

# 2017 Annual Report



## A seamless transition.

**It's not every day an organization gets a new CEO. At STCU, it has happened only four times.**

Tom Johnson, our fourth CEO, retired on December 31, 2017. During his seven-year tenure, STCU nearly doubled our membership and total assets, restored the historic Hutton Building, introduced rewards cards and a mobile app, and became the title sponsor of the STCU Best of Broadway series.

Fifth-generation Spokane resident Ezra Eckhardt became CEO on January 1, 2018.

“Our family has deep roots in Spokane,” says Ezra, who was raised not far from the Main Branch. “We’re invested in the community, and excited about the great things happening here, many of them with STCU’s help.”

In the final year under Tom’s leadership, STCU relocated our Downtown Spokane Branch to a new River Park Square location, sharing space with the Rocket Bakery. A playful mural by Spokane’s Benson brothers fills an interior wall of the branch, including a sly nod to our founder (and original CEO) Ernie McElvain.

When the STCU Airway Heights Branch opened in August, it became our 21st branch location and the seventh to open under Tom’s leadership.

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# 7,590

## VOLUNTEER HOURS

**From the cover:** STCU employees are “Here for good” for our members, and the communities we serve. They logged more than 7,500 volunteer hours, and more than 100 employees recorded at least 12 hours, earning STCU grants for their favorite non-profits.

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# 12

## BESTS

*Inlander* newspaper readers named STCU “best credit union” for the 12th consecutive year, an honor we’ve received since the very first survey for that category.

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# 6

## CONTINENTS

STCU Member News, our bimonthly e-newsletter, was read by members in North and South America, Asia, Africa, Europe and Australia. We haven’t given up on Antarctica.

# Statements of financial condition

Assets	Dec 31, 2017	Dec 31, 2016
Cash and cash equivalents	\$130,667,940	\$102,517,650
Deposits in other financial institutions	250,000	250,000
Investments – available-for-sale, at fair value	117,108,039	128,689,040
Investments – paid in capital in other financial institutions	750,000	750,000
Loans held for sale	770,289	–
Loans, net	2,369,740,655	2,147,337,788
Accrued interest receivable	7,237,672	6,382,287
Employee benefit plan assets	9,891,868	9,023,452
Property and equipment, net	59,714,805	57,910,199
FHLB stock	12,871,300	10,838,300
NCUSIF deposit	20,136,683	17,960,609
Foreclosed and repossessed assets	118,882	113,111
Other assets	9,773,794	6,609,541
Total assets	<b>\$2,739,031,927</b>	<b>\$2,488,381,977</b>

Liabilities and members' equity	Dec 31, 2017	Dec 31, 2016
<b>Liabilities</b>		
Members' shares	\$2,177,895,049	\$1,994,814,678
Borrowed funds	246,242,127	203,133,075
Accrued expenses and other liabilities	29,345,915	25,561,704
Total liabilities	<b>\$2,453,483,091</b>	<b>\$2,223,509,457</b>
<b>Members' equity</b>		
Regular reserves	\$13,417,250	\$13,417,250
Undivided earnings	274,023,277	\$13,417,250
Accumulated other comprehensive loss	(1,891,691)	253,177,024
		(1,721,754)
Total members' equity	<b>\$285,548,836</b>	<b>\$264,872,520</b>
<b>Total liabilities and members' equity</b>	<b>\$2,739,031,927</b>	<b>\$2,488,381,977</b>

# Statements of income

	Dec 31, 2017	Dec 31, 2016
<b>Interest income</b>		
Loans	\$95,877,722	\$87,252,720
Investments and interest-bearing deposits	3,460,953	2,905,092
<b>Total interest income</b>	<b>\$99,338,675</b>	<b>\$90,157,812</b>
<b>Interest expense</b>		
Members' shares	\$11,958,401	\$10,635,826
Interest on borrowed funds	3,336,609	3,013,816
<b>Total interest expense</b>	<b>\$15,295,010</b>	<b>\$13,649,642</b>
<b>Net interest income</b>	<b>\$84,043,665</b>	<b>\$76,508,170</b>
Provision for loan losses	11,939,108	8,653,111
<b>Net interest income after provision for loan losses</b>	<b>\$72,104,557</b>	<b>\$67,855,059</b>

	Dec 31, 2017	Dec 31, 2016
<b>Non-interest income</b>		
Service charges and fees	\$24,041,533	\$20,743,293
Loan servicing and origination fees	2,516,681	2,124,406
Rental income	259,796	451,335
Net gain on sale of assets and investments	145,654	435,606
Net change in employee benefits plan assets carried at fair value	1,386,578	445,692
Net adjustment in mortgage servicing rights carried at fair value	(91,645)	6,311
Other non-interest income	1,429,643	657,808
<b>Total non-interest income</b>	<b>\$29,688,240</b>	<b>\$24,864,451</b>
<b>Non-interest expense</b>		
Employee compensation and benefits	\$46,385,901	\$41,710,142
Processing charges	11,755,428	10,224,591
Office operations and other expense	9,637,360	8,191,284
Office occupancy	4,911,826	4,329,207
Computer operations	4,604,933	3,733,671
Advertising and marketing	3,651,096	2,584,007
<b>Total non-interest expense</b>	<b>\$80,946,544</b>	<b>\$70,772,902</b>
<b>Net income</b>	<b>\$20,846,253</b>	<b>\$21,946,608</b>

# Analysis of the financial position

## For over 80 years, STCU has supported education, arts and culture, and important local causes.

In 2017, that tradition took a dramatic leap, with title sponsorship of the STCU Best of Broadway series. More than a high-profile branding opportunity, this partnership with WestCoast Entertainment contributes to STCU's well-earned reputation for leadership and service. More and more, consumers are choosing to be part of the credit union that is "Here for good" for the community and its members, as indicated by continued financial strength.

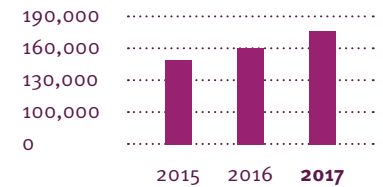
### MEMBERSHIP

STCU ended the year with more than 173,000 members, representing an 8% increase from the prior year. To better serve that growing membership, the credit union opened an Airway Heights Branch, moved the Downtown Spokane Branch to a new, more convenient location, and opened a stand-alone ATM in Deer Park, Washington.

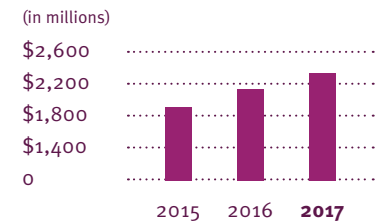
### LOANS

STCU's loan portfolio grew 10% in 2017. Net loans grew almost \$225 million, maintaining steady growth from the previous year. The auto and RV loan portfolio was responsible for almost 58% of net loan growth. STCU's competitive rates and indirect dealer relationships helped drive this growth. In addition, STCU continued to offer 1% cash back on loans transferred from other financial institutions, with over \$300,000 paid back to members. STCU's commercial portfolio increased nearly 13% in 2017. Loan charge-offs increased from 0.28% in 2016 to 0.39% in 2017, while loan delinquencies decreased, from 0.43% in 2016 to 0.38%.

### Membership



### Loans



## MEMBERSHIP SHARES

Member shares grew over 9% in 2017. There was significant growth in such products as checking, money market, and First5 Savings accounts. The commercial deposit portfolio grew 17% as STCU focused on deepening relationships with business members, and building awareness of its business services.

## NET INCOME

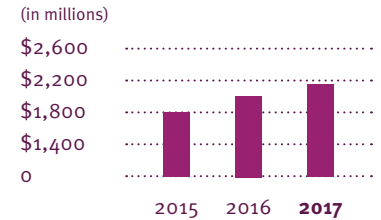
STCU generated over \$20.8 million in net income in 2017, a slight decrease of \$1.1 million from 2016. While loan rates remained low, strong growth in loan volume grew interest income by \$9 million over 2016. There was a \$1.6 million increase in interest expense, due to growth in balances and competitive market rates. Net interest income grew by nearly \$8 million over 2016, strengthening STCU's ability to provide new technologies, desirable products and services, and rate promotions. The provision for loan losses increased more than \$3 million from the previous year, a reflection of the large increase in net loans, a change in loan mix, and an increase in charged-off loans.

Return on assets decreased from 0.88% in 2016 to 0.76% in 2017, as the credit union experienced increased provision for loan losses and increased operating expenses. Operating expenses as a percent of total assets increased from 2.84% in 2016 to 2.96% in 2017. This increase can be attributed to our increased efforts to retain our talented employees and be more visible in our community.

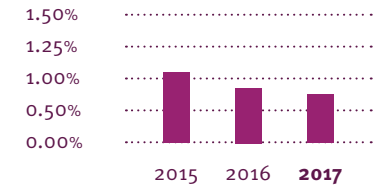
## CAPITAL

On December 31, 2017, STCU's net worth ratio was 10.50%. The regulatory minimum net worth ratio is 7% to be considered a "well capitalized" credit union. STCU manages this ratio by investing in new technologies, providing competitive financial products, and building new branches to best serve our members.

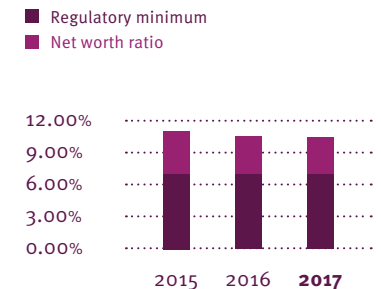
## Member shares



## Return on assets



## Net worth ratio



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## Here for good.™

Photo: STCU Consumer Lending Manager Debra Jackson helped create an emergency loan for Danny Horton and other STCU members just hours after a severe windstorm struck the region.



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(800) 858.3750 | [stcu.org](http://stcu.org)

