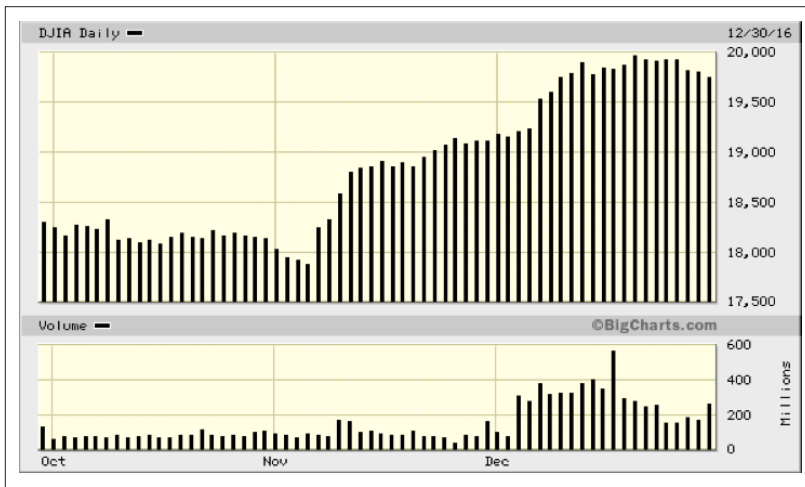




## ECONOMIC UPDATE

The stock market dramatically surged after the U.S. presidential election. Apparently, this was due to investors' hopes that the new administration would be very business friendly. However, many economists are not so sure and point to a number of factors (e.g. Brexit, possible renegotiating of trade agreements, import tariffs, the repeal of the Affordable Care Act, tax reform, etc.) that may or may not have major repercussions on the U.S. and global economies. It is interesting that bond traders seem to be taking the opposite viewpoint that they appear to be betting that the new administration is going to cause enough economic damage to offset any gains from changes to policy.



Even actions taken immediately after the new administration is inaugurated may not have an impact until several years from now, but more than likely, we will see major swings in the investment markets as the political discourse and rancor is discharged from Washington, D.C.

Setting aside the uncertainties that are hanging over the economy, most indicators are pointing to a definitely improved U.S. economy. Certainly, there seem to be no serious arguments that the U.S. economy of today is not significantly better than it was four years ago.

The price of oil briefly fell to \$43 per barrel in November but recovered and has remained firmly in the \$50 to \$53 area since that time. This is significant because \$50 per barrel is a benchmark that many industry analysts note as a breakeven point for U.S. shale oil fracking activity. With oil prices above \$50, the claim is that U.S. oil exploration and production companies have the incentive to resume drilling and pumping oil from wells that are not profitable when oil prices fall below \$50 per barrel. Should this occur, the economy can expect the benefit of more hiring of well-paid oil workers and an uptick in related manufacturing such as pipe and construction materials.

U.S. retail sales had a pretty good year in 2016 as compared to the prior few years. Auto manufacturers and all of their connected businesses had a very good year in 2016. It is doubtful that 2017 will realize the same banner sales for the auto industry but many economists are currently expecting overall retail sales in 2017 to be slightly better than 2016.

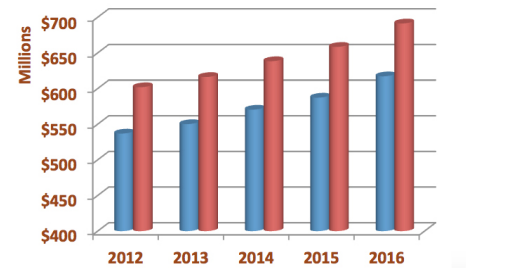
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### Key Figures (as of December 31, 2016)

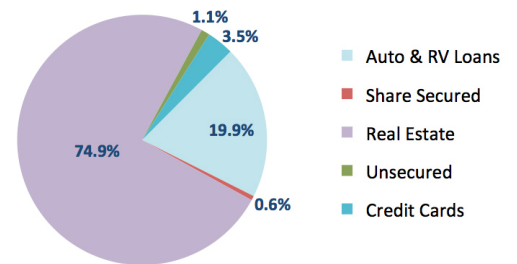
Assets	\$691,361,470
Deposits	\$617,188,911
Loans	\$200,987,811
Capital Ratio	10.26%
Branch Locations	6
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	27,687
Employees	67

### Financial Highlights

(as of December 31)

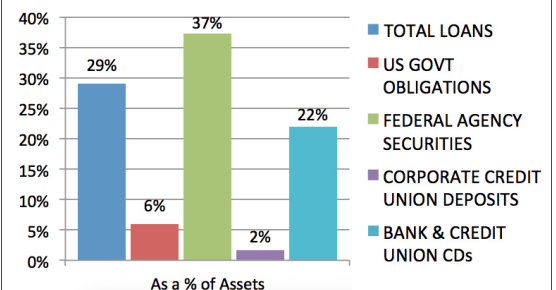


### Loan Portfolio (as of December 31, 2016)



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

(as of December 31, 2016)





California's economy improved throughout 2016. However, a significant portion of California's economy is dependent on trade with the Asian markets and there are concerns in California that the new administration in Washington D.C. will create trade turmoil in the Asian markets that significantly impacts California's economic welfare. Whatever happens on that score, California is currently celebrating the return of rain and snow at levels that have not been seen in a long time. California's farmers must certainly be rejoicing at this point in time.

Your Credit Union finished the year of 2016 with loan and share balances at the highest levels in its history. All members can take great pride in the continued financial strength of your Credit Union while the management of your Credit Union continues to focus on maintaining the financial stability that is expected of us.

Your Credit Union encourages all members to take advantage of the services and products available at your Credit Union. The members' financial security is the primary focus of the 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: December 31, 2016	
Loans (net)	\$199,640,339
Investments & Cash	469,478,978
Fixed Assets (net)	2,066,983
Other Assets	20,175,170
<b>Total Assets</b>	<b>\$691,361,470</b>
Member Shares	\$617,188,911
Liabilities	3,271,813
Member Capital	70,900,746
<b>Total Liabilities &amp; Equity</b>	<b>\$691,361,470</b>

Income Statement	
Year To Date as of: December 31, 2016	
Loan Interest Income	\$7,485,844
Investment Interest Income	4,959,482
Non-Interest Income	1,925,955
<b>Total Income</b>	<b>\$14,371,281</b>
Operating Expense	\$10,010,182
Dividends Paid To Members	1,828,807
Provision for Loan Losses	189,027
<b>Total Expense</b>	<b>\$12,028,016</b>
Non-Operating Income (Expense)	-
<b>Net Income</b>	<b>\$2,343,265</b>