

STCU
2008
annual
report

STCU is you.



Sound financial practices, a belief in the potential of the little guy, and a generous spirit toward the community. Those were the ideals that led Spokane teachers to form a credit union during the Great Depression. And they are the ideals that turned many people to STCU as the national economy faltered in 2008.

The result: As some other financial institutions struggled, STCU saw unprecedented growth and continued its commitment to the community. It's what you'd expect from an organization with a vision to be "the most loved and valued financial relationship on Earth."



STCU grows

- \$1.1 billion in total assets. That puts us in the top 2 percent of the nation's 8,000 credit unions.
- \$24.9 million in member dividends, setting another STCU record.
- 4,343 home loans serviced. And while you heard a lot about the national mortgage crisis in 2008, STCU continued helping members achieve the American Dream while experiencing so few foreclosures they could be counted on one hand.
- 909 new members every month, as people sought a secure financial relationship.

STCU connects

- 608,853 online visitors at stcu.org. People are discovering it's a great place to find financial education and convenient member services.
- 72,000 shared branching transactions, reflecting the cooperative spirit of credit unions.
- 39,924 member visits at our Liberty Lake Branch, which opened in April.
- 159 kids in Money Camps, where financial education begins.

Erin borrows. STCU member since 2003.



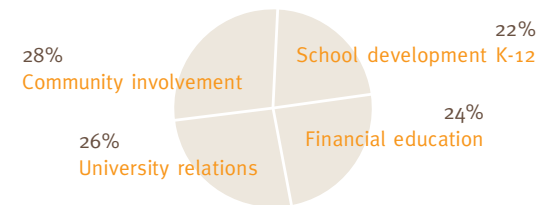
Sean invests.
STCU member since 1988.

STCU protects

- \$1.1 million in fraud prevention. As financial predators become more sophisticated, our member services staff and fraud prevention team are helping protect vulnerable members. And our community outreach representatives are spreading the word, even beyond the STCU family.
- \$250,000 in deposit insurance. Credit union deposits get even safer, with increased federal insurance on single accounts. A family's deposits may now be insured to \$2.5 million.

STCU cares

- Whether hosting “welcome back” events for teachers, providing scholarships for career-bound students, helping raise money for Children’s Miracle Network, or celebrating creativity, STCU is invested in the community! We contribute and offer volunteer support for non-profit organizations that help strengthen Inland Northwest communities through four areas of focus: community involvement, university relations, financial education, and school development (K-12).



STCU is you.

Assets

	December 31, 2008	December 31, 2007
Cash and cash equivalents	\$39,319,590	\$26,611,947
Interest bearing deposits in other financial institutions	15,294,971	24,912,047
Investments:		
Trading, at fair value	5,283,507	5,199,131
Available for sale	30,126,558	10,514,269
Loans to members, net	997,083,391	824,990,110
Accrued interest receivable	3,952,582	3,266,487
Employee benefit plan assets	3,236,260	4,940,706
Premises and equipment, net	28,350,197	26,827,923
National Credit Union Share Insurance Fund deposit	7,583,196	5,826,881
Federal Home Loan Bank stock	4,324,800	4,324,800
Foreclosed and repossessed assets	755,570	239,183
Other assets	2,665,481	2,889,655
Total assets	\$1,137,976,103	\$940,543,139

Liabilities and members' equity

Members' shares	\$927,334,489	\$757,174,247
Borrowed funds	80,186,388	61,868,174
Accrued expenses and other liabilities	11,859,144	11,432,606
Total liabilities	1,019,380,021	830,475,027
Members' equity		
Undivided earnings	104,882,917	96,847,000
Regular reserve	13,417,250	13,417,250
Accumulated other comprehensive income (loss)	295,915	(196,138)
Total members' equity	118,596,082	110,068,112
Total liabilities and members' equity	\$1,137,976,103	\$940,543,139

Statement of income

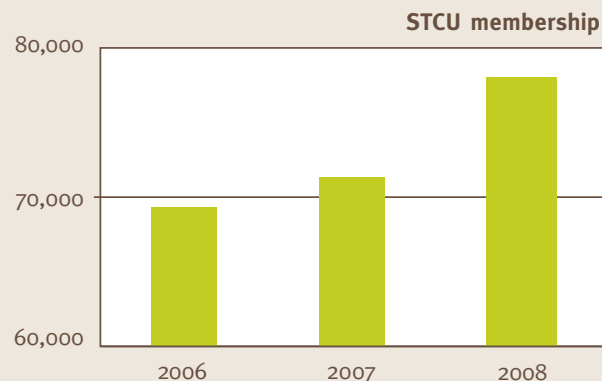
	Year ended December 31,	
	2008	2007
Interest income		
Interest on loans to members	\$61,870,519	\$52,668,857
Interest on investments and cash equivalents	2,650,350	2,895,746
Total interest income	64,520,869	55,564,603
Interest expense		
Dividends on members' shares	24,875,733	21,559,827
Interest on borrowed funds	3,175,042	2,992,871
Total interest expense	28,050,775	24,552,698
Net interest income	36,470,094	31,011,905
Provision for loan losses	3,318,851	1,266,555
Net interest income after provision for loan losses	33,151,243	29,745,350
Non-interest income		
Service charges and other fees	11,310,537	10,380,304
Loan servicing fees	1,129,972	839,067
Rental income	296,150	284,687
Net change in valuation of financial instruments carried at fair value	84,375	253,375
Gain on redemption of Visa® Inc. stock	870,399	—
Gain (loss) on employee benefit plan investments	(1,704,445)	384,936
Other non-interest income	380,230	320,996
Total non-interest income	12,367,218	12,463,365
Net income before non-interest expense	45,518,461	42,208,715
Non-interest expense		
Salaries and benefits	22,045,406	18,927,137
Office operations	11,257,389	9,717,938
Office occupancy	2,425,850	2,170,763
Computer operations	1,753,899	1,881,317
Total non-interest expense	37,482,544	32,697,155
Net income	\$8,035,917	\$9,511,560

Management's discussion and analysis

STCU's 2008 financial results reflect our commitment as a member-owned cooperative to provide high quality financial services to our members. The credit union had a record year as our total assets exceeded \$1 billion and we were able to meet the challenges of these uncertain economic times. Our financial results demonstrate our service to members in several ways, including the number of members we serve; the amount of new loans we granted to help members finance their homes, autos, and businesses; the attractive dividend rates we paid members who trust us with their deposits and savings; the improving efficiency of our operations, reflecting our belief that we are stewards of our members' investment in STCU; and our strong capital position, which provides a safe and sound foundation to weather hard times and handle the unexpected.

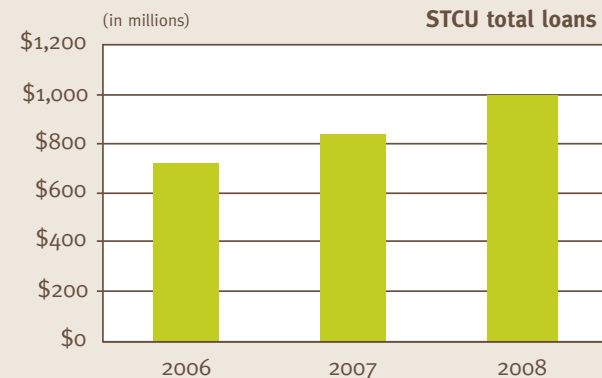
Membership

At the end of 2008, STCU served 78,034 members. This represents a 9.4% increase in membership during the last year. Our investments in new branch locations and marketing initiatives during the last several years have contributed to this growth in our membership base.



Loans

Our loan portfolio grew 20.9% during 2008 as our members looked to us as a reliable and available source of credit. We originated \$189 million in real estate mortgages in 2008. In addition, our auto loan portfolio grew in 2008 by \$24.2 million; home equity loans grew by \$20.7 million, and loans to our business members increased by \$28.0 million compared with 2007. Prudent and consistent loan underwriting helped us maintain our strong credit quality. General economic conditions deteriorated significantly in the United States during 2008. The Spokane and North Idaho economies, where STCU operates, slowed but to a lesser degree than other parts of the United States. In 2008, loan charge offs increased to 0.25% of average loans compared with 0.15% in 2007, but remained well below the loss rates experienced at peer credit union and banks. Loan delinquencies at December 31, 2008, were 0.27% of the total portfolio, up from 0.12% one year earlier, and we continue to work hard to help our members who have been affected by the economic downturn.



Member shares

Our members' trust in the financial strength of STCU, as well as competitive rates on deposit accounts, fueled a 22.5% increase in member share accounts, retirement share accounts, share certificates, and money market accounts. We paid our members \$24.9 million in dividends on their deposits in 2008.

Capital

The net worth ratio at December 31, 2008, was 10.39%, a decline from 11.72% at December 31, 2007. We put our capital to work to fund the significant growth in total assets during 2008. In addition, STCU opened its Liberty Lake Branch in April 2008 and continued expansion into North Idaho with a branch opening in Bonner County in January 2009. STCU has consistently maintained capital levels in excess of the regulatory minimum net worth ratio of 7% considered for "well capitalized" credit unions.

Net income

STCU generated net income of \$8.0 million in 2008, compared with \$9.5 million in 2007. The reduction in net income reflects an increase in the provision for loan losses, which totaled \$3.3 million in 2008 versus \$1.3 million a year earlier, as well as \$1.7 million in unrealized investment losses on an investment

portfolio which supports our employee benefit plans. With a specific strategic focus on improving operating efficiencies, our assets increased from \$2.9 million per full-time equivalent employee in 2007 to \$3.3 million per full-time equivalent employee in 2008. Operating expense as a percent of total assets decreased from 3.47% in 2007 to 3.29% in 2008.

Subsequent event

In January 2009, the NCUA announced the Corporate Credit Union Stabilization Program (the "Stabilization Program"). This program was put in place to restore capital at insured corporate credit unions in the United States. As a result of the Stabilization Program, member institutions' share insurance deposits held at the NCUSIF experienced a decline in value. In addition, the NCUSIF assessed an additional share insurance premium to increase its insurance reserves to regulatory levels. As a result of this program, in January 2009, STCU recorded a charge of \$3.9 million to write down 51% of the NCUSIF insurance deposit and accrued \$2.5 million for additional share insurance premiums assessed. At January 31, 2009, STCU's net worth ratio was 9.66%. These amounts are estimates and are subject to change as the NCUA Board continues to evaluate actions needed to stabilize the corporate credit union system.

