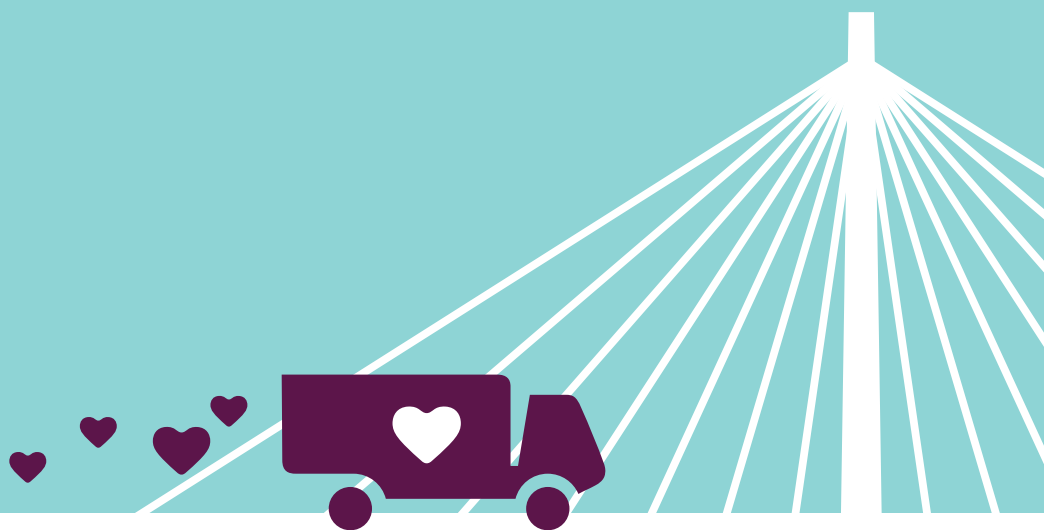


2018 Annual Report



New territory.

Ezra Eckhardt became our fifth CEO on the first day of 2018, and that was only the first big change in a year marked by growth.

After years of planning, STCU broke ground in the Tri-Cities in 2018 — our first new market outside the Spokane-Coeur d’Alene region. The Southridge Financial and Home Loan Center opened in November in Kennewick, allowing us to reconnect with longtime members and to welcome new ones.

We also opened our first location dedicated to home loans: the Argonne Home Loan Center, which began serving members in August in Spokane Valley. The location contributed to a record-busting number of home loan applications.

Not to be distracted, we continued to grow steadily, ending 2018 with nearly 188,000 members and just under \$3 billion in total assets. We maintained our focus on the well-being of the people and communities we serve, offering relief assistance to members affected by the government shutdown and supporting our employees as they logged a record number of volunteer hours.

188,000

MEMBERS

STCU ended 2018 with nearly 188,000 members. They lived in all 50 states and in Puerto Rico, Guam, and Washington, D.C., as well as throughout Canada, in Mexico, and overseas. Our distant members stayed in touch using the Contact Center, the STCU mobile app and online banking, and shared branching.

682

EMPLOYEES

United by our “Here for good” promise, STCU employees served members at 23 branches and at Headquarters, with locations in 11 cities in Eastern Washington and North Idaho.

10,000

VOLUNTEER HOURS

More than 400 STCU employees logged nearly 10,000 hours through our Volunteers Count program. On behalf of employees who logged 12 hours or more, we distributed more than 100 grants to nonprofits close to their hearts.

13

BESTS

Inlander newspaper readers named STCU “best credit union” for the 13th year in a row, an honor we’ve received since the first survey for the credit union category.

Statements of financial condition

| Assets | Dec 31, 2018 | Dec 31, 2017 |
|---|------------------------|------------------------|
| Cash and cash equivalents | \$140,855,886 | \$130,667,940 |
| Deposits in other financial institutions | 250,000 | 250,000 |
| Investments – available-for-sale, at fair value | 133,953,711 | 117,108,039 |
| Investments – paid in capital in other financial institutions | 750,000 | 750,000 |
| Loans held for sale | 166,920 | 770,289 |
| Loans, net | 2,584,853,216 | 2,369,740,655 |
| Accrued interest receivable | 8,395,730 | 7,237,672 |
| Property and equipment, net | 67,902,941 | 59,714,805 |
| FHLB stock | 14,002,000 | 12,871,300 |
| NCUSIF deposit | 21,765,989 | 20,136,683 |
| Foreclosed and repossessed assets | 91,940 | 118,882 |
| Other assets | 13,327,332 | 19,665,662 |
| Total assets | \$2,986,315,665 | \$2,739,031,927 |

**Liabilities and
members' equity****Dec 31, 2018****Dec 31, 2017****Liabilities**

| | | |
|---|------------------------|------------------------|
| Members' shares | \$2,374,669,228 | \$2,177,895,049 |
| Borrowed funds | 267,258,598 | 246,242,127 |
| Accrued expenses and other liabilities | 27,422,359 | 29,345,915 |
| Total liabilities | \$2,669,350,185 | \$2,453,483,091 |

Members' equity

| | | |
|---|----------------------|----------------------|
| Regular reserves | \$13,417,250 | \$13,417,250 |
| Undivided earnings | 305,871,350 | 274,023,277 |
| Accumulated other comprehensive loss | (2,323,120) | (1,891,691) |
| Total members' equity | \$316,965,480 | \$285,548,836 |

**Total liabilities and
members' equity****\$2,986,315,665****\$2,739,031,927**

Statements of income

| Interest income | Dec 31, 2018 | Dec 31, 2017 |
|---|----------------------|---------------------|
| Loans | \$109,558,034 | \$95,877,722 |
| Investments and interest-bearing deposits | 4,231,615 | 3,460,953 |
| Total interest income | \$113,789,649 | \$99,338,675 |
| Interest expense | Dec 31, 2018 | Dec 31, 2017 |
| Members' shares | \$14,406,675 | \$11,958,401 |
| Interest on borrowed funds | 3,974,293 | 3,336,609 |
| Total interest expense | \$18,380,968 | \$15,295,010 |
| Net interest income | \$95,408,681 | \$84,043,665 |
| Provision for loan losses | 7,209,155 | 11,939,108 |
| Net interest income after provision for loan losses | \$88,199,526 | \$72,104,557 |

| Non-interest income | Dec 31, 2018 | Dec 31, 2017 |
|---|---------------------|---------------------|
| Service charges and fees | \$27,184,233 | \$24,041,533 |
| Loan servicing and origination fees | 2,725,552 | 2,516,681 |
| Rental income | 272,179 | 259,796 |
| Net gain on sale of assets and investments | 716,007 | 145,654 |
| Net adjustment in mortgage servicing rights carried at fair value | 54,467 | (91,645) |
| Other non-interest income | 2,185,220 | 2,816,221 |
| Total non-interest income | \$33,137,658 | \$29,688,240 |

| Non-interest expense | Dec 31, 2018 | Dec 31, 2017 |
|-------------------------------------|---------------------|---------------------|
| Employee compensation and benefits | \$51,842,041 | \$46,385,901 |
| Processing charges | 13,393,976 | 11,755,428 |
| Office operations and other expense | 10,148,807 | 9,637,360 |
| Office occupancy | 5,018,328 | 4,911,826 |
| Computer operations | 4,969,334 | 4,604,933 |
| Advertising and marketing | 4,116,625 | 3,651,096 |
| Total non-interest expense | \$89,489,111 | \$80,946,544 |
| Net income | \$31,848,073 | \$20,846,253 |

Analysis of the financial position

Everything starts with the heart of the member.

As every STCU employee knows, those red alabaster hearts on meeting tables and desks throughout the organization are packed full of meaning. When we talk about the heart of the member, we're talking about our commitment to our members' financial well-being. That commitment remains our top priority — and the key to our success as our numbers and geographic footprint continue to grow.

MEMBERSHIP

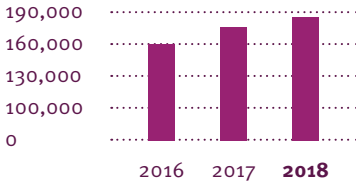
STCU ended the year with nearly 188,000 members, representing an 8% increase from the prior year.

LOANS

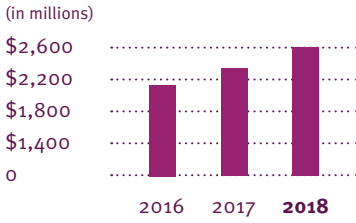
STCU's loan portfolio grew 9% in 2018, driven by competitive rates and indirect dealer relationships. Net loans grew by more than \$214 million, maintaining steady growth from the previous year. Real estate loans were responsible for over 43% of net loan growth, while auto and RV loans were responsible for 35%. In addition, STCU continued to offer 1% cash back on loans transferred from other financial institutions, with almost \$130,000 paid back to members.

Loan charge-offs decreased from 0.39% in 2017 to 0.34% in 2018. Loan delinquencies also decreased, from 0.38% in 2017 to 0.23% in 2018.

Membership



Loans



MEMBER SHARES

Member shares grew more than 9% in 2018. There was significant growth in such products as share certificates, checking, and First5 Savings Accounts. The commercial deposit portfolio grew 26% as STCU focused on deepening relationships with business members.

NET INCOME

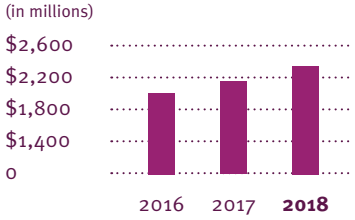
STCU generated more than \$31.8 million in net income in 2018, an increase of \$11.0 million from 2017. Interest income grew by almost \$14.5 million over 2017. Interest expense increased \$3.1 million, as balances grew and STCU raised rates to remain competitive in the market. Net interest income grew by almost \$11.4 million over 2017, strengthening STCU's ability to provide new technologies, desirable products and services, and rate promotions.

The provision for loan losses decreased almost \$4.8 million from the previous year as charge-offs and delinquencies improved. The same factors, along with the growth of loan volume, increased STCU's return on assets to 1.07%, up from 0.76% in 2017. Operating expenses as a percent of total assets increased from 2.96% in 2017 to 3.00% in 2018.

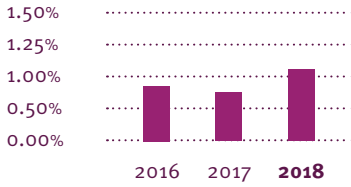
CAPITAL

On December 31, 2018, STCU's net worth ratio was 10.69%. 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

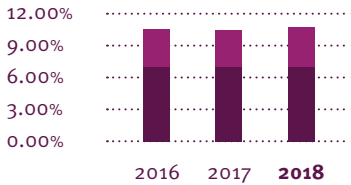


Return on assets



Net worth ratio

- Regulatory minimum
- Net worth ratio



We brought the love.

Illustration: After years of planning, STCU moved into the Tri-Cities in 2018 — our first new market outside the Spokane-Coeur d’Alene region. The Southridge Financial and Home Loan Center opened in November, allowing us to reconnect with longtime members and to welcome new ones.



2018 Annual Report
(800) 858.3750 | stcu.org

