds out a complete offering of electronic services, including online loan applications, online banking, bill pay, email alerts and mobile banking.

Helping our members through difficult times with proactive programs and providing opportunities for future success continues to be a core value for the organization. In 2009, we provided emergency loans and financial assistance for University and State employees impacted by the economy. The Community Leaders Scholarship and Loan Reduction Grant Programs provided more than \$40,000 in grants for college students and graduates. We received industry recognition for business ethics, social responsibility and philosophy in action. Our greatest recognition is for our award-winning website HelpingAZ.com, the first-ever social media site designed to help Arizonans who have been impacted by the economy.

The result of all of these efforts is that we have emerged into 2010 a stronger financial institution, ready to move forward during unprecedented regulatory and economic uncertainty. Arizona State Credit Union is well positioned to meet the challenges ahead and we remain cautiously optimistic that the regulatory landscape and economy will continue to show signs of improvement. It is our members' financial well-being and success that contributes to our success. Thank you for your continued support.



David E. Doss
President/CEO

A handwritten signature in black ink that reads "David E. Doss". The signature is fluid and cursive, with a long, sweeping underline.

At Arizona State Credit Union, success is defined by delivering outstanding value and service to every member we serve. Our status as a cooperative owned by the members that we serve has never been more important than during recent turbulence in the economy and financial institutions. This year, in this annual report, you will see a young college student looking toward a bright future and individuals involved in research and teaching – all moving forward with their goals and aspirations. You will also see excited new homeowners taking pride in their new community and growing family. All of these individuals are representative of who we are as a Credit Union.

To meet the needs of members today and tomorrow, the Credit Union must continually evaluate how we operate our business. When the Board of Directors and executive management participated in vision meetings this past year, we discussed key strategic initiatives. One important initiative was a commitment to process improvement. Today, we have integrated process improvement in everything we do, with a primary goal to provide the best value for our members.

The year 2009 represented the results of these process improvements and delivering value to our members. We experienced consistent deposit growth and record real estate loan growth, allowing us to achieve total assets of \$1.3 billion. Arizona State Credit Union ranks amongst our region's strongest credit unions. Due to our sound financial condition, we are able to actively lend, meeting the borrowing needs of our individual and business-owner members, while other financial institutions are cutting back on lending.

Navigating the ever-changing regulatory landscape continues to be a key focus for the Credit Union. Your volunteer Board of Directors, along with management and associates, have participated with other credit unions in providing a strong united voice to be heard by regulators, state representatives and Washington. It is a difficult battle, but grass root efforts define the Credit Union movement and we continue to make progress.

We are proud of Arizona State Credit Union and the tremendous results our talented management team and dedicated associates have accomplished this past year. Even with the challenges we have faced, we continued to reach out to members and the communities we serve. For the fourth consecutive year, Credit Union members and the communities we serve voted Arizona State Credit Union as the number one credit union in the state by *Ranking Arizona: The Best of Arizona Business* – the State's largest business opinion poll. This recognition highlights the conservative and community-minded initiatives Arizona State Credit Union supports to better serve the communities throughout the state.

On behalf of our volunteer Board of Directors of Arizona State Credit Union, I would like to thank our associates for everything they do to meet the needs of our members. I would also like to thank our member-owners for continuing to place their financial trust in Arizona State Credit Union and assure them that we will provide excellent service and value-added products now and for future generations to come.



Marquetta White
Chair

A handwritten signature in black ink that reads "Marquetta White". The signature is written in a cursive, flowing style.

Board of Directors



From left to right;
top to bottom:
Quentin Bogart;
Jon Borge;
Frank Felix;
Ray O'Connor;
Connie Ohanesian, Secretary;
Shane Siren, Treasurer;
Joseph C. Smith;
Sam Wheeler, Vice Chairman;
Marquetta White, Chair.

Senior Management Team



From Left to Right;
Front Row:
David E. Doss,
President/CEO;
Dyan Mashman,
SVP Chief Information Officer;
Michael Emanuelli,
EVP Organizational Development.
Second Row:
Paul B. Stull,
SVP Marketing;
Bryan Nielsen,
SVP Administrative Services;
Chuck Anderson,
EVP Commercial Lending;
John Carson,
EVP Chief Financial Officer;
Robert Gibboni,
SVP Risk Management;
Dean Vigfusson,
EVP Retail Banking.



The Credit Union *Difference*

Larry M. Edmonds:

Professor Larry M. Edmonds, pictured teaching a communications class at Arizona State University Polytechnic Campus, joined the Credit Union because of the convenient branch location. He has always been pleased with the service and was excited to learn the Credit Union offered a unique student loan program. He is a recipient of the Credit Union's 2009 Community Leaders Loan Reduction Grant Program. "I've never seen a grant program that would assist those who have graduated and are working on paying off debt," he said. "It's a great idea."

The scholarship allowed him to reduce his student loans and move forward with plans for a new home.

"Together We Can Help." The award winning HelpingAZ.com website was launched in 2009 to help Arizonans impacted by the economy.

Jacob Done:

Jacob Done is a French Major at Arizona State University. He joined the Credit Union when a friend told him it was a good deal. "I like the idea of the Credit Union, because it's more about people," said Jacob.

He is a recipient of the 2009 Community Leaders Scholarship Program. "The scholarship money was a big help in paying unexpected tuition costs this year," he said. He is looking forward to graduation this year and has been saving for a trip to China.



Supervisory Committee Report



From left to right;
top to bottom:
Colleen Carmean;
Hal Folette;
Martha N. Rozen, Chair;
not pictured:
Sara Click.

Your Supervisory Committee volunteers are appointed by the Board of Directors. The Committee is charged with protecting our Members' interests and ensuring that the assets of our Credit Union are safeguarded.

These responsibilities are accomplished through regular meetings with management to review Credit Union activities and audit results. Under the direction of the Supervisory Committee, an independent annual financial audit and review of the system of internal controls is also conducted. A national CPA firm with recognized expertise in Generally Accepted Accounting Principles and the credit union industry was contracted to complete a certified audit of the financial statements as of December 31, 2009. Within the scope of their review, the CPA firm found no significant deficiencies or material weaknesses in internal controls.

The Arizona State Department of Financial Institutions and the National Credit Union Administration jointly completed a regulatory examination as of September 30, 2009 to review the safety and soundness of the Credit Union and areas of potential risk. Within the scope of their examination, no significant or material findings were reported.

Martha N. Rozen
Chair



Treasurer's Report

While the economy as a whole continues to face significant challenges, Arizona State Credit Union has remained a strong institution. The Credit Union recognized net income for the year ended 2009 of \$14.2 million. This is a significant improvement compared to prior year results, which were impacted by a number of economic and regulatory factors. This strong financial performance includes a 17% increase in net interest income during a declining interest rate environment as well as a 44% increase in non-interest income.

As of December 31, 2009, assets increased by 2% and totaled \$1.3 billion. Despite record residential real estate loan growth of \$230 million, net loan growth reflected a slight decrease of 2%, due primarily to slowing auto sales, ending the year at \$918 million. Deposits increased 2% and totaled \$1.2 billion, with the growth realized in both core deposits and individual retirement accounts.

Our return on assets in 2009 was 1.08%. Our capital ratio at the end of the year grew to 8.03% which is considered well-capitalized by our regulators. The Arizona State Department of Financial Institutions and the National Credit Union Administration received detailed financial information from Arizona State Credit Union on a quarterly basis to measure our strength and net worth.

The Credit Union continues to face increasing assessments from the Credit Union Share Insurance Fund. These assessments are made by our federal regulator, the National Credit Union Administration (NCUA). Our 2009 payment was \$1.7 million. We expect the 2010 contribution to be at least twice that amount and we expect these higher costs to continue over the next seven years.

Our services and products have allowed us to develop a brand members can trust. This trust is reflected in our core deposit and record residential real-estate loan growth. As we look to the future, we will continue our commitment to providing quality products and services to help our members achieve financial success. I am pleased to report to you the Credit Union is safe, strong, secure and well positioned for future growth.

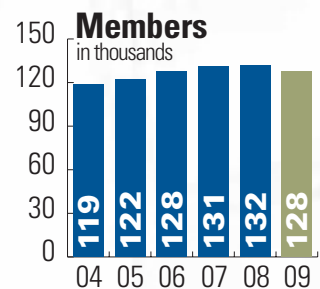
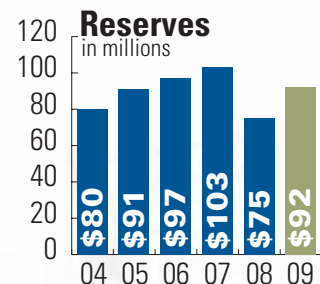
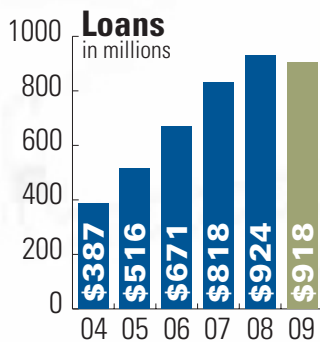
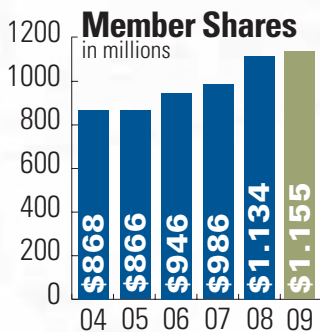
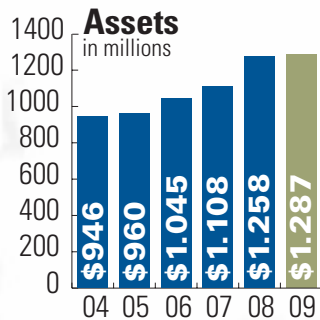


Shane Siren
Treasurer

A handwritten signature in black ink that reads "Shane Siren".



Financial Statements



STATEMENT OF FINANCIAL CONDITION (unaudited)

	2009	2008
ASSETS - December 31		
Cash and cash equivalents	\$41,281	\$79,307
Investment Securities:		
Available-for-sale	246,313	150,955
Other investments	17,472	31,177
Federal Home Loan Bank stock	5,044	4,287
Loans held-for-sale	1,829	1,832
Loans to members, net of allowance for loan losses	897,666	924,366
Accrued interest receivable	4,288	4,865
Collateral in process of liquidation	1,098	560
Foreclosed assets	6,777	4,221
Premises and equipment, net	49,448	51,233
NCUSIF deposit	11,430	2,830
Other assets	4,491	2,524
TOTAL ASSETS	\$1,287,137	\$1,258,157

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES		
Members' share and savings accounts	\$1,154,854	\$1,133,845
Borrowed funds	29,605	35,000
Pension plan funded status	6,544	6,291
NCUSIF premium assessment accrual	-	3,402
Accrued expenses and other liabilities	3,992	4,125
Total liabilities	\$1,194,995	\$1,182,663

MEMBERS' EQUITY - substantially restricted

Regular reserve	\$25,540	\$25,540
Undivided earnings	77,815	63,661
Accumulated other comprehensive income (loss)	(11,213)	(13,707)
Total members' equity	\$92,142	\$75,494
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$1,287,137	\$1,258,157

STATEMENT OF INCOME (unaudited)

	2009	2008
Net interest income	\$47,460	\$40,616
Provision for loan losses	18,498	22,051
Net interest income after provision for loan losses	28,962	18,565
Non-interest income	30,587	14,551
Non-interest expense	45,395	51,738
NET INCOME (LOSS)	\$14,154	(\$18,622)



One State of Mind[®]



Carr Family:

Providing more space for their family was the reason the Carr family turned to Arizona State Credit Union. When they were expecting their second child, they started looking for a home that would accommodate their growing family. Pictured in front of their new home, Audra and Harvey can enjoy time with their son Michael, age 4, and their newest addition, MaKynlee, age 4 months.

Members for many years, the Carr family liked the Credit Union's mortgage loan options, as well as the competitive rates and low closing costs. With the help of an experienced Home Loan Consultant and local lending decisions, they were able to close their loan quickly and begin enjoying their new home.



One State Of Mind

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OFFICE LOCATIONS
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www.azstcu.org



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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
4701 W. Thunderbird Road
8285 W. Union Hills Drive,
Suite 106

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

SEDONA
140 Coffee Pot Drive, Suite E101

TEMPE
301 E. Orange Street

TUCSON
777 S. Alvernon Way
6464 N. Oracle Road
1001 N. Park Avenue