

# Celebrating

STCU 2009 annual report

# 75

years

Here's a story  
we shared a  
lot during our

75<sup>th</sup>  
year.

It was 1934, the heart of the Great Depression, when a small group of Spokane teachers started a credit union at Lewis and Clark High School. They hung a bell on a rope from the window of the second-floor office, so members could ring to be let into the building. Deposits went into a shoebox.

Summertime hours were 9:30 a.m. to 11 a.m. on Wednesdays only. Each member could deposit up to \$20 a month, for a total of \$300. Each could borrow up to one month's wages (about \$83 for a starting school teacher).

Well, look at us now! STCU ended 2009 with 14 branches and more than 86,000 members. With \$1.4 billion in total assets, we're the largest credit union based in the Inland Northwest.

We continue to be guided by our founding principles and sound financial practices, a belief in the potential of every member, and a generous spirit toward the community.



# 2009

## highlights

### Opened

- Bonner County Branch on February 3.
- Northtown Square Branch on May 27.

“(STCU) continues quiet but steady growth in the worst economy since the Great Depression.”  
– *The Spokesman-Review*.

### Delighted

- Named Best Financial Institution by readers of the *Pacific Northwest Inlander* newspaper (fourth consecutive year).
- Best Credit Union by *Spokane Coeur d’Alene Living* magazine.

“I ♥♥♥ STCU.” – Unsolicited member testimonial on *The Spokesman-Review* Huckleberries blog.

### Honored

- President and CEO Steve Dahlstrom selected by *The Spokesman-Review* among a handful of community leaders to provide “Wise Words” for surviving a tough economy.
- Crystal Performance Award as a top-10 large credit union among 200 examined nationwide by Raddon Financial Group.

“Despite challenging economic conditions, these credit unions... perform at the highest levels.” — Raddon Financial Group.

### Assisted

- Raised \$23,428 for Children’s Miracle Network.
- Provided assistance to 160 members who faced loss of income, foreclosures, repossessions and mounting bills, through our free Financial Relief Solutions (FRS) program.

STCU “saved my life.” — Member helped through FRS.

# STCU

## through the years

### 1930s

STCU opens at Lewis and Clark High School in 1934, ending the year with 120 members and \$4,000 in assets. Membership initially limited to teachers in District 81. Board of directors authorizes spending \$8.50 for the credit union’s first safe in 1936.

### 1940s

STCU invests thousands in War Bonds. War’s end brings soaring demand for cars, appliances and other products. STCU starts decade with \$52,000 in assets; ends with more than 500 members and \$100,000 in assets.

### 1950s

STCU board decides that teachers need not withdraw their savings when they retire, and authorizes purchase of first adding machines. By our 25th anniversary in 1959, STCU has grown to 1,500 members and more than \$1 million in assets.

# Statement of financial position

|  | December 31,<br>2009   | December 31,<br>2008   |  | December 31,<br>2009   | December 31,<br>2008   |
|--|------------------------|------------------------|--|------------------------|------------------------|
| <b>Assets</b>                            |                        |                        | <b>Liabilities and members' equity</b>       |                        |                        |
| Cash and cash equivalents                | \$66,458,529           | \$39,319,590           | <b>Liabilities</b>                           |                        |                        |
| Deposits in other financial institutions | 20,000,000             | 15,294,971             | Members' shares                              | \$1,133,858,190        | \$927,334,489          |
| Investments — trading                    | 5,116,320              | 5,283,507              | Borrowed funds                               | 79,793,029             | 80,186,388             |
| Investments — available for sale         | 65,800,919             | 30,126,558             | Accrued expenses and other liabilities       | 13,627,518             | 11,859,144             |
| Loans to members, net                    | 1,140,781,201          | 997,083,391            | <b>Total liabilities</b>                     | <b>1,227,278,737</b>   | <b>1,019,380,021</b>   |
| Accrued interest receivable              | 4,233,906              | 3,952,582              | <b>Members' equity</b>                       |                        |                        |
| Employee benefit plan assets             | 4,317,998              | 3,236,260              | Regular reserves                             | 13,417,250             | 13,417,250             |
| Property and equipment, net              | 29,543,759             | 28,350,197             | Undivided earnings                           | 113,967,339            | 104,882,917            |
| Federal Home Loan Bank stock             | 4,324,800              | 4,324,800              | Accumulated other comprehensive income       | 749,218                | 295,915                |
| NCUSIF deposit                           | 10,291,174             | 7,583,196              | <b>Total members' equity</b>                 | <b>128,133,807</b>     | <b>118,596,082</b>     |
| Foreclosed and repossessed assets        | 1,056,995              | 755,570                | <b>Total liabilities and members' equity</b> | <b>\$1,355,412,544</b> | <b>\$1,137,976,103</b> |
| Other assets                             | 3,486,943              | 2,665,481              |  |                        |                        |
| <b>Total assets</b>                      | <b>\$1,355,412,544</b> | <b>\$1,137,976,103</b> |  |                        |                        |

## 1960s

STCU has 2,074 members and \$1.5 million in assets as it celebrates 30 years, outgrowing LCHS and moving into a new headquarters at 106 W. Nora (Main Branch).

Ernie McElvain, the longest-serving official at any Washington credit union, steps down as STCU president, and is replaced by Clare Chapman.

## 1970s

In our 40th year, STCU grows to 5,018 members and \$8.4 million in assets.

## 1980s

By our 50th anniversary, STCU has 15,608 members and \$55 million in assets.

Main office remodeled and doubled in size. A second branch, in Spokane Valley, opens in 1987. STCU adopts the Ultradata computer operating system.

## 1990s

Steve Dahlstrom becomes president and CEO in 1991. Our website, stcu.org, launches in 1995, and online banking begins two years later. North Spokane and Newport branches open.

# Statement of income

|  | Year ended December 31, |                   |
|--|-------------------------|-------------------|
|  | 2009                    | 2008              |
| <b>Interest income</b>   |                         |                   |
| Loans to members   | \$67,563,500            | \$60,498,556      |
| Investments and interest bearing deposits                      | 2,983,986               | 2,325,644         |
| <b>Total interest income</b>                                   | <b>70,547,486</b>       | <b>62,824,200</b> |
| <b>Interest expense</b>  |                         |                   |
| Members' shares  | 21,647,544              | 24,875,733        |
| Interest on borrowed funds                                     | 3,147,186               | 3,175,042         |
| <b>Total interest expense</b>                                  | <b>24,794,730</b>       | <b>28,050,775</b> |
| <b>Net interest income</b>                                     | <b>45,752,756</b>       | <b>34,773,425</b> |
| Provision for loan losses                                      | 10,180,958              | 3,318,851         |
| <b>Net interest income after provision<br/>for loan losses</b> | <b>35,571,798</b>       | <b>31,454,574</b> |

## 2000-2009

Rapid growth, with nine new branches: South Hill, Downtown, Indian Trail, Cheney, U-District, Post Falls, Silver Lake, Liberty Lake, Bonner County, and Northtown Square. Online banking transactions exceed those at our busiest branch.

“Stu” antenna ball introduced and STCU-sponsored carriage rides become a holiday tradition.

Decade ends with more than 86,000 members and \$1.4 billion in total assets.

|  | Year ended December 31, |                    |
|--|-------------------------|--------------------|
|  | 2009                    | 2008               |
| <b>Non-interest income</b>   |                         |                    |
| Service charges and fees   | 12,846,272              | 11,310,537         |
| Loan servicing and origination fees                                  | 4,459,295               | 2,501,935          |
| Rental income  | 334,617                 | 296,150            |
| Other non-interest income  | 361,320                 | 539,489            |
| Net change in employee benefit plan assets<br>carried at fair value  | 1,081,737               | (1,704,446)        |
| Net change in investments carried at fair value                      | (167,188)               | 84,375             |
| Gain on redemption of VISA, Inc. stock                               | —                       | 870,399            |
| Net gain on sale of assets   | 390,028                 | 165,448            |
| <b>Total non-interest income</b>                                     | <b>19,306,081</b>       | <b>14,063,887</b>  |
| <b>Non-interest expense</b>  |                         |                    |
| Employee compensation and benefits                                   | 23,034,092              | 22,045,406         |
| Office operations and other expense                                  | 5,597,434               | 5,450,357          |
| Processing charges   | 4,805,626               | 3,979,710          |
| Office occupancy   | 2,745,696               | 2,425,850          |
| Computer operations  | 1,898,579               | 1,753,899          |
| Advertising and marketing  | 1,873,383               | 1,827,322          |
| <b>Total non-interest expense</b>                                    | <b>39,954,810</b>       | <b>37,482,544</b>  |
| <b>Net income before NCUSIF and<br/>corporate credit union costs</b> | <b>14,923,069</b>       | <b>8,035,917</b>   |
| NCUSIF deposit impairment  | 5,659,424               | —                  |
| NCUSIF share insurance premium                                       | 1,543,676               | —                  |
| Passback of corporate credit union<br>stabilization fund             | (5,659,424)             | —                  |
| Loss on impairment of corporate<br>credit union stock                | 4,294,971               | —                  |
| <b>Total NCUSIF and corporate<br/>credit union costs</b>             | <b>5,838,647</b>        | <b>—</b>           |
| <b>Net income</b>  | <b>\$9,084,422</b>      | <b>\$8,035,917</b> |

# Management's discussion and analysis of financial position

STCU's 2009 financial results reflect our commitment to meeting our members' needs even in turbulent times. STCU reported record levels of loan originations and growth in deposit balances during 2009. We were able to meet the challenges of these uncertain economic times and continue to maintain strong capital levels. Although our 2009 return on average assets of 0.73% was below targeted levels and below our historical performance, we quickly reacted to regulatory changes and economic events to achieve a level of profitability above most peer credit unions.

**Membership:** STCU now serves more than 86,000 members. This represents an 11% increase in membership during 2009. Membership growth reflects the attractive financial products and services STCU offers, and the trust and confidence we have built in 75 years of providing financial services to members.

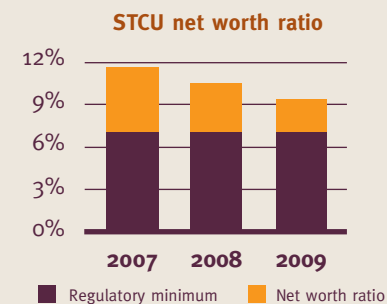
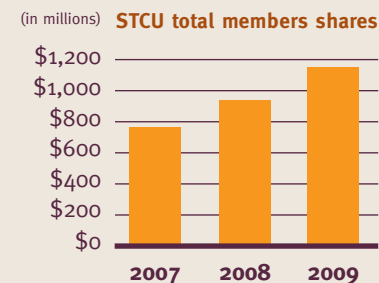
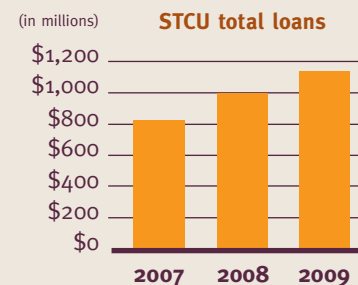
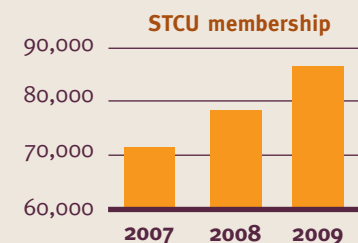
**Loans:** Our loan portfolio grew 14% during 2009 as our members looked to us as a reliable and available source of credit. We originated \$252 million in real estate mortgages in 2009 and our auto loan portfolio grew by \$47 million. Loans to our business members increased by \$11 million compared to December 31, 2008. While our loan underwriting standards helped us maintain strong credit quality, peak unemployment rates and depreciation in home values in Spokane and North Idaho where STCU operates have impacted our membership. In 2009, loan charge offs increased to 0.54% of average loans compared to 0.25% in 2008. Loan delinquencies at December 31, 2009 were 0.60% of the total portfolio, up from 0.28% one year earlier. We continue to work hard to help our members who have been impacted by the economic downturn.

**Member shares:** Our members' trust in the financial strength of STCU fueled a 22% increase in deposit accounts. In addition to checking and member share accounts, STCU offers money market and share certificates, as well retirement share and certificate accounts.

**Net income:** STCU generated net income of \$9.1 million in 2009, an increase of \$1.1 million compared to 2008's net income of \$8.0 million. The growth in loan volume contributed to an increase in net interest income and related loan origination fees. While we maintained very competitive deposit rates in 2009, our net interest income also benefited from a steeper yield curve than in recent years. Offsetting these improvements, however, were an increase in regulatory share insurance costs, an impairment of our corporate credit union membership investment and a higher than normal provision for loan losses. A net charge of \$1.5 million was recorded related to the National Credit Union Share Insurance Fund (NCUSIF) actions to stabilize the corporate credit union system. The NCUSIF created the Temporary Corporate Credit Union Stabilization Fund and expects that natural person

credit unions, such as STCU, will be assessed the cost for the repayment of stabilization expenses and share insurance premiums over seven to eight years beginning in 2009. STCU's membership investment in Western Corporate Federal Credit Union, a corporate credit union which STCU uses for check processing, investment and other services, was impaired in 2009, resulting in a \$4.3 million loss for STCU. These unplanned charges reinforced the importance of our strategic focus on increasing operating efficiencies. Assets per full time equivalent employee improved to \$3.6 million in 2009 from \$3.3 million in the previous year. Operating expenses as a percent of total assets improved from 3.29% in 2008 to 2.95% in 2009.

**Capital:** The net worth ratio at December 31, 2009 was 9.4%, well above the regulatory minimum net worth ratio of 7% considered to be "well capitalized" for credit unions. Going into this economic downturn, STCU was well positioned with a 10.4% net worth ratio at December 31, 2008. We utilized some of our capital to support the 19% growth in assets in 2009 as we kept up with our members' demand for financial services. In addition, our capital helped absorb the charges described above related to regulatory share insurance costs, the impairment of our corporate credit union membership investment and increased provision for loan losses in 2009.



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