SACRAMENTO
CREDIT UNION
Invest in Sacramento

2010

ANNUAL REPORT

P.O. BOX 2351
SACRAMENTO, CA 95812-2351
(916) 444-6070
www.sactocu.org

SACRAMENTO CREDIT UNION
Invest in Sacramento

Board of Directors' and President's Report

Entering 2010 the Board of Directors and management of Sacramento Credit Union were mindful of the dilemmas to be confronted in fulfilling member satisfaction and maintaining the integrity of the organization. The regional economy paralleled that of the nation, exacerbated by high local unemployment and ongoing property devaluation. Economic conditions sparked a resurgence of savings and lessened consumer confidence. These conditions brought about real estate loan losses, further decline in consumer loan demand (particularly vehicle loans) and noteworthy deposit growth. Additionally, new regulatory requirements added costs and redeployment of staff resources to meet compliance deadlines.

The lack of consumer loan demand caused the credit union's loan to asset ratio to fall below 40%. There were, however, three areas of lending that performed remarkably in 2010. First mortgage loans generated $74 million, the vast majority of which were sold on the secondary market. Selling these loans generates fee income and mitigates interest rate risk. Consequently, SCU can offer a full array of first mortgage products with rate rewards while managing the balance sheet exposure. With over 80% of the volume, SCU was the regional leader in The Permanente Medical Group loans for Kaiser physicians. The new VISA® credit card suite brought 34% growth to the credit card portfolio. With negative growth in all other loan products for the year and low investment yields, it was necessary to pursue alternative lending programs. The groundwork was laid for activating a full scale commercial real estate program. Due diligence was performed and regulatory compliance was met with the assistance of external expertise. Membership was activated in two credit union service organizations for the purpose of establishing SBA and loan participation programs.

In the third quarter the real estate loan portfolio began to show better performance via collection processes and loan modifications. The Board and management believe 2010 presented the worst of the real estate bubble for Sacramento Credit Union. Net interest margin compression necessitated aggressive cost of funds and cost of operations management. Despite rate reductions, deposits grew, reflecting the return to insured savings.

As was the case for all financial institutions, the credit union was challenged to comply with an extraordinary number of regulatory requirements. The Credit CARD Act and changes to Regulations E and Z were enacted to protect the American public from deceitful and abusive financial practices. Because Sacramento Credit Union has never engaged in such unethical activity, these compliance issues added no real value to the membership. However, it was necessary to spend the money and man hours revising statement disclosures for compliance purposes.

Success was measured in 2010 unlike the past. The credit union industry as a whole was significantly impacted by the corporate stabilization plan. SCU did not pass the entire burden on to members but trimmed costs, operating below 2008 expense levels for the second consecutive year. Both management and staff sacrificed company contributions to their 401(k) Plans and salary increases. Yet again, member satisfaction surveys were constant and improved in some cases. Maintaining the stability of Sacramento Credit Union and retaining the faith of the membership were the true achievements of the past year.

Submitted by: Willie L. Southward III, Chairperson, Board of Directors
Jerrold A. Kinlock, President/CEO

SACRAMENTO
CREDIT UNION
Invest in Sacramento

Secretary-Treasurer's Report

Audited net earnings for fiscal year ended September 2010 are negative $1,004,674, equivalent to negative 11 basis points on average assets of $324 million. Figures for the prior fiscal year were negative $4,230,395 or negative 130 basis points on average assets of $321 million. The ratio of net worth to average assets is 11.43%, down slightly from the 11.50% recorded September 2009. Financial performance across both fiscal years reflects the damage inflicted on financial institutions by the Great Recession. Although Sacramento Credit Union's net earnings remain negative, there is year over year improvement of $3,225,721. With the exception of asset yield, and the significant cost of the corporate stabilization plan, all basic components of net earnings trended positively across fiscal 2010.

Yield on assets dropped $2,340,069 with the collapse of loan demand and the influx of flight to safety deposits that continue to earn rock bottom investment yields. As a percent of assets, loans are down to 41% from 47%. Investments swelled to 57% from 39%. Concurrently, loan yield slipped to 5.46% from 5.57%, while investment yield fell to 1.26% from the previous unprecedented low of 1.65%.

The slide in asset yield was successfully offset by other components of net earnings. Cost of funds were trimmed $1,169,459. Operating expenses, excluding the National Credit Union Share Insurance Fund (NCUSIF) premium, were cut $344,084. Provision for bad debt was reduced $1,185,641. Fee and other income boosted $282,102. These four positive trends composed a $2,981,286 offset to the $2,340,069 downturn in asset yield, producing $641,217 improvement in net earnings before losses and expenses attributable to the downfall of the corporate credit union system. Compared to fiscal 2009, the expense for 2010 was down $2,584,504, rounding out all components behind the $3,225,721 fiscal year improvement in net earnings.

On March 19, 2009, the National Credit Union Administration Board took actions to stabilize the corporate system and bring the credit union community closer to resolution of the issues facing the system. Since then, U.S. Central, WesCorp, Southwest Corporate and other corporates were placed in conservatorship with member capital deposits declared worthless. As a natural person credit union subject to this mandatory regulatory action, SCU wrote off $4,127,846 in capital deposits, $606,600 in fiscal 2010 on top of $3,521,246 in fiscal 2009. These losses are now complete and fully recognized. The regulatory actions also included boosting the deposit insurance premium, as well as instituting another premium to repay the Treasury over multiple years for borrowing necessary to stabilize the corporate credit union system. SCU has paid $755,151 in NCUSIF deposit insurance with $354,987 in fiscal 2010 atop $400,164 paid in fiscal 2009. The inaugural TCCSF or TARP premium of $375,221 was paid in fiscal 2010.

Submitted by: John Beck, Secretary-Treasurer, Board of Directors

Sacramento Credit Union
Invest in Sacramento

Lending Report

In fiscal year 2010 the loan portfolio continued to retreat, shrinking by nearly 12%. The two major loan portfolios, fixed second mortgage and vehicle loan, decreased by 18% and 29% respectively. These decreases are attributed primarily to early pay offs and accelerated pay downs in both portfolios, as well as reduced indirect production in the vehicle portfolio. The secured portfolio performed markedly better than in 2009 with growth of 70%. A participation loan, funded for $480,912, was an addition to the portfolio mix in 2010.

Loan Type	Portfolio Mix	September 30, 2010	September 30, 2009	Variance
Unsecured	7.2%	$ 8,966,273	$ 6,655,067	34.73%
Secured*	10.8%	$ 13,520,896	$ 7,994,135	69.14%
Vehicle	29.0%	$ 36,191,808	$ 51,102,537	(29.18%)
Commercial	1.2%	$ 1,509,169	$ 1,539,500	(1.97%)
Second Mortgage HELOC	14.9%	$ 18,525,720	$ 19,015,386	(2.58%)
Second Mortgage Fixed	28.8%	$ 35,934,118	$ 43,968,073	(18.27%)
First Mortgage	7.6%	$ 9,536,752	$ 11,406,885	(16.39%)
Participation	0.4%	$ 480,912	$ 0	N/A
Total	100.0%	$124,665,649	$141,681,584	(12.01%)

Loan programs experienced strong growth, with two exceptions: indirect vehicle and second fixed mortgage which dropped 52% and 20% respectively. The declines in these two portfolios can be attributed to the de-emphasis of originating indirect vehicle loans and the considerable deterioration in home values. The continual decline of mortgage interest rates in 2010 brought about a significant increase in first mortgage refinancing. As in the prior fiscal year, these mortgages were primarily committed to secondary market investors to limit interest rate risk exposure. For the second consecutive year, secured loans issued to The Permanente Medical Group physicians outpaced the previous year's production.

Loan Type	Production Mix	September 30, 2010	September 30, 2009	Variance
Unsecured	4.2%	$ 3,930,534	$ 1,622,829	142.20%
Secured*	10.0%	$ 9,310,984	$ 5,489,789	69.61%
Vehicle Indirect	4.2%	$ 3,879,401	$ 8,059,486	(51.87%)
Vehicle Retail	8.3%	$ 7,754,244	$ 7,026,244	10.36%
Commercial	0.0%	$ 0	$ 0	0.00%
Second Mortgage HELOC	2.7%	$ 2,554,281	$ 2,245,322	13.76%
Second Mortgage Fixed	1.1%	$ 1,039,896	$ 1,299,648	(19.99%)
First Mortgage Originated	68.9%	$ 64,272,079	$ 54,064,517	18.88%
Participation	0.5%	$ 482,973	$ 0	N/A
Total	100.0%	$ 93,224,392	$ 79,807,835	16.81%

*Share Secured Loans and The Permanente Medical Group Stock Secured Loans

Submitted by: Blake B. Cairney, Vice President, Lending Operations

SACRAMENTO CREDIT UNION

Invest in Sacramento

Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2010 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, 2010, are as follow:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2010

Performance Category	September 2010	September 2009	Variance	
Assets	$335,442,444	$338,599,821	$(3,157,377)	(0.93%)
Net Loans	120,515,325	137,384,483	(16,869,158)	(12.28%)
Member Deposits	295,038,311	272,426,412	22,611,899	8.30%
Net Capital	37,176,895	38,181,568	(1,004,674)	(2.63%)
Interest Income	10,004,109	12,344,178	(2,340,069)	(18.96%)
Less Cost of Funds	2,473,875	3,643,334	(1,169,459)	(32.10%)
Net Interest Margin	7,530,234	8,700,844	(1,170,610)	(13.45%)
Less Provision for Bad Debt	3,049,893	4,235,534	(1,185,641)	(27.99%)
Add Non-Interest Income	5,083,614	3,825,162	1,258,452	32.90%
Less Operating Expenses	10,568,629	12,520,866	(1,952,237)	(15.59%)
Net Income	$(1,004,674)	$(4,230,394)	$ 3,225,721	(76.25%)

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 credit union internal policies, internal controls and procedures throughout the course of the year to ensure that members' assets are protected.

Submitted by: Gene Webb, Chairperson, Supervisory Committee

SACRAMENTO CREDIT UNION

LOCATIONS

Elk Grove	**9160 East Stockton Boulevard, #120**
Fair Oaks	**8100 Madison Avenue**
Sacramento	**3660 Bradshaw Road**
	800 H Street
	3045 Arden Way, Suite 200
	6121 Franklin Boulevard
	Kaiser Hospital, 6600 Bruceville Road