



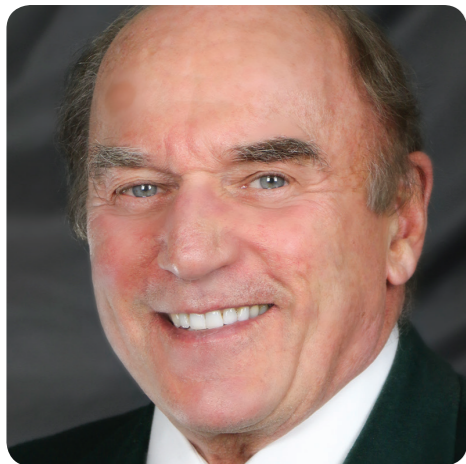
2018 Annual Report



Insured by NCUA



 **Patelco**[®]
CREDIT UNION



Board Chairman's report

Putting members first is paramount to our work on the Board of Directors – this means delivering superior value to members now, as well as ensuring that we are building a safe and strong credit union for members in the years to come. The Board of Directors' role is to assure we fulfill our vision: to be the preeminent credit union that empowers our members with the tools and knowledge to achieve financial well-being.

At Patelco, this commitment extends beyond providing best-in-class financial products and services. In 2018, we achieved this by donating our time and resources to support those in need throughout Northern California.

The Camp Fire was the deadliest and most destructive wildfire in California history, and Patelco responded by offering our Disaster Relief Program to immediately provide affected members loan deferments and other benefits. Alongside our members, we also donated over \$75,000 to directly help affected communities recover. The Federal government shutdown that began in December 2018 provided a further opportunity for us to help affected members directly with immediate access to funds and other financial sources. We issued over \$250,000 in low- and no-interest loans to individuals and families affected by the shutdown, and deferred existing loan payments for nearly 150 members.

This type of community involvement that directly benefits our members and their respective local communities exemplifies our mission as a not-for-profit financial cooperative. When you join Patelco, you'll experience the difference between being a member and simply a customer. That's because we make decisions based on what's best for you and the communities where you live and work – not simply for our bottom line.

That involvement has not gone unnoticed. The San Francisco Business Times last year recognized Patelco for its outstanding commitment to community service with its "Beyond the Check" award, which honors just five Bay Area organizations each year that make the greatest impact by engaging employees and customers in volunteerism and philanthropy, beyond simply donating money.

In 2019, we look forward to a year of even greater empowerment. Our vision will guide us this year and into the future, as we work together with Patelco leadership and individual team members to build up a credit union that supports financial well-being for you and your family.

Peter Hanelt
Chairman – Board of Directors



President and CEO's report

2018 was another banner year for Patelco, finishing with the highest membership and assets in our history: 345,671 members who have deposited more than \$6 billion. This achievement was fueled by our team's unwavering dedication to members' financial well-being and to developing the right products, services, and support for members and the broader communities we serve.

A Focus on Financial Health

We further developed our product lineup and refined our member service approach by focusing on providing for our members' day-to-day needs while helping build long-term financial well-being. This ethic is highlighted by our key initiatives and programs:

- Our **automatic rate reduction program** automatically lowers loan interest rates for members who don't initially qualify for our lowest rates, reducing what the member pays over time as a reward for on-time monthly payments. In 2018, we reduced rates for more than 10,000 members – an incredible benefit in an unsure rate environment.
- Our **Money Market Select** account – which offers 3% interest for the first \$2,000 deposited – continues to reward and encourage small savers to establish an emergency fund, one of the most important factors in ensuring long-term financial well-being. Over 23,000 additional members used this product in 2018.
- With our **Switch to Save** program, members can quickly compare their existing credit card and auto loan rates and fees to Patelco's, ensuring they know what institution offers them the most value. The transparency of this program is part of our commitment to our members' best interests, not just our bottom line.
- In 2018, Patelco also significantly reduced Non-Sufficient Funds (NSF) fees for members through promoting our low-rate checking **Overdraft Protection** loans, which saved members an estimated \$3.2 million in total NSF fees in 2018.

A Look Ahead at 2019

We will continue to develop products with a sustained focus on building our members' financial health and well-being, designing products around member needs and creating options that distinguish us in the marketplace.

With this in mind, we introduced the Flexible Rising Rate Certificate – a three-year certificate for medium-term savers that delivers a guaranteed annual rate increase with the

flexibility to withdraw funds with no penalty upon the account opening anniversary. The results prove the product is meeting member needs, with more than \$368 million in new deposits.

In the first quarter of 2019, we rolled out a truly one-of-a-kind checking product called Patelco Plus Checking for members who want to build their financial health, establish strong savings habits and protect the money they have. Plus Checking's built-in benefits address issues that can impact financial health: identity theft protection, worldwide ATM rebates, automatically rounded up savings with a 10% match, roadside assistance, cell phone insurance, and more. The benefits average \$642 per year per member, offering significantly more value than other checking products available today.

Additionally, in 2019, we will be changing the way we collect member feedback by adding survey questions about financial well-being. We want to have a clear understanding of how our members feel about their personal financial health over time so we can better measure the success of our programs on deeper and more qualitative levels, not just in our financial statements.

Our commitment to building better financial futures for members and the broader communities we serve remains at the forefront of our actions. Our team is vital to that mission, and I want to thank each and every one of our 757 team members' dedication to improving financial health and wellness.

Erin Mendez
President & Chief Executive Officer

Our vision

To be the preeminent credit union that empowers our members to achieve financial freedom.

Our mission

To build our members' financial health and well-being.

Our promise

To fuel hope and opportunity for lifelong financial well-being.



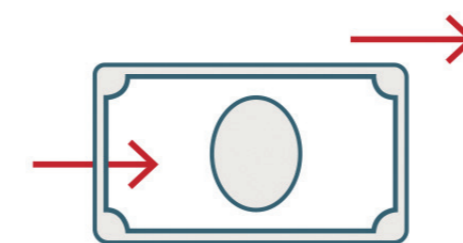
Improving our members' financial well-being

Benefits returned to our membership

	Q4 2014	Q4 2015	Q4 2016	Q4 2017	Q4 2018
Total annual CU benefits per Member	\$83	\$133	\$181	\$180	\$253
Total annual CU benefits per Member household	\$158	\$252	\$344	\$377	\$532

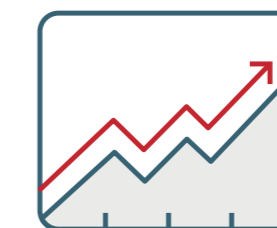
	Quantity	Estimated Return to Member	Estimated Return to Patelco
Share Certificate/IRA Specials	11,261 Members	\$2,610,844	\$617.18 million balances
Money Market	21,851 new accounts	\$979,774	\$232.03 million balances
Disaster Relief Loans	18 new accounts	\$8,423	\$67,000 balances
Debt Consolidation Loans	1,518 new accounts	n/a	\$20.17 million balances
Automatic Rate Reduction Program	10,734 enrolled Members	10,383 Members received rate reduction	n/a
Credit & Debit Card Fraud Prevented	11,454 fraud attempts	n/a	\$1,485,374 fraud prevented
Overdraft Protection Loan	122,182 total advances	\$3,192,308 saved in overdraft fees	n/a

Member engagement



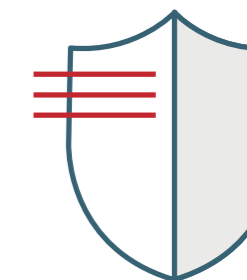
SPEND THOUGHTFULLY

1,045 Members sought financial advice and counseling through BALANCE



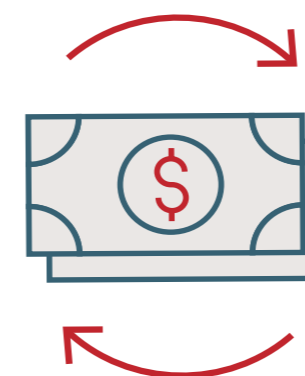
SAVE DILIGENTLY

23,773 Members opened Money Market accounts
11,722 Members invested in Share Certificate specials



PLAN PURPOSEFULLY

541 more Members invested in their future through Patelco Financial Solutions

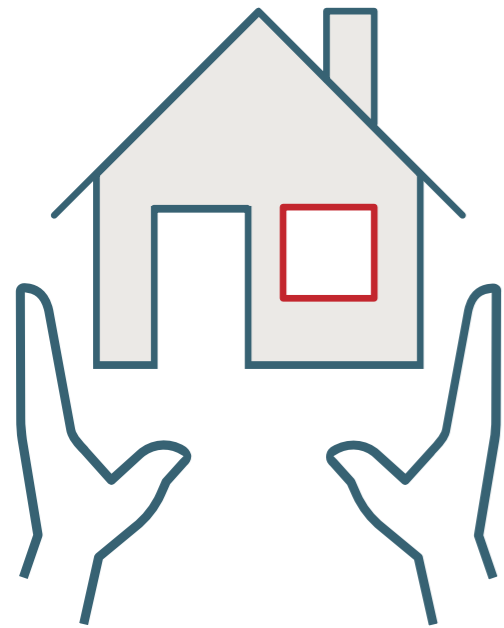


BORROW RESPONSIBLY

26,593 vehicles financed
1,370 home loans financed
2,337 equity loans/lines financed
114 loans restructured to make payments more affordable
1,518 debt consolidations into more affordable loans
20 Members sought help through Keep Your Home California program
10,383 Members received rate reductions for on-time payments
18 Members helped through disaster relief loans

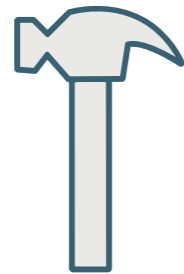
Living our mission

HOUSING



Donated \$50,000 to Habitat for Humanity

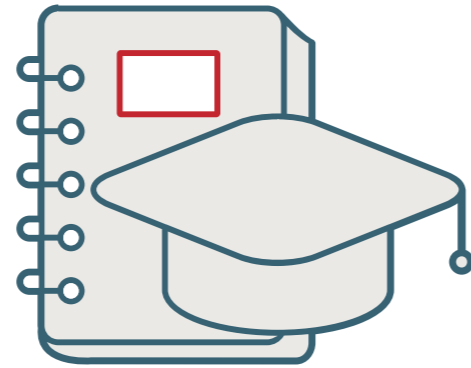
including serving as the Presenting Sponsor at the first annual Cycle of Hope event.



Participated in 3 Fremont build events with 61 volunteers and 442 volunteer hours



FINANCIAL EDUCATION



Educated 2,022 participants, while doing 61 presentations for 27 organizations

on a range of financial health topics.



DISASTER RELIEF



Contributed \$75,000 in aid

and distributed 1,000 backpacks† to those affected by the Camp Fire.

Assisted over 50 families

to “shop” at the Salvation Army Distribution Center in Chico with 22 volunteers providing 315 total volunteer hours.

Team members donated an additional \$1,930 towards relief efforts.



HEALTHY NUTRITION



Collected 4,341 pounds of food

from our team members and members to support 7 food banks in Northern California.

Donated \$4,300 with 50 volunteers providing 240 hours.

CHILDREN'S WELLNESS



Donated \$160,880, 150 volunteer hours and 30 volunteers to:

SacTown Run, Children's Miracle Network, UCSF Benioff Children's Hospitals, and March of Dimes through participation in the March for Children.

Donated over 450 coats to True Passion, an organization dedicated to helping those in the foster care system and in need in our community.

Community impact

Patelco continued to be involved in the Northern California communities where our members live. We focus our outreach on affordable housing, financial education, children's wellness, and healthy nutrition — and we also respond to emergencies that affect our members and neighbors.

We activated our Disaster Relief Program in 2018 for those affected by the Federal government shutdown and the devastating northern California wildfires, including the Camp Fire, the most destructive in state history. This program provides no-interest and low-interest loans, loan payment deferments and waived ATM fees, among other benefits.

Patelco delivered 1,000 backpacks to Camp Fire victims in Chico, each containing a blanket, power pack, a \$50 gift card and a personal note from the Patelco team. We wanted to ensure that survivors were not forgotten as they continued putting their lives back together.

Patelco also sponsored Cycle of Hope with Habitat for Humanity East Bay/Silicon Valley. The event raised more than \$238,000 to help families to transform their lives by securing affordable housing.

"As long-time supporters and volunteers for Habitat for Humanity, Patelco was honored to serve as the first ever Cycle of Hope presenting sponsor," said CEO Erin Mendez. "Over the years, Patelco employees have given thousands of volunteer hours to build affordable housing and foster hope for the Bay Area, and many employees were excited to put down the hard hat and put on a bike helmet to support this crucial organization in a new way."



1,207

Total
volunteer
hours



\$356,780

Total dollar
contribution



Helping our members live their best financial life



Simone | Member for 2 years

"I think Patelco is a great financial partner for me. I feel like they care about where I'm going and what my goals are."

Brendan | Member for 11 years

"...it's been an overwhelmingly positive experience to be a Patelco member. It's an organization that seems to care about my best interests."



Margaret | Member for 38 years

"...through Patelco, I have been able to save money for myself, for my two kids, ... and the grandkids. ...I've taken loans out. I have paid for cars. ...I have a whole house paid for. ...banking with Patelco, I've been able to accomplish that."

Jodi | Member for 31 years

"I like dealing with the people. [They] understand what I'm asking and understand why I'm asking what I'm asking. I always... get the answers that I need so that I can make educated decisions. That always makes you feel good."



Inspiring our team

Milton

Assistant Manager –
Santa Rosa Branch.
Team member for 15 years

“All the training that Patelco has given has really helped me utilize our products to really assist the members in where they need to be down the road.”



Cricket

Manager –
Citrus Heights Branch.
Team member for 15 years

“It’s very rewarding because we’re not about profits or what’s going to make us the most money. We’re about how we can improve their financial life.”



Donna

Marketing Manager.
Team member for 2 years

“We’re in the community every day helping people navigate through tough challenges to live their best life.”



Arturo

Product Marketing Specialist.
Team member for 2 years

“What I truly enjoy about my job is, by far, being able to help our members and the community... the fact that Patelco cares and gives back to the members and the community makes it worthwhile.”



In 2018, Patelco purchased a new building in Dublin, CA that’s just 1.5 miles away from our existing headquarters.

“Patelco Credit Union continues to grow at a healthy pace, and the credit union has already outgrown the current location,” said CEO Erin Mendez. “We needed to find a home that would support us into the foreseeable future and that aligns with our growth trajectory.”

The purchasing of this building will enhance the financial position of the credit union, a benefit Patelco can pass along to members through new products, improved services and better rates and fees. This new building is a great location for Patelco: it’s close to BART, restaurants and shopping, making it convenient for our team. And since it’s so close to our existing headquarters, we’re able to remain within the same community.

Chief Financial Officer's report

As we look forward to Patelco's 83rd year serving our members, I am pleased to report that our institution continues to be financially healthy and well positioned for the future. In 2018, we grew our assets to over \$6.5 billion, while our total equity grew to \$680.9 million. In addition to increasing assets and equity, we also increased deposits and loans granted to our members. This is in line with our long-standing mission to support our members' financial well-being, and these figures reflect our members' preference for Patelco as their trusted financial partner.

Susan Gruber
Susan Gruber
 Chief Financial Officer



Credit Lending Officer's report

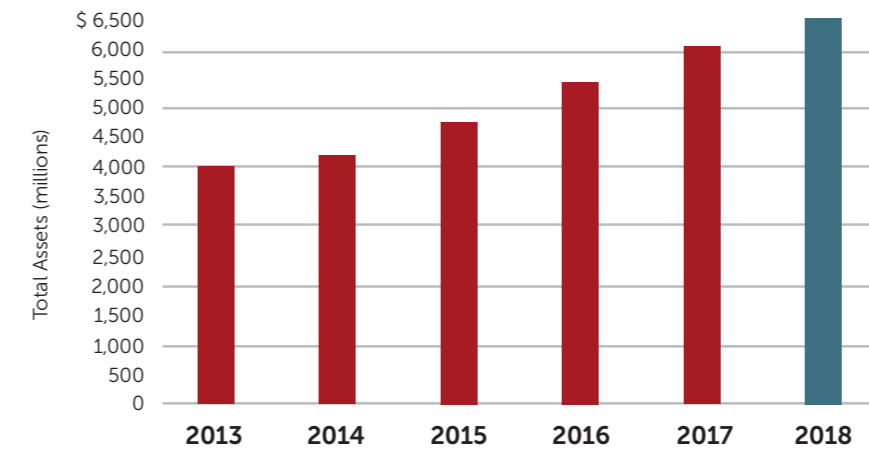
In 2018, we surpassed \$6.5 billion in assets, making us the 22nd largest credit union in the United States. This financial position has allowed us to continue supporting our members' financial well-being through competitive rates, and in 2018 we granted our members over \$2.2 billion in loans, including \$948 million in home loans. We remain committed to helping members in all our California communities to achieve their financial goals.

Richard Wada
Richard Wada
 Chief Lending Officer

Key performance figures

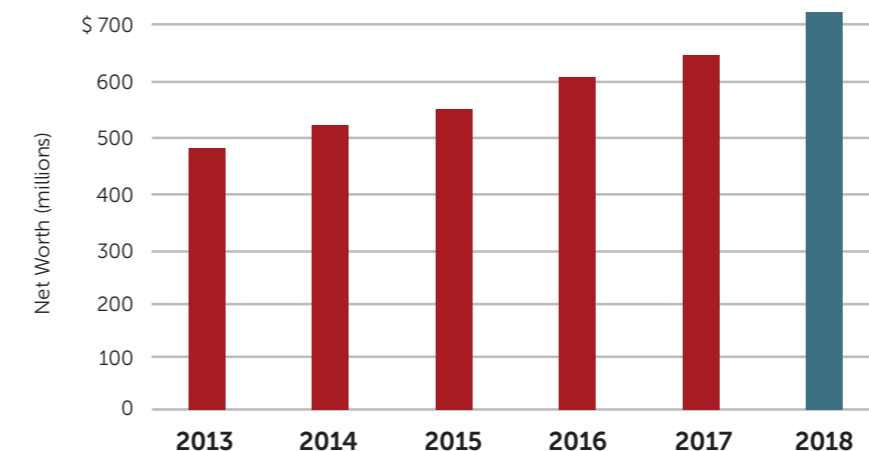
ASSETS

Assets increased further to \$6.59 billion in 2018



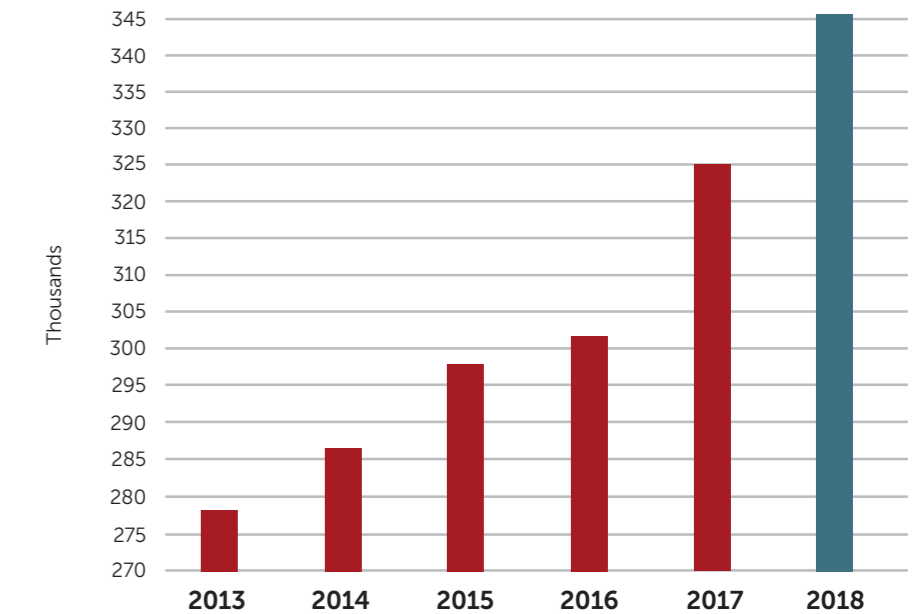
NET WORTH

Net worth has been increasing over the past 6 years



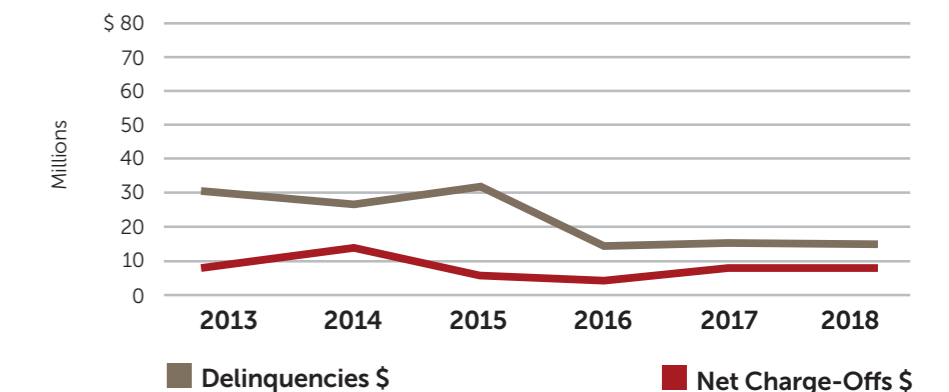
TOTAL MEMBERSHIP

Membership is growing each year



NET CHARGE-OFFS AND DELINQUENCIES

Asset quality has dramatically improved



2018 Consolidated Financial Statements

For Year Ending 12/31/2018 (in thousands)

Statement of Financial Condition

Assets

Cash and cash equivalents	\$	279,961
Investments		
Available-for-sale		1,042,254
Other		23,049
Loans to Members, net		5,012,525
Accrued interest receivable		15,958
Property and equipment, net		68,949
Share insurance deposit		53,616
Goodwill and intangibles		24,410
Other assets		71,830
Total Assets	\$	6,592,552

Liabilities and Members' Equity

Liabilities		
Members' shares	\$	5,740,332
Borrowings		115,000
Accrued expenses and other liabilities		56,257
Total liabilities		5,911,589
Members' Equity		
Retained earnings		719,286
Accumulated other comprehensive loss		(38,323)
Members' equity		680,963
Total Liabilities and Members' Equity	\$	6,592,552

Statement of Income

Interest Income

Interest on loans to members	\$	181,075
Interest on Investments and cash equivalents		30,659
		<u>211,734</u>

Interest Expenses

Dividends on Members' shares		50,625
Borrowings		1,781
		<u>52,406</u>

Net Interest Income **159,328**

Provision for Loan Losses **8,600**

Net Interest Income After Provision for Loan Losses **150,728**

Non-Interest Income **53,124**

Non-Interest Expenses

Salaries and benefits		75,745
Operations		40,557
Loan servicing		11,451
Occupancy		10,543
Net loss (gain) on sale and disposal of other real estate owned (OREO) and other assets		36
		<u>138,332</u>

Net Income **\$** **65,520**

Independent Auditor's report

At the request of the Audit & Risk Committee, Moss Adams LLP, certified public accountants, has performed an audit of Patelco's consolidated financial statements as of and for the year ending December 31, 2018. In their opinion, the consolidated financial statements to the left present fairly, in all material aspects, the consolidated financial positions of Patelco Credit Union and subsidiaries as of December 31, 2018, and the results of their operations for the year then ended, in accordance with U.S. generally accepted accounting principles.



Audit & Risk Committee's report

The Audit & Risk Committee of the Board of Directors provides valuable oversight in monitoring Patelco Credit Union's financial safety and soundness, ensuring the safeguarding of its assets, and overseeing Patelco's compliance with various financial and regulatory requirements. In fulfilling these responsibilities, the Committee holds quarterly meetings to review internal audit reports, examinations by regulatory agencies, as well as other third party reports on internal controls. The Committee also reviews the Credit Union's monthly financial reports. In addition, the Committee appointed the independent audit firm of Moss Adams, LLP to perform an audit of Patelco's consolidated financial statements for the year ending December 31, 2018. The results of this audit are reflected in their Independent Auditor's report, which appears in the Annual Report, and the Committee is in agreement with its conclusions. We wish to express our appreciation to the executive leadership team and all staff for their continued support.

Vickie Rath

Vickie Rath
Chairperson – Audit & Risk Committee

Leadership Team



Patelco President and Chief Executive Officer Erin Mendez (center) with **Board of Directors**, L to R: Trevor Thomas, Debbie Chaw, Race Chen, Vickie Rath, Colleen Cabey, Jesse Rivera, Peter Hanelt, Jeffrey Parks, Laura Chambers, Garick Zillgitt, Tracey Scott, and Robert McCormish.

Board of Directors

Peter Hanelt
Chairman
Business Consultant, CPA

Jeffrey Parks
First Vice Chair
RPM Mortgage

Garick Zillgitt
Second Vice Chair
Insurance Executive

Jesse Rivera
Treasurer
Segal Consulting

Colleen Cabey
Secretary
Attorney at Law

Laura Chambers
Director
Airbnb

Debbie Chaw
Director
Cal State East Bay

Race Chen
Director
Consultant

Robert McCormish
Director
TeamCo Advisors, LLC

Vickie Rath
Director
American Ratings
Corporation

Tracey Scott
Director
Housing Executive

Trevor Thomas
Director
OpenX

Executive Team

Erin Mendez
President
Chief Executive Officer

Chris Allen
Senior Vice President
Chief Risk Officer

Susan Gruber
Executive Vice President
Chief Financial Officer

Kevin Landel
Senior Vice President
Innovation and Payment
Strategy

Susan Makris
Senior Vice President
Chief Administrative
Officer

Melissa Morgan
Senior Vice President
Chief Retail Officer

Richard Wada
Senior Vice President
Chief Lending Officer