SACRAMENTO CREDIT UNION

Invest in Sacramento

2013

ANNUAL REPORT

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SACRAMENTO
CREDIT UNION
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Board of Directors' and President's Report

Sacramento Credit Union again posted strong earnings, ending fiscal year 2013 at $4.6 million. Although member loan demand has not yet returned to 2007 pre-recession levels, positive loan growth was realized. Improvement in credit quality substantially boosted earnings for the second consecutive year. The ratio of net worth to average assets continued to climb, reaching 12.72%, and was significantly greater than nationwide and California peers. The credit union introduced new technology and ran promotions that support the SCU philosophy of assisting the membership with their financial well being. Member surveys expressed satisfaction with the quality of service the credit union delivers.

Fiscal year loan production was up 17.4%, or $19.5 million, over fiscal year 2012. Automobile lending was the staple of the credit union industry for decades. As the Sacramento marketplace became saturated and borrowers retreated during the economic downturn, vehicle lending became extremely challenging. SCU's 1.99% financing campaign, coupled with consumer confidence, brought a 16.7%, or $3 million, increase in vehicle loan production. When conventional lending began to fade, credit unions entered the commercial lending arena. The foundation laid for SCU's commercial loan program proved successful, as business lending generated $5.7 million, or a 164% increase, over the prior fiscal year. The business loan portfolio is well balanced to manage concentration risk. First mortgage loan production of $84 million exceeded the annual forecast, supplementing earnings through non-interest income. Strong loan underwriting standards were maintained so as not to jeopardize credit quality, as evidenced by low delinquency and charge-off ratios.

The introduction of SCU's mobile banking app was a complement to the credit union's technology suite and enabled members to make mobile deposits. These innovations were well received, as the membership welcomes technological advances. At the same time, the credit union strives to provide the quality of personal service the membership deserves. The Investment Services Department adds value through financial and retirement planning advice. As the number of members taking advantage of this service expands, the credit union gains non-interest income. Staff continue to hone their skills via our Sales and Service Culture coaching and training. To enhance the branch experience, plans were finalized for the 2014 remodel of the Bradshaw Branch.

Steps were taken throughout the year to further protect the membership and the credit union in the event of a regional disaster. Technological advances made it possible to install a back up generator at the credit union's headquarters. The Business Continuity Plan has been strengthened organization wide. Security upgrades were implemented to further protect data. We're here for you daily and are prepared to be here for you if the unthinkable should occur.

Sacramento Credit Union offers products and services to save you time and money, provide you convenience, and give you peace of mind Your credit union has remained viable and relevant since its founding in 1935 because of the loyalty of the membership and the commitment of the staff. The Board of Directors values each member and the entire personnel team.

Submitted by: Mark Norris, Chairperson, Board of Directors

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Secretary-Treasurer's Report

Audited net earnings for fiscal year ended September 2013 were $4,622,126, equivalent to 131 basis points on average assets of $352 million. Figures for the prior fiscal year were, respectively, $2,839,418 or 84 basis points on average assets of $340 million. Return on equity (net worth) for current and prior fiscal years was, respectively, 11.2% and 7.4%. Average assets grew 4.3% in fiscal year 2013 and 3.8% in the previous fiscal year. With growth in earnings continuing to outpace growth in assets, the key ratio of net worth to average assets climbed to 12.7% from 11.9%.

Gross loans grew 3.5% to $134,372,849 from $129,875,508, an increase of $4,497,341 with vehicle and commercial lending leading production. The 17.9% growth in the former was sparked by summer promotional rates that averaged 2.6%. The 78.8% growth in the latter reflects the continued venture into business lending. As a percentage of total loans outstanding, the commercial element grew to 10.5% from 6.1%. Conversely, mortgage loans to natural person members contracted 12.2% to $48,092,020 from $54,771,720, and shrank as a percentage of total loans to 35.8% from 42.2%.

With continuing sluggishness in member loan demand, the key ratio of average loans to assets dipped to 37.3% from 38.4%. Traditionally the main source of revenue, interest from loans now generates less than total non-interest income, with the disparity growing to $1,074,266 during 2012 – 2013 from $166,196 during 2011 – 2012. However, total interest, including that on surplus and overnight funds, does exceed non-interest income by $842,186, but down nearly 50% compared to the $1,745.616 difference per prior fiscal year. As a result of these trends, yield on assets dropped to 228 basis points from 247 basis points.

While awaiting the return of ample interest income from member borrowing, SCU continues to rely on the other elements of net earnings. Cost of funds was trimmed from 30 basis points to 22 basis points. Also picking up the slack were positive trends in operating expenses, down to 298 basis points from 302 basis points, and non-interest income, up to 204 basis points from 196 basis points. An even bigger boost was obtained from improved credit quality. The 47 basis point improvement in provision for bad debt represents the difference between the 19 basis point current fiscal year releases of provision, compared to a 28 basis point prior fiscal year addition to provision.

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

Lending Report

In fiscal year 2013 the loan portfolio increased by 3.46%, marking its third consecutive year of growth. The credit card and unsecured, vehicle, commercial and loan participation segments grew significantly, collectively adding $12,562,734 to the portfolio. Two major loan portfolios, mortgage fixed rate and mortgage HELOC variable rate, continued to recede, by 14.84% and 8.02%, respectively. These decreases were attributed primarily to early pay offs within the fixed second mortgage and HELOC segments.

Loan Type	Portfolio Mix	September 30, 2013	September 30, 2012	Variance
Mortgage: Fixed Rate	23.10%	$ 31,004,302	$ 36,406,300	(14.84%)
Mortgage: Variable Rate	1.10%	$ 1,501,672	$ 1,419,558	5.78%
Mortgage: HELOC Variable Rate	11.60%	$ 15,586,046	$ 16,945,862	(8.02%)
Commercial & Participation	10.50%	$ 14,116,433	$ 7,894,648	78.81%
Consumer: Vehicle	26.00%	$ 34,950,626	$ 29,649,420	17.88%
Consumer: Credit Card, Unsecured	7.70%	$ 10,347,461	$ 9,307,718	11.17%
Consumer: Primary Stock Secured	20.00%	$ 26,866,309	$ 28,252,002	(4.90%)
Gross Loan Portfolio	100.00%	$134,372,849	$129,875,508	3.46%

New loan production realized strong growth, primarily from increased originations in the sold first mortgage, commercial real estate and retail vehicle segments. Production in both the first mortgage and vehicle retail segments increased 19%. Increased first mortgage production can be attributed to declining interest rates, high demand for refinances and continued focus on first mortgage originations. The increase in commercial loan production was, for the most part, resultant of a strong focus on member business lending which includes commercial real estate. Significant production declines in the other secured segment were the result of weak demand for TPMG share loans. The credit card segment increased 36% over the previous year which can be attributed to an increased branch focus through promotions. As in prior years, first mortgages were committed primarily to secondary market investors to limit interest rate risk exposure, as well as generate non-interest income.

Loan Type	Production Mix	September 30, 2013	September 30, 2012	Variance
Credit Card	2.10%	$ 2,775,785	$ 2,041,233	36.00%
Other Unsecured	1.10%	$ 1,404,819	$ 2,444,072	(42.00%)
Vehicle Indirect	6.50%	$ 8,505,942	$ 7,449,788	14.00%
Vehicle Retail	9.00%	$ 11,891,542	$ 10,031,167	19.00%
Other Secured	3.80%	$ 5,018,611	$ 9,316,092	(46.00%)
2nd Mort-HELOC	1.90%	$ 2,491,548	$ 2,066,906	20.00%
2nd Mort-Fixed	0.80%	$ 1,037,197	$ 1,105,300	(6.00%)
1st Mort-Orig & Sold	64.10%	$ 84,635,109	$ 71,192,737	19.00%
1st Mort-Orig & Portfolioed	3.70%	$ 4,932,000	$ 2,963,800	66.00%
Commercial	5.20%	$ 6,811,500	$ 990,250	588.00%
Participation	1.80%	$ 2,344,842	$ 2,496,222	(6.00%)
SBA	0.00%	$ 37,336	$ 0	0.00%
New Loan Fundings	100.00%	$131,616,231	$112,097,567	17.40%

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

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Supervisory Committee Report

McGladrey LLP, a licensed CPA firm, was retained to perform the 2013 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, 2013, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2013

Performance Category	September 2013	September 2012	Variance	
Assets	$367,863,050	$354,452,550	$ 13,410,500	3.78%
Net Loans	132,319,130	126,382,518	5,936,612	4.70%
Member Deposits	317,959,955	309,223,370	8,736,585	2.83%
Net Capital	45,865,194	41,243,072	4,622,122	11.21%
Interest Income	8,055,543	8,417,596	(362,053)	(4.30%)
Less Cost of Funds	782,766	1,021,524	(238,758)	(23.37%)
Net Interest Margin	7,272,777	7,396,072	(123,295)	(1.67%)
Less Provision for Bad Debt	(665,442)	962,608	(1,628,050)	(169.13%)
Add Non-Interest Income	7,213,357	6,671,980	541,377	8.11%
Less Operating Expenses	10,529,454	10,266,026	263,428	2.57%
Net Income	$ 4,622,122	$ 2,839,418	$ 1,905,999	67,13%

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: Aron Brewer, Chairperson, Supervisory Committee

SACRAMENTO CREDIT UNION

LOCATIONS

Elk Grove	**8351 Elk Grove Boulevard, Suite 600**
Fair Oaks	**8100 Madison Avenue**
Sacramento	**3660 Bradshaw Road**
	800 H Street
	3045 Arden Way, Suite 200
	Kaiser Hospital, 6600 Bruceville Road