



Tradition meets modernization

2016 MANAGEMENT REPORT

By building on the Credit Union's past achievements, and enthusiastically pursuing the modernization of systems, TruGrocer Federal Credit Union delivered another strong year of financial performance in 2016. The foundation of TruGrocer's success is its ability to provide Members with superior service and value, while offering a strong and reliable employee benefit that supports our Grocery Partners as employers of choice.

The confidence shown by Members helped Assets grow from \$239 million to \$249 million in 2016, a 4.2% increase, and Member Share Accounts increased to \$199 million, a strong 5.4% increase over 2015. Capital and Reserves, which includes Allowance for Loan Losses, increased to just under \$50 million, putting the Credit Union's Capital-to-Asset Ratio at 19.9%. To put that in perspective, 7.0% is the industry standard for a "well capitalized" credit union. TruGrocer's strong Capital and Reserves allows for maintaining its "LOW and NO" fee structure and has kept the Credit Union on the BauerFinancial 5-Star Superior Rating List for 25 consecutive years.

Loan demand and refinance activity slowed in 2016, but Loans still increased to \$80 million, a 2.3% increase over 2015. Loan growth is closely tied to consumer confidence and the interest rate environment. TruGrocer kept Loan rates very competitive during 2016, but job uncertainty in the early part of the year definitely impacted Loan demand. Refinance activity slowed due to most Members already refinancing in 2015, in anticipation of numerous rate increases in 2016, which never materialized.

The Federal Reserve once again raised its target Fed Funds rate by 25 basis points in December 2016, which may impact Loan growth in 2017, even with competitive Loan rates. The Fed's outlook for interest rates going forward depends on its outlook for the economy, the rate of inflation and unemployment statistics. Rising interest rates will put pressure on TruGrocer's earnings in 2017, but the Balance Sheet is structured to have improved earnings in a rising rate environment by 2018. Strong Capital and Reserves helps mitigate interest rate risk.

We are pleased to report \$438,000 in Net Income for 2016, a decline from the previous year but significantly higher than projected. One-time core conversion related expenses were approximately \$65,000. The Credit Union had \$145,000 in ATM/Debit Card fraud losses, but Other Operating Expenses were well controlled. With ATM/Debit Card fraud losses on the rise, the Credit Union plans to implement EMV chip technology on that program in the 3rd quarter of 2017. While chip technology will not eliminate fraud, it will substantially decrease losses.

TruGrocer Management spent most of 2016 investing in, preparing for, and implementing expanded technology to improve Member service. The first project, completed in April 2016, implemented EMV chip technology on VISA Credit Cards. In October 2016, the modernization of the Credit Union's core system & accounting system, and the installation of a new online and mobile banking platform, was completed. The last quarter of 2016 was spent redesigning the www.trugrocer.com Website, which rolled out January 2017.

While the time and resources required to develop and implement new systems was significant, we are very pleased with the results and the rate of acceptance of modernized services by the Membership. In the three month period following conversion (October 1st to December 31st) nearly 10,000 Members enrolled in the new CU OnLine, with 4,100 downloads of the mobile application and 2,100 Members using the new bill pay service.

Providing unsurpassed financial products and services is the catalyst for TruGrocer's continued growth and success. The new online and mobile banking platform has an integrated look and feel, along with new functionality for computer, tablet and mobile applications. Members now use the same login credentials for CU OnLine and mobile banking, can reset their own passwords, and the bill pay feature is now available through the mobile application – all features requested by the Membership. The mobile application also has touch ID capabilities for iPhone users and the new platform allows for future development of features and functions. Watch for the implementation of a financial management and budgeting tool in 2017!

While electronic does not replace traditional Member Service – in branch and via phone – Members now have an "anytime" branch with their Smartphone. One of the Credit Union's largest operating expenses is the Shared Branch Network, which is vital to TruGrocer's ability to provide in-branch services to Members across the United States. With the improved functionality of TruGrocer's mobile banking technology, and its ease of use, we expect to see Shared Branch Network expenses decline as more Members use the mobile app to make deposits, check balances and transfer funds.

In the midst of change, much about TruGrocer remains the same – commitment to Members and the Grocery Industry; competitive Loan and Share rates; a LOW and NO fee philosophy; and dedicated staff and volunteers. For over 50 years we have challenged ourselves to make an impact and a difference in the lives of our Members. As we look to 2017, we approach the year with optimism for an economy that continues to help our Members, and our Grocery Partners, remain financially strong and prosperous. As a financial cooperative, TruGrocer's success is your success. **Thank you for your loyalty to TruGrocer and for your patience as we modernized our systems in 2016!** It is a privilege to serve you, and serve multiple generations of your families, and we are well prepared to serve your future financial needs.

We'd like to express gratitude to our volunteer Board of Directors, Supervisory Committee and National Advisory Council for their vision and dedicated leadership, the Credit Union staff for their hard work and determination in creating value for our Members, and our Grocery Partners who support the Credit Union as a valuable employee benefit. Together, we accomplished a long list of goals in 2016, and together we will continue to make a positive difference in the lives of the Members we serve.

(as of December 31st)	2016*	2015*	2014*
ASSETS			
Cash and Equivalents	\$ 25,801,249	\$ 18,620,048	\$ 21,423,243
Investments	130,071,617	130,021,235	127,658,683
Loans to Members—Net	79,672,460	77,805,910	71,932,144
Other Real Estate Owned (OREO's)	0	0	150,2190
Accrued Interest Receivable	250,308	242,715	242,929
Property and Equipment—Net	3,291,433	2,706,787	2,761,700
Other Assets	10,215,519	9,911,047	9,276,087
	\$ 249,302,586	\$ 239,307,742	\$ 233,445,005
LIABILITIES			
Notes Payable	\$ 0	\$ 0	\$ 0
Dividends Payable	0	37,752	31,273
Other Liabilities	1,090,907	1,592,096	3,833,403
SHARES			
Share Accounts	198,684,822	188,588,902	181,017,272
Total Liabilities and Shares	199,775,729	190,218,750	184,881,948
MEMBERS' EQUITY			
Regular Reserves	2,567,248	2,567,248	2,567,248
Undivided Earnings	46,959,609	46,521,744	45,995,809
Total Members' Equity	49,526,857	49,088,992	48,563,057
	\$ 249,302,586	\$ 239,307,742	\$ 233,445,005

(as of December 31st)	2016*	2015*	2014*
INTEREST INCOME:			
Interest on Loans	\$ 3,132,704	\$ 3,073,813	\$ 3,102,752
Interest from Investments	1,647,021	1,275,361	1,099,523
	4,779,725	4,349,174	4,202,275
Dividend and Interest Expense	684,436	613,407	569,439
NET INTEREST INCOME	4,095,289	3,735,767	3,632,836
Provision for Loan Losses	(148,838)	(130,632)	(12,613)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,244,127	3,866,399	3,645,449
Fees and Other Revenues	2,610,291	2,722,399	2,795,327
OPERATING EXPENSES:			
Compensation and Benefits	2,931,722	2,764,463	2,840,408
Other Operating Expenses	3,484,801	3,272,408	3,206,340
	6,416,523	6,036,871	6,046,748
NON-OPERATING INCOME/EXPENSES:			
Other Non-Operating (Income)/Expense	0	25,992	25,483
Disposition of Assets	30	0	(1,000)
NET EARNINGS	\$ 437,865	\$ 525,935	\$ 369,545

*Taken from Audited Financial Statements

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee has ongoing responsibilities to appraise policies, review operational procedures and perform internal audits designed to verify that the accounting records accurately reflect the operations of the Credit Union. The Supervisory Committee verifies that there are adequate internal controls in place to protect the Credit Union, its members, management and employees.

The Supervisory Committee selected Eide Bailly LLP to conduct an independent audit of the Credit Union for calendar year 2016. The audit included examination, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also included members' account verification, review of share and loan balances, review of loan delinquency and the adequacy of the allowance for loan losses account, review of internal controls and procedures and confirmation of credit union investments.

The Supervisory Committee received a copy of the Independent Auditors' Report for the year ended December 31, 2016 and a copy of this report is available at the Boise Credit Union Office for members to review. It is the opinion of the Supervisory Committee that TruGrocer Federal Credit Union is operating effectively, that the financial statements present fairly its financial position and that operations are handled in accordance with generally accepted accounting principles and related federal regulations.

Matt McKinlay

Chairman, Supervisory Committee

BOARD OF DIRECTORS

Robert P. Baker, Chairman	Doug Gibson, Secretary	John McMurdie
Bill Carter, Vice Chairman	Cynthia Forsch	Pradip Mehta
Michele Koci, Treasurer	Mark Lavin	

CREDIT UNION OFFICIALS AND MANAGEMENT STAFF

Phyllis Adkins, President & CEO
 Michael S. Vickery, Sr. Vice President & COO
 Ken Smith, Associate Vice President, Technology
 Chris Demaray, Director, Member Service, Branch Operations & Human Resources
 Karen Dawson, Controller
 Bryan Foreman, Loan Manager
 Ann Cargile, Loan Servicing Supervisor
 Denise Bardwell, Orlando Branch Manager
 Chalyce Ward, Dallas/Fort Worth Branch Manager
 Laura Sotelo, Los Angeles Branch Manager
 Gail Machos, Meridian Branch Manager
 Claire Urquhart, Wells Branch Coordinator

SUPERVISORY COMMITTEE

Matt McKinlay, Chairman Jeff Kleveland Devon Hart Joel Monsen

MEMBER SERVICES

- NCUA Deposit Insurance
- Payroll Deduction
- Share Draft Checking
- Overdraft Protection -- Line of Credit
- Direct Deposit -- Government & Payrolls
- Savings Accounts
- Vacation & Christmas Club
- IRA's
- Money Market Accounts
- Time Share Certificates
- Health Savings Accounts (HSA's)
- Mobile Banking and Deposit
- Toll Free Electronic Teller "ET"
- Money Gram & Express Pay
- VISA Travel Money**
- VISA Gift Cards**
- Discount Movie Tickets**
- Home Banking CU OnLine
- Drive Through Window***
- ATM's**
- Account Access through the CU Service Centers Network
- Text Banking & Alerts
- Electronic Statement Delivery
- Apple Pay*
- Safe Deposit Boxes*
- VISA Credit Cards with 1% Purchase Rebate
- Personal Loans
- Real Estate Loans
- Home Improvement Loans
- Automobile Loans
- Stock Loans
- RV Loans
- Credit Disability Insurance
- Credit Life Insurance
- Free Cashiers Checks
- Lifetime & Family Membership
- Roth IRA's
- Free Notary Service**
- CUNA Brokerage Services - TruStage
- Guaranteed Asset Protection (GAP)
- Mechanical Breakdown Protection (MBP)
- ATM/Point-of-Sale/MasterCard Debit
- Internet Home Page
- Free Bill Pay
- Excess Share Insurance Coverage up to \$500,000 per member - no charge to members
- On-line Loan Applications
- Pay Advance Lines-of-Credit
- Home Equity Lines-of-Credit (HELOC's)
- Popmoney Person-2-Person Payments

*Available Boise Only ** Available at Some Locations ***Available at Each Office, excluding Wells



National Service Locations

Main Office P.O. Box 8145 Boise, ID 83707 (208) 385-5200	Los Angeles Branch 341 E. Imperial Hwy. Fullerton, CA 92835 (714) 738-4681	Wells Satellite Office 205 Spencer Drive Wells, ME 04090 (207) 646-4989
Dallas/ Fort Worth Branch 1327 Brown Trail Bedford, TX 76022 (817) 285-8292	Orlando Branch 3305 Lake Breeze Dr. Orlando, FL 32808 (407) 292-2006	Meridian Branch Office 3335 E. Overland Road Meridian, ID 83646 (208) 385-5200

Over 5,000 Shared Branches

 The Member-Friendly Financial Network

Nearly 30,000 ATMs

www.trugrocer.com



Additional coverage up to \$250,000 provided by Excess Share Insurance Corporation, a licensed insurance company.