Annual Report 2016

In many ways, 2016 was a typical year for SLFCU – one of financial strength, new products and options for members, and upgrades that improved the security of your finances. But as the year drew to a close, the Credit Union made two large and noteworthy announcements: the return to members of a $10 million special dividend and the intent to merge with Kirtland Federal Credit Union.

Each step forward in 2016 – from the opening of a new Edgewood branch to the addition of EMV chips to debit and credit cards – was taken with one goal in mind: increasing the value of SLFCU membership.

“SLFCU is the model of strength in the credit union industry,” says President/CEO Robert Chavez. “We’re the credit union of choice, what other credit unions are striving to be. But that doesn’t mean we’re satisfied; we aim to be even more.”

In the 2016 Annual Report, Chavez and Board Chairperson Tazmin Ralph discuss how SLFCU continues to add value to our members’ financial lives.

Special Dividend Added to Accounts

Tazmin Ralph, Board Chairperson: For nearly 10 years we have been conservatively preserving capital due to the slow economy. In 2016 the economy seemed to have finally turned a corner, and the Board wanted to give something back to the members. Since 2007, the low rate environment has greatly benefited borrowers while penalizing savers. Although SLFCU’s share savings rates have always been competitive in the marketplace, the economic environment has prevented us from paying the higher dividends of previous years.

SLFCU continued to perform well during the economic downturn. We managed revenue and credit quality challenges well and tightly controlled expenses, building our capital reserves to 11.24%. Seven percent is considered well-capitalized; the Board target is 10.50%. After awarding the special dividend, SLFCU’s reserves were just under 11.00%.

Robert Chavez, President/CEO: SLFCU last paid a special dividend in the amount of $3 million in 2007. It had been a long time, and the Board and SLFCU staff were excited to be able to give back to our members.

Why didn’t we just raise SLFCU’s dividend rates? Because the Credit Union doesn’t need to attract more deposits. With a loan-to-share ratio of 56%, SLFCU has been focused on increasing loans, rather than deposits, for more than a decade.

The response has been wonderful – we’ve received so many positive comments and notes of appreciation. When a credit union does well, its members do well, and we’re proud to give back to our members.

Find the full report at www.slfcu.org/AnnualReport, or pick one up at any branch beginning February 17.

Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
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<tr>
<td>Total Assets</td>
<td>$2,350,353,000</td>
<td>$2,215,454,000</td>
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<tr>
<td>Loans</td>
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<td>Investments</td>
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<td>Members’ Share Accounts</td>
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<td>Reserves and Undivided Earnings</td>
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<tr>
<td>Gross Income</td>
<td>$74,211,000</td>
<td>$71,726,000</td>
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<tr>
<td>Dividends Earned by Members Including Special Dividends</td>
<td>$21,780,000</td>
<td>$11,090,000</td>
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<tr>
<td>Dividends Earned by Members Excluding Special Dividends</td>
<td>$11,758,000</td>
<td>$11,090,000</td>
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<tr>
<td>Net Income (Loss) Including Special Dividends</td>
<td>$10,528,000</td>
<td>$22,133,000</td>
</tr>
<tr>
<td>Net Income (Loss) Excluding Special Dividends</td>
<td>$20,550,000</td>
<td>$22,133,000</td>
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In Tune with SLFCU

SLFCU members Alexa James and Rory Partin are The ROAMies, an Americana-Folk-Pop band with an acoustic sound. “We sing about the ups and downs in a relationship and in life,” says Alexa, “about persevering through hardships and holding on to hopes and dreams.” The happily married couple both grew up with music and eventually blended their unique backgrounds to create The ROAMies. The band regularly tours in the United States and Europe.

Alexa opened her account with the Credit Union when she was in high school, through her father who worked at Sandia National Laboratories. “I was starting to do some singing and began receiving a little bit of income,” she says. “It was good for me to gain some practice in keeping my ‘business’ income separate from any ‘personal’ income.” SLFCU helped Alexa set up two checking accounts, one for personal use and one for her singing.

When they married, Rory became a joint owner on Alexa’s accounts at SLFCU, and as their music careers grew, so did their relationship with the Credit Union. They opened a business account for The ROAMies soon after.

“Since we’re musicians, we’re not wired to be business savvy. Therefore it takes a lot of extra work and energy on our part to deal with finances and keep things organized, which is one of the reasons we love SLFCU,” says Alexa. “The online and mobile tools are so helpful because we’re able to bank wherever we travel.”

The couple says that while many banks might offer similar services, SLFCU provides something above and beyond. “SLFCU provides a feeling of safety and home,” Alexa says. “It feels personal and cozy. It’s a group of special people with common interests. And with SLFCU we enjoy better security and business practices versus other larger national bank chains.”

The ROAMies take advantage of mobile deposit to deposit checks and track finances while traveling, as well as bill payment features and direct deposit to receive concert fees and radio royalties. They also appreciate SLFCU’s credit card, noting that “there aren’t weird fees and hassles, or confusing calculations, and we like the added benefits, which have allowed us to avoid additional rental car fees.”

Alexa says, “SLFCU gives us a comfortable home base that we can always rely on and return to no matter where we ROAM.”

Your Credit Report: Why It’s Important and How to Get a Copy

The Fair Credit Reporting Act requires that your credit report be made available to you, for free, every 12 months.* Consumer credit reporting agencies such as Equifax, Experian, and TransUnion receive data from various organizations and companies with which you do business. This data is compiled into a report that reflects factors like the length of your credit history, your payment history, credit you have applied for, companies and organizations that have accessed your credit report, and the amount of money you have borrowed. Your credit report does not include your credit score.

Why should I review my credit report?

Reviewing your credit report regularly will help you identify errors or warning signs of identity theft, so you can take steps to address them. Financial institutions, landlords, and prospective employers may look at your report, so it’s important to make sure that it is an accurate reflection of your creditworthiness.

How do I get a copy of my report?

You may request a copy of your report from each of the three nationwide agencies through www.annualcreditreport.com, the only website authorized by the Federal Trade Commission (FTC) to provide your free annual credit report.* You may request one report from each agency once every 12 months. Since not all organizations or businesses report to all three nationwide agencies, it is important to review your report from each one. You can order all three at once, or stagger them every few months so that you are checking your report regularly throughout the year.

What information will I need to provide?

To request a credit report, you’ll need to provide your name, address, social security number, and date of birth, as well as various information regarding your credit history. As always, use caution when providing personal information. When requesting your report online, verify the website you are using is legitimate. If you are requesting your reports by phone, only call verified phone numbers, rather than a phone number from an unsolicited call or email.

What about other sites that advertise free credit reports?

Other sites that claim to provide your report at little or no cost are not part of the legally mandated free annual credit report program and often come with certain terms or conditions. This may include charging you for other services they offer or enrolling you for a monthly subscription where only the first month is free.

Learn more about credit scores and reports at www.slfcu.org, or make an appointment to review your credit report with an SLFCU loan officer by calling 505.293.0500 or 800.947.5328.

*http://www.consumer.ftc.gov/articles/0155-free-credit-reports
Your SLFCU Credit Card Could Save You Money

The start of a new year is a great time to work toward reducing debt. In order to save money and reduce credit card debt, many people opt to transfer their credit card balances to cards with a lower rate.

Transfer your balances for bonus rebates.

If you’re carrying a balance on a credit card that isn’t from SLFCU, there’s a good chance we can save you money while you pay off the debt. Plus, when you transfer a balance from a non-SLFCU card to an SLFCU Visa Signature® or Visa Platinum® Rebate credit card, you’ll earn a cash rebate for transfers made between January 13 and March 15, 2017.† Depending on the amount you transfer and the difference in your rate, the potential savings can be significant.

No balance transfer fees

Many cards charge a fee to transfer balances – 3% of the balance is common. If you were to transfer a $4,000 balance onto a credit card charging a 3% balance transfer fee, you’d end up paying $120 just for the transaction. SLFCU does not charge a balance transfer fee or annual fee on our credit cards, meaning you can pay off your credit card balance faster with no added fees.

Simplify payments by consolidating.

Transferring a balance to your SLFCU credit card can simplify your financial life. Log in to CU@home Online banking to check your credit card balance, view transactions, and make payments.

To transfer your balances, visit www.slfcu.org, call 505.293.0500 or 800.947.5328, or stop by any branch.

Data Transfer Efforts Underway

Email and Phone Numbers Help Us Reach You Faster

In an effort to ensure the accuracy of our records, you may be asked to verify or update some of your personal information when you call our Contact Center or visit a branch. Keeping our records current helps us get in touch with you more quickly and provide you with important information like monthly statements, fraud alerts, account notifications, and SLFCU news.

To update your address, phone number, or email address, log in to CU@home Online and click the Self Service tab, call our Contact Center at 505.293.0500 or 800.947.5328, or stop by any branch.

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<thead>
<tr>
<th>Term Share Certificates*</th>
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<tr>
<td>$50,000 - $99,999</td>
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</tr>
<tr>
<td>$100,000 and over</td>
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Note: *Balance Transfer Offer Details: Transfer a balance from a non-SLFCU credit card to your SLFCU Visa Platinum or Visa Signature Rebate credit card between January 13 and March 15, 2017 to earn a cash rebate posted on the credit card statement you receive in April. Maximum rebate for balance transfers: $100. Maximum number of balance transfers: three (3). Balance transfers accrue finance charges from the date the transaction posts to your account, are subject to credit line availability, and cannot be used toward amounts you owe Sandia Laboratory Federal Credit Union. Please allow adequate time for the transfer to be processed. Fees and Finance Charges: Visa Signature – 10.90% APR; Visa Platinum Rebate – 11.40% APR. Rates will vary with the market based on the Prime Rate. No annual fee, no balance transfer fee, $5 per cash advance, 1% of each transaction in U.S. Dollars for foreign transactions.
If Interest Rates Rise, What Happens to Bonds?

Brought to you by the MEMBERS Financial Services Program* located at SLFCU

Are bond investors facing the possibility of major losses? Recently, bond yields have climbed. From November 1-23, the 2-year Treasury yield went from 0.83% to 1.12%, while the yield on the 10-year note rose from 1.83% to 2.36%.1

Quality bonds have a place in a portfolio, but many investors are moving their money elsewhere. They see a federal stimulus ahead in 2017, one that could potentially strengthen the economy and lead the Federal Reserve to gradually tighten interest rates. Assuming that happens and appetite for risk remains strong, what will happen to bonds and bond funds when rates begin to climb?2,3

The impact of rising rates will vary. Bonds and bond funds are different animals; some might even call them different asset classes.

In a rising-interest-rate environment, bond fund investors commonly see principal values decline until rates level off or dip again. The more intermediate-term and long-term bonds a fund holds, the bigger the hit it may take. A diversified bond fund will reinvest interest payments into new bonds with higher coupons, however - meaning investors will see larger returns with time.2,3

Long-term bonds tend to be hit harder by higher rates. They may lose market value, but eventually the higher rates will result in extra income for the patient investor.2,3,4

How about short-term and intermediate-term bonds? Some analysts warn against purchasing short-duration Treasuries and municipal and corporate bonds, contending that these debt securities might be hurt the most should the pace of rate hikes quicken. Others disagree.2,3,4

Higher rates have not always imperiled the bond market. Before December 2015 (when the Fed decided to raise rates again), the economy had seen six rising interest rate environments in 40 years. Those periods lasted from two to five years, with T-bill rates rising between 2.3-11.9%. In those six instances, the total annual return for the Barclays U.S. Aggregate Bond Index (the &P 500 of the bond market) ranged from 2.6-11.9%, with most of the total annual returns at between 4-6%. In short, no disaster for a bond investor.2,3,4

If interest rates begin heading north soon, exploiting short-term bonds with laddered maturity dates. The trade-off: accepting lower interest rates in exchange for a potentially smaller drop in the market value of these securities if rates rise. If you are after higher rates of return from short-duration bonds, you may have to look to bonds that are investment-grade, but without AAA or AA ratings.2,3,4

Bonds still belong in the big picture. In a bull market, putting money into an investment returning 1.5% for 10 years may seem nonsensical. It may make more sense in light of the goal of portfolio diversification and the need for consistent returns.3,4

If interest rates rise continually during the next few years, current owners of long-term bonds might find themselves losing out in terms of their portfolio’s potential. On the other hand, bonds have never lost half their value; stocks have.

MEMBERS Financial Services may be reached at 505.237.3930 or by emailing memfs@slfcu.org to schedule a no-cost no-obligation appointment.

*Citizens

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Citations.
Important Tax Information
To have your tax refund deposited directly into your account, you will need the following information:

- SLFCU's routing number: 307083911
- Your 10-digit account number, as printed on the bottom of your checks.
- You can also find the correct account number format in CU@home Online. Select the Self Service tab, then “Direct Deposit Instructions or Automated Withdrawal Instructions.”
- Refunds from joint returns must be deposited into an account that is in the primary taxpayer’s name. The primary taxpayer is the person listed first on your 1040.
- SLFCU can only deposit tax refunds into an account on which the taxpayer is listed as a primary or joint owner. Another person’s refund cannot be deposited to your account unless he or she is also an owner.

If you need help with your tax refund direct deposit, call 505.293.0500 or 800.947.5328.

Tax documents are available online.
Log in to CU@home, click the Self Service tab, and look for the Tax Forms link in the Account Service box. Tax documents from 2015 and 2014 are available now; 2016 forms will appear as they’re generated from January through April.
SLFCU will continue to mail these forms as well.

A rolling three years’ worth of tax documents are available within CU@home, unless you have been a member of SLFCU for fewer than three years.

Important IRA Contribution News
If you are planning to make a 2016 IRA contribution in 2017, please allow ample time for SLFCU to generate the paperwork, obtain your signature, and process your transaction before the tax filing deadline.

Although SLFCU can collect IRS-required signatures electronically, it’s best not to wait until the tax filing deadline, when volume may be high.

SLFCU/Kirtland Federal Credit Union Merger Update
Progress continues on the proposed merger between Sandia Laboratory Federal Credit Union and Kirtland Federal Credit Union. Both institutions are working through the due diligence process to further understand our differences and similarities.

Updates and information about the proposed merger will continue to be published at www.slfcu.org/MergerFAQ. A list of questions and answers is also available on the same page, detailing information such as why we are planning to merge, how it will impact members and their accounts, and the timeline of the proposed changes.

If you have any questions or concerns, please email ebranch@slfcu.org, or call 800.947.5328 or 505.293.0500. If you have account-specific questions please send a secure message via CU@home Online Banking.

SLFCU members can buy discounted tram passes.
$40 for up to four people!
Call 505.293.0500 or 800.947.5328.

NMCUEF Scholarship Opportunity
The New Mexico Credit Union Education Foundation (NMCUEF) is accepting applications for scholarships for the 2017-18 school year. Applicants must be New Mexico residents with a minimum 2.8 GPA and enrolled full-time as an undergraduate at an accredited institution in New Mexico.

The scholarship application is available at www.cuanm.org. Completed applications must be submitted and postmarked to the NMCUEF, not to SLFCU, by February 24, 2017.
Home Equity CreditLines: Extra Cash When You Need It

Borrowing from the equity in your home could save you money compared to other financing options. Use the funds for unexpected bills or major expenses like home improvements, debt consolidation, educational expenses, and more.

Once approved, you can borrow from your credit line as expenses come up - no initial draw is required. Just borrow what you need when you need it, pay it back, and borrow again without having to reapply.

Save money with:

- **Low closing costs**
- **Competitive rates**: Variable rates are set by the more stable 10-Year Treasury Note rather than Prime Rate.
- **Tax deductions**: The interest you pay may be tax deductible; consult your tax advisor.

To apply, visit www.slfcu.org or call the Mortgage Center at 505.237.7161 or 800.947.5328 x7161.

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On the Calendar

**Annual Meeting & Social**
- **Annual Meeting** • Wednesday, February 15, 5:30 p.m. (MT)
  Sheraton Uptown Hotel, 2600 Louisiana Blvd NE, Albuquerque, NM
- **Annual Social** • Tuesday, March 7, 5:30 p.m. (PT)
  Robert Livermore Community Center • 4444 East Ave, Livermore, CA

All members are invited to attend. Refreshments will be provided.

**Presidents’ Day**
- Monday, February 20 • All Branches Closed

**Teen Seminar: Saving and Spending**
- Thursday, February 23, 6:00 p.m. - 7:00 p.m.
  Juan Tabo Branch

Teens ages 16 and 17 can learn a simple five-step plan to saving and spending their money wisely.

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**Steering Toward Retirement with IRAs**
- Tuesday, February 28, Noon - 1:00 p.m., Tech Park Branch
- Tuesday, February 28, 5:30 - 6:30 p.m., Juan Tabo Branch

Supplementing retirement income with IRAs

**Dollars & Sense**
2016 Annual Report

Important Tax Information
- If Interest Rates Rise, What Happens to Bonds?

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Brought to you by the MEMBERS Financial Services Program* located at SLFCU. Register at www.slfcu.org/Events or by calling 505.293.0500 or 800.947.5328.

Steering Toward Retirement with IRAs

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