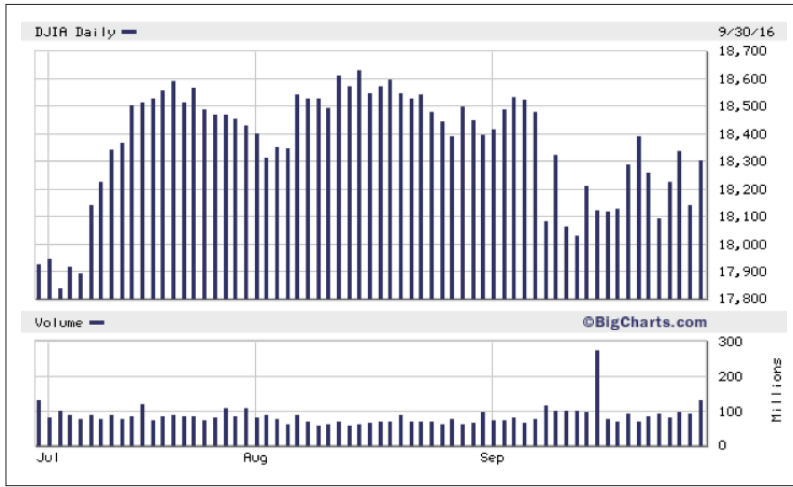




## ECONOMIC UPDATE

The stock market here at home was volatile over the third quarter of 2016. After a temporary slump in reaction to the United Kingdom's (UK) Brexit vote at the end of the second quarter, our stock market not only rebounded but reached a historical high by mid-August. Since that time, the DOW has settled back down in the 18,100 to 18,300 level which is not that far under the highs reached in August.



The real impact (or lack thereof) of the Brexit vote in the UK is probably still two or three years away from making itself evident. The prime minister of the UK has indicated that the UK will not even invoke the legal mechanism to begin the exit from the European Union (EU) until toward the end of March 2017, and trade negotiations between the UK and the EU cannot begin until that point. There will be a lot of political rhetoric back and forth between now and then as each side attempts to establish their negotiation positions.

Investors in the global markets must decide if they can wait out the uncertainty over the next two or three years as opposed to just making financial decisions now and hoping for the best. Meanwhile, more and more reports are being published which warn of the precarious financial position of banks in the EU and in China. The authors of these reports note that there are many European banks which should have been shedding bad loans and branch offices at least two years ago but are still unwilling to make the hard decisions.

The trend in the price of oil continued to rise over the third quarter of 2016 to a current price of \$50 per barrel which is significantly higher than the \$26 per barrel price at the beginning of this year. While this pinches the pockets of the consumers, it may induce U.S. oil exploration and production companies to resume drilling and pumping oil. That activity would result in more hiring of well-paid oil workers and an uptick in related manufacturing such as pipe and construction materials.

After a minor slump in August, retail sales rose enough in September to cheer the economists. Retail sales account for two-thirds of this nation's Gross Domestic Product (GDP). Auto sales have begun a slight downturn but that downturn is after the auto

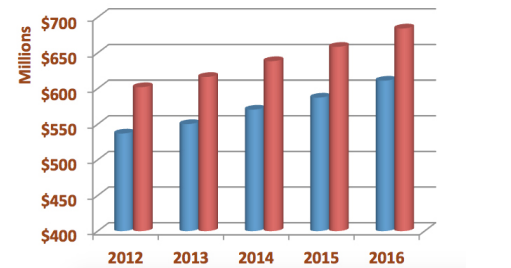
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### Key Figures (as of September 30, 2016)

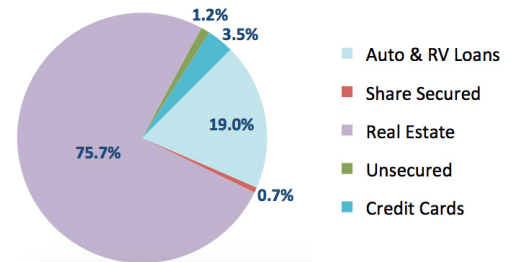
Assets	\$684,277,833
Deposits	\$611,049,901
Loans	\$199,487,545
Capital Ratio	10.28%
Branch Locations	6
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	27,506
Employees	63

### Financial Highlights

(as of September 30 for 2016)

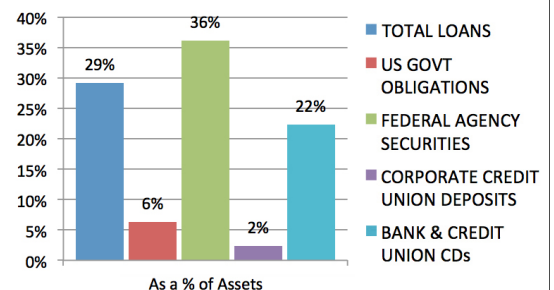


### Loan Portfolio (as of September 30, 2016)



### Loans and Investments as a Percent of Total Assets

(as of September 30, 2016)





industry recorded historically high sales so the economists are not too concerned at this point. A recent report reflected an increase in home sales and that 38% of those sales were to first time buyers which is a very positive reflection of growing consumer confidence. Certainly, “optimistic” is too strong of a word to use at this point but, overall, the current economic conditions in the United States economy are more favorable than those conditions appear to be in Europe and many other areas of the world.

California’s economy continues to improve. The number of payroll jobs in California (16.5 million) stands as a record high. At least two state-based economic consulting firms (California Economic Forecast and UCLA Andersen Forecast) paint an upbeat picture of continued improvement throughout the remainder of this year as well as through next year. However, a significant portion of California’s economy is dependent on trade with the Asian markets and, if those markets begin a decline, California’s economy could be impacted.

Your Credit Union has continued to enjoy an upward trend in new members who are hearing the word about the advantages of membership. The management of your Credit Union is focused on maintaining the financial stability that our members expect and have enjoyed for many years.

Your Credit Union encourages all of its members to take advantage of the services and products available at your Credit Union. The members’ financial security is the primary focus of your Credit Union. 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: September 30, 2016	
Loans (net)	\$198,164,409
Investments & Cash	466,334,477
Fixed Assets (net)	1,907,482
Other Assets	17,871,465
<b>Total Assets</b>	<b>\$684,277,833</b>
Member Shares	\$611,049,901
Liabilities	2,888,162
Member Capital	70,339,770
<b>Total Liabilities &amp; Equity</b>	<b>\$684,277,833</b>

Income Statement	
Year To Date as of: September 30, 2016	
Loan Interest Income	\$5,578,082
Investment Interest Income	3,662,069
Non-Interest Income	1,442,964
<b>Total Income</b>	<b>\$10,683,115</b>
Operating Expense	\$7,370,443
Dividends Paid To Members	1,341,355
Provision for Loan Losses	189,027
<b>Total Expense</b>	<b>\$8,900,825</b>
Non-Operating Income (Expense)	-
<b>Net Income</b>	<b>\$1,782,290</b>