SACRAMENTO CREDIT UNION

2015

ANNUAL REPORT

P.O. BOX 2351, SACRAMENTO, CA 95812-2351
(916) 444-6070 www.sactocu.org

Board of Directors' and President's Report

Sacramento County Employees' Credit Union opened its doors on March 18, 1935, in an abandoned church building in downtown Sacramento, sharing both quarters and staff with the Southern Pacific Employees' Credit Union to reduce operating expenses. Credit unions offered only savings accounts and loans in those days. The organization grew steadily and changed with the times, extending membership beyond the County of Sacramento employment group, thus, being renamed Sacramento Credit Union in 1985. As our industry evolved, so SCU evolved into a full service financial institution serving people and businesses in seven Northern California counties.

Fiscal year 2015 net earnings of over $4 million, net worth of over $50 million, loan growth of nearly 14.00% and deposit growth of over 3.00% attest to the strength of this institution. That strength derives from the loyalty of the member base, the leadership of the Board of Directors, the insight of management and the support of staff. Staying true to its roots, the credit union's goal is to help members improve their financial well being. In 2015 various paths were pursued to sustain that goal.

Sacramento Credit Union launched a new Online Banking platform, bringing updates and enhancements to this product. The new telephone banking platform improved service. The credit union was among the first in the area to offer members not only the added security of chip enabled credit and debit cards, but also the convenience of ApplePay®. The groundwork began for a 24/7 lending solution. Extensive research and training were conducted to make possible the new Reverse Mortgage Lending Program.

The 2015 Strategic Plan included the expansion of the staff training program. Broadening the knowledge of credit union personnel aids the member experience and assists staff in their career paths. An ongoing campaign was put in place to reconnect with select employee groups. Marketing promotions were more frequent and tailored to member needs to the benefit of the membership. Branding was updated for consistency and content to better communicate the credit union's message. SCU was more visible in the community for the sake of giving back and making the community more aware of the credit union.

The Board of Directors and management have operated Sacramento Credit Union under its traditional values, while keeping pace with the changing environment. Careful consideration is given to all new products and services to ensure the member advantage and the safety, soundness and sustainability of the organization. Downtown Sacramento's revitalization offers yet another exciting opportunity for Sacramento Credit Union to partner with the community and serve the region.

Submitted by: Les Brown, Chair, Board of Directors, and Bhavnesh Makin, President/CEO

Secretary-Treasurer's Report

Audited net earnings for the fiscal year ended September 2015 were $4,304,482, equivalent to 112 basis points on average assets of $383 million. Figures for prior fiscal year were, respectively, $3,211,874 or 87 basis points on $370 million.

Net worth, with successive fiscal year growth rates of 8.77%, 7.00%, 11.21% and 7.39%, eclipsed the $50 million mark by December 2014. The key ratio of net worth to average assets ended the current fiscal year at 13.77%, easily within striking distance of the 14.04% recorded December 2008, the eve of the Great Recession. Vibrant improvement in this financial industry ratio reflects the positive trend of net worth, on a rolling twelve month basis, growing at least twice as fast as assets since March 2012.

Assets grew $13.2 million or 3.4%, settling just under the $400 million level. The loan portfolio surged $22.6 million or 13.8%. Term investments contracted $10.8 million or negative 6.7%. Nearly all loan categories showed growth. At the forefront were those collateralized by vehicles, 25.4%, and TPMG stock, 15.6%. As a result of the growth patterns, the yield on nearly $11 million in earning assets increased almost fourfold, from the 1.2% weighted yield on term investments to the 4.1% weighted yield on loans.

Aggregate deposits grew $10.5 million or 3.2% with growth configuration generally contributing toward a 5.0% reduction in cost of funds. Certificates of deposit shrank $3.8 million or 8.8%. Money markets contracted $2.6 million or 3.2%. Regular deposits swelled $10.4 million or 9.5%. Checking accounts, excluding Free Rewards Checking, surged $5 million or 10.0%, and Free Rewards Checking grew $1.3 million or 3.0%.

As a result of the aforementioned trends in yield on assets and cost of funds, net interest margin edged upward $558,098 or 7.4%. The remaining three elements of the financial formula likewise showed modest improvement. Operating expenses decreased $110,302 or 1.1%. Fee and other income increased $82,311 or 1.4%. Provision for bad debt improved $341,897 to an inverted $331,199 for fiscal year 2015, from an already moderate $10,698 for fiscal year 2014.

Submitted by: Linda Foster-Hall, Secretary-Treasurer, Board of Directors

Lending Report

In fiscal year 2015 outstanding loan balances increased by 13.50%, continuing the trend of loan portfolio growth for the fifth consecutive year. The consumer vehicle, first mortgage and TPMG portfolios collectively added $20,341,241. First mortgage variable rate, receding 50.07%, was the only portfolio to shrink, resulting from refinances to low, fixed rate loans and lack of demand. The FannieMae subservicing loan portfolio continued to grow, reaching $162,932,875 in loan balances at fiscal year end.

Loan Type	Portfolio Mix	September 30, 2015	September 30, 2014	Variance
Mortgage: Fixed Rate	16.40%	$ 30,633,312	$ 28,624,235	7.02%
Mortgage: Variable Rate	0.40%	$ 726,616	$ 1,455,264	(50.07%)
Mortgage: HELOC Variable Rate	10.20%	$ 19,072,902	$ 18,087,506	5.45%
Commercial & Participation	11.50%	$ 21,568,297	$ 20,564,379	4.88%
Consumer: Vehicle	34.80%	$ 65,008,949	$ 51,843,599	25.39%
Consumer: Credit Card	6.20%	$ 11,559,012	$ 10,947,621	5.58%
Consumer: Other & Stock Secured	20.50%	$ 38,221,799	$ 33,055,001	15.63%
Gross Loan Portfolio	100.00%	$186,790,888	$164,577,605	13.50%

New loan production experienced significant growth in sold and portfolioed first mortgages, fixed second mortgages and other unsecured loans. Combined production in these segments represented a $20,013,406 increase over 2014, attributed primarily to promotions, continued focus on real estate lending and the concerted effort to portfolio first mortgages. As in previous years, first mortgages were primarily committed to FannieMae to limit interest rate risk, as well as generate non-interest income and subservicing revenue. Credit quality remained strong with 93% of consumer loans funded in the fiscal year representing Tier 1 and 2 credit quality. Delinquency remained tame with total delinquency 60 days or greater ending the fiscal year at 0.53%. Commercial segment production receded 76.50%, attributed primarily to the temporary vacancy of the business development officer position.

Loan Type	Production Mix	September 30, 2015	September 30, 2014	Variance
Credit Card	3.00%	$ 3,424,665	$ 3,442,178	(0.50%)
Other Unsecured	2.00%	$ 2,341,354	$ 1,475,658	58.70%
Vehicle Indirect	20.80%	$ 23,924,777	$ 23,381,955	2.30%
Vehicle Retail	10.40%	$ 12,001,283	$ 12,167,767	(1.40%)
Other Secured	11.60%	$ 13,328,481	$ 12,879,561	3.50%
2nd Mort-HELOC	4.80%	$ 5,518,576	$ 5,387,328	2.40%
2nd Mort-Fixed	0.80%	$ 948,250	$ 336,670	181.70%
1st Mort-Orig & Sold	36.00%	$ 41,375,355	$ 29,467,875	40.40%
1st Mort-Orig & Portfolioed	7.60%	$ 8,777,850	$ 2,149,200	308.40%
Commercial	1.10%	$ 1,258,947	$ 5,349,250	(76.50%)
Participation	1.80%	$ 2,025,486	$ 3,300,000	(38.60%)
SBA	0.00%	$ 0	$ 33,439	(100.00%)
New Loan Fundings	100.00%	$114,925,024	$ 99,370,882	15.70%

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

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2015 annual audit of the credit union's financial statements. Its 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, 2015, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2015

Performance Category	September 2015	September 2014	Variance	
Assets	$396,043,999	$382,871,359	$ 13,172,640	3.44%
Net Loans	185,737,126	163,161,862	22,575,264	13.84%
Term Investments	149,652,636	160,455,355	(10,802,719)	(6.73%)
Member Deposits	340,357,634	329,866,160	10,491,474	3.18%
Net Capital	53,381,550	49,077,068	4,304,482	8.77%
Interest Income	8,755,855	8,231,251	524,604	6.37%
Less Cost of Funds	635,057	668,551	(33,494)	(5.01%)
Net Interest Margin	8,120,798	7,562,700	558,098	7.38%
Less Provision for Bad Debt	(331,199)	10,698	(341,897)	(3195.90%)
Add Non-Interest Income	6,103,211	6,020,899	82,311	1.37%
Less Operating Expenses	10,250,725	10,361,027	(110,302)	(1.06%)
Net Income	$ 4,304,482	$ 3,211,874	$ 1,092,608	34.02%

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: Gene Webb, Chair, 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