

## ***Message from the Officer in charge of Operations:***

I want to take this opportunity to thank the membership of Service 1<sup>st</sup> Credit Union for their continued support during the 2017 year. Within the entire financial services industry, 2017 has been a year of continued positive changes. 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 63 years, Service 1<sup>st</sup> Credit Union has continued to remain united in our quest to provide fair and equitable services to our membership. During the past year, the decisions made continued to allow the credit union to grow. Most of the global financial markets as well as corporate credit unions were experiencing similar results. The slightly rising interest rate markets coupled with the credit union's short duration on loans and investments continued to provide us the planned repricing event for which we anticipated. That pricing change, coupled with continued mortgage loan growth and participation opportunities, made 2017 one of the best years during the last decade. Continued improvements in the market conditions nationwide again created a positive valuation in the NCUA Legacy Assets, and the NCUA indicated there would be no further stabilization assessments to natural person credit unions mandated, and that a refund of capital monies paid in previous years is on course to be refunded. Because of this continued positive NCUA position, as well as our previous efforts we have made to reduce our expense structure and increase our lending portfolio, our net operating earnings for 2017 was on the rise. With these improved conditions, our members continued to experience no change in the manner in which their financial transactions were processed.

Throughout 2018, 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 2017 with Total Assets at \$ 55 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 2017 year at \$ 59.6 million in Total Assets. Our member share deposit base, during this same period, increased to \$ 53.9 million. With this large increase in our deposit base, it was a challenge to maintain our year-end capital ratio at levels previously experienced. The increased deposit levels continued to keep Service 1<sup>st</sup> liquidity at high levels.

The increase in loan balances throughout 2017 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 several times by State and Federal examiners. These total loan increases coupled with consistent fee income and stable operating expenses during the year, helped maintain our gross margin. With these positive changes, our net income for 2017 was \$229,314. 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 increase the dividends paid on shares during the first quarter of 2017. Your Board is optimistic and hopeful that any large compressions within the interest rate market are behind us, and deposit dividend rates will slowly continue to 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. In 2017 our operational profit of \$340,314 was in line with the Board's original budgeted goals. This profit was reduced, however, by a loan loss provision made during the year totaling \$ 111,000. Overall net profitability in 2017, remained in line with our adjusted budgeted levels. The 2018 budget indicates another strong year.

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With steady fee income, increasing participations, local mortgage and auto loans, stable operational expenses, and slowly rising investment yields, there were no additional cost reducing changes implemented by your Board of Directors in 2017. The original 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 continued positive results in our operations during the 2017 year, and even with increasing deposit levels, has allowed our capital ratio to remain stable throughout the year. Our year-end capital ratio of 9.4% 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 1<sup>st</sup> Credit Union ended the 2017 year with a delinquency ratio of .43%. This ratio is lower than our 2016 ratio of .60%. In addition, this level is well below our peer group average of .90%. Our conservative loan underwriting procedures for local loans and participation loans along with continued conservative collection measures should result in steady to declining delinquent loan levels going forward into 2018.

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As a member and staff of Service 1<sup>st</sup>, 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