



ECONOMIC UPDATE

The fourth quarter of 2015 experienced a momentary spike in the stock market with the Dow Jones Industrial Average (DJIA) flirting with the 18,000 mark again. However, shortly before the end of the year, the DJIA began a significant downward plunge which has continued into mid-January 2016. As this article is being written, the DJIA is down almost as much as the low point it reached in the third quarter of 2015. As was the case with last year's devaluation, there is no U.S. economic news that supports the sell-off in stocks. Most of the pundits just point to investors fearing the effects of global events on the U.S. economy.

China's recent economic news has indicated slower growth with their economy with an estimate of "only" a 6.9% growth in their Gross Domestic Product (GDP). That sort of growth in the U.S. GDP would indicate a possible over-heating economy. In that situation, the Fed would, more than likely, be making moves to slow down the growth. There is no doubt that the 6.9% growth rate is a slower pace than China had been experiencing, and prices for resources (e.g. oil, steel, copper, etc.) have been tumbling downward as a result, but the much lower prices of resources will feed the growth and profitability of other industries and countries that consume those resources. The investors' reaction to China's economy is an overreaction.

Gas prices continue to remain much lower than one year ago though California's gas price average of \$2.82 per gallon is significantly higher than the national average of \$1.94 due to the state's high gas tax structure. The positive effects on our economy from these low prices has not yet translated into solid upward trends in retail sales as consumers spend the savings they have gained from the lower gas prices. There was an upward lift in retail spending in the fourth quarter of 2015, but now the focus is on watching trends to determine if that was just a momentary uplift due to the holidays or a continuing trend. Increased consumer spending normally translates into increased manufacturing which spurs more hiring of employees by the manufacturers and service industries which puts upward pressure on wage growth. However, we are experiencing a contraction in manufacturing which is yielding no wage growth.

The Federal Reserve Bank's Federal Open Market Committee (FOMC) finally raised their overnight interest rate by ¼%, which was more hoped for by investors and the media than needed to jumpstart the economy. Compared to several years of no rate changes, this was a sign that the FOMC feels economic growth will continue.

California's economy is still improving, and the most visible signs of that are the increasing housing prices and the significantly increased commuter traffic. The Bay Area is considered to be at full employment, which is an unemployment rate of 5% or less. Recent rains and the threat of El Nino have dampened much of the worry about an ongoing drought and its impact on the California economy. California still needs to tackle its antiquated water-allocation and delivery systems, but farmers and homeowners must be breathing a little easier at this point.

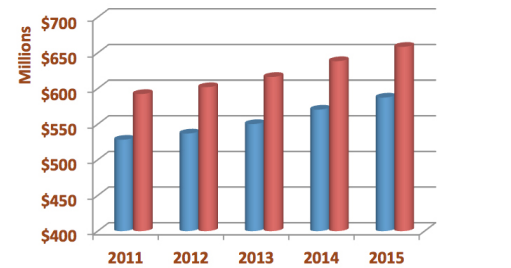
As you know, your Credit Union underwent a charter and name change transition in 2015, and the overall reaction from members has been positive. Rest assured that management is emphasizing the continued focus on providing the superior service that members expect and deserve. Your Credit Union encourages all of its members to take advantage of the services and products available at your Credit Union for the very simple reason that to do so will improve the members' financial security. As a result of the recent charter change, your friends and neighbors are now eligible to join your Credit Union. Please remember to tell them that it just doesn't make financial sense to keep their accounts at the banks. 1st Northern California CU offers truly lower fees, lower loan rates, and higher interest on deposits as well as superior service.

Key Figures (as of December 31, 2015)

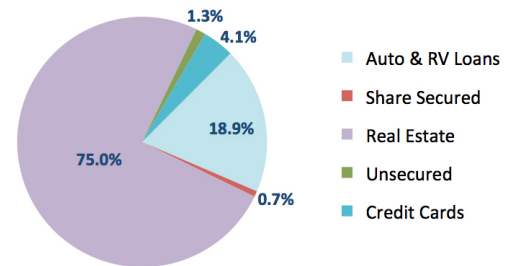
Assets	\$658,476,867
Deposits	\$587,293,128
Loans	\$185,861,263
Capital Ratio	10.41%
Branch Locations	6
Co-op ATMs	30,000
1st Nor Cal ATMs	10
Members	27,335
Employees	62

Financial Highlights

(as of December 31)



Loan Portfolio (as of December 31, 2015)



Statement of Condition

as of: December 31, 2015

Loans (net)	\$184,509,884
Investments & Cash	453,272,395
Fixed Assets (net)	1,859,500
Other Assets	18,835,088
Total Assets	\$658,476,867
Member Shares	\$587,293,128
Liabilities	2,626,259
Member Capital	68,557,480
Total Liabilities & Equity	\$658,476,867

Income Statement

Year To Date as of: December 31, 2015

Loan Interest Income	\$7,418,035
Investment Interest Income	3,913,478
Non-Interest Income	1,880,498
Total Income	\$13,212,011
Operating Expense	\$9,106,260
Dividends Paid To Members	1,553,458
Provision for Loan Losses	(700,000)
Total Expense	\$9,959,718
Non-Operating Income (Expense)	-
Net Income	\$3,252,293

Loans and Investments as a Percent of Total Assets

(as of December 31, 2015)

