



SACRAMENTO

CREDIT UNION

Invest in Sacramento

2005

ANNUAL REPORT

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Board of Directors' and President's Report

In 2005 Sacramento Credit Union was privileged to celebrate its 70th anniversary of serving members. Much has changed since 1935 when SCU opened its doors in an abandoned church building on Seventh Street. In those days and for many years thereafter, credit unions offered only savings accounts and personal loans to select employee groups. Through the course of the years as industry standards changed and in response to your requests, the credit union kept pace and evolved into a full service financial institution. The Board of Directors and management team strive to introduce innovative products, services and technology and balance 21st Century advances with traditional member service. You may be assured that our long held principle of adding value to the financial well being of the membership is not subject to change.

The volunteer Board of Directors and management staff of Kai-Perm Sacramento Federal Credit Union began a search for a merger partner. They solicited information to determine how best to enhance their members' financial services options and simultaneously provide dedicated, consistent staff to maintain traditional credit union values. Sacramento Credit Union was honored to be able to fulfill the high standards they held for their members. In the spring of 2005 this merger brought 3,000 new members to SCU. We are pleased to say that not only have those memberships been retained, but also the relationships have grown far beyond expectations. We look forward to future opportunities with the Kaiser Permanente health care professionals.

Over the course of last year development of electronic delivery channels continued. At the core of strategic discussions the topics include saving member time, saving member money and adding member value in the area of technology. Of extreme importance is the ability to ensure that the technology is secure, accessible and user friendly, with the idea of giving members anything, anywhere, any time.

Again, in 2005, Sacramento Credit Union was committed to the community it serves. The credit union devoted time and monetary contributions to assist Hurricane Katrina evacuees who were being relocated to the Sacramento area. The tradition of fostering working relationships with noteworthy service organizations such as the Sacramento Children's Home, Children's Miracle Network and the Salvation Army continued. The team of Sacramento Credit Union employees enthusiastically serve and assist where possible. To *Invest in Sacramento* is the philosophy of your credit union. We all benefit by doing so.

Submitted by: Les Brown
Chairperson, Board of Directors

Jerrold A. Kinlock
President/CEO



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Secretary-Treasurer's Report

Audited net earnings for fiscal 2004 – 2005 are \$3,519,410, an 11.51% increase over the previous year. This figure represents a return on assets of 1.18%, up from 1.12%.

As a result of the merger with Kai-Perm Sacramento Federal Credit Union, Sacramento Credit Union acquired a welcome degree of insulation from the slow down in member and deposit growth that has plagued the industry over the last several years. SCU gained over 3,000 new members and \$18 million in new deposits from this merger. In addition, the credit union acquired \$2.3 million in net capital, which generated a 10.09% fiscal year increase in net capital. By fiscal year end, the key ratio of net worth to assets had surpassed 11.50%.

The excellent earnings performance was accomplished despite the other major problem that continues to confront the financial services industry. Specifically, market interest rates have plunged to levels not seen in four decades, resulting in sustained shrinkage in the margin between asset yield and cost of funds. For the current fiscal year, the former grew 0.80%, while the latter surged 12.30%, creating a negative 3.16% growth in net interest margin.

To offset the challenge of compressed margins, the credit union made great progress in managing two other components of net earnings. Dramatic improvement in loan credit quality reduced provision for loan losses by 63.72%. Moreover, non-interest income was bolstered 16.29% by continued success in programs for mortgage loan origination, privilege pay, securities sales and interchange income from credit and debit cards.

Notwithstanding the continuing presence of the aforementioned challenges, Sacramento Credit Union remains financially secure and sound with solid management procedures in place to monitor and manage the acute impact on net interest margins if market interest rates were to retrace upward.

Submitted by: Terry Tice
Secretary-Treasurer, Board of Directors



Lending Report

Sacramento Credit Union experienced strong loan growth in all areas of its operation during fiscal year 2005. During this period, the credit union funded \$135 million in consumer loans and \$73 million in residential first mortgage loans. This production represents a 46% increase in consumer loan funding and a 25% increase in first mortgage funding over the prior year. As part of the Kai-Perm Sacramento Federal Credit Union merger, Sacramento Credit Union received \$3 million dollars in consumer loans which, along with the consumer and real estate loan production, brought the total loans outstanding as of September 30, 2005, to \$245,857,970, an increase of 16.37% over the prior year.

The credit union's Residential Lending Department and Consumer Loan Department continued to take advantage of the strong Sacramento area real estate market by increasing marketing efforts to attract new first and second mortgage borrowers. To manage the interest rate risk associated with holding fixed rate first mortgage loans, the credit union routinely sells these mortgages to a number of investors, including Indy Mac Bank, PHH Mortgage, Country Wide Mortgage Company and the Federal National Mortgage Association.

While loan volume increased during the period, the overall quality of the loan portfolio continued to remain strong. Loan charge-offs net of recovery were 0.55%, a reduction from the previous year.

<u>Loan Type</u>	<u>Percent of Portfolio Mix</u>	<u>September 2005</u>	<u>September 2004</u>	<u>Variance</u>
Automobiles	58.5%	\$143,875,913	\$111,653,038	28.86%
VISA & All Other	3.3%	\$ 8,080,342	\$ 8,311,882	(2.79%)
Commercial	0.2%	\$ 449,382	\$ 460,678	(2.45%)
Mortgage*	38.0%	\$ 93,452,333	\$ 90,853,015	2.86%
Total	100.0%	\$245,857,970	\$211,278,613	16.37%

*Does not include loans sold to investors.

Submitted by: Jim Kelly
Vice President, Lending and Retail Operations



Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2005 annual audit of the credit union's financial statements. Their examination included a study and evaluation of Sacramento Credit Union's accounting systems, procedures, internal controls and other auditing procedures sufficient to provide assurance that the financial statements are accurate.

The comparative highlights from the credit union's audited financial statements for the 12 month period ending September 30, 2005, are as follow:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2005

<u>Performance Category</u>	<u>September 2005</u>	<u>September 2004</u>	<u>Variance</u>	
Assets	319,109,780	305,095,271	14,014,509	4.59%
Net Loans	245,244,027	209,626,434	35,617,593	16.99%
Member Deposits	281,213,131	270,509,385	10,703,746	3.96%
Net Capital	36,072,788	32,765,579	3,307,209	10.09%
Interest Income	13,962,626	13,851,839	110,787	0.80%
Less Cost of Funds	3,985,213	3,548,842	436,371	12.30%
Net Interest Margin	9,977,413	10,302,997	(325,584)	(3.16%)
Less Provision for Bad Debt	544,138	1,499,843	(955,705)	(63.72%)
Add Non-Interest Income	4,561,068	3,922,131	638,937	16.29%
Less Operating Expenses	10,474,933	9,569,241	905,692	9.46%
Net Income	\$ 3,519,410	\$ 3,156,044	\$ 363,366	11.51%

The Supervisory Committee meets periodically with management and independent accountants to review the work of each and to satisfy itself that each person properly discharges his or her responsibilities.

Additionally, the Committee has reviewed and examined various internal credit union policies and procedures throughout the year. It is the opinion of the Committee that Sacramento Credit Union properly discharges its financial responsibilities and that it has continued its growth and development as a solid financial institution.

Submitted by: Mari Lynn Shimamoto
Chairperson, Supervisory Committee



LOCATIONS

Elk Grove

9160 East Stockton Boulevard, #120

Fair Oaks

8100 Madison Avenue

Sacramento

3660 Bradshaw Road

800 H Street

2255 Watt Avenue, #10, (ATM Only)

3441 Arden Way

Kaiser Hospital, 6600 Bruceville Road