SACRAMENTO CREDIT UNION

2019

ANNUAL REPORT

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Board of Directors' and President's Report

Since 1935, Sacramento Credit Union's has taken pride in serving our members and community. Over the years, our member's financial needs have changed and we have not only listened, but we have anticipated these changes and responded. Our 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. We are happy to report that 2019 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 2019 financial performance demonstrates the continued safety and soundness of Sacramento Credit Union. Net earnings were $6.75 million; assets grew 3.90%; loans grew 8.82%; and net worth grew 9.97%. 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 0.30% and the fiscal year charge off ratio of 0.16%.

In order to support the needs of our members, Sacramento Credit Union made the decision to open a new branch in Folsom. This new location will further convenience our existing members and attract new members to build the membership base. The branch is tentatively scheduled to open April 1st, 2020 with a grand opening scheduled in May 2020.

The shift from traditional to digital banking remains ongoing. The Credit Union has continued to embrace, update and implement technology to enhance our member's banking needs. There continues to be enhancements to the mobile banking system to improve the user experience with how information is displayed and the ability to handle more processes such as wire transfers.

In order to keep current on industry trends, compliance, technology and security, the Board of Directors and Supervisory Committee continue to gain education through conferences and outside training. Staff also 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, remain committed to the mission statement and the membership of Sacramento Credit Union and the communities we serve.

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 ended September 30, 2019, were $6,748,023 or 142.95 basis points on average assets of $472,069,661. Figures for prior fiscal year were $5,671,460 or 121.68 basis points on $466,092,983. 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-19	Sep-18	Variance
Yield on Assets	317.72	268.92	48.8
Cost of Funds	-33.07	-24.26	-8.81
Net Interest Margin	284.65	244.66	39.99
Fee and Other Income	139.17	140.71	-1.54
Operating Expenses	-270.39	-261.31	-9.08
Provision for Loan Losses	-10.48	-2.38	-8.1
Net Earnings	142.95	121.68	21.27

Growth in deposits was moderate at 2.98%. The strongest growth took place in money market accounts at 7.18% followed by checking at 4.69%, and certificate of deposits at 2.74%. Core deposits receded slightly by 0.52%. Assets grew 3.90% compared to 3.18% the prior year.

Net loans grew 8.82%, composed of 21.87% in other consumer loans consisting primarily of The Permanente Medical Group (TPMG) stock secured loans, 16.86% growth in mortgage loans, and 3.16% in vehicle loans. The main source of the other consumer loan growth was the funding of 252 TPMG loans totaling $21,987,138. The mortgage loan growth was primarily due to the addition of 58 first mortgage loans to the portfolio totaling $18,243,200. Negative growth of 11.63% was encountered in commercial and participation loans and 0.72% in credit card loans.

Term investments and cash and cash equivalents shrunk 1.10% and 15.00%, respectively.

Growth in net worth, also known as return on equity (ROE), finished the year at 9.97%, generating a year-end net worth to assets ratio of 15.22%. Figures for prior year were 9.15% and 14.38%, respectively.

Submitted by: Judy McGarry, Secretary-Treasurer

Lending Report

In fiscal year 2019 outstanding loan balances increased by 8.82%. The fixed rate first mortgage and consumer other & stock secured loan programs collectively contributed $20,142,369 to the loan portfolio balances. This increase is attributed in large part to the decline in loan interest rates, our strategy of adding high quality and better yielding first mortgages to our portfolio, and a continued commitment to The Permanente Medical Group share loan program. Consumer vehicle loan balances grew by 3.16%. The variable rate HELOC and commercial and participation portfolios receded 9.76 % and 11.63% respectively due to loan refinances and payoffs. 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 0.30% and 0.16% of the loan portfolio, respectively.

Loan Type	Portfolio Mix	September-19	September-18	Variance
Mortgage: Fixed Rate	22.28%	$64,340,480	$54,255,462	18.59%
Mortgage: Variable Rate	1.46%	$4,210,521	$459,290	816.75%
Mortgage: HELOC Variable Rate	5.41%	$15,637,700	$17,329,106	-9.76%
Consumer: Vehicle	41.45%	$119,699,795	$116,029,816	3.16%
Consumer: Credit Cards	3.68%	$10,632,196	$10,708,807	-0.72%
Consumer: Other & Stock Secured	19.40%	$56,038,037	$45,980,686	21.87%
Commercial & Participation	6.31%	$18,235,210	$20,635,353	-11.63%
Gross Loan Portfolio	100.00%	$288,793,938	$265,398,519	8.82%

First mortgage production was up significantly compared to fiscal year 2018. Declining interest rates was the main reason for the increase in first mortgage loan originations in fiscal year 2019. These lower interest rates created a strong refinance environment and contributed to increases in both new loan originations and loan payoffs. Despite competitive pricing, unsecured and indirect vehicle loan production was significantly less than the previous year. This decrease is primarily due to consumer recession concerns and a decline in U.S. auto sales. Credit quality of new originations remained strong as new production conformed to Sacramento Credit Union policy and underwriting guidelines.

Loan Type	Production Mix	September-19	September-18	Variance
Vehicle CUDL	26.12%	$34,160,304	$39,900,738	-14.39%
Vehicle Retail	12.75%	$16,677,915	$15,163,101	9.99%
Other Secured	17.48%	$22,860,281	$10,581,457	116.04%
Other Unsecured	2.29%	$2,994,243	$4,494,663	-33.38%
Credit Cards	1.02%	$1,331,575	$1,917,207	-30.55%
2nd Mort HELOC	2.05%	$2,685,863	$2,115,056	26.99%
2nd Mort Fixed	4.40%	$5,756,348	$4,901,459	17.44%
Commercial & Participation	1.53%	$2,000,000	$1,890,000	5.82%
1st Mort Portfolio	13.95%	$18,243,200	$15,417,700	18.33%
1st Mort Sold	18.42%	$24,087,700	$13,378,575	80.05%
Total Loans Funded	100.00%	$130,797,429	$109,759,956	19.17%

Submitted by: Ken Gladden, Vice President Consumer Lending & Marketing

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2019 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, 2019, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2019

Performance Category	September 2019	September 2018	Variance	
Assets	$488,838,809	$470,476,700	$18,362,109	3.90%
Net Loans	288,121,571	264,776,478	23,345,093	8.82%
Term Investments	129,384,956	130,826,529	(1,441,573)	-1.10%
Member Deposits	411,832,321	399,909,040	11,923,281	2.98%
Net Capital	74,423,120	67,675,097	6,748,023	9.97%
Interest Income	14,998,594	12,534,059	2,464,535	19.66%
Less Cost of Funds	1,561,277	1,130,846	430,431	38.06%
Net Interest Margin	13,437,317	11,403,213	2,034,104	17.84%
Less Provision for Bad Debt	494,565	110,948	383,617	345.76%
Add Non-Interest Income	6,569,594	6,558,500	11,094	0.17%
Less Operating Expenses	12,764,321	12,179,305	585,016	4.80%
Net Income	$6,748,025	$5,671,460	$1,076,565	18.98%

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