



ECONOMIC UPDATE

The "Brexit" vote on June 23rd in the United Kingdom (UK) was the prevailing economic news in the second quarter of 2016. The vote in favor of leaving the European Union (EU) market, largely by the voters in the rural areas of England, sent many messages to the UK and EU politicians, but there is still many debates on exactly what messages really mattered to the voters and what can actually be accomplished in response to the vote. However, the one message that seems clear is that those voters were fed up with the status quo.

Global markets reacted negatively to the vote as investors quickly began pulling back from the critical financial center in London. One estimate pegged the loss of equity in global markets as \$3 trillion just in the first 48 hours after the Brexit vote. The government of the UK fell but was quickly replaced with new individuals who are pledging to carry out the mandate of the vote but negotiations with the EU will be a long process and may not even start until January 2017. There will certainly be a lack of stability in global markets for the foreseeable future.

Oddly enough, the stock market here at home has reacted in a totally unexpected way to the Brexit vote. After an initial slump in reaction to the Brexit vote, our stock market has not only rebounded but has recently reached historical levels. Of course, there are many reasons being debated for our booming stock market, but many analysts are saying that the current levels just make no economic sense.



The price of oil continued to recover over the second quarter of 2016 though has recently been on a mild downward trend. Even so, the current price of \$46 per barrel is still significantly higher than the \$26 per barrel price at the beginning of this year. Accordingly, gas prices continue to remain much lower than one year ago, although California's gas price average of \$2.86 per gallon is significantly higher than the national average of \$2.22. Still, the \$2.86 per gallon average is certainly more palatable than the \$3.86 average of one year ago. Unfortunately, if there have been positive effects on our economy from the low gas prices, then those effects have been swamped by the lack of stability with other economic variables.

Retail sales rose by small amounts in each of the three months of this last quarter. It's hard to say that sales are rebounding, but it is a positive trend, nonetheless. Increased consumer spending translates into increased manufacturing which spurs more hiring of employees by the manufacturers and service industries which puts upward pressure on wage growth. It is a growth cycle where we want to see a steady upward trend and overall it has been.

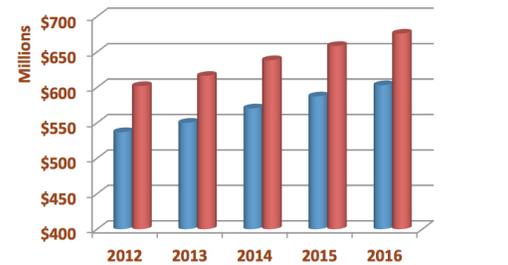
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Key Figures (as of June 30, 2016)

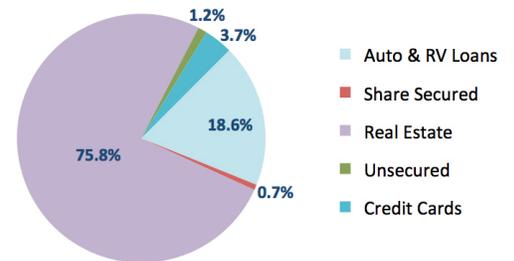
Assets	\$675,882,428
Deposits	\$603,118,197
Loans	\$188,778,686
Capital Ratio	10.33%
Branch Locations	6
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	27,335
Employees	64

Financial Highlights

(as of June 30 for 2016)

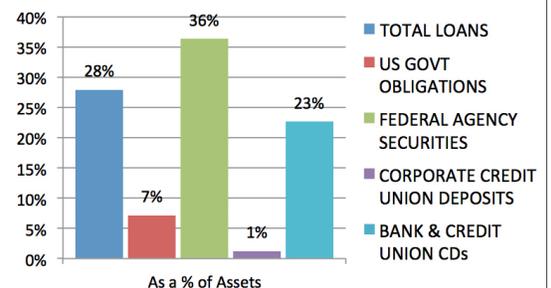


Loan Portfolio (as of June 30, 2016)



Loans and Investments as a Percent of Total Assets

(as of June 30, 2016)





California's economy is still improving as slowly as the rest of the nation. The Bay Area is considered to be at full employment which is an unemployment rate of 5% or less. There are still pockets of the state that are still struggling but not to the same extent as a year ago. However, there is much to be done in our state, and we will be wrestling for many years on how to plan for and pay for all of the infrastructure that is in desperate need of repair or replacement.

The membership growth rate of your Credit Union has continued to be much higher this year as compared to previous years. Despite the lack of stability and the significant anxiety taking place in the global market, the management of your Credit Union is focused on maintaining an "island of stability" where our members can expect to receive the quality service that you deserve.

Your Credit Union encourages all of its members to take advantage of the services and products available at your Credit Union for the very simple reason that to do so will improve the members' financial security. Please remember to tell your friends and co-workers that it just doesn't make financial sense to keep their accounts at the banks. 1st Nor Cal offers truly lower fees, lower loan rates, and higher interest on deposits as well as superior service.

Statement of Condition	
as of: June 30, 2016	
Loans (net)	\$187,541,428
Investments & Cash	464,756,907
Fixed Assets (net)	1,930,527
Other Assets	21,653,566
Total Assets	\$675,882,428
Member Shares	\$603,118,197
Liabilities	2,925,525
Member Capital	69,838,706
Total Liabilities & Equity	\$675,882,428

Income Statement	
Year To Date as of: June 30, 2016	
Loan Interest Income	\$3,690,751
Investment Interest Income	2,401,267
Non-Interest Income	966,822
Total Income	\$7,058,840
Operating Expense	\$4,856,063
Dividends Paid To Members	865,909
Provision for Loan Losses	55,642
Total Expense	\$5,777,614
Non-Operating Income (Expense)	-
Net Income	\$1,281,226