

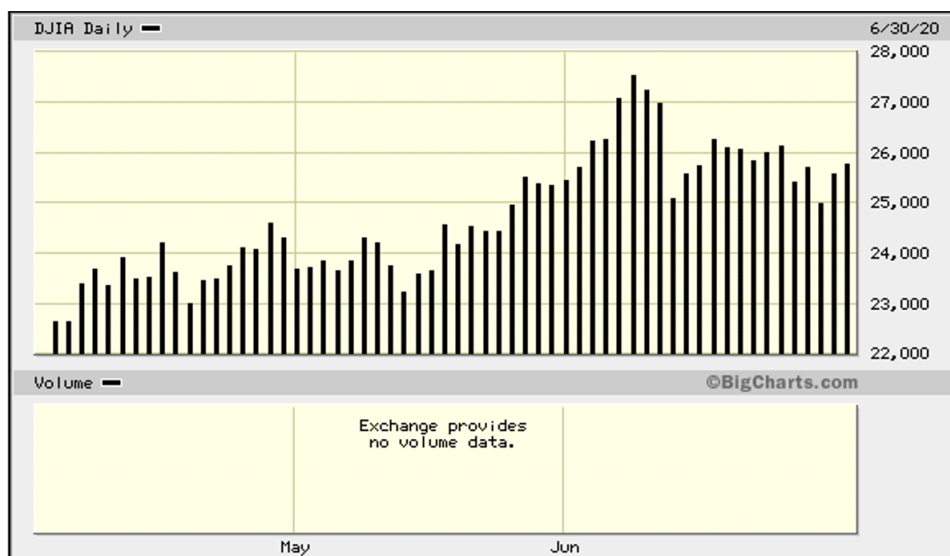


ECONOMIC UPDATE

After their two emergency rate cuts during March which brought short-term rates nearly to zero in response to the economic effects of the COVID-19 pandemic, the Federal Open Market Committee (FOMC) has resisted pressure from the White House to execute another rate cut and bring rates into negative territory. While the White House is focused on trying to nudge the economy in a positive direction before the November election, the FOMC is well aware that other countries have experienced dismal success at economic growth as a result of taking rates negative. The experience of other countries was that they found that companies in those countries interpreted negative rates as a sign of a declining economy and so they resisted borrowing or investing in new capital expenditures as well as hiring. Accordingly, the long-term results of negative rates have not proven to be beneficial. The FOMC decided instead to reverse direction from allowing the Treasury's holdings of U.S. Treasury and federal agency bonds to decline and resumed purchasing additional holdings in order to provide more liquidity to the banking system.

The recent reduction of pandemic-related restrictions are quickly being either paused or even reversed as the first localities and states to implement the restriction reductions began experiencing significant surges of new virus infection cases. There is significant concern on how the resumption of restrictions will impact the economy which has already witnessed historic negative effects on many of the key elements (e.g. employment, retail sales, business investment, etc.) that drive the economy.

The chart, below, of the Dow Jones Industrial Average (DOW) over the second quarter of 2020 reflects how the stock market recovered much of the loss incurred at the end of the first quarter when investors became more optimistic as many localities and states began to reduce the pandemic-related restrictions. However, the market began to falter as the virus cases began to climb, again, and investors are now watching to see the impact of the pause or reversal of the restriction reductions.



The pandemic devastated employment in the United States resulting in historic unemployment rates with April's rate reaching 14.7% before gradually reducing to

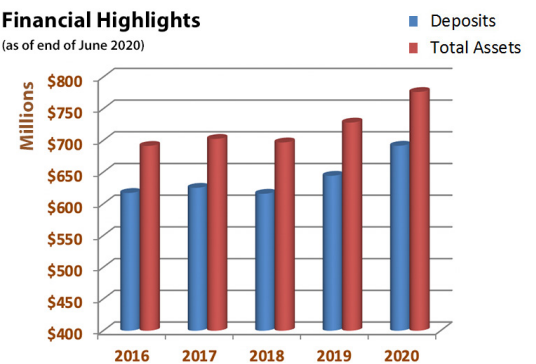
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Key Figures (as of June 30, 2020)

Assets	\$776,406,541
Deposits	\$691,587,566
Loans	\$261,330,919
Capital Ratio	10.18%
Branch Locations	6
Surcharge-Free ATMs	30,000
1 st Nor Cal ATMs	10
Members	30,317
Employees	80

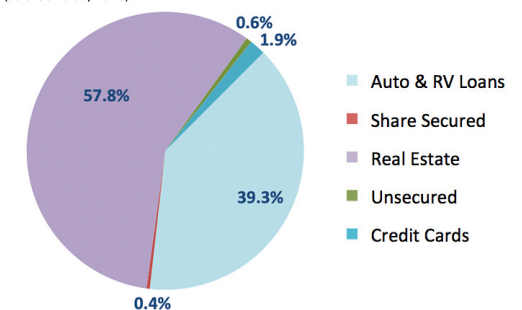
Financial Highlights

(as of end of June 2020)



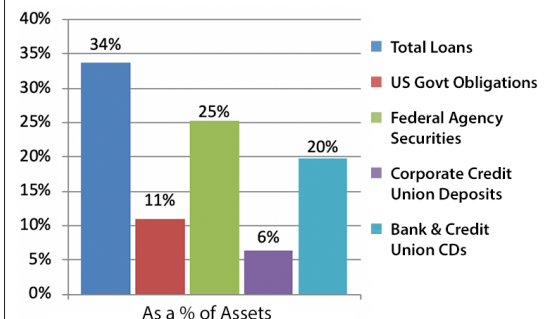
Loan Portfolio

(as of June 30, 2020)

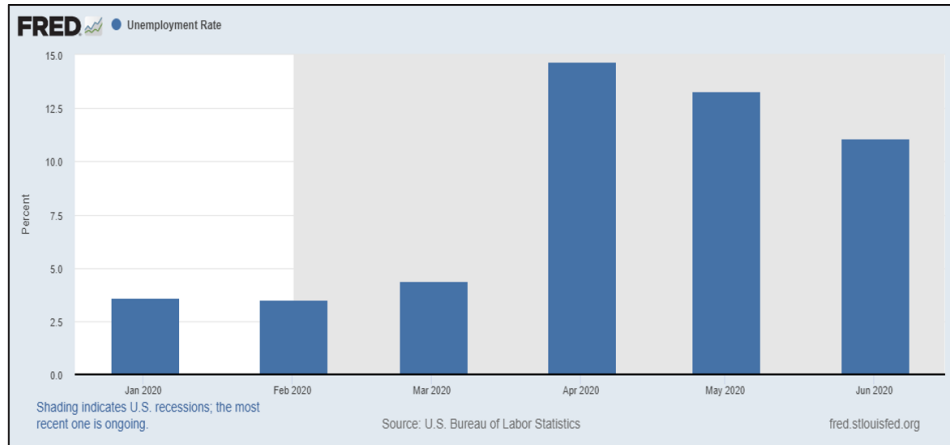


Loans and Investments as a Percent of Total Assets

(as of June 30, 2020)

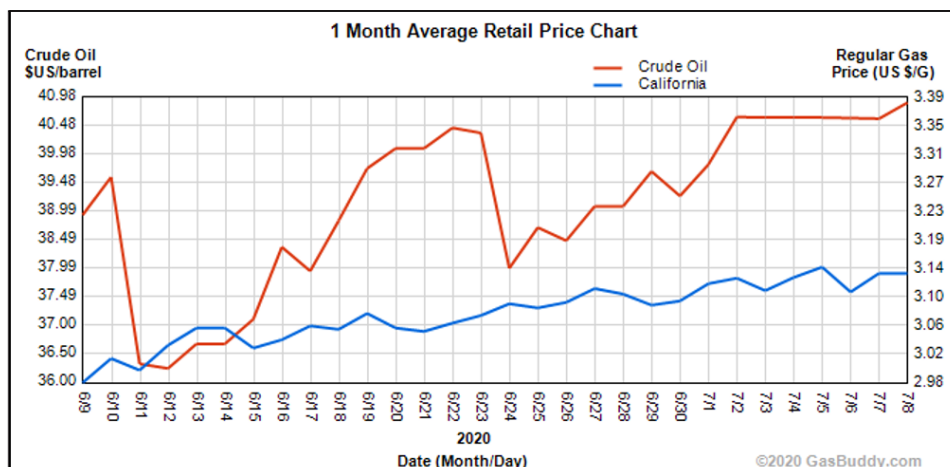


11.1% at the end of June. Throughout the country, the pandemic drives whether or not a local economy is in an economic recovery or an economic decline mode. Those localities that were quick to react to the pandemic and whose populace was most likely to accept the measures taken to hamper the spread of the virus appear to be the most likely to begin economic recovery but most localities did not and their economic recovery will be stalled as a result.



California's economy has been as negatively impacted as the country's economy with by far the greatest number of confirmed COVID-19 cases being recorded in the southern counties (e.g. Los Angeles, Orange, Riverside, San Bernardino, San Diego) while the confirmed cases in the northern section of the state are primarily in Santa Clara, Alameda, and Contra Costa counties. The Central Valley area also accounts for many confirmed cases. All industries have witnessed significant impacts but the wine industry has been one of the hardest hit as officials have deemed the wine industry as "non-essential" and, as such, more restrictions remain in place on the wineries which are spread throughout the state.

The last thing that the economy needed was for the price of energy to be in a rising mode while people and businesses were already struggling with reduced income. However, the oil price war ended when Saudi Arabia and Russia agreed to resume controlling oil output and, therefore, the price of oil began to rise despite the overall lack of demand. The chart, below, of oil prices (orange line) reflects the sporadic rise in the price of oil while the price of gasoline in California (blue line) has trended upward as a result and increased about forty-five cents per gallon over the period of just a month.



Statement of Condition

(as of June 30, 2020)

Loans (net)	\$259,946,890
Investments & Cash	486,367,917
Fixed Assets (net)	3,440,087
Other Assets	26,651,647
Total Assets	\$776,406,541
Member Shares	\$691,587,566
Liabilities	5,764,263
Member Capital	79,054,713
Total Liabilities & Equity	\$776,406,541

Income Statement

(Year to Date as of June 30, 2020)

Loan Interest Income	\$3,940,311
Investment Interest Income	4,337,524
Non-Interest Income	778,278
Total Income	\$9,056,113
Operating Expense	\$6,465,535
Dividends Paid to Members	2,034,907
Provision for Loan Losses	135,600
Total Expense	\$8,636,042
Non-Operating Income (Expense)	-
Net Income	\$420,071

There is no doubt that the COVID-19 virus will eventually be overcome as more members of the populace accept the necessary measures to restrict the spread of the virus. More than likely, there will be a significant rebound in economic activity as business sectors reopen and laid-off workers are rehired. However, the economic rebound will occur over a period of several years and there may be "fits-and-starts" as the economy is currently experiencing as a result of localities and states rushing too quickly to resume economic activity before the spread of the virus had sufficiently declined.

Your Credit Union reminds all members that during these difficult times many services and products are now available via either the Credit Union website (www.1stnoralcu.org) or via the Credit Union mobile app. Your Credit Union remains committed to its members and assisting those members in need. It is what we do.