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1ST NORTHERN CALIFORNIA CREDIT UNION

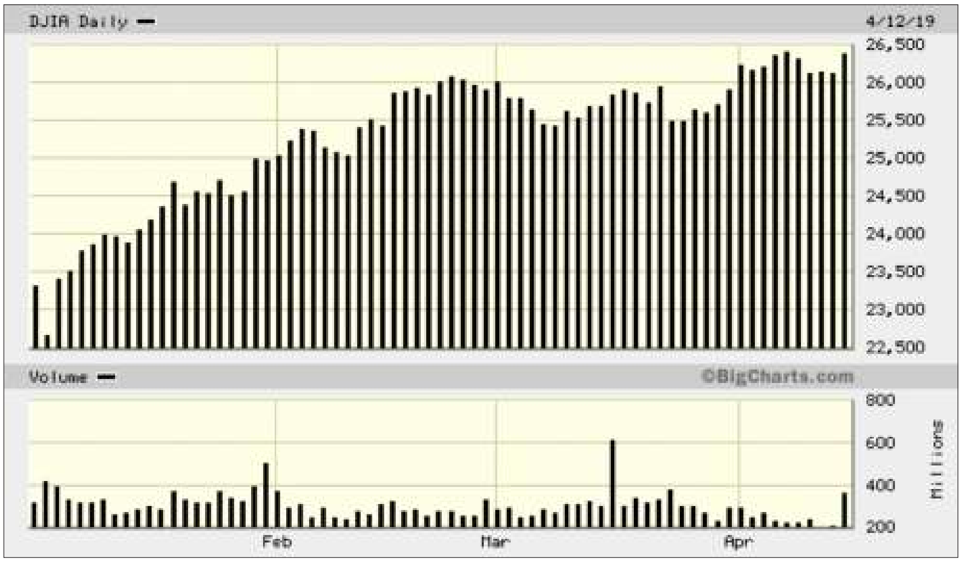
QUARTERLY UPDATE

March 2019

ECONOMIC UPDATE

The Federal Open Market Committee (FOMC) did not raise rates again in March which, by the time of their meeting, did not particularly surprise Wall Street. However, the FOMC did surprise the markets by indicating that there was a potential for no rate increases at all in 2019. The FOMC also slightly lowered its expectations for economic growth in the United States for 2019 and 2020. The bond market reacted by pushing down mid-term rates which has led to an "inverted yield curve" where shorter-term rates are higher than longer-term rates. This inversion is occurring in the 3-month to 10-year time frame and the markets are still debating what this might mean, but many analysts cite the historical trends of an inverted yield curve preceding an economic recession.

The stock market has not only not reacted in a negative way to the FOMC's viewpoint on the economy or to the inverted yield curve, but instead has reacted as if its expectations for the economy were more optimistic. After the Dow Jones Industrial Average (DOW) had plunged downward towards the end of 2018, the stock market has recovered almost all that was lost as is evidenced by the chart, below, of the DOW's daily closing mark for the first quarter of this year and a little into April. Much of the stock market's optimism may have been influenced by the 2018 earnings reports that were produced at the beginning of the year and reflected the increased profitability of corporations which was a result of the tax cuts that corporations received in 2018. Whether or not the first quarter of 2019 earnings reports from corporations will be positive enough to offset the indicators of the slowing economy should become evident in the second quarter of the year. However, recent reports from corporations that have already released their first quarter earnings results have contained warnings that investors should expect lower earnings as the year progresses.



One more deadline came and went with the U.S. and China trade agreement talks. Once again, the U.S. decided not to impose tougher trade sanctions on China due to a lack of an agreement, and President Trump repeated his reassurances that a deal was very close. Current speculation in the markets is that the two countries are still far apart on the most serious issues (China's hacking intrusions, lack of protection for intellectual properties, and

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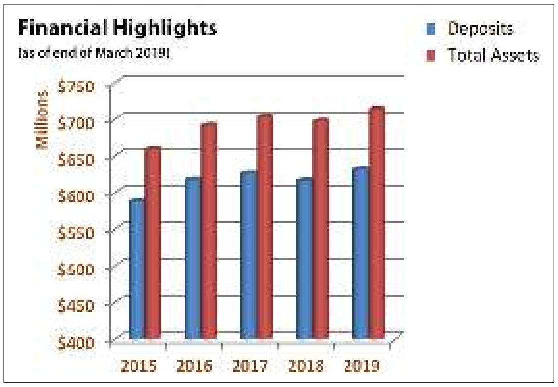
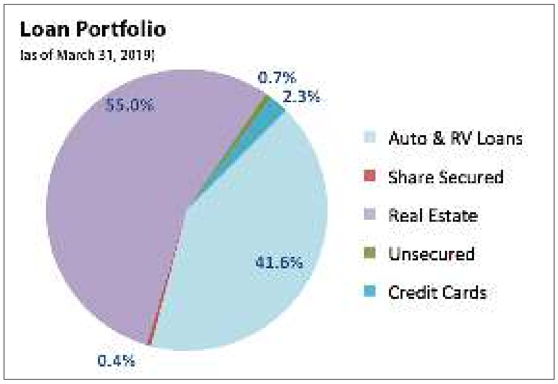
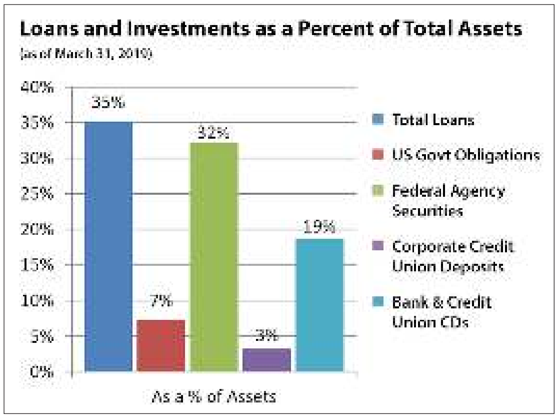
Key Figures (as of March 31, 2019)

Assets	$713,435,063
Deposits	$631,158,543
Loans	$250,838,159
Capital Ratio	10.79%
Branch Locations	5
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	30,082
Employees	71







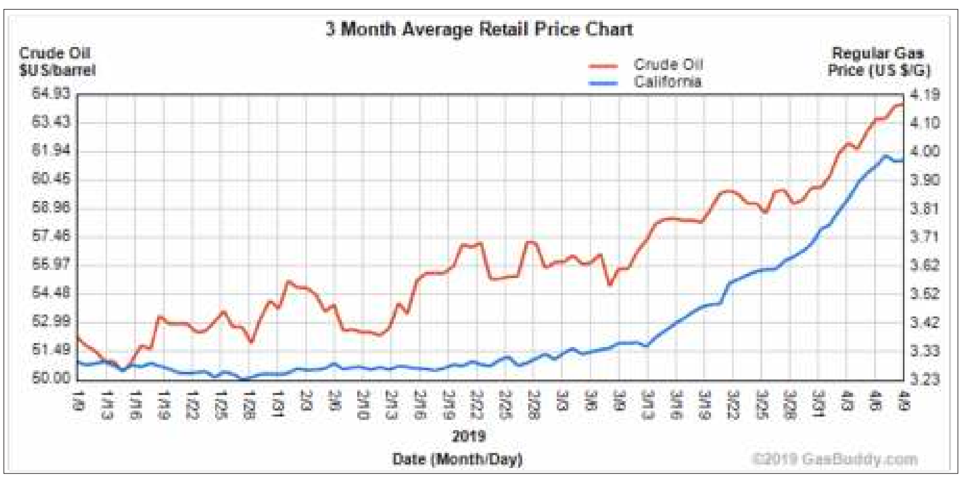
forced transfers of technology from companies wanting to do business in that country), but President Trump might agree to some vague assurances from China on the concerns of the U.S. if China will agree to shift its tariffs on agricultural imports over to non-agricultural imports. This shift of tariffs would allow President Trump to score a political victory with the significant support he receives from the farming community.

Meanwhile, the United States is still embroiled in trade talks with the European Union (EU) and the recent opinions of those who report on the negotiations are that the two sides are not even close to an agreement. The EU is also still contending with the delayed departure of the United Kingdom (UK) from the EU as a result of the "Brexit" movement with the EU agreeing to a new deadline of October 31st for the UK to make up its mind on what it wants to do. Meanwhile, businesses in the UK are loudly complaining that they are continually having to delay making any long-term business plans due to the uncertainty on which direction their economy is going to move. The EU is the largest trading partner with the United States, so what happens in Europe could have a major impact on the economy of this country.

Recent economic forecasts that focus on California's economy show very little variation with the expectations for the country as a whole with most economists anticipating slower growth as the year progresses and a possible recession by the end of next year. A side note in relation to California's economy shows that there has been a net migration outflow from the state to other states over the last two years. It has been suggested that California's higher tax burden on the wealthy would push those same wealthy taxpayers to flee the state in order to establish residence in states with lower or no income tax. However, studies have shown that the wealthy are, by and large, staying put in the state while it is the lower and moderate-income taxpayers who are fleeing the state because of the high cost of living.

The recent Initial Public Offering (IPO) of Lyft and the scheduled or probable IPOs of Uber, Pinterest, and Airbnb can be expected to flood the local Bay Area economy with newly-minted millionaires. The spending sprees of these nouveau riche may help to offset some of the decline in growth resulting from the slowing spending of all other consumers. However, the downside of this event will be the bidding up of housing prices which will further exacerbate the cost of living problem in the state. Those who currently own homes will certainly benefit, but those who rent or are looking to make their first home purchase will not.

Meanwhile, the price of gasoline in California has been surging upward as the price of oil keeps going up.



Statement of Condition

(as of March 31, 2019)

Loans (net)	$249,494,897
Investments & Cash	439,796,376
Fixed Assets (net)	2,551,616
Other Assets	21,592,174
Total Assets	**$713,435,063**
Member Shares	$631,158,543
Liabilities	5,267,336
Member Capital	77,009,184
Total Liabilities & Equity	**$713,435,063**

Income Statement

(Year to Date as of March 31, 2019)

Loan Interest Income	$2,019,139
Investment Interest Income	1,917,449
Non-Interest Income	568,319
Total Income	**$4,504,907**
Operating Expense	$3,011,053
Dividends Paid to Members	818,772
Provision for Loan Losses	16,200
Total Expense	**$3,846,025**
Non-Operating Income (Expense)	-
Net Income	**$658,882**

Many analysts are now expecting the average price of gasoline in the state to exceed $4.00 per gallon for the first time in nearly five years. The rise in oil prices and, thus, gasoline prices has been driven by OPEC production limits that have been set to drive the price higher, production declines from Venezuela due to the political upheaval taking place in that country, and local refinery problems (e.g. Valero in Benicia and Chevron in Richmond) that have curtailed production at those refineries.

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