SACRAMENTO
CREDIT UNION
Invest in Sacramento

2011

ANNUAL REPORT

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

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Board of Directors' and President's Report

The year 2011 was another chapter of the Great Recession. Despite the head winds of the economy, Sacramento Credit Union ended the year with more capital than the prior year. The Board of Directors and management team embraced the challenges presented to financial institutions. Through the planning process, we identified the core issues and authored a comprehensive business plan to address the controllable components of the balance sheet.

SCU members paralleled consumers in general as they avoided borrowing to shed more debt. This decline in demand placed added pressure on the strategy to make loans a larger part of the balance sheet. In anticipation of this trend, we developed a commercial lending program consistent with the consumer platform for risk management, long term relationship pricing, and performance measurements. The commercial lending portfolio has advanced and brought $5 million to the balance sheet over the last two years. The commercial segment is being managed at a well measured pace to provide stronger yields and portfolio diversification. The year ended with a slight loan deficit without sacrificing credit quality. Much of this year's success was attributed to the receding provision for loan losses through the elevation of underwriting, collection, and troubled debt restructure processes.

The alternative to member borrowing is the investment portfolio. The uncertainty of the economy on the local and international stages placed a severe strain on investment yields. World markets and Federal Reserve actions continue to keep interest rates extremely low. Although we have eliminated credit risk from the investment portfolio, the potential for interest rate risk remains. Interest rate risk is diligently managed. Where appropriate, we have added value with longer term member mortgage loans rather than long term investments.

Expense allocations were scrutinized again throughout 2011. We worked to achieve optimum contract and vendor value via a partnership strategy. All options are carefully examined to avoid passing cost increases on to the member owners. All services and products, including investment services and first mortgage loans, continue to be of the highest value in the Sacramento Region. At the same time, deposit dividends are among the highest in this market. In addition, the 401(k) Plan company contribution was partially restored for the employee base.

Notwithstanding the enduring economic stress, a number of other achievements were realized during the course of the year. The credit union's state of the art online banking product was augmented by a new bill pay feature that includes a person to person payment feature and mobile banking. The Permanente Medical Group program expanded to support physicians' lending and investment needs. Educational seminars facilitated by SCU investment advisors were presented through the branch network. From a regulatory standpoint, your credit union remains among the strongest and safest in its industry asset size.

Since 1935, Sacramento Credit Union has built a strong financial foundation to withstand economic conditions. The Board of Directors, management team and staff look forward to serving the membership in 2012 and beyond.

Submitted by: AnnMarie Boylan, Chairperson, Board of Directors, and Jerrold A. Kinlock, President/CEO

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Secretary-Treasurer's Report

Audited net earnings for fiscal year ending September 2011 are $1,226,760, equivalent to 37 basis points on average assets of $330 million. Figures for the prior fiscal year were, respectively, negative $1,004,674 or negative 31 basis points on average assets of $327 million. Fiscal year return on equity, or net worth, is 3.23% compared to the negative 3.71% recorded for the prior fiscal year.

Review of year-over-year change in net earnings reflects continued challenges in growing the balances of loans made to members. Since the onset of the mortgage and economic crises, the two basic components of loan growth have deteriorated. That is, consumer loan demand and credit worthiness are still in recovery mode. Though improved, fiscal year rates of loan growth remain negative: -2.56% for 2011; -8.21% for 2010; -15.09% for 2009; -22.60% for 2008 and -16.97% for 2007.

Comparing current to prior fiscal year, impact on asset yield has been significant, with interest income dropping $1,008,320 or 10.08%. However, this negative trend was more than offset by improvement in other elements of the financial formula. First, without encountering dividend rate sensitivity of depositors, cost of funds was trimmed $948,493 or 38.34%. Secondly, in large part, the success in mortgage loan origination brought a surge in non-interest income of $755,890 or 14.87%. Moreover, provision for bad debt was slashed $1,318,113 or 43.22%, a very beneficial trend facilitated by enhanced collection and underwriting efforts. Finally, the ongoing efficiency campaign reduced operating costs $217,255 or 2.06%. As a result of these trends, the ratio of net worth to average assets for September 2011 settled at 11.53% versus 11.43% recorded the prior year. Average deposits grew 2.25%, compared to 6.03% during the prior fiscal year, and have averaged a 4.5% rate of growth over the past three fiscal years. Despite the impact of the Great Recession, net worth has remained stable: 11.49% for 2011; 11.52% for 2010; 12.37% for 2009 and 14.04% for 2008.

The great challenge to Sacramento Credit Union continues to be the restoration of loans as the anchor of our business. Currently around 38%, the ratio of loans to assets must be restored to 50% and higher. Key to the success of this effort is the development of viable processes to build upon member relationships.

Submitted by: Jan Reeves, Secretary-Treasurer, Board of Directors

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Lending Report

In fiscal year 2011 the loan portfolio grew 1.1%. The two major loan portfolios, fixed second mortgages and vehicles, decreased 18% and 19%, respectively. These decreases are attributed primarily to early pay offs and accelerated pay downs in both portfolios. The Other Secured portfolio continued to perform remarkably well with growth of 38%. The loan portfolio experienced significant growth in first mortgages and loan participations, collectively adding $8,207,953.

Loan Type	Portfolio Mix	September 30, 2011	September 30, 2010	Variance
Unsecured	9.0%	$ 11,376,260	$ 8,966,273	26.88%
Vehicle	23.3%	$ 29,407,167	$ 36,191,808	(18.75%)
Other Secured	14.8%	$ 18,604,771	$ 13,520,896	37.60%
Commercial	1.2%	$ 1,475,758	$ 1,509,169	(2.21%)
Second Mortgage HELOC	13.9%	$ 17,581,308	$ 18,525,720	(5.10%)
Second Mortgage Fixed	23.3%	$ 29,367,641	$ 35,934,118	(18.27%)
First Mortgage	11.4%	$ 14,374,065	$ 9,536,752	50.72%
Participations	3.1%	$ 3,851,552	$ 480,912	700.89%
Total	100.0%	$126,038,522	$124,665,649	1.10%

Loan segments experienced strong growth, with two exceptions: indirect vehicle and sold first mortgages, which dropped 23% and 15%, respectively. The declines with these two loan segments can be attributed to a larger focus on direct vehicle loans and fluctuating mortgage rates coupled with weak demand for home purchases. As in prior years, first mortgages were primarily committed to secondary market investors to limit interest rate risk exposure. Direct vehicle loans and unsecured loans experienced strong growth due in large part to stable interest rates and a branch focus on these programs. For the third consecutive year, secured loans issued to The Permanente Medical Group physicians experienced strong production finishing slightly below 2010. Two loan participations funded for $3,500,000, which increased the number of participation loans SCU has to three.

Loan Type	Production Mix	September 30, 2011	September 30, 2010	Variance
Credit Cards	3.8%	$ 3,526,016	$ 2,776,227	27%
Other Unsecured	2.3%	$ 2,154,560	$ 1,154,307	87%
Vehicle Indirect	3.2%	$ 2,977,711	$ 3,879,401	(23%)
Vehicle Retail	9.8%	$ 9,117,086	$ 7,754,244	18%
Other Secured	9.6%	$ 8,997,909	$ 9,310,984	(3%)
Second Mortgage HELOC	2.6%	$ 2,389,178	$ 2,554,281	(6%)
Second Mortgage Fixed	1.5%	$ 1,403,535	$ 1,039,896	35%
1st Mort-Orig & Sold	57.3%	$ 53,554,009	$ 62,848,329	(15%)
1st Mort–Orig & Portfolio'd	6.2%	$ 5,799,416	$ 1,423,750	307%
Commercial	0.0%	$ 0	$ 0	0%
Participation & SBA	3.7%	$ 3,500,000	$ 482,973	625%

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

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Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2011 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, 2011, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2011

Performance Category	September 2011	September 2010	Variance	
Assets	$341,572,068	$335,442,444	$ 6,129,624	1.83%
Net Loans	122,087,392	120,515,325	1,572,067	1.30%
Member Deposits	300,207,424	295,038,311	5,169,113	1.75%
Net Capital	38,403,646	37,176,895	1,226,751	3.30%
Interest Income	8,995,792	10,004,109	(1,008,317)	(10.08%)
Less Cost of Funds	1,525,382	2,473,875	(948,493)	(38.34%)
Net Interest Margin	7,470,410	7,530,234	(59,824)	(0.79%)
Less Provision for Bad Debt	1,731,780	3,049,893	(1,318,113)	(43.22%)
Add Non-Interest Income	5,839,504	5,083,614	755,890	14.87%
Less Operating Expenses	10,351,374	10,568,629	(217,255)	(2.06%)
Net Income	$ 1,226,760	$(1,004,674)	$ 2,231,434	222.11%

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