



Chevron Federal Credit Union

looking forward

2018
annual report



to our *members*

We are pleased to report that Chevron Federal Credit Union had a very good year in 2018 while also planting many seeds for success in 2019 and beyond.

The economic environment in 2018 was characterized by rising short-term interest rates and a narrowing spread between short-term and long-term rates. This reduced the margin that the Credit Union normally earns by obtaining short-term deposits and making longer-term loans.

Fortunately, the Credit Union's strong interest rate risk management program mitigated the impact of these narrowing margins, as we recorded a considerable gain with our hedging program.

Our financial strength allowed us to continue providing extremely competitive rates and minimal fees across all our offerings. Overall, our financial position is excellent, with strong earnings, capital levels, and liquidity.

member experience

Of paramount importance is the experience we deliver for each member, and our survey results indicated good progress in 2018.

Members who conducted a transaction in a branch reported

that their service was excellent or very good 96% of the time, while the same metric was 92% for members who obtained mortgages.

We take your feedback very seriously, and we have established a discipline of reaching out to members for additional understanding when we fall short of expectations. What we learn is used to identify and implement changes to our processes.

Based on feedback, for example, we reorganized our mortgage lending team in 2018 so that members have a central point of contact throughout the loan process.

looking forward

We made many investments in 2018 that have positioned us for success going forward.

The development of our long-range strategic plan has provided a clear roadmap for how we intend to deliver an exceptional member experience, grow while maintaining financial stability, and ensure operational soundness.

The 2018 launch of a branch in Midland enables us to serve new members in this fast-growing area, and our new operations center in Houston augments our ability to find highly qualified staff.

We are heavily focused on leveraging technology, and our investments in both member- and staff-facing applications are aimed at streamlining processes.

Through a laser-like focus on continuous improvement, we are committed to delivering exceptional service to you. Your membership is deeply appreciated, and we look forward to more great things together in the years ahead.

Sincerely,

Bill Clutter

Board Chair

chairperson@chevronfcu.org



Jon Berlin

President and CEO

president@chevronfcu.org



“

The development of our long-range strategic plan has provided a clear roadmap for how we intend to deliver an exceptional member experience.

objectives



Deliver Exceptional Member Experience and Value

Make everything easy and personal; provide great value, advocacy, and guidance

Grow While Maintaining a Strong Financial Position

Increase deposit and loan balances while maintaining high credit quality and strong capital position

Ensure Operational Soundness

Operate efficiently and within our risk tolerance

strategic actions



Master the Core Business

Continuously improve what we already do

Expand Our Boundaries

Acquire new membership sources, utilize new distribution channels, and expand our offerings

Position Ourselves for the New Landscape

Aggressively pursue technology and deploy new service models

Prudently Manage Our Risks

Develop enhanced structures and processes to keep us safe

enabling capabilities



Build a Strong Competitive Advantage Through Our People

Acquire and develop talent, and build our key competencies

Develop a Solid Technology Foundation

Enhance our infrastructure, automate and digitize

strategic plan provides

roadmap for the future

In 2018, the management team and Board of Directors developed a long-range strategic plan that will guide everything the Credit Union does in the coming years.

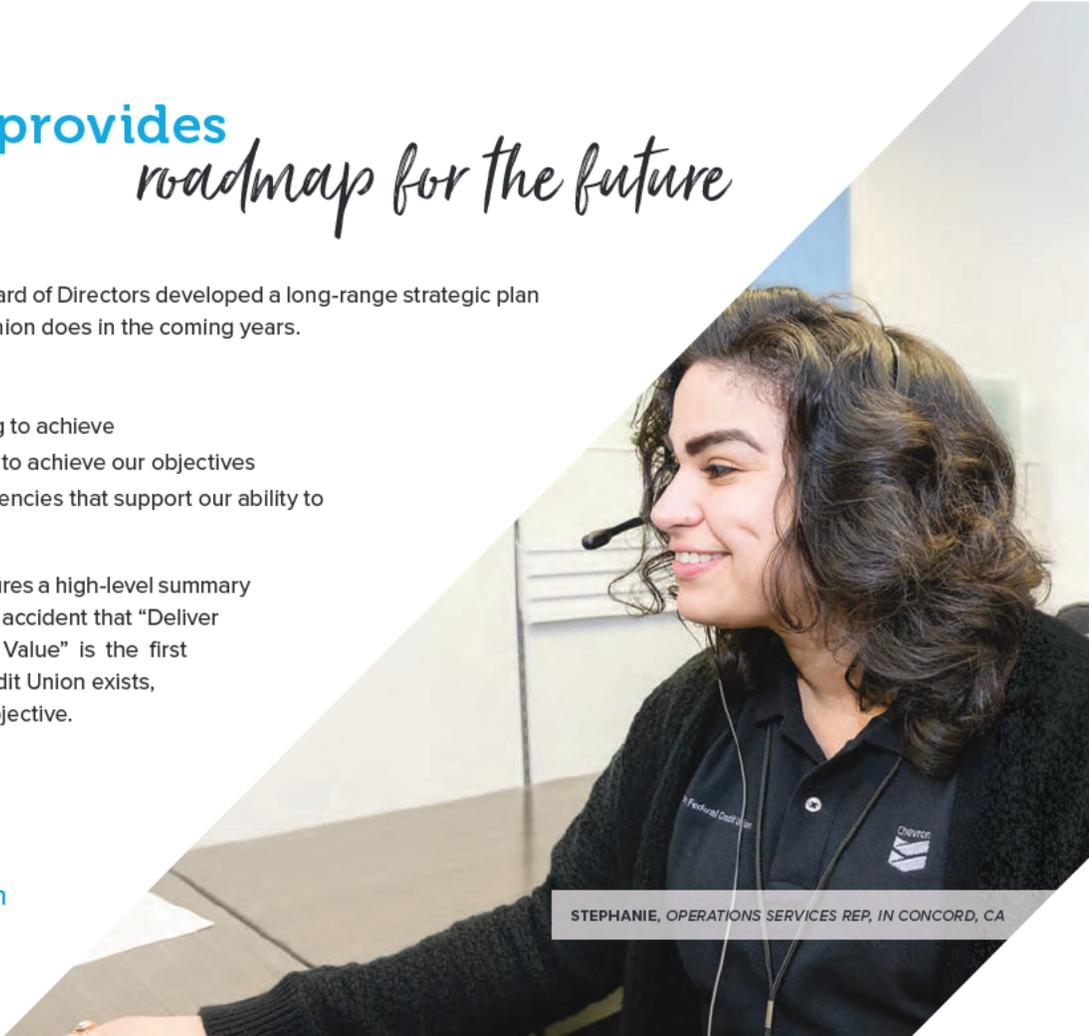
The plan has three major components:

- **Objectives** — the goals we are trying to achieve
- **Strategic Actions** — what we will do to achieve our objectives
- **Enabling Capabilities** — the competencies that support our ability to deliver on the strategic actions

The graphic on the previous page captures a high-level summary of the key elements of the plan. It is no accident that “Deliver Exceptional Member Experience and Value” is the first item listed — that is the reason the Credit Union exists, with everything else supporting that objective.



5-star rating for financial strength
highest rating from BauerFinancial

A photograph of Stephanie, an Operations Services Representative, smiling and wearing a headset. She is wearing a dark polo shirt with a logo and a dark cardigan. The photo is partially obscured by a white diagonal shape.

STEPHANIE, OPERATIONS SERVICES REP, IN CONCORD, CA



“

**Katie and Greg
treated us like
we were family,
like they really
cared about us
wanting our
new home.**



**KATIE, SR. MORTGAGE
RELATIONSHIP
MANAGER**



**GREG, MORTGAGE
PROCESSOR**

**– MICHAEL S.
SANTA ROSA, CA**

member feedback leads to *better experiences*

The key to delivering exceptional member experiences is first to proactively identify what our members need. How do we do that? By asking you.

In 2018, the Member Connect™ program expanded from its initial pilot launch to include all of our branches across the country. Using the Member Connect tool, branch staff work with members to identify their financial needs and goals and suggest products or services to assist them.

These conversations with members, along with feedback obtained from frequent surveys, give us valuable knowledge about what members need and expect from us.

They also fuel our continuous improvement initiative. When we receive feedback about interactions that were less than positive, we examine our processes to identify potential improvements.

The 2018 reorganization of our mortgage lending team is one of the most visible results of our continuous improvement program. In their new roles as Mortgage Relationship Managers, our loan officers now serve as the single point of contact for members throughout the loan process, avoiding

the confusion of working separately with loan processors, underwriters, and closers.



92%

mortgage survey respondents
excellent or very good experience

looking forward

The Credit Union is working on many initiatives to enhance the member experience. Some of these will be highly visible to members, including an upgrade to our web site, significant enhancements to digital banking, an improved mortgage loan application, and more modern ATMs.

Many other initiatives will benefit members by making it easier for staff to serve them. Upcoming enhancements include greater ability for front-line staff to access member communications, workflow improvements to increase the speed of resolution for member issues, and additional quality assurance processes.

new facilities and partnerships *expand our boundaries*

In addition to our focus on continuously improving in our traditional areas of focus, we were excited to expand our boundaries in a number of ways.

In 2018 we opened a new operations center in Houston. Located steps from our Galleria branch, this facility will enable us to better serve members in the Eastern and Central Time Zones. This location will also make it easier to find highly-qualified staff and



THOMAS, CALL CENTER SUPERVISOR, AND MICHAEL, CALL CENTER REP, AT THE HOUSTON OPERATIONS CENTER IN HOUSTON, TX

provide career development opportunities for our employees in the Houston area.

We were pleased to open a new branch in Midland, Texas, to serve members in the Permian Basin. If you are located nearby, we hope you will stop in and meet Luz, our Assistant Branch Manager, who will be eager to help with all of your banking needs.

We expanded the solar lending operation that we started in 2017. In concert with a financial technology partner, we originated over \$50 million in loans to help people finance the cost of installing solar panels on their roofs. Our solar loans are currently originated at the point of purchase through participating installers; in the future we also plan to offer these loans directly to members. Given our proud history of serving members in the energy industry, we are pleased to be at the forefront of this emerging sector.

In 2018 we also welcomed several new employer groups into our field of membership, including employees of the University of Houston-Downtown, part of the third-largest university system in Texas, and the Jackson Companies, a nationally recognized wholesale and transportation business in the petroleum market.

“

Keri took the time to speak with me and listen to me — and helped me save hundreds of dollars. I can't say thank you enough.

— LINDA B.
HOUSTON, TX



**KERI, SR. LOAN
SERVICING SPECIALIST**

HOUSTON OPERATIONS CENTER IN HOUSTON, TX

2018 financial highlights

deposits

Although record equity markets created headwinds for gathering deposits, our 5% deposit growth still exceeded our 2018 target. Members put over \$120 million into share deposits during our August Share Certificate special alone, by far the best such campaign we have ever had.

up 5% in deposits



\$50 million +
in solar loans



TOP 1.2%
among credit unions
by asset rank*

assets

The Credit Union continues to be one of the largest and strongest credit unions in the country. In 2018, assets grew by \$172 million, or 5%, to a total of over \$3.3 billion.

*Source: #62 on CUNA's "Top 100 Credit Union Report" as of 3rd Quarter 2018.

loans

Despite rising interest rates that made borrowing more expensive, total loans grew by 7% in 2018. Mortgage loans grew 5% while consumer loans grew 25%. The exceptional growth in consumer lending was largely driven by the Credit Union's funding of loans for the installation of residential solar equipment.

asset quality

Our loan portfolio continues to demonstrate exceptional quality, as evidenced by the low level of losses we experience relative to peers. The Credit Union's combined loan delinquency and charge-off ratio changed very little during 2018, ending up at 0.30% for the year.

The high quality of our assets contributes to our ability to offer excellent rates and low fees.

99.7%



of loans in good standing

net income

The Credit Union achieved a high level of earnings in 2018, with net income of \$32 million.

Strong earnings enable us to continue providing outstanding rates, invest in capabilities to enhance the member experience, and fuel the Credit Union's long-term growth.

\$32 million
in earnings

capital

Capital is considered an important measurement of a financial institution's safety and soundness, and our net capital ratio is consistently very strong.

While the regulatory threshold for a "well-capitalized" credit union is 7% of assets, the Credit Union's net capital ratio exceeded 11% in 2018.

over 50% higher than well-capitalized level

2018 audited financial statements in thousands of dollars

statement of financial condition (at December 31)

ASSETS	2018	2017
Mortgages	\$2,497,847	\$2,377,132
Other Secured Loans	261,201	204,043
Unsecured Loans	54,489	53,044
Total Loans	2,813,537	2,634,219
Less: Allowance for Loan Losses	(8,894)	(6,999)
Net Loans	2,804,643	2,627,220
Cash and Investments	463,906	479,203
Other Assets	66,910	56,957
Total Assets	\$3,335,459	\$3,163,380
LIABILITIES AND MEMBERS' EQUITY		
Savings	\$384,929	\$424,893
Checking	324,955	326,092
Share Certificates	772,691	619,247
Money Market	1,442,756	1,416,554
Total Members' Balances	2,925,331	2,786,786
Other Liabilities	17,951	15,743
Total Liabilities	2,943,282	2,802,529
Reserves and Undivided Earnings	390,378	358,198
Unrealized Gain (Loss) on Securities	1,799	2,653
Total Members' Equity	392,177	360,851
Total Liabilities and Members' Equity	\$3,335,459	\$3,163,380

statement of operations (for year ending December 31)

INCOME	2018	2017
Interest on Loans	\$101,660	\$92,742
Income from Investments	12,027	8,559
Total Interest Income	113,687	101,301
COST OF FUNDS		
Dividends Paid to Members	(36,520)	(24,335)
Interest Rate Risk Hedging Expense	(2,247)	(6,899)
Total Cost of Funds	(38,767)	(31,234)
Net Interest Income	74,920	70,067
Provision for Loan Losses	(3,719)	(1,904)
Non-Interest Income	11,900	10,113
Non-Interest Expense	(55,530)	(52,917)
Change in Fair Value of Derivatives	4,609	4,927
Net Income	\$32,180	\$30,286

A complete copy of our audited financial statements is available upon request.

supervisory committee *report*

In accordance with the Federal Credit Union Act, the Supervisory Committee is responsible for ensuring that the Credit Union safeguards its assets, maintains adequate systems of internal control, and reports accurate financial information.

We meet regularly with Internal Audit and our external auditors to monitor and evaluate internal controls and to ensure that your assets are safeguarded. The Committee also monitors the performance of Credit Union employees and volunteer officials and the policies established by the Board of Directors to ensure their compliance. The Committee engages independent firms to perform the annual financial, IT, 401k, and other necessary audits.

Members can confidentially report perceived Credit Union violations of rules and policies, unethical behaviors, and other complaints directly to a special post office box established for the Supervisory Committee:

Chevron Federal Credit Union Supervisory Committee

P.O. Box 70157

Oakland, CA 94612-0157

Based on the results of internal audits and external reviews for the year 2018, we conclude that Chevron Federal Credit Union has adequate internal controls and is financially sound.

Ron Susa

Chair, Supervisory Committee





Board of Directors

Bill Clutter
Chair

David Andrade
1st Vice Chair

Richard Van De Boom
2nd Vice Chair

Doug Thompson
3rd Vice Chair

Jennifer Machado
Secretary

Anshul Maheshwari
Treasurer

Michelle Green, *Director*

Alana Knowles, *Director*

May-Yee Ng, *Director*

David Seals, *Director*

Marla Wright, *Director*

Billy Liu
Associate Director

Supervisory Committee

Ron Susa
Chair

Denise Coyne

James Killoran

Kirk Rehage

Richard Van De Boom

Senior Management

Jon Berlin
President and CEO

Duane Duck
EVP Sales and Service

Janet Lee
EVP Chief Financial Officer

Mitch Dormer
VP Controller

Sachin Kundra
VP Chief Information Officer

Linda LaGoy
VP Branch Administration

Jennifer Lawson
VP Internal Audit and Compliance

Jill Staten
VP Human Resources

Suzanne Walden
VP Marketing

Kyle Whittlinger
VP Finance

P.O. Box 2069, Oakland, CA 94604-2069

Chevron Federal Credit Union

 chevronfcu  @chevronfcu
chevronfcu.org • 800-232-8101

Spectrum Credit Union

 spectrumcu  @spectrumcu
spectrumcu.org • 800-782-8782

