1st Nor Cal® CREDIT UNION

QUARTERLY UPDATE

September 2020

ECONOMIC UPDATE

We have all heard of a V-shaped economic recovery where there is an immediate and sustained improvement in the economy after a significant and rapid decline in the economy. We now also know about a U-shaped economic recovery where there is a gradual but sustained improvement in the economy after an economic decline. Now, another term has been thrown into the mix with a "K-shaped" economic recovery which describes an economic recovery in which a few (e.g. the "1%" at the top of the economic ladder) do experience rapid improvement of their financial wherewithal but the majority continue to experience a decline. All signs do indeed point to a current K-shaped recovery with the wealthiest individuals and many corporations doing very well while the rest of us are still struggling. This is very evident in the current trend of the stock market when compared with what most of us are experiencing in our communities. The net reduction of COVID-19 cases continues to be the necessary ingredient to transforming the K-shaped recovery to a U-shaped recovery or, if we are lucky, a V-shaped recovery.

The unemployment rate is usually a measurement that provides some insight on the direction that can be expected of the economy. However, there is currently quite a bit of turmoil in the ranks of economists on what the downward trend in unemployment over the last few months is telling us and whether or not the downward trend will even continue. The COVID-19 pandemic has altered the economic landscape so significantly that there is open debate on whether or not the current downward trend is measuring growth in the economy or just displaying a short-term trend before the next shock hits. It is known that many companies (e.g. airlines, Disney, theaters, etc.) have announced upcoming layoffs that number in the thousands and the failure of the White House and Congress to initiate another economic stimulus which includes assistance to local and state governments will virtually assure upcoming and massive layoffs from the public sector. Economists already expect that many jobs will never come back. For instance, there are dire predictions that as much as 75% of all independent restaurants will never reopen. The harder hit industries will include tourism, hospitality, and entertainment as well as those companies that supply those industries. Those industries will be very slow to return to any semblance of normality as consumers continue to stay away from any large gatherings or transportation involving travel with persons unknown to them.

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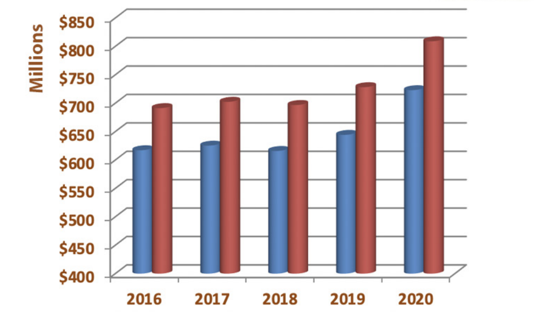
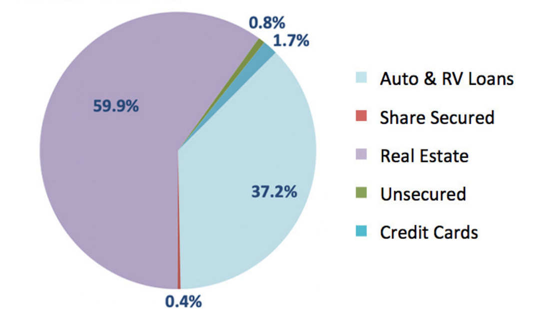
Key Figures (as of September 30, 2020)

Assets	$808,965,089
Deposits	$722,961,869
Loans	$269,914,538
Capital Ratio	9.96%
Branch Locations	7
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	31,472
Employees	80

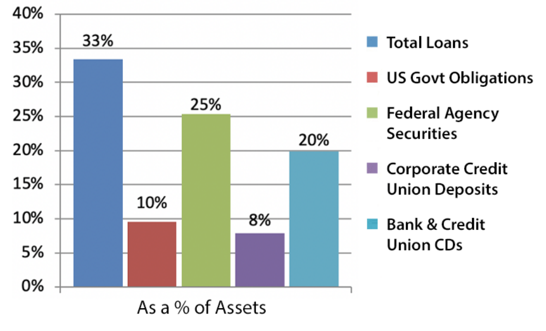
Financial Highlights
(as of end of September 2020)



Loan Portfolio
(as of September 30, 2020)



Loans and Investments as a Percent of Total Assets
(as of September 30, 2020)



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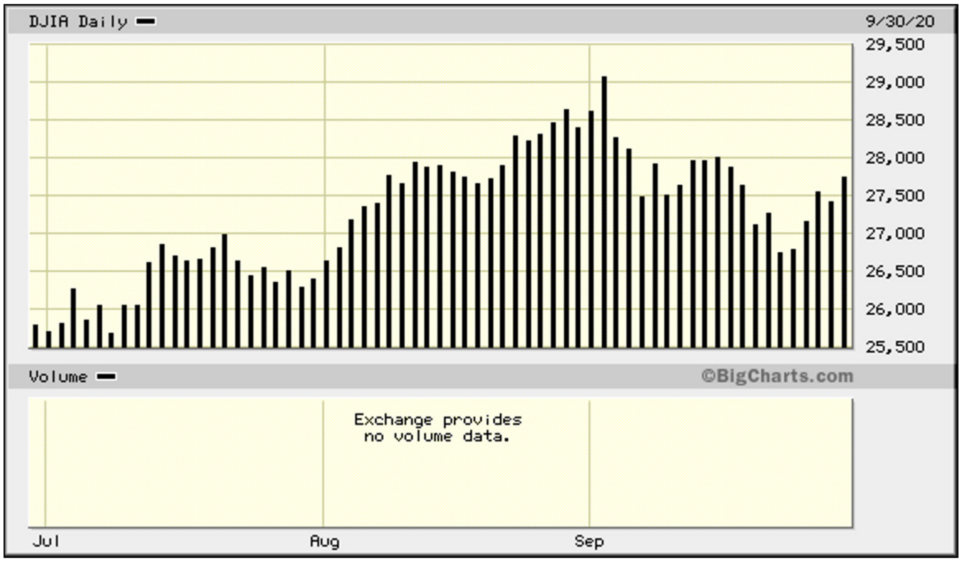
There are not many short-term positive economic forecasts from any sources that are credible. However, most economists expect that the United States will gradually recover over the course of 2021 and 2022 though the resulting economy may look very different with far fewer small businesses and many former employees undergoing retraining to learn different skill-sets. It is also unknown as to whether or not the federal government will continue to be dysfunctional or will finally join together in initiating policies that are truly aimed at assisting the majority of the populace.

However, there is still an underlying current of optimism that our economy will recover. Economic life will certainly look different than what we had accepted as "normal" prior to the pandemic but we will adapt and rise above the current struggles. One article noted that no pandemic since the Black Plague has led to a long-term economic downturn. In all pandemics cited by the article, the local economies recovered in fairly short order and many actually prospered. The first step on the road to recovery is to beat back the virus.

In September, the stock market took an abrupt downward turn but has been recovering from the last week of September and into the first half of October. Some analysts opined that the downward turn was due to many short-sellers panicking that the tech stocks had climbed too high and others claiming that investors, in general, had begun to sell-off after becoming convinced that the stock market was out of sync with expectations for the economy. Whatever the reason, the stock market has been rebounding but it bears a reminder that the stock market's direction, as commonly displayed by the trend of the Dow Jones Industrial Average (DJIA), is a measurement of investors' expectations for the growth (or, lack of) of the wealth of those corporations listed on the stock exchange. The stock market is not a measurement of the overall economic well-being of the nation but can be a gauge as to investors' belief of how the economy will impact those corporations that are listed on the stock market exchange.



California, along with several other states, is not only enduring the economic effects of the pandemic but also the huge costs associated with natural disaster. California state and local governments were already forced to endure the costs of mitigating the effects of the pandemic but then carried the added burden of the costs necessary to beat back the wildfires and will also bear the long-term costs of assisting those citizens impacted by the wildfires. That, of course, is the role of government but it will also lead to increased pressures to raise taxes and/or reduce public sector costs via layoffs of local and state workers. Neither choice is palatable, and both choices will hinder economic recovery. However, as was the case before these disasters, California has great wealth in people and resources that can be employed to overcome the current trials.

Ironically, the housing shortage had been one of the chief concerns prior to the pandemic but that very shortage may be one of the most significant drivers of the state's economic recovery as housing construction not only continues but will escalate over the next couple of years. Housing construction is a major industry with many ancillary companies providing supplies and services. A double-irony is that housing led the downturn of the Great Recession but may lead the climb out of the Pandemic Recession of 2020.

Statement of Condition

(as of September 30, 2020)

Loans (net)	$268,434,839
Investments & Cash	510,202,439
Fixed Assets (net)	3,414,028
Other Assets	26,913,783
Total Assets	**$808,965,089**
Member Shares	$722,961,869
Liabilities	5,397,874
Member Capital	80,605,346
Total Liabilities & Equity	**$808,965,089**

Income Statement

(Year to Date as of September 30, 2020)

Loan Interest Income	$5,976,719
Investment Interest Income	6,439,611
Non-Interest Income	1,306,539
Total Income	**$13,722,869**
Operating Expense	$9,959,845
Dividends Paid to Members	2,925,120
Provision for Loan Losses	260,600
Total Expense	**$13,145,565**
Non-Operating Income (Expense)	918,401
Net Income	**$1,495,705**

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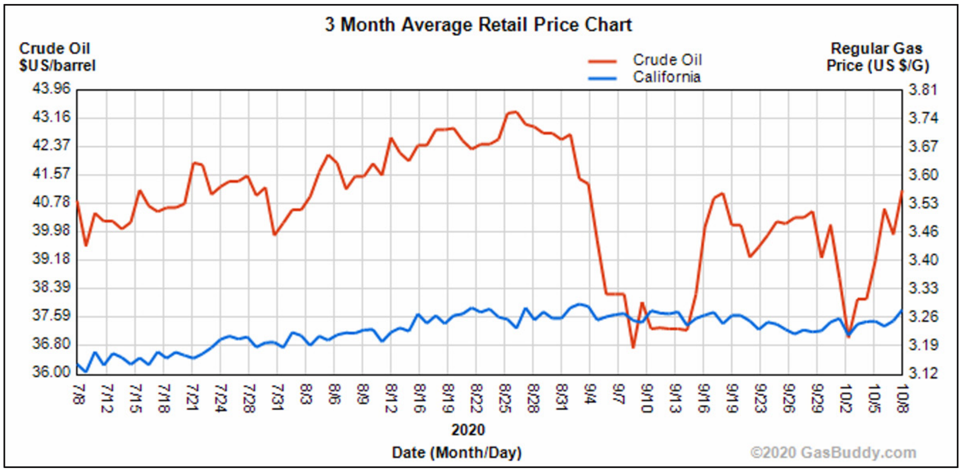

The oil market is beginning to look like the stock market with the same erratic up and down movements. At the beginning of September, OPEC came to the realization that the pandemic had a significantly negative impact on the usually high consumption of fuel during the summer months and that fact combined with the near-term outlook of an at best stagnant global economy led to the supply far exceeding demand, again. Saudi Arabia led the way by slashing its official selling price for oil and the other OPEC states soon did so, also. Then, oil investors became hopeful that the global economic outlook may not be quite as bad as envisioned and the price of oil began to recover but, of course, pessimism again crept in and there was another downturn at the beginning of October. The latest recovery of the price of oil is being driven by investors' enthusiasm that China's economy seems to be recovering and the hope is that China's recovery will lead to recovery for all. Despite the ups-and-downs of the price of oil, California's price of gasoline has stayed fairly stable throughout the period.

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.1stnorcalcu.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.