

PICATINNY FEDERAL CREDIT UNION

BRANCHES & LOCATIONS

Rockaway Branch
100 Mineral Springs Dr
Rockaway, NJ 07801

Monday and Thursday 8:00 AM - 6:00 PM
Tuesday, Wednesday & Friday 8:00 AM - 3:30 PM
Saturday 9:00 AM - 12:00 Noon
ATM

Mt. Olive Branch
10 International Drive South
Flanders, NJ 07836

Monday, Tuesday, Wednesday & Friday - Lobby 8:00 AM - 3:30 PM - Drive-Up 8:00 AM - 5:00 PM
Thursday - Lobby 8:00 AM - 6:00 PM - Drive-Up 8:00 AM - 6:00 PM
Saturday - Lobby 9:00 AM - 12:00 Noon - Drive-Up 9:00 AM - 12:00 Noon
ATM (Drive Up)

Denville Branch
340 E. Main Street
Denville, NJ 07834

Monday, Tuesday, Wednesday & Friday - Lobby 8:00 AM - 3:30 PM - Drive-Up 8:00 AM - 6:00 PM
Thursday - Lobby 8:00 AM - 6:00 PM - Drive-Up 8:00 AM - 6:00 PM
Saturday - Lobby 9:00 AM - 12:00 Noon - Drive-Up 9:00 AM - 12:00 Noon
ATM (Drive Up)

Arsenal Branch
Building 30 South
Picatinny Arsenal, NJ 07806

Monday, Tuesday, Wednesday & Friday - 8:00 AM - 3:30 PM
Thursday - 8:00 AM - 6:00 PM
ATM

www.PicaCreditUnion.com

If you live, work, worship or attend school in Morris County
you can join Picatinny Federal Credit Union

For a complete set of 2012 audited financial
statements and footnotes contact:

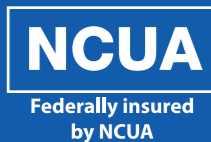
Keith B. McCarthy
Chief Financial Officer
Picatinny Federal Credit Union
100 Mineral Springs Drive
Dover, NJ 07801

Or email: kmccarthy@picacreditunion.com

The 5300 quarterly report filed with the
NCUA for Picatinny Federal Credit Union
for December 31, 2012 can be obtained at
www.NCUA.gov under Credit Union Data.
Our charter number is 3291.

The address for the NCUA is:

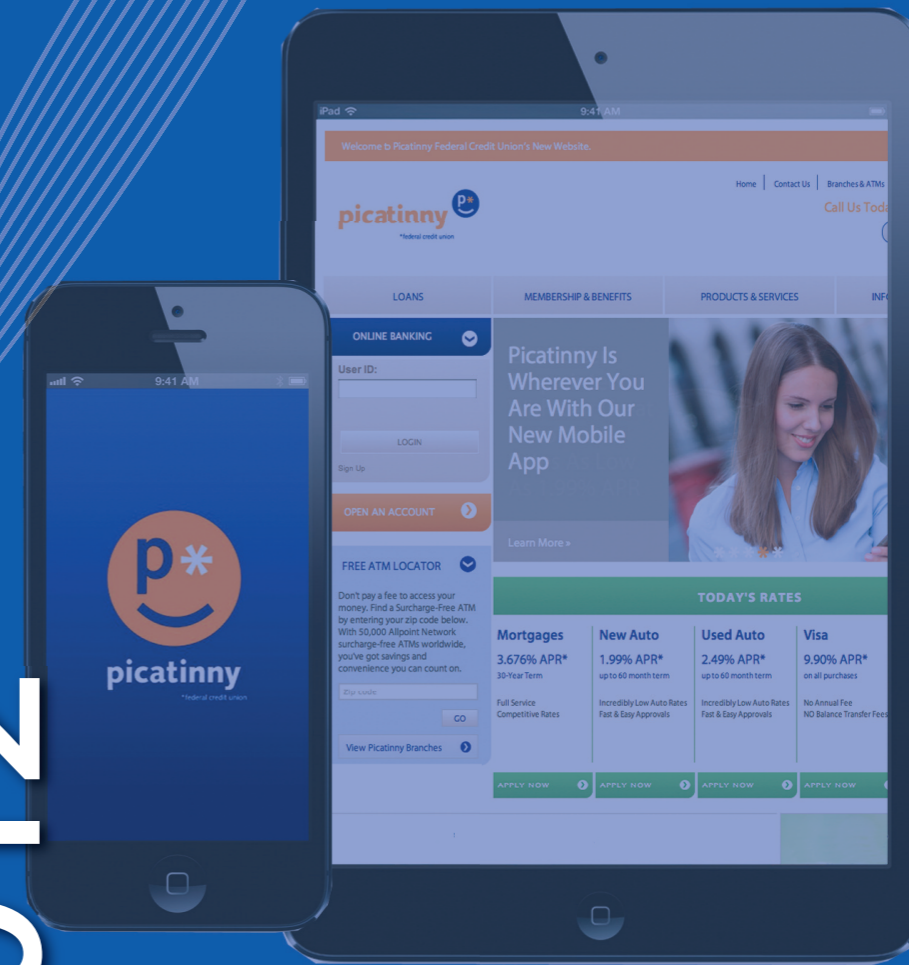
NCUA
3775 Duke Street
Alexandria, Va. 22314-3428



STATEMENTS OF CONDITION & INCOME

2012 EXPANSION

TECHNOLOGY



Picatinny Federal Credit Union

Balance Sheet

of December 31,	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS		
CASH	\$ 1,365,028	\$ 770,276
OVERNIGHT INVESTMENTS	242,588	2,037,700
DUE FROM FINANCIAL INSTITUTIONS	17,608,302	16,101,077
TOTAL CASH AND CASH EQUIVALENTS	19,215,918	18,909,053
INVESTMENTS		
FEDERAL AGENCY SECURITIES	59,182,265	69,100,710
MORTGAGE BACKED SECURITIES	64,025,170	68,200,502
CERTIFICATES OF DEPOSITS	24,088,697	6,930,894
NCUA INSURANCE	2,527,843	2,454,236
EQUITY INVESTMENTS	862,040	276,640
AFS VALUATION RESERVE	2,777,561	2,632,648
TOTAL INVESTMENTS	153,463,576	149,595,630
LOANS		
LOANS AVAILABLE FOR SALE	\$ 270,000	-
CREDIT CARD LOANS	11,601,847	11,835,656
OTHER UNSECURED LOANS	6,218,253	7,158,688
SHARE SECURED LOANS	465,656	802,723
NEW VEHICLE LOANS	7,842,931	5,663,360
USED VEHICLE LOANS	10,775,194	9,544,712
FIRST MORTGAGE LOANS	27,790,614	27,711,235
OTHER REAL ESTATE LOANS	42,523,085	39,431,198
ALL OTHER LOANS	680,181	130,361
GROSS LOANS	107,897,761	102,277,933
ALLOWANCE FOR LOAN LOSSES	(1,451,539)	(1,195,149)
TOTAL LOANS, NET	106,446,222	101,082,784
OTHER ASSETS		
ACCRUED INTEREST ON INVESTMENTS	517,945	556,407
ACCRUED INTEREST ON LOANS	243,181	273,257
OTHER ASSETS	8,090,661	6,830,477
FIXED ASSETS	694,479	474,563
TOTAL OTHER ASSETS	9,546,266	8,134,704
TOTAL ASSETS	\$ 288,941,982	\$ 277,722,171
LIABILITIES AND EQUITY		
DEPOSITS		
REGULAR SHARES	\$ 140,501,144	\$ 129,367,638
SHARE DRAFTS	38,505,346	34,929,947
MONEY MARKET ACCOUNTS	27,753,857	27,983,351
SHARE CERTIFICATES	35,767,688	39,715,690
IRA SAVINGS	9,866,583	10,223,746
IRA CERTIFICATES	9,763,079	10,652,134
TOTAL DEPOSITS	262,157,697	252,872,506
ALL OTHER LIABILITIES	2,607,487	3,825,301
TOTAL LIABILITIES	\$ 264,765,184	\$ 256,697,807
EQUITY		
REGULAR RESERVES	4,181,642	4,181,642
UNDIVIDED EARNINGS	18,602,562	16,758,265
NET UNREALIZED GAINS ON INVESTMENTS AFS	2,777,560	2,632,648
ACCUMULATED OTHER COMPREHENSIVE LOSS	(1,384,966)	(2,548,191)
TOTAL EQUITY	24,176,798	21,024,364
TOTAL LIABILITIES AND EQUITY	\$ 288,941,982	\$ 277,722,171

Income Statement

For the Year ended December 31,	2012	2011
INTEREST INCOME		
INTEREST ON OVERNIGHT INVESTMENTS	\$ 2,837	\$ 1,012
INTEREST ON OTHER INVESTMENTS	2,342,489	2,662,980
INTEREST ON LOANS	5,637,172	6,297,059
TOTAL INTEREST INCOME	7,982,498	8,961,051
TOTAL INTEREST EXPENSE		
	996,934	1,284,165
PROVISION FOR LOAN LOSSES	(941,000)	(768,000)
NET INTEREST INCOME AFTER PROV FOR LOAN LOSSES	6,044,564	6,908,886
NON-INTEREST INCOME		
FEE INCOME	309,879	312,616
NON-OPERATING INCOME	3,830,444	1,206,149
GAIN (LOSS) ON THE SALE OF INVESTMENTS	111,520	22,711
GAIN ON THE SALE OF LOANS	607,275	7,016
GAIN ON DISPOSITION OF ASSETS	-	300
LOSS ON SALE OF OTHER REAL ESTATE	-	(5,191)
TOTAL NON-INTEREST INCOME	4,859,118	1,543,601
NON-INTEREST EXPENSE		
SALARIES	3,407,287	3,179,398
BENEFITS	1,479,195	1,169,832
TRAVEL AND CONFERENCE	4,135	5,568
OFFICE OCCUPANCY	536,796	499,095
OFFICE OPERATIONS	1,799,784	1,667,502
MARKETING	402,101	335,078
LOAN SERVICING	425,481	368,713
OUTSIDE SERVICES	392,343	636,826
MEMBER INSURANCE	96,959	298,399
NCUA INSURANCE AND OPERATING	62,790	60,588
OTHER OPERATING	212,369	4,857,931
TOTAL EXPENSES	8,819,240	13,078,930
NCUA STABILIZATION EXPENSE	240,145	613,559
NET LOSS	\$ 1,844,297	\$ (5,240,002)

Letter From the Chairman and CEO

Dear Member,

Your credit union returned to profitability in 2012 with net income of \$1,844,297. The past year has been a turnaround on many fronts for your credit union. First, let us review some recent history.

In 2011, we recorded a net loss of \$5,240,002, most of which was the result of the loss recorded from the previously reported CU National mortgage fraud after our settlement with the Federal National Mortgage Association (FNMA or Fannie Mae). At that time, we notified you that we would pursue the recovery of that loss through two additional efforts: through a claim against our insurance policy (fidelity bond) and through the bankruptcy court against the perpetrator of this fraud. During 2012, we reached a settlement with our insurance carrier, which helped account for the positive earnings for the year. We continue to pursue our claim in the bankruptcy court but are uncertain at this time as to the final payment.

Our loan balances, on which we rely for a steady stream of revenue and profitability, reached an all time high of \$131.7 million on January 31, 2009. Like much of America, our members began to pay down debt following the Great Recession that technically ended during 2009. By September 30, 2011 loan balances had been paid down to \$100.3 million, a decrease of \$31.4 million or 24%. We had to reinvest the funds received in these pay downs in US Agency bonds, US Agency mortgage backed securities, or Bank certificates of deposit at rates averaging less than 1%. This had the effect of drastically reducing a major source of our revenue and lowering our net interest income. Over the past year, we have pursued an aggressive marketing and sales campaign to rebuild these loan balances. By year-end, 2012 gross loans increased to \$107.9 million.

In our last report, we mentioned that in 2011, we took complete control of our underwriting and servicing of first mortgages. We also teamed up with the Federal Home Loan Bank of New York (FHLB NY) to sell mortgages to them through the Mortgage Partnership Finance Program (MPF). This would allow us to profit from the sale of mortgages while receiving additional income from servicing the loans and managing a portion of the credit risk. During 2012, mortgage rates fell to record lows causing a wave of refinancing. As a result of these rates and our marketing efforts, we originated 84 mortgages totaling \$19.8 million. We sold \$12.5 million in first mortgages to the FHLB NY resulting in a gain of \$607,275. The servicing of these loans

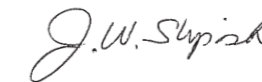
will provide us with a steady stream of revenue well into the future. First mortgages are a critical part of our business, and we will be increasing our marketing and sales efforts in this area in 2013.

We continued to expand our services into new markets in Morris County. We opened a new full service branch at 340 East Main Street in Denville in September. Our Grand Opening was very successful, and by year-end, we had 353 new members with \$1.5 million in loans and \$1.9 million in deposits. We look forward to continued growth and success in Denville as well as our other locations in 2013.

Our electronic delivery channels were also greatly improved in 2012. We installed a new telephone banking system earlier in the year that provides better responsiveness to our members. Our Website was completely redesigned to be more informative and user friendly. Most importantly, we launched our mobile banking product in December giving our members the most convenient access to their accounts to check balances, make transfers, and pay bills no matter where they are located. Our members can also follow the credit union on Facebook; like us to get updates on products, services, and other happenings at your credit union.

As we write this, we continue to face economic uncertainty. While unemployment has been declining, New Jersey's unemployment rate remains above the national average. The real estate market is improving but would still be considered anemic at best. The federal government's fiscal issues have not been resolved, and it is uncertain what effect this will have on Picatinny Arsenal, which still constitutes a large part of our membership. We do believe that we made significant progress in 2012 and have positioned ourselves to compete aggressively in the Morris County market. We thank all of our members for their loyalty and look forward to offering you the value in your financial services that you deserve.

Sincerely,



Joe Shiposh
Chairman of the Board



Bill Darling
President & CEO

Board of Directors

Chairman.....	Joe Shiposh
Vice Chairperson.....	Nancy Mueller-Davis
Treasurer.....	Jay Decker
Assistant Treasurer.....	Mark Sauvageau
Secretary.....	Joe Carroll
Director.....	George Cherenack
Director.....	Kim Jones
Director.....	David Lee
Director.....	Valerie Morgan
Director.....	Scott Shupe
Director.....	Gary Caltobilotta
Associate Director.....	William Crepeault
Associate Director.....	Thomas Regner

Credit Union CEO

President and CEO.....Bill Darling

Supervisory Committee

Chairman.....	Lou Hassell
Committee Member.....	Kim Jones
Committee Member.....	Rosario Locascio
Committee Member.....	Dominick Moreo
Committee Member.....	Ismael Ruiz

Credit Committee

Committee Member.....	M. David Ahmad
Committee Member.....	Frank Cautero
Committee Member.....	Andrew Harder
Committee Member.....	Mary Lou Kenison
Committee Member.....	Gordon Winch