



SACRAMENTO

CREDIT UNION

2021

ANNUAL REPORT

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Board of Directors' and President's Report

The mission statement of Sacramento Credit Union is to provide prompt, competitive, quality consumer financial services to its members in a friendly, professional, and prudent manner. Despite continued challenges posed by the pandemic, the Board of Directors, management, and staff was resolute in fulfilling its mission, and as a result, 2021 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 2021 financial performance demonstrated the safety and soundness of Sacramento Credit Union. Net earnings were \$6.4 million; assets grew 15.50%; loans grew 11.43%; and net worth grew 7.96%. Credit quality remains strong as evident by the low delinquency and charge-off ratios.

The Credit Union is committed to enhancing its technology infrastructure. A new cloud-based phone system was deployed last year, and it has enriched the Contact Center experience for our members, afforded greater work-life flexibility for our employees, and drastically improved our business continuity plan. The Credit Union embarked on a major project to upgrade its core processing software. The upgrade is slated for completion in August 2022, and it would help the Credit Union in enhancing its products and services to better meet the needs of our members.

The Board of Directors and the Supervisory Committee continue to gain education through training. Training was held through online platforms due to the pandemic and travel restrictions. This enables our Board of Directors and Supervisory Committee to remain current on industry trends, compliance, technology, and security.

Staff receive training throughout the year on trending issues and on refresher courses on topics ranging from elder abuse prevention to Bank Secrecy Act, standards of conduct and communications etiquette. The better informed we are as a team, the better we can serve our members.

We 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, 2021, were \$6,471,596 or 104.65 basis points on average assets of \$618,410,380. Figures for prior fiscal year were \$6,834,028 or 132.11 basis points on \$517,286,216. The year over year change in terms of basis points is broken apart across the elements of the financial formula as follows:

Financial Formula	Sep-21	Sep-20	Variance
Yield on Assets	224.34	290.69	-66.35
Cost of Funds	-22.44	-34.06	11.61
Net Interest Margin	201.90	256.63	-54.74
Fee and Other Income	145.73	157.75	-12.02
Operating Expenses	-247.96	-269.55	21.59
Provision for Loan Losses	4.98	-12.72	17.70
Net Earnings	104.65	132.11	-27.46

For the second year in a row, growth in deposits was significant at 19.08% after growing 17.83% the prior fiscal year. The surge was the result of two federal stimulus payments in December 2020 and March 2021. Additionally advances from the IRS Child Tax credit and California's Golden State Stimulus payments assisted in the growth. All non-term deposit categories experienced double digit growth with money market accounts leading at 38.91%, followed by savings accounts at 15.04%, and checking accounts at 13.68%. Certificate of deposits grew at 7.47%. Assets grew 15.50% compared to 18.75% the prior year.

Gross loans experienced modest growth at 11.35%. Driving the growth was Fixed Mortgage loans at 38.22% with consumers continuing to take advantage of historic low interest rates to refinance and consolidate debt for the second year in a row. Vehicle loans grew at 11.30% after receding 10.04% the prior fiscal year. Negative growth was encountered on the other loan segments. Variable first mortgage loans shrunk 97.94%, commercial & participation loans 24.69%, Home Equity Lines of credit 7.25%, credit cards 1.44%, and other consumer loans consisting primarily of The Permanent Medical Group stock secured loans 1.75%. As a percentage of assets, loans shrunk from 51.72% to 49.87% as assets grew faster than loans.

With deposit growth outpacing loan growth, term investments and cash and cash equivalents surged 24.32% and 12.30%, respectively. As a percent of assets, term investments increased from 34.20% to 36.81%, and cash and cash equivalents remained flat at 8.51% compared to 8.76% the prior year.

Growth in net worth, also known as return on equity (ROE), finished the year at 7.96%, generating a year-end net worth to assets ratio of 13.09%. Figures for prior year were 9.18% and 14.00%, respectively.

Submitted by: Aron Brewer, Secretary-Treasurer

Lending Report

In fiscal year 2021 outstanding loan balances increased by 11.35%. The Fixed Rate First Mortgage and Consumer Vehicle collectively contributed \$45,096,537 to the loan portfolio balances. The increase in the loan portfolio can be attributed to low mortgage interest rates and increased direct and indirect vehicle lending. Consumer vehicle loan balances increased by 11.30%. The variable rate Mortgage, HELOC and Credit Card portfolios receded 97.94%, 7.25% and 1.44% 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 0.09% and 0.06% of the loan portfolio, respectively.

Loan Type	Portfolio Mix	Sep-21	Sep-20	\$Var	%Var
Mortgage: Fixed Rate	35.61%	119,059,938	86,136,459	32,923,479	38.22%
Mortgage: Variable Rate	0.02%	82,103	3,995,045	-3,912,943	-97.94%
Mortgage: Heloc (variable rate)	3.57%	11,933,119	12,865,866	-932,746	-7.25%
Consumer: Vehicle	35.85%	119,859,264	107,686,206	12,173,058	11.30%
Consumer: Credit Cards	2.77%	9,246,073	9,380,822	-134,748	-1.44%
Consumer: Other, primarily Stock Secured	17.62%	58,917,233	59,966,187	-1,048,954	-1.75%
Commercial & Participation	4.56%	15,233,942	20,228,483	-4,994,542	-24.69%
Gross Loan Portfolio	100.00%	334,331,672	300,259,069	34,072,603	11.35%

In 2021 the United States continued to experience an economic downturn due to a global pandemic. Law makers continued with stimulus packages and small business paycheck loans. Mortgage rates remained low resulting in another strong year for refinance and purchase loans. Vehicle demand increased resulting in purchases of new and used autos and refinancing existing loans with lower rates with other financial institutions. The global semiconductor chip shortage impacted the second half of 2021 resulting in lower vehicle inventory and increasing auto prices. Credit quality of new originations remained strong as new production conformed to Sacramento Credit Union policy and underwriting guidelines.

Loan Type	Production Mix	Sep-21	Sep-20	%Var	\$Var
Credit Cards	1.09%	2,190,171	1,358,871	61.18%	831,300
Other Unsecured	1.07%	2,157,154	1,691,037	27.56%	466,117
Vehicle CUDL	19.51%	39,249,436	27,796,245	41.20%	11,453,191
Vehicle Retail	14.31%	28,796,094	12,820,654	124.61%	15,975,440
Other Secured	6.54%	13,150,456	19,798,263	-33.58%	-6,647,807
2nd Mort Heloc	1.60%	3,214,901	2,043,514	57.32%	1,171,387
2nd Mort Fixed	2.36%	4,746,618	2,107,497	125.23%	2,639,121
1stMort: Originated & Sold	20.60%	41,453,095	68,693,425	-39.65%	-27,240,330
1stMort: Originated & Portfolio'd	32.47%	65,340,450	47,815,170	36.65%	17,525,280
Commercial Real Estate	0.14%	287,000	4,750,000	-93.96%	-4,463,000
Participations	0.00%	0	0		0
SBA	0.31%	631,483	834,760	-24.35%	-203,277
Total Loans Funded	100.00%	201,216,859	189,709,437	6.07%	11,507,422

Submitted by: Bhavnes Makin, President/CEO

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2021 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, 2021, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2021

<u>Performance Category</u>	<u>September 2021</u>	<u>September 2020</u>	<u>Variance</u>	
Assets	\$670,450,430	\$580,501,131	\$89,949,299	15.50%
Net Loans	333,803,892	299,032,683	34,771,209	11.63%
Term Investments	246,820,211	198,536,246	48,283,965	24.32%
Member Deposits	577,876,198	485,277,160	92,599,038	19.08%
Net Capital	87,728,744	81,257,148	6,471,596	7.96%
Interest Income	13,873,427	15,036,963	(1,163,536)	-7.74%
Less Cost of Funds	1,387,997	1,761,629	(373,632)	-21.21%
Net Interest Margin	12,485,430	13,275,334	(789,904)	-5.95%
Less Provision for Bad Debt	(308,080)	657,859	(965,939)	-146.83%
Add Non-Interest Income	9,011,894	8,159,988	851,906	10.44%
Less Operating Expenses	15,333,809	13,943,435	1,390,374	9.97%
Net Income	\$6,471,596	\$6,834,028	(\$362,432)	-5.30%

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

Folsom

1705 Iron Point Road, Suite 100

Roseville

5005 Foothills Boulevard, Suite 1E

Sacramento

3660 Bradshaw Road

800 H Street

3102 Arden Way