SACRAMENTO CREDIT UNION

2016

ANNUAL REPORT

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Board of Directors' and President's Report

The Board of Directors developed with the management team the Annual Strategic Plan to build upon Sacramento Credit Union's strong foundation. Entering 2016, plans were well underway to sustain the safety and soundness of the organization, to elevate the member experience, to better the infrastructure and to introduce new products and services.

Fiscal year 2016 brought net earnings of $3.6 million, net worth growth of 6.90%, loan growth of nearly 21.00% and deposit growth of 8.00%. Measured growth of this nature speaks to the strength of SCU. The loan portfolio and the investment portfolio were modeled, then structured, to best serve the membership, while mitigating risk in anticipation of a rising rate environment. Superior credit quality is reflected by the low ratios of delinquency and charge-offs. The influx of deposits and increase in membership are evidence of confidence in and loyalty to the credit union.

Late in the year the retail network expanded to seven branches with the opening of the Roseville Branch. This new location brings convenience to the many members in the growing Roseville area and benefits the entire member base by bringing growth to the credit union. Plans were put in motion to relocate the Arden Branch to provide easier branch access, improved parking and increased privacy. The Arden Branch is scheduled to open at its new location in early 2017.

In addition to traditional brick and mortar locations, new technology was introduced for member convenience and security. All Sacramento Credit Union debit and credit cards became chip enabled, and all branches were equipped to instant issue the cards. Joining Apple Pay were Android Pay and Samsung Pay. VISA Checkout was made available for more secure online check out. An enhanced fraud alert system was put in place to speed the delivery of potential card fraud messaging. Quick Balance and Touch ID were added to the SCU mobile app. The introduction of ProPay allowed members to pay their SCU loans online with debit cards or eChecks from other financial institutions.

Human capital is not a balance sheet line item that can be assigned a relative worth, but we know the value of our people. Sacramento Credit Union offers a competitive benefits and compensation package. Just as important is the long standing commitment to training and development. Knowledge empowers staff and gives them the confidence to serve members in a friendly, professional manner. Succession planning was fine tuned to facilitate successors for positions. In the last year, 16 employees, or 18% of our work force, were promoted, some to their first manager positions.

The Board of Directors, the management team and all staff strive to uphold the reputation of Sacramento Credit Union, provide quality service and products to the membership, and give back to the communities we serve. It is our privilege to have these opportunities.

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

Secretary-Treasurer's Report

Audited net earnings, or return on assets (ROA), for fiscal year 2015-16 are $3,688,403, equivalent to 86.7 basis points on average assets of $426 million. Figures for prior fiscal year were, respectively, $4,304,482 or 112.4 basis points on $383 million.

Growth in net worth, also known as return on equity (ROE), finished the year at 6.90%, versus 8.80% recorded the prior year. Assets surged 8.00%, more than double the 3.40% growth the prior year, closely reflecting, respectively, 8.20% and 3.20% growth in deposits.

Deposit growth was achieved across all categories with the exception of certificates of deposits, which continue to recede in step with industry trends. Regular shares, especially the tier above $10,000, drove most of the deposit growth. Closely following were share drafts and money markets.

Loans grew 20.65%. Leading the growth were vehicle loans at 43.59%, first mortgage loans held in portfolio at 14.20% and commercial loans at 12.23%. On average, the loan portfolio yielded 3.60%, compared to 3.80% the prior year. However, as a percent of assets, loans increased from 45.75% to 49.59% with corresponding increase in contribution to ROA from 175.8 basis points to 177.2 basis points.

Positive trends were achieved in managing surplus liquidity, which as a percent of assets receded to 47.70% from 51.30% with corresponding decrease in contribution to ROA from 52.8 basis points to 50.3 basis points. The weighted average annual yield increased to 1.05% from 1.03%.

The changes in loans and surplus liquidity virtually cancelled each other with overall asset yield edging downward 1.1 basis points from 228.6 basis points to 227.5 basis points. The other four elements of the financial formula compose the remaining 24.6 basis point change in year-over-year net earnings:

- Cost of funds edged up slightly from 16.6 basis points to 17.6 basis points.
- Provision for loan losses flipped to 13.8 basis points from inverted 8.6 basis points.
- Fee and other income dipped from 159.4 basis points to 145.4 basis points, reflecting slower mortgage origination and lower balances of transaction exception fees.
- Operating expenses improved to 254.7 basis points from 267.6 basis points.

The fiscal year end ratios of net worth to average assets eased downward slightly from 13.80% to 13.70%, reflecting both 14.30% reduction in net earnings and 8.00% growth in assets, which combine to compute the 25.7 basis point change.

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

Lending Report

In fiscal year 2016 outstanding loan balances increased by 20.54% to continue loan portfolio growth for the sixth consecutive year. The consumer vehicle, first mortgage, and commercial and participation portfolios collectively added $34,735,213 to the loan portfolio balance. The mortgage variable rate (first mortgage) loan and credit card portfolios receded slightly. The FannieMae subservicing loan portfolio continued to grow, reporting $166,932,875 in loan balances at fiscal year end, representing 2.00% growth over the prior fiscal year.

Loan Type	Portfolio Mix	September 30, 2016	September 30, 2015	Variance
Mortgage: Fixed Rate	16.40%	$ 34,984,537	$ 30,633,312	14.20%
Mortgage: Variable Rate	0.40%	$ 697,028	$ 726,616	(4.07%)
Mortgage: HELOC Variable Rate	10.20%	$ 20,007,851	$ 19,072,902	4.90%
Commercial & Participation	11.50%	$ 24,206,991	$ 21,568,297	12.23%
Consumer: Vehicle	34.80%	$ 93,344,243	$ 65,008,949	43.59%
Consumer: Credit Card	6.20%	$ 11,454,121	$ 11,559,012	(0.91%)
Consumer: Other & Stock Secured	20.50%	$ 40,470,746	$ 38,221,799	5.81%
Gross Loan Portfolio	100.00%	$225,165,517	$186,790,888	20.54%

New loan production increased significantly in the indirect and direct vehicle, commercial and portfolioed first mortgage loan segments. Combined production represented a $29,800,486 increase over 2015, attributed primarily to promotions, continued focus on building the first mortgage portfolio and competitive vehicle loan interest rates. Credit card, and first and second mortgage loan production was significantly less than the previous year, as demand for these products slowed dramatically. As in previous years, first mortgage loans were primarily committed to FannieMae to limit interest rate risk, as well as to generate non-interest income and subservicing revenue. Credit quality remained strong with the majority of funded loans representing Tier 1 and 2 credit quality. Delinquency 60 days or greater remained low at 0.32%, down from 0.53% the prior year. The loan portfolio continued to perform at a high level, while loan delinquencies and net charge-offs remained in check.

Loan Type	Production Mix	September 30, 2016	September 30, 2015	Variance
Credit Card	1.70%	$ 2,216,801	$ 3,424,665	(33.27%)
Other Unsecured	2.20%	$ 2,898,209	$ 2,341,354	23.78%
Vehicle Indirect	33.00%	$ 43,607,531	$ 23,924,777	82.26%
Vehicle Retail	11.30%	$ 14,931,534	$ 12,001,283	24.41%
Other Secured	9.00%	$ 11,874,543	$ 13,328,481	(10.90%)
2nd Mort-HELOC	3.20%	$ 4,295,289	$ 5,518,576	(22.16%)
2nd Mort-Fixed	0.60%	$ 737,500	$ 948,250	(22.22%)
1st Mort-Orig & Sold	23.90%	$ 31,602,274	$ 41,375,355	(23.62%)
1st Mort-Orig & Portfolioed	8.30%	$ 11,050,300	$ 8,777,850	25.88%
Commercial	4.70%	$ 6,173,978	$ 1,258,947	490.40%
Participation	1.50%	$ 2,000,000	$ 2,025,486	(1.25%)
SBA	0.60%	$ 852,500	$ 0	
New Loan Fundings	100.00%	$132,240,459	$114,925,024	15.06%

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

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2016 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, 2016, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2016

Performance Category	September 2016	September 2015	Variance	
Assets	$427,524,150	$396,043,999	$ 31,480,151	7.95%
Net Loans	224,093,115	185,737,126	38,355,989	20.65%
Term Investments	134,707,324	149,652,637	(14,945,313)	(9.99%)
Member Deposits	368,264,224	340,357,634	27,906,590	8.20%
Net Capital	57,069,952	53,381,550	3,688,403	6.91%
Interest Income	9,682,132	8,755,855	926,277	10.58%
Less Cost of Funds	750,571	635,057	115,513	18.19%
Net Interest Margin	8,931,562	8,120,798	810,764	9.98%
Less Provision for Bad Debt	586,168	(331,199)	917,376	276.98%
Add Non-Interest Income	6,183,098	6,103,211	79,888	1.31%
Less Operating Expenses	10,840,089	10,250,725	589,363	5.75%
Net Income	$ 3,688,403	$ 4,304,482	$(616,078)	(14.31%)

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

LOCATIONS

Elk Grove	**8351 Elk Grove Boulevard, Suite 600**
Fair Oaks	**8100 Madison Avenue**
Roseville	**5005 Foothills Boulevard, Suite 1E**
Sacramento	**3660 Bradshaw Road**
	800 H Street
	3045 Arden Way, Suite 200
	Kaiser Hospital, 6600 Bruceville Road