

2019 ANNUAL REPORT



ABOUT TECH CU

PERSONAL BANKING • SAVINGS ACCOUNTS • CONSUMER LOANS AND LINES OF CREDIT • MORTGAGE LOANS AND LINES OF CREDIT • FAMILY BANKING • HEALTH SAVINGS ACCOUNTS • IRAS • **BUSINESS BANKING** • CASH MANAGEMENT SERVICES • SBA LOANS • ASSET-BASED LENDING • **COMMERCIAL LENDING** • CONSTRUCTION LENDING • SOLAR COMMERCIAL LENDING • INVESTMENT PROPERTIES • **FINANCIAL MANAGEMENT** • PRIVATE BANKING • RETIREMENT PLANNING • DIGITAL INVESTMENTS



SIXTY YEARS AGO, a group of forward-thinking Silicon Valley employees wanted a better way to manage their money. With a few thousand dollars and a couple of accounts, they formed a credit union solely dedicated to the financial success of its members. Today, Tech CU is one the 100 largest credit unions in the U.S. and a financial services leader in the Bay Area with 10 full-service branches.

Thriving off of that same entrepreneurial spirit that got us started and rooted in serving the financial needs of our members, **we invest our resources to deliver lower rates and outstanding service and benefits so that you can build a strong financial future.**

Tech CU at a Glance



15 Counties in California



Ranked among the **TOP 3** best-performing credit unions in CA for 3 years*

Ranked among the **TOP 10** best-performing credit unions in the U.S. for 3 years*

Ranked one of the **100 LARGEST** credit unions in the U.S.**



125,000

Members



\$3 BILLION

In Assets

CORE VALUES



Accelerate

We view challenges as opportunities



Collaborate

We communicate and work together



Innovate

We foster creative thinking



Cultivate

We recognize potential

A MESSAGE FROM:

**MICAL ATZ
BRENZEL**
Chair of the
Board of Directors



**TODD
HARRIS**
President
and CEO



THANK YOU

**As we celebrate
another strong
year together,**

we want to thank you for your loyalty, trust, and patronage. The choices available for financial service providers are larger than ever, and **we truly appreciate the opportunity to provide solutions to your financial needs.** We realize that superior service is more than just delivering great rates, low fees, and member benefits. It's also being able to bank the way you want — whether it be online, mobile, or in our branches. To that end, when you receive a survey request, know that we depend on your feedback and comments to help us identify new ways to improve our service as we strive to exceed your expectations.

As we write this, we're witnessing the world turned upside down over the COVID-19 pandemic. **Never before have we experienced such a strong reminder of the importance of our role in supporting our members** — both in good times and in times of uncertainty. In an effort to support our members who have seen a negative financial impact due to this pandemic, we have launched a loan payment deferral program. This program allows qualified borrowers to postpone payments for three months for a variety of loan types including first mortgages, auto loans, personal loans, solar loans, and more. Being able to pivot like this wouldn't be possible without such a dedicated team of individuals.

We are grateful to you for putting your trust in us, and also want to thank our staff, Board of Directors, and Supervisory Committee for their commitment to supporting the objectives of the organization.

On that note, let's celebrate what we accomplished in 2019.

MISSION

Deliver a member experience that WOWs, and **empower our members to succeed financially**

2019 Achievements

- **Set another membership record — exceeding 124,000.** Our members now live in more than 42 states and 30+ countries.
- Grew to more than **\$3 billion in assets.**
- Originated **\$195.4 million in home loans and \$76.7 million in auto loans**, helping 55 members buy new homes, 264 members refinance mortgages, and 2,653 members buy vehicles.
- Helped numerous businesses, originating **commercial loans totaling over \$60.5 million** and **Small Business Administration** and USDA guaranteed loans totaling **over \$10.7 million.**
- Originated asset-based lending commitments totaling over **\$11.3 million through Tech Capital**, a wholly owned subsidiary of Tech CU.
- Financed over **\$541.3 million in solar loans**, allowing more than 16,188 members to enjoy the power of green energy.
- Completed phase one of a multi-year technology initiative to **improve our infrastructure** by leveraging cloud technology and state-of-the-art information systems architecture.
- Launched **additional investment and financial planning capabilities** through a new partnership with LPL Financial.
- Changed the name of our Wealth Management Group to **Tech Financial Management** to reflect our ability to provide guidance and investment services to people of all financial backgrounds.

What's Next?

In 2020, we celebrate our 60th anniversary! It's hard to believe that we were founded all the way back on May 27, 1960 by the employees of Fairchild Semiconductor. Our Silicon Valley roots inspire us to be innovative and live up to our name every day. **This mindset has turned us into a thriving credit union with big plans for the future.**

We plan to further leverage our position as a leading partner in the fintech space by looking for additional partnership opportunities aimed at expanding our member service capabilities. **Strategic relationships with fintechs** have helped us enhance your experience by **providing faster, more efficient service**, and by offering new products and services such as solar lending.

We will also focus on improving and enhancing your digital experience with us: deploying technology with **greater speed; implementing easier payment options; and introducing a robo-advising service** designed to provide you with affordable, automated digital investment capabilities.

We plan to **further support communities** by offering banking services to many of the municipalities where our members live, with the goal of providing municipalities the same reward our members receive — **competitive rates and lower fees.**

Finally, a big step we will take in 2020 is creating our first out-of-state physical business location, **expanding our footprint** beyond the State of California for the first time.

Our goal through all of these initiatives is to continue to give back to you — with **added convenience and ease-of-use, increased security, even stronger member benefits, and deeper support of our local communities** with our donations of time, talent, and treasure.

Thank you again for choosing us. We look forward to continuing to serve you in the years ahead.

A MESSAGE FROM:



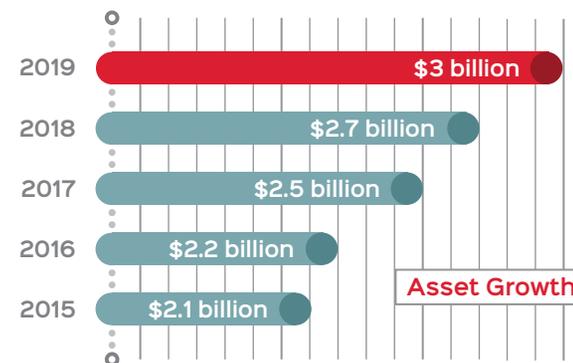
RICHARD HANZ
Chief Financial Officer

I'm pleased to report that 2019 was another strong financial year for Tech CU. We achieved a 1.04% return on assets, marking the third consecutive year we recorded a return on assets greater than 1.00%. This was accomplished as assets grew 11.4%, and we ended 2019 with **assets over \$3.0 billion**.

- **Net income for the year was \$31.7 million**, compared with the record \$33.1 million in 2018 — a decrease of \$1.5 million, or 4.4%.
- **Revenue improved \$10.4 million**, largely from growth and better loan yields.
- We were able to significantly **increase the payout of dividends to members** relative to 2018 by \$12.2 million or 83%.

- Provision expense for loan losses was higher at \$11.1 million compared to \$5.7 million in 2018 — a year-over-year increase of \$5.4 million. The additional provision expense resulted from loan growth and disproportionately higher losses from a small portfolio of unsecured debt consolidation loans originated in 2017 and 2018.
- Operating expense increased year-over-year by \$6.4 million, which as a percentage of average assets **remained stable at 2.1%**.
- **Our credit quality measures continued to be very good.** Total reportable delinquent loans remained low at 0.34% — with a coverage ratio¹ of 265%. Standing at 0.88% of total loans, our allowance for loan loss remains at the high end of our peer group.

Strong financial performance and credit quality are key hallmarks of safety and soundness for a financial institution. **A more tangible measure is a net worth ratio that ended the year at 10.65%**. The National Credit Union Administration uses a benchmark of 7% to identify well capitalized credit unions. As you can see, we exceeded this rating.



¹ The coverage ratio is: The allowance for loan loss/loans delinquent more than 60 days.

Statement of Operations

(In thousands; audited)

	2015	2016	2017	2018	2019
Interest on Loans	\$42,153	\$49,862	\$65,679	\$86,127	\$104,981
Interest on Investments	11,078	12,216	14,057	11,583	13,533
Total Interest Income	53,231	62,078	79,736	97,710	118,514
Dividends and Interest Expense	4,152	5,927	12,022	16,722	27,528
Net Interest Income	49,079	56,151	67,714	80,988	90,986
Provision for Loan Losses	(223)	44	1,862	5,688	11,088
Net Interest Income After Provision For Loan Losses	49,302	56,107	65,852	75,300	79,898
Non-Interest Income	11,057	10,825	12,587	11,797	12,154
Operating Expense and Non-Operating Expense	45,306	47,841	50,645	53,964	60,392
Net Earnings	\$15,053	\$19,091	\$27,794	\$33,133	\$31,660

Statement of Financial Condition

(In thousands; audited)

	2015	2016	2017	2018	2019
ASSETS:					
Cash and Cash Equivalents	\$182,095	\$92,151	\$205,660	\$149,906	\$183,633
Investments	528,611	474,137	380,238	362,510	470,103
Loans to Members, Net	1,309,261	1,581,645	1,848,301	2,166,239	2,334,850
Premises and Equipment	18,929	20,016	21,862	22,535	22,731
Other Assets	26,794	29,902	29,999	33,852	34,262
Total Assets	\$2,065,690	\$2,197,851	\$2,486,060	\$2,735,042	\$3,045,579
LIABILITIES, MEMBER DEPOSITS, AND RESERVES:					
Dividends Payable	\$172	\$84	\$102	\$456	\$885
Accrued Expenses and Other Liabilities	9,432	11,865	12,156	13,415	15,099
Notes Payable	0	0	100,000	100,000	0
Member Deposits	1,848,884	1,960,679	2,120,817	2,336,867	2,706,885
Total Equity	207,202	225,223	252,985	284,304	322,710
Total Liabilities, Member Deposits, and Reserves	\$2,065,690	\$2,197,851	\$2,486,060	\$2,735,042	\$3,045,579

Giving Back

At Tech CU, giving back is at the core of who we are. We focus on causes related to STEAM education and workforce development, affordable housing, financial literacy, and health and wellness programs because we believe that through economic empowerment we can support, educate, house, and care for those in our community. In 2019, we:

Continued growing
year-over-year
donations



Increased donations to
education and workforce
development by

10%

Increased volunteer
hours to

450

Increased donations
to health and wellness
initiatives by

33%

Were recognized as one of the
top philanthropic companies
in Silicon Valley by the Silicon
Valley Business Journal for the
5th year in a row



Additional Community Partners

Cancer CAREpoint
Habitat for Humanity
Housing Trust Silicon Valley
Morgan Autism Center
San Francisco Symphony
San Jose Museum of Art
San Jose State University
The Tech Interactive
West Valley Community Services
YWCA

Tech CU is a true partner in our work
towards educational equity, and
we are so grateful for that.

John Hiester, Executive Director
Breakthrough Silicon Valley



Education

Sponsored **Breakthrough Silicon Valley's** college tour, allowing first generation college students to visit six universities and learn firsthand about campus life, the transition to college, and tips for securing their dream job.

Donated more than 350 backpacks and numerous school supplies to **Family Giving Tree's** Back to School Drive.

Sponsored local students from low income schools to visit **Happy Hollow Park & Zoo**. 37% enjoyed this very special place for the first time!



Financial Literacy

Provided our certified staff of **Credit Union Financial Counselors** to students to coach them on developing money management skills, such as budgeting, saving, and assessing needs versus wants.



Housing

Joined and contributed to **Destination: Home's** Homelessness Prevention Task Force which aims to provide individuals and families with the resources they need to stay housed.

Helped fund **Second Street Studios**, the first 100% supportive housing development in San Jose — creating a place to call home for over 135 formally homeless individuals.

Through sharing our time, talent, and treasure, we enrich the lives of the people in our community, our members and ourselves.



Health & Wellness

Helped provide more than 54,000 meals (a 54% increase from last year) to local families through **Second Harvest of Silicon Valley's For the Kids** campaign, ensuring local kids have the nutrition they need to thrive.



Government Relations

Advocated in Sacramento and Washington, D.C. to help address some of our community's greatest issues related to housing, consumer privacy, cyber security, transportation, and education and workforce development.

A MESSAGE FROM:



JEFFREY M. LEE
Chair of the Supervisory
Committee

Thank you for trusting Tech CU as your financial partner. Your volunteer Supervisory Committee takes that trust to heart as we review Tech CU's policies and procedures.

The Supervisory Committee is responsible for overseeing the annual audit of Tech CU's assets and liabilities, and receipts and disbursements of the credit union to the Board of Directors. Based on our review of the independent auditor's report for 2019, and after discussions with the independent auditor and with management, we **recommended the Board of Directors approve the audited financial statements for the year ended December 31, 2019.**

Supervisory Committee

JEFFREY M. LEE
Chair

FAISAL JEDDY
Vice Chair

FIRASAT ALI

JESSICA CASSINELLI

BOB LUONG

It is the opinion of the Supervisory Committee that the Credit Union's **policies and procedures**, as well as **management's practices, are sound**. Such opinion is based upon Supervisory Committee internal audits, the independent external audit, and the National Credit Union Administration and Department of Business Oversight examination report.

Thank you again for choosing Tech CU. It's an honor to serve you.

Tech CU Leadership

Executive Management Team

TODD HARRIS

President and CEO

JOE ANZALONE

Executive Vice President/
Chief Commercial Banking Officer

MIKE FLOYD

Executive Vice President/
Chief Credit Officer

RICHARD HANZ

Executive Vice President/
Chief Financial Officer

JEANNINE JACOBSEN

Executive Vice President/
Chief Operating Officer

ROBERT REED

Executive Vice President/
Chief Retail Banking Officer

Board of Directors

MICAL ATZ BRENZEL

Board Chair
Finance Committee

ROBERT E. BYLIN

Board Vice Chair
Compensation Committee
Nominating and Governance Committee

KIRK BLOEDE

Compensation Committee

KAREN BROCHIER

Finance Committee Chair

PETER DONAHOWER

Finance Committee
Compensation Committee

TODD HARRIS

Treasurer and Secretary

ROB HERB

Compensation Committee

DEEPTI JAGGI

Compensation Committee

BARBARA KAMM

Nominating and Governance Committee Chair

SUNIL NAGDEV

Nominating and Governance Committee

JOE SHEPELA

Compensation Committee Chair



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