

F&A Federal Credit Union 2015 ANNUAL REPORT

TO THE FUTURE AND BEYOND



**F&A Federal
Cred** |
For Them it's Business,
For Us it's Personal



Richard Russell,
Board Chairman

CHAIRMAN'S REPORT

F&A Federal Credit Union continues to be one of the most financially sound credit unions in the nation with one of the highest capital and efficiency ratios. Our last audit by an independent CPA firm and federal exam by the NCUA (National Credit Union Administration) continue to validate that F&A is a safe and secure financial institution by giving us the highest performance rating available.

This past year F&A was recognized as a Raddon Crystal Performance Award winner. The Crystal Performance Award was designed to recognize credit unions for achieving a top ten ranking based on a balanced scorecard measurement of growth, income, efficiency and margin management. The winners of the 2015 Crystal Performance award rank among the top two to three percent of the over 500 credit unions evaluated nationwide.

2015 was a busy year for F&A to expand its service and technology. We introduced a new online banking platform, mobile application and redesigned our website. This coming year will be even more exciting with new features such as P2P (person-to-person payments), Quick Balance, loan Skip-a-Pay and online loan decisioning.

In March 2016 we say goodbye to one of the volunteers that served with us on the journey to becoming the 1.5 billion dollars in assets financial organization we are today. When Rene Rigaud first joined F&A as a volunteer in 1964, the Credit Union was a mere five million dollars in assets. Mr. Rigaud has since dedicated 52 years of service to F&A's success, more than any other volunteer in our history. On behalf of the Board of Directors, management and employees, we extend our appreciation and gratitude for his many years of service in his retiring from the Board of Directors.

We thank you for your continued membership and hope you share the excellent benefits of membership with your eligible friends and family members.

*Richard Russell,
Board Chairman*



Mike Takeshita,
Supervisory Committee Chair

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is appointed by the Board of Directors as stipulated by the Federal Credit Union Act and the Federal Credit Union Bylaws. As outlined by the Act and Bylaws, the Supervisory Committee is responsible for an annual audit, verification of members' accounts every two years, reviewing the performance of the officials and employees, and making recommendations to the Board of Directors for improving operations within the Credit Union.

Our goal as your Supervisory Committee is to ensure that all operational and financial functions are performed accurately and in compliance with federal and state regulations and Credit Union policies and Board directions. Supervisory Committee members attend the monthly Board of Directors' meetings and serve as members on multiple committees.

The Supervisory Committee is actively involved in all phases of internal and financial auditing functions which are used to assist management and the Board to make decisions that best serve our members' interests while maintaining effective and efficient practices. The Supervisory Committee reviews the financial records and results from internal audits to ensure that F&A remains financially strong, acts in compliance with federal regulatory requirements, and operates within our charter and bylaws.

The Supervisory Committee has selected Turner, Warren, Hwang & Conrad Certified Public Accountants & Consultants (TWHC), a certified public accounting firm with expertise in the credit union industry, to perform the required annual opinion audit of our financial statements, in accordance with Generally Accepted Accounting Principles (GAAP). In addition to the annual opinion audit performed by TWHC, F&A also has various other audits and/or reviews performed by various outside professionals to ensure that F&A remains in compliance with regulations and Credit Union policies. The audits and/or reviews are performed in addition to regulatory examinations performed by the National Credit Union Administration.

The Supervisory Committee is pleased to inform our members that after careful review of our most recent audits and accounting records, F&A remains strong and in compliance with federal regulatory requirements. On behalf of my fellow Committee Members, Theresa Barrera, Andy Doyle, Randall Harper, Pablo Valadez and me, I want to thank the Board of Directors and management for their commitment to the success of F&A.

Mike Takeshita,
Supervisory Committee Chairman



Rene Rigaud,
Board Secretary/Treasurer

TREASURER'S REPORT

It is with great satisfaction and pride in F&A management, volunteers and staff members that I report another successful year in 2015. F&A's overall assets grew just under five percent with a healthy ROA (return on assets) of 1.12 percent. Capital increased to 14.93 percent and member equity grew an additional 6.6 percent in 2015.

The continued financial growth and success of our Credit Union allows us to return funds back to members in the form of new technology, convenient services, higher yields on savings products and lower rates on loan products.

The more members that use our debit, savings and loan products, the better value we can provide back to you. I encourage you to invite your eligible co-workers and immediate family members to join F&A to take advantage of our exceptional products and services.

*Rene Rigaud,
Board Secretary/Treasurer*

2015 FINANCIAL STATEMENT

F&A Federal Credit Union Statement of Financial Condition At December 31, 2015 (Unaudited)

Assets

Outstanding loans	\$ 282,734,994
(Less) allowance for loan losses	<u>(2,097,419)</u>
Total net outstanding member loans	280,637,575
Cash and deposits in credit unions	\$ 46,974,995
Securities available-for-sale	\$ 944,174,624
Securities held-to-maturity	141,235,648
Other investments	<u>16,022,500</u>
Total investments	1,101,432,772
Accrued interest on loans	\$ 761,397
Accrued interest on investments	3,780,739
Land and building, net	6,498,892
Other fixed assets, net	889,828
Deposits in NCUSIF	10,800,842
Other assets	<u>3,342,201</u>
Total Assets	<u>\$1,455,119,241</u>

Liabilities, Member Deposits and Equity

Accounts payable and other liabilities	\$ 54,392,161
Member Shares:	
Regular shares	\$ 195,335,708
Share drafts	147,696,211
Money market accounts	488,446,561
Share certificates	283,122,408
IRA shares and certificates	<u>73,038,513</u>
Total member shares	1,187,639,401
Member Equity:	
Regular reserves	\$ 15,021,792
Undivided earnings	202,287,919
Market value reserve	<u>(4,222,032)</u>
Total member equity	213,087,679
Total Liabilities, Member Deposits and Equity	\$1,455,119,241

F&A Federal Credit Union Statement of Income & Expense For the Year Ended December 31, 2015 (Unaudited)

Interest Income

Interest on loans to members	\$ 12,752,123
Interest on investments	<u>23,668,405</u>
Total interest income	36,420,528

Interest Expense

Dividends on members' shares and savings account	\$ 9,659,500
Interest on borrowed funds	<u>931,216</u>
Total interest expense	10,590,716

Provision for Loan Losses	<u>\$ (125,657)</u>
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Net interest income after provision for loan loss	\$ 25,955,469
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Non-interest Income	\$ 5,017,170
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Non-interest Expense	<u>15,104,839</u>
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Net Income	<u>\$ 15,867,800</u>
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F&A Federal Credit Union's net worth ratio increased to 14.93 percent, as of December 31, 2015, from 14.51 percent, as of December 31, 2014, further solidifying our financial strength. Our net worth cushions fluctuations in earnings, supports growth and provides protection against unforeseen risks. To provide the membership some perspective regarding the strength behind F&A's net worth ratio of 14.93 percent, the National Credit Union Administration (NCUA), the regulatory agency which oversees credit unions, defines a credit union as "well-capitalized" when their net worth ratio is above 7.00 percent. Our return on assets of 1.12 percent as of December 31, 2015, remains strong and demonstrates our success in generating greater returns for our members. At December 31, 2015, our total assets were \$1,455,119,241, an increase of 4.78 percent from the prior year's total. Member loans grew 3.02 percent in 2015. Member share deposits increased by 6.08 percent from the prior year. With net income of \$15,867,800 for the year ended December 31, 2015, our members' equity (excluding market value reserve for investment securities) has increased by 8.51 percent from December 31, 2014. We remain committed to providing our members amongst the highest dividend rates available in the market while we maintain amongst the lowest loan rates.



Michael Harden,
Executive Vice President/Chief Investment Officer

CREDIT COMMITTEE REPORT

The much anticipated push for higher interest rates in 2015 did not materialize. The Federal Reserve did increase rates in December, after holding them at near zero percent for nearly eight years, but this did little to slow the recent rate decline. The intricacies of the U.S. Economy have changed dramatically over the past 10 years as the world and politics entwine themselves into interest rates. Economically, this accentuates the uncertainty surrounding future interest rates. F&A Federal Credit Union's financial strength, coupled with the low-rate environment, enables us to provide members with exceptional product and services and the lowest loan rates available.

Through improved communication to our members, members are beginning to recognize the value the Credit Union's loans provide to our membership. Loans to members ended the year at \$282,734,994, the highest total since February 2010, as loan balances increased nearly \$8.3 million or three percent in 2015. During the year, the Credit Committee assisted loan officers in approving 81 percent of the 5,499 applications received during the year totaling \$129,433,980 in new loans approved. These totals represent an increase in application volume of two percent and a 20 percent increase in amount approved.

New auto loans once again led the way in our loan growth as balances increased by 44 percent in 2015. Our various real estate equity loan programs continue to offer the lowest rates and fees in the state and real estate loan approvals climbed to the highest level since 2007. As a result, fixed rate equity loans growth of 23 percent more than offset the 18 percent decline in home equity lines of credit, as members "lock in" our low fixed rates. Used autos also had strong growth of 10 percent. While unsecured loans and credit card balances showed declines of 11 percent and four percent, respectively.

Despite the continued uncertainty of the financial marketplace, F&A has continued to prosper on behalf of our members, because of our members—true to the cooperative nature of credit unions. Your continued support drives us to succeed for you. Last year we introduced our new online and mobile banking and have seen nearly a 20 percent increase in member usage in the first year. This year we are pleased to announce the introduction of online, instant approval lending through our electronic banking platform. This will bring the benefits of our superior loan products to nearly all of our members. As always, we remain committed to providing the best possible value to our members.

*Michael Harden,
Executive Vice President/Chief Investment Officer*

BOARD OF DIRECTORS



Richard Russell,
Board Chairman



Ed Dahlen,
Board Vice
Chairman



Rene Rigaud,
Board Secretary/
Treasurer



William "Blackie"
Blackburn,
Board Member



Jesus Burciaga,
Board Member



Andy Doyle,
Board Member



Mary Gutierrez,
Board Member



Michael F. Idol,
Board Member



Van Mark
Madrigal,
Board Member

SUPERVISORY COMMITTEE



Mike Takeshita,
Supervisory
Committee Chair



Theresa Barrera,
Supervisory
Committee Member



Andy Doyle,
Supervisory
Committee Member



Randy Harper,
Supervisory
Committee Member



Pablo Valadez,
Supervisory
Committee Member

SENIOR MANAGEMENT



Rich Andrews,
President/
Chief Executive
Officer



Michael Harden,
Executive Vice
President/Chief
Investment Officer



Chris Burns,
Chief Financial
Officer



Pam Chick,
Chief Electronic
Services Officer



Yong Whang,
Chief Technology
Officer



Cathy Hang,
Vice President
Accounting



Melia Keller,
Vice President
Marketing



Gina Salvucci,
Vice President
Risk Management
& Facilities



Aymee Yanes,
Vice President
Member Services



Gail Yarbrough,
Vice President
Human Resources



Board of Directors

MISSION AND VISION

To provide our members with the highest quality service on a wide range of products and services, continue our competitive status and remain on the leading edge of technology while maintaining a sound financial position.

For our Members we commit to:

- Continually consult with them in order to provide quality products and services that focus on their needs
- Assist them in achieving success through a wide range of products and services
- Outperform the marketplace in innovation, creativity and performance
- Maintain our integrity and respect for all people



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