

Message from the Officer in charge of Operations:

I want to take this opportunity to thank the membership of Service 1st Credit Union for their continued support during the 2016 year. Within the entire financial services industry, 2016 has been a year of positive changes. Despite the challenges we have faced over the last decade, you can be proud of the excellent job your employees and your elected board members have done in serving those who seek a financial institution that exemplifies stability, soundness, and serves as a safe harbor from the recklessness displayed in the past by others within the financial services industry.

For 62 years, Service 1st Credit Union has continued to remain united in our quest to provide fair and equitable services to our membership. During the past year, we made several decisions that will continue to allow the credit union to move forward. This refreshing change has come at a time when most of the global financial markets as well as corporate credit unions were experiencing similar results. The stable to slightly rising interest rate markets coupled with the credit union's short duration on loans and investments has provided us the planned repricing event we had been looking forward to for some time. That coupled with the additional mortgage loans and participation opportunities made 2016 a gateway year into the next decade. Continued improvements in the market conditions nationwide again created a positive valuation in the NCUA Legacy Assets, and the NCUA did not mandate further stabilization assessments to natural person credit unions. Because of the continued positive NCUA change and the efforts we have made to reduce our expense structure and increase our lending portfolio, our net operating earnings for 2016, remained stable. Because of these improved conditions, our members continued to experience no change in the manner in which their financial transactions were processed.

Throughout 2017, the staff and board will continue our diligent effort to assist the membership with all of its' financial service needs.

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The Credit Union began 2016 with Total Assets at \$ 53.7 million. During the first half of the year, it became evident that the growth experienced during the past decade would continue, as the credit union would end the 2016 year at \$ 55 million in Total Assets. Our member share deposit base, during this same period, increased to \$ 49.4 million. Even with this increase in deposit base, we remained above our year-end, self-imposed 9% capital ratio goal. The increasing deposit levels continued to help Service 1st liquidity remain at all-time highs.

The increase in loan balances throughout 2016 can be attributed to three factors. The credit union purchasing several additional pools of auto loan participations, the increase in mortgage loans, and the increase in local auto loans. The participation purchases continued to be made through the Catalyst Corporate Federal Credit Union participation program, and have been reviewed and approved twice by State and Federal examiners. These total loan increases coupled with consistent fee income and reduced expenses during the year, helped maintain our gross margin. With these positive changes, our net income for 2016 was \$145,878. The continued improvement within the world markets as a whole, and slightly increasing investment and loan yields, made it possible for your Board of Directors to prepare to review the dividends paid on shares during the upcoming year. Your Board is optimistic and hopeful that any large compressions within the interest rate market are behind us, and deposit dividend rates will slowly rise in years to come.

After a very challenging decade, in 2015 the credit union showed a solid profit from operations. In 2016 our operational profit continued to grow. This profit was reduced, however, by a minimal loan loss provision made during the year totaling \$ 59,500. Overall net profitability in 2016, remained above our adjusted budgeted levels, and 2017 shows signs of being even stronger.

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With steady fee income, increasing participation and mortgage loans, stable operational expenses, and slowly rising investment yields, there were no additional cost reducing changes made by your Board of Directors in 2016. The 3-year amended operations plan that places emphasis on all the lending products continued to be a priority.

The changes made over the past five years have produced positive results in our operations during the 2016 year, and have allowed our capital ratio to increase slowly throughout the year, even with increased deposit levels. Our year-end capital ratio of 9.75% is in line with the Board of Directors self-imposed target minimum capital ratio of 9% and remains well above the 7% Credit Union Department “benchmark” and our 5% required “risk-based” capital ratio.

Service 1st Credit Union ended the 2016 year with a delinquency ratio of .60%. This ratio is in line with our 2015 ratio of .60%. In addition, this level is well below our new peer group average of 1.10%. Efforts to maintain and reduce this ratio will continue throughout 2017. Our on-going loan underwriting procedures and collection measures should result in steady delinquent loan levels going forward into 2017.

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As a member and staff of Service 1st, I would also like to thank each of the volunteer Board of Directors for their dedication and service to the organization. Each board member accepts the responsibility, volunteers many hours of their time with no financial reward, and does this all for the benefit of the membership. If you see a Board member or staff member, be sure to thank them on a job well done. Your current Board of Directors is:

Mike Andreola - Chairman
Fred Hite Jr. - Vice-Chairman
Jo Ann East - Treasurer/Secretary
David Roberts
Monty Wineinger
Ross McClain
Joel Richardson
Mike Glenday
Truett Hanner

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In conclusion, you, as owner/members, should be proud of the continued prosperity of your Credit Union, and should you have any questions, feel free to call any of your staff listed below:

Sherri Houston	Sr. Vice President	x76740
Dianna Turner	Sr. Vice President	x74628
Linda Bundick	Mortgage Lender	x77014
Kim Hammack	Consumer Lender	x76715
Janet Leroy	Head Teller	x76741
Susan Ingram	Member Services	x74706
Karen Smith	Operations/Debit Cards	x77022
Tina Moore	File Clerk/Mbr Svc./Recpt.	x76705
Jeneace Holley	Receptionist/Member Svc.	x77023
Joyce Perez	Accounting	x76758
Nancy Kennedy	Management Asst/Operations	x77020
Andrew Penland	Lending / Asst. Investments	x74688
Kelli Ford	Teller	x77006
Susie Adair	Teller	x77006

Mike Bailey, President x74687

REPORT OF THE ANNUAL AUDIT

Scott Singleton Fincher and Company PC conducted the annual audit for 2016, as of the close of business on June 30, 2016. The verification of accounts was conducted as of the close of business on June 30, 2016. The last credit union examination by the Credit Union Department was conducted as of the close of business June 30, 2016.

NOTICE OF CORPORATE DOCUMENTS AVAILABLE

Under rule 91.310 of the Texas Credit Union Department, adopted by the Commission in October of 2009, any changes to the credit union's senior management staff, the Bylaws, or the Articles of Incorporation must be made available to the membership. There has been no changes to the senior management staff, the Bylaws, or the Articles of Incorporation.

REPORT OF THE NOMINATING COMMITTEE

The Nominating Committee was comprised of the following credit union members:

Evelyn Cole, Jason Tanner, Fred Hite Jr., Mike Bailey, and Sherri Houston.

Results are on your ballot.