SACRAMENTO CREDIT UNION

2018

ANNUAL REPORT

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

Board of Directors' and President's Report

Sacramento Credit Union's mission is to provide prompt, competitive quality consumer financial services to our members in a friendly, professional and prudent manner, while building and maintaining its strength, so it is here to serve future generations. We are happy to report that 2018 witnessed another year of growth along with changes that will allow Sacramento Credit Union to continue to provide quality financial services to its members.

Fiscal year 2018 financial performance demonstrates the continued safety and soundness of Sacramento Credit Union. Net earnings were $5.67 million; assets grew 3.18%; loans grew 11.11%; and net worth grew 9.15%. Cost of funds was prudently managed in a rising rate environment to best serve members. Credit quality is exemplary as reflected by the fiscal year ending delinquency ratio of 0.18% and the fiscal year charge off ratio of 0.16%.

To better serve our members and help to make it easier to do business, Sacramento Credit Union made a decision to have Saturday hours at all branch locations with the exception of H Street. The branch hours of operation on Saturday are 10:00am to 2:00pm. In addition to Roseville, the Arden and Elk Grove branches began Saturday hours in 2018 and Bradshaw and Fair Oaks will transition in early 2019.

In today's market, differentiation and competitive advantage is occurring based on the ability of financial institutions to embrace and implement technology. The shift from traditional to digital banking remains ongoing. The Credit Union implemented a new digital banking platform in November. It provides an improved user experience, better security and integration of online and mobile platforms. Additionally, the Information Technology department migrated our email infrastructure to the Cloud, in order to enhance disaster recovery and availability.

The better informed we are, the better we can serve our members. Therefore, the Board of Directors and Supervisory Committee keep current on industry trends, compliance, technology and security through conferences and outside training. Staff receives training throughout the year on trending issues and refresher courses on topics ranging from standards of conduct to communications etiquette.

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.

Submitted by: Linda Foster-Hall, Chair, Board of Directors and Bhavnesh Makin, President/CEO

Secretary-Treasurer's Report

Audited net earnings, or return on assets (ROA), for fiscal year ended September 30, 2018, were $5,671,460 or 121.7 basis points on average assets of $466,092,983. Figures for prior fiscal year were $4,933,682 or 106.5 basis points on $463,401,454. The year over year improvement in terms of basis points is broken apart across the elements of the financial formula as follows:

Financial Formula	Sep-18	Sep-17	Variance
Yield on Assets	268.92	232.03	36.89
Cost of Funds	-24.26	-21.14	-3.12
Net Interest Margin	244.66	210.89	33.77
Fee and Other Income	140.71	139.29	1.42
Operating Expenses	-261.31	-252.74	-8.57
Provision for Loan Losses	-2.38	9.02	-11.4
Net Earnings	121.68	106.46	15.22

Growth in deposits was moderate at 2.20%. The strongest growth took place in core deposits at 5.67% followed by checking at 3.54%. Certificates of deposits receded 4.77% and money market accounts 2.65%. Assets grew 3.18% compared to 6.65% the prior year.

Net loans grew 11.17%, composed of 18.94% growth in mortgage loans, 14.11% in vehicle loans, 4.99% in commercial and participations loans, and 1.06% in other consumer loans consisting primarily of The Permanente Medical Group stock secured loans. The main source of the mortgage growth was the addition to the portfolio of 55 loans totaling $15,417,700. Conversely, 6.47% shrinkage was encountered in credit card loans.

Term investments and cash and cash equivalents shrunk 8.98% and 4.21%, respectively.

Growth in net worth, also known as return on equity (ROE), finished the year at 9.15%, generating a year-end net worth to assets ratio of 14.38%. Figures for prior year were 8.64% and 13.60%, respectively.

Submitted by: Les Brown, Secretary-Treasurer

Lending Report

In fiscal year 2018 outstanding loan balances increased by 11.11%. The consumer vehicle and fixed rate first mortgage segments collectively added $28,397,094 to the loan portfolio balance. This increase is attributed in large part to our strategy of adding high quality and better yielding first mortgages to our portfolio, and using in-house loan pricing model to competitively price vehicle loan rates. The commercial and participation portfolios increased 4.99% primarily due to participation loans. The credit card portfolio declined by 6.47% in spite of increased credit card penetration and usage among membership. The loan portfolio continued to perform at an optimum level as 30 day and 60 day delinquency and loan charge-offs remained in check. Delinquency of 60 days or greater and loan charge-offs were at 0.18% and 0.16% of the loan portfolio, respectively.

Loan Type	Portfolio Mix	September-18	September-17	Variance
Mortgage: Fixed Rate	20.44%	$54,255,462	$40,209,514	34.93%
Mortgage: Variable Rate	0.17%	$459,290	$479,762	-4.27%
Mortgage: HELOC Variable Rate	6.53%	$17,329,106	$19,884,668	-12.85%
Consumer: Vehicle	43.72%	$116,029,816	$101,678,670	14.11%
Consumer: Credit Cards	4.03%	$10,708,807	$11,449,088	-6.47%
Consumer: Other & Stock Secured	17.33%	$45,980,686	$45,498,865	1.06%
Commercial & Participation	7.78%	$20,635,353	$19,655,345	4.99%
Gross Loan Portfolio	100.00%	$265,398,519	$238,855,910	11.11%

First mortgage production was down significantly compared to fiscal year 2017. The rising rates were one of the main reasons for lower number of originations in fiscal year 2018. Unlike previous years, majority of first mortgages were added to the portfolio. Indirect and retail vehicle loans were up, primarily due to competitive pricing. The decline in variable rate second mortgages were more than offset by increase in fixed rate second mortgages. The rising rate environment was once again one of the main reasons for higher demand and hence production of fixed rate second mortgages compared to variable rate second mortgages. Credit quality of new originations remained strong as new production conformed to Sacramento Credit Union policy and underwriting guidelines.

Loan Type	Production Mix	September-18	September-17	Variance
Vehicle CUDL	36.35%	$39,900,738	$31,527,456	26.56%
Vehicle Retail	13.81%	$15,163,101	$13,081,621	15.91%
Other Secured	9.64%	$10,581,457	$14,384,672	-26.44%
Other Unsecured	4.09%	$4,494,663	$3,985,477	12.78%
Credit Cards	1.75%	$1,917,207	$2,153,983	-10.99%
2nd Mort HELOC	1.93%	$2,115,056	$3,146,599	-32.78%
2nd Mort Fixed	4.47%	$4,901,459	$3,323,626	47.47%
Commercial & Participation	1.72%	$1,890,000	$2,319,279	-18.51%
1st Mort Portfolio	14.05%	$15,417,700	$8,257,700	86.71%
1st Mort Sold	12.19%	$13,378,575	$30,494,175	-56.13%
Total Loans Funded	100.00%	$109,759,956	$112,674,588	-2.59%

Submitted by: Bhavnesh Makin, President/CEO

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2018 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, 2018, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2018

Performance Category	September 2018	September 2017	Variance	
Assets	$470,476,700	$455,974,243	$14,502,457	3.18%
Net Loans	264,776,478	238,168,364	26,608,114	11.17%
Term Investments	130,826,529	143,726,784	(12,900,255)	-8.98%
Member Deposits	399,909,040	391,310,887	8,598,153	2.20%
Net Capital	67,675,097	62,003,637	5,671,460	9.15%
Interest Income	12,534,059	10,752,437	1,781,622	16.57%
Less Cost of Funds	1,130,846	979,543	151,303	15.45%
Net Interest Margin	11,403,213	9,772,894	1,630,319	16.68%
Less Provision for Bad Debt	110,948	(418,139)	529,087	-126.53%
Add Non-Interest Income	6,558,500	6,454,564	103,936	1.61%
Less Operating Expenses	12,179,305	11,711,915	467,390	3.99%
Net Income	$5,671,460	$4,933,682	$737,778	14.95%

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**
Roseville	**5005 Foothills Boulevard, Suite 1E**
Sacramento	**3660 Bradshaw Road**
	800 H Street
	3102 Arden Way
	Kaiser Hospital, 6600 Bruceville Road