

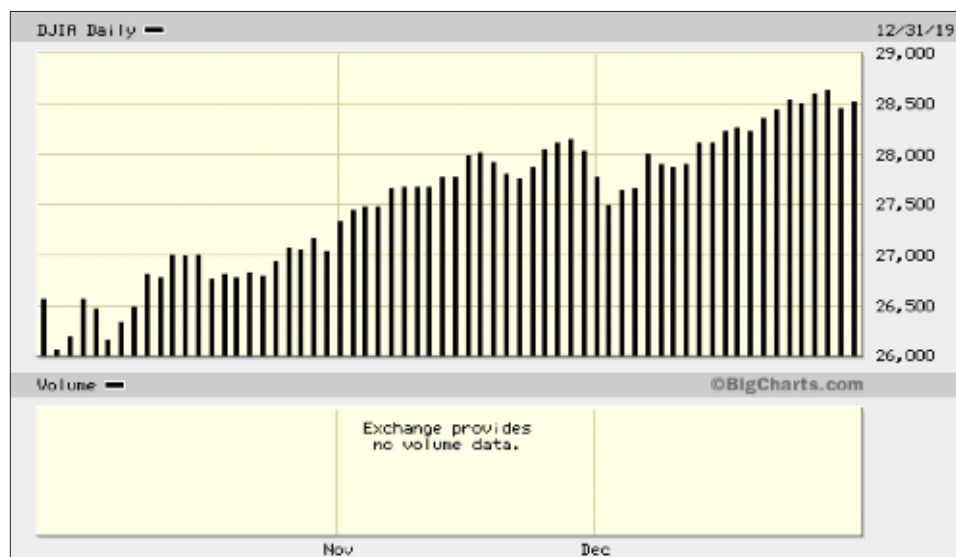


ECONOMIC UPDATE

The Federal Open Market Committee (FOMC) lowered the Federal Funds rate again during their October meeting but held the rate unchanged at their December meeting. There was no November FOMC meeting. The prevalent expectations on Wall Street seems to be that the FOMC will leave the rate unchanged through the November elections of 2020 and then, possibly, another rate cut at the last meeting of the year in December.

With the exception of the recent turmoil with Iran, Wall Street was pretty bullish during the last three months with the market on a continual upward trend as Wall Street celebrated "Phase I" of the trade agreement between the United States and China. Online retailers recorded record sales during the last quarter of 2019 though the "brick-and-mortar" retailers largely saw declines in sales with the exception of powerhouses such as Walmart, Best Buy, and Costco. Overall, retail sales were lackluster at the end of the year as a decline in auto sales dampened the economic growth.

The chart, below, of the Dow Jones Industrial Average (DOW) over the fourth quarter of 2019 reflects the stock market's optimism that the economy will still perform well for the time being:



As noted earlier, the U.S. and China apparently came to some agreement in the ongoing trade war in the form of a Phase 1 of backing-off of tariffs but many of the disagreements (e.g. China subsidizing its own industries, China's demands on U.S. companies' data flow within China's borders, etc.) have been deferred to "Phase 2" negotiations. There still seems to be no concrete information from the White House or China as to what was agreed to within the Phase 1 agreement and yet the signing of the agreement is scheduled for mid-January. However, Wall Street does not seem to be concerned with the details but is breathing easier that the trade war did not become worse.

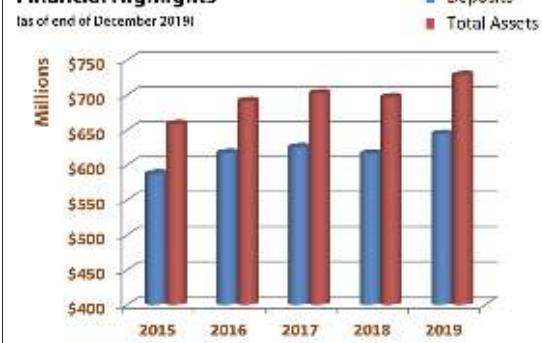
The United Kingdom's last election handed the party of Prime Minister Boris Johnson a resounding victory which gave the pro-Brexit supporters a green light to move ahead

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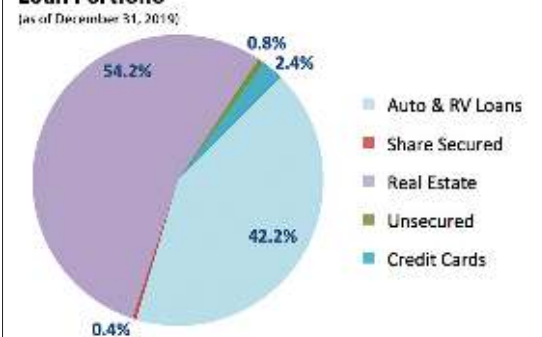
Key Figures (as of December 31, 2019)

Assets	\$728,215,204
Deposits	\$644,241,016
Loans	\$247,216,511
Capital Ratio	10.80%
Branch Locations	6
Surcharge-Free ATMs	30,000
1 st Nor Cal ATMs	10
Members	30,353
Employees	76

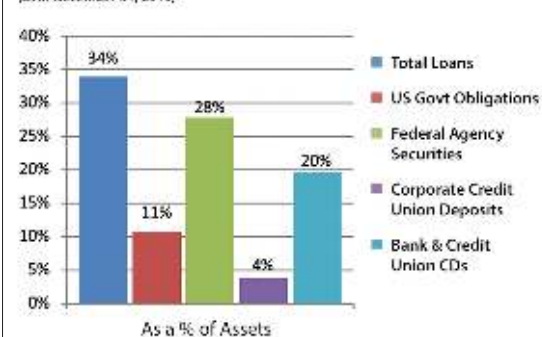
Financial Highlights



Loan Portfolio



Loans and Investments as a Percent of Total Assets



with leaving the European Union. Negotiations between the United Kingdom and the European Union have commenced to hammer out the details on how trade and the flow of U.K. and European citizens will work. The deadline for the U.K. and E.U. to have a trade agreement in place is the end of 2020. There are many very thorny issues to be worked out so one can expect to read many articles this year regarding negotiations between the two parties. Meanwhile, the U.K. now must also negotiate trade agreements with all of the major non-European Union countries.

Locally, California's economy is still healthy, though a mild slowdown is expected in 2020 which would be in line with the national economy as a whole. The governor's office released its 2020 budget totaling a record \$222 billion with improving housing supply and education while continuing to address the homeless problem as the top priorities.

Home sales have continued to decline throughout California as the high prices took their toll, but most realtors are hopeful the current low loan rates will at least keep the market stable throughout 2020. Housing supply is not expected to grow significantly, and home prices are only expected to have minor declines which does not bode well for the continuing homeless problem.

There has been an ongoing upward trend in oil prices (orange line in the chart below) which began in mid-September due to OPEC attempts to limit production in order to nudge prices higher, but the prices recently surged due to the conflict with Iran. Despite the price of oil, the price of gasoline in California has continued to trend downward which, historically, is the opposite that one would expect when the price of oil continues to rise.



However, the recent trend is probably just a combination of the price of gasoline in California having been abnormally high at the end of the 2019 summer due to strong demand coupled with a couple of refinery problems. The refinery problems were fixed and the demand declined as the winter months approached and gasoline prices fell accordingly.

Your Credit Union reminds all members that many services and products are now available via either the Credit Union website (www.1stnocalcu.org) or via the Credit Union mobile app. However, the traditional way of visiting one of the offices and meeting our friendly staff is still a great way to enjoy the Credit Union's commitment to its members. 1st Nor Cal offers lower loan rates, higher interest on deposits, and much lower fees as well as superior service.

Statement of Condition

(as of December 31, 2019)

Loans (net)	\$245,913,732
Investments & Cash	454,575,048
Fixed Assets (net)	2,913,310
Other Assets	24,813,114
Total Assets	\$728,215,204
Member Shares	\$644,241,016
Liabilities	5,339,547
Member Capital	78,634,641
Total Liabilities & Equity	\$728,215,204

Income Statement

(Year to Date as of December 31, 2019)

Loan Interest Income	\$8,128,556
Investment Interest Income	8,376,552
Non-Interest Income	2,147,436
Total Income	\$18,652,544
Operating Expense	\$12,391,575
Dividends Paid to Members	3,933,829
Provision for Loan Losses	42,800
Total Expense	\$16,368,204
Non-Operating Income (Expense)	-
Net Income	\$2,284,340