

*Branch Expansion
New Technology
Commitment to Excellence*



BALANCE SHEET & INCOME STATEMENT

2011



*federal credit union

Picatinny Federal Credit Union

Balance Sheet

at December 31,	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS		
CASH	\$ 770,276	\$ 922,636
OVERNIGHT INVESTMENTS	2,037,700	2,060,408
DUE FROM FINANCIAL INSTITUTIONS	16,101,077	16,927,016
TOTAL CASH AND CASH EQUIVALENTS	18,909,053	19,910,060
INVESTMENTS		
FEDERAL AGENCY SECURITIES	69,100,710	60,273,282
MORTGAGE BACKED SECURITIES	68,200,502	54,330,138
CERTIFICATES OF DEPOSITS	6,930,894	9,830,237
NCUA INSURANCE	2,454,236	2,425,829
EQUITY INVESTMENTS	276,640	272,540
AFS VALUATION RESERVE	2,632,648	1,570,280
TOTAL INVESTMENTS	149,595,630	128,702,306
LOANS		
CREDIT CARD LOANS	11,835,656	11,650,849
OTHER UNSECURED LOANS	7,158,688	7,494,194
SHARE SECURED LOANS	802,723	886,712
NEW VEHICLE LOANS	5,663,360	5,744,461
USED VEHICLE LOANS	9,544,712	7,791,245
FIRST MORTGAGE LOANS	27,711,235	36,270,292
OTHER REAL ESTATE LOANS	39,431,198	42,469,574
ALL OTHER LOANS	130,361	196,434
GROSS LOANS	102,277,933	112,503,761
ALLOWANCE FOR LOAN LOSSES	(1,195,149)	(1,080,130)
TOTAL LOANS, NET	101,082,784	111,423,631
OTHER ASSETS		
ACCRUED INTEREST ON INVESTMENTS	556,407	579,832
ACCRUED INTEREST ON LOANS	273,257	320,357
OTHER ASSETS	814,940	8,649,569
FIXED ASSETS	6,490,100	5,142,150
TOTAL OTHER ASSETS	8,134,704	14,691,908
TOTAL ASSETS	\$ 277,722,171	\$ 274,727,905
LIABILITIES AND EQUITY		
DEPOSITS		
REGULAR SHARES	\$ 129,367,638	\$ 113,277,457
SHARE DRAFTS	34,929,947	31,335,654
MONEY MARKET ACCOUNTS	27,983,351	32,046,398
SHARE CERTIFICATES	39,715,690	46,104,374
IRA SAVINGS	10,223,746	10,331,779
IRA CERTIFICATES	10,652,134	11,230,061
TOTAL DEPOSITS	252,872,506	244,325,723
ALL OTHER LIABILITIES	3,825,301	4,099,715
TOTAL LIABILITIES	256,697,807	248,425,438
EQUITY		
REGULAR RESERVES	4,181,642	4,181,642
UNDIVIDED EARNINGS	16,758,265	21,998,266
NET UNREALIZED GAINS ON INVESTMENTS AFS	2,632,648	1,570,281
ACCUMULATED OTHER COMPREHENSIVE LOSS	(2,548,191)	(1,447,722)
TOTAL EQUITY	21,024,364	26,302,467
TOTAL LIABILITIES AND EQUITY	\$ 277,722,171	\$ 274,727,905

Income Statement

For the Year ended December 31,	2011	2010
INTEREST INCOME		
INTEREST ON OVERNIGHT INVESTMENTS	\$ 1,012	\$ 8,136
INTEREST ON OTHER INVESTMENTS	2,662,980	2,931,055
INTEREST ON LOANS	6,297,059	7,258,817
TOTAL INTEREST INCOME	8,961,051	10,198,008
TOTAL INTEREST EXPENSE		
	1,284,165	1,963,430
PROVISION FOR LOAN LOSSES	(768,000)	(686,566)
NET INTEREST INCOME AFTER PROV FOR LOAN LOSSES	6,908,886	7,548,012
NON-INTEREST INCOME		
FEE INCOME	312,616	374,954
NON-OPERATING INCOME	1,206,149	1,072,902
GAIN (LOSS) ON THE SALE OF INVESTMENTS	22,711	(862,943)
GAIN ON THE SALE OF LOANS	7,016	9,196
GAIN ON DISPOSITION OF ASSETS	300	885
LOSS ON SALE OF OTHER REAL ESTATE	(5,191)	—
TOTAL NON-INTEREST INCOME	1,543,601	594,994
NON-INTEREST EXPENSE		
SALARIES	3,179,398	3,124,278
BENEFITS	1,169,832	1,156,136
TRAVEL AND CONFERENCE	5,568	13,915
OFFICE OCCUPANCY	499,095	496,926
OFFICE OPERATIONS	1,667,502	1,839,212
MARKETING	335,078	399,501
LOAN SERVICING	368,713	347,939
OUTSIDE SERVICES	636,826	908,809
MEMBER INSURANCE	298,399	298,459
NCUA INSURANCE AND OPERATING	60,588	356,688
OTHER OPERATING	4,857,931	207,297
TOTAL EXPENSES	13,078,930	9,149,160
NCUA STABILIZATION EXPENSE	613,559	315,806
NET LOSS	\$ (5,240,002)	\$ (1,321,960)

Letter From the Chairman and CEO

Dear Member,

It is with great difficulty that we inform our members that the Picatinny Federal Credit Union posted a net loss of \$5,240,002 in 2011. This development is the result of a "perfect storm" of third party criminal activity, questionable investment actions by other credit unions thereby raising our deposit insurance, and the worst economic downturn since the Great Depression in the 1930s.

As we mentioned in previous reports, it came to our attention in 2009 that our former mortgage servicer, CU National, sold \$13.2 million of our first mortgage portfolio to Federal National Mortgage Association (FNMA) without our knowledge or authority and kept the proceeds. The individual who perpetrated this fraud has plead guilty, admitted that he sold the loans without our knowledge or authority, and is now in prison. Since 2009, we have pursued litigation against FNMA to retrieve our stolen property. During 2011, the Board of Directors determined after much deliberation, to settle its claim against FNMA rather than proceed with a protracted legal battle. At this time we are pursuing recovery of our remaining shortfall by two means: through a claim against our insurance policy (fidelity bond) and through the bankruptcy court against the perpetrator. Although the worst of this terrible fraud is behind us, these recovery efforts will continue through 2012 incurring additional legal and administrative costs.

In addition to the significant loss recorded from the fraud, Picatinny, like all other federally insured natural person credit unions, must maintain one percent of its deposits in the National Credit Union Share Insurance Fund (NCUSIF) to insure our members' deposits. Because a number of corporate credit unions ended up in conservatorship, the National Credit Union Administration levied an additional \$614,000 premium in 2011, almost double the additional premium in 2010. The amount is expected to be considerably less in 2012, but it is an annual charge that will probably continue well into the 2020s.

The national trend of consumers paying down debt over the past few years was also very evident at PFCU. In 2010 we reported that our loans declined \$12.7 million or 10% from 2009. That trend continued in 2011 as loans again decreased by \$10.2 million or 9%. Over the past two years most of these funds have been redeployed into investments that have earned less than 1%. As a result our net interest income declined by \$558,000 in 2011 compared to 2010. In spite of the difficulties we have faced during this period, we ended 2011 with a capital ratio of 7.53% which is classified by the NCUA as a "Well Capitalized" institution.

While the period since the Great Recession began has presented us with many challenges, we believe we are beginning to see some bright spots as we head into the future. The economy seems to be recovering even if progress has been slow. Unemployment is beginning to decline and some sectors of the economy are beginning to pick up although the housing sector, which is important to credit unions, continues to be depressed. During the fourth quarter of 2011, auto loans have started to grow as we have become very aggressive with our car loan rates. At the time of

this writing, we are starting to see increased activity in other loan categories such as mortgages and home equities. This has been very encouraging.

During 2011 we took complete control of our underwriting and servicing of first mortgages. We strongly believe that this will allow us to provide a better level of service and pricing than a third party solution. We will also realize additional sources of non-interest income as a result of any sales and servicing of these loans. To that end, we have teamed up with the Federal Home Loan Bank of New York (FHLBNY) to sell mortgages to them through their Mortgage Partnership Finance® Program (MPF) program. Unlike other mortgage purchasers, the FHLBNY pays additional fees to their partners for managing a portion of the credit risk associated with these loans. With our solid member base, we believe this will provide us with additional income.

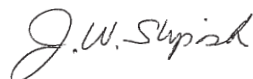
Our Relationship Rewards product, which was rolled out early in 2011, has been well-received by our members, and many have taken advantage of the bonus rates and free services that apply to the different tier levels. Relationship Rewards is the foundation we will use in the future to "give back" to our members. To that end, we plan to enhance this product in 2012 with additional rewards.

Our plans to expand further into the Morris County Market continued in 2011. We purchased property and received approval for the construction of a full service branch at 340 East Main Street in Denville. The branch is expected to open in the second quarter of 2012 and will give our members a third location for their financial transactions outside of Picatinny Arsenal.

In addition to expanding our brick and mortar facilities, we will also be offering new electronic service delivery channels in 2012. We are currently working on a new telephone banking system and will be rolling out a new mobile banking product in 2012 giving our members access to their funds via a phone app. Offering new technology and access points to our members is a major part of our strategic plan.

With the turmoil that has been experienced by banks across the country, credit unions are increasing in popularity with consumers and small businesses. Having come through a very difficult period, the Board of Directors, management, and the employees of Picatinny Federal Credit Union look to the future with renewed optimism and continue to be dedicated to providing you with the best in convenient and valuable financial services delivered by friendly expert staff and easy to use technology. It is the loyalty of our members that has brought this credit union through these difficult times, and for that, you have our profound gratitude. It is after all YOUR credit union, and we never forget that.

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

Credit Union CEO

President and CEO.....Bill Darling

Supervisory Committee

Chairman.....	Lou Hassell
Committee Member.....	Kim Jones
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.....	Rosario Locascio
Committee Member.....	Gordon Winch

Picatinny Federal Credit Union Branch Locations

Rockaway Branch

100 Mineral Springs Drive
Rockaway, NJ 07801

Monday and Thursday

8:00 AM to 6:00 PM

*Tuesday, Wednesday,
and Friday*

8:00 AM to 3:30 PM

Saturday

9:00 AM to 12:00 (NOON)

ATM

Arsenal Branch

Building 30 South
Picatinny Arsenal, NJ 07806

*Monday, Tuesday, Wednesday
and Friday*

8:00 AM to 3:30 PM

Thursdays

8:00 AM to 6:00 PM

ATM

Mt. Olive Branch

10 International Drive South
Flanders, NJ 07836

*Monday, Tuesday, Wednesday
and Friday*

– Lobby

8:00 AM to 3:30 PM

– Drive-Up

8:00 AM to 5:00 PM

Thursdays

– Lobby

8:00 AM to 6:00 PM

– Drive-Up

8:00 AM to 6:00 PM

Saturdays

– Lobby

9:00 AM to 12:00 (NOON)

– Drive-Up

9:00 AM to 12:00 (NOON)

ATM

Denville Branch (Opening June 2012)

340 E. Main Street
Denville, NJ 07834

*Monday, Tuesday, Wednesday
and Friday*

– Lobby

8:00 AM to 3:30 PM

– Drive-Up

8:00 AM to 6:00 PM

Thursdays

– Lobby

8:00 AM to 6:00 PM

– Drive-Up

8:00 AM to 6:00 PM

Saturdays

– Lobby

9:00 AM to 12:00 (NOON)

– Drive-Up

9:00 AM to 12:00 (NOON)

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 2011 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, 2011 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



*federal credit union