

19th Avenue
5151 N. 19th Ave.
Phoenix, AZ 85015

48th Street In-Store
(Inside Fry's)
2700 W. Baseline Rd.
Phoenix, AZ 85283

75th Avenue In-Store
(Inside Wal-Mart)
2020 N. 75th Ave.
Phoenix, AZ 85035

Ahwatukee
15625 S. 48th St.
Phoenix, AZ 85048

Avondale In-Store
(Inside Wal-Mart)
13055 W. Rancho Santa Fe Blvd.
Avondale, AZ 85232

Baseline
855 W. Baseline Rd.
Tempe, AZ 85283

Bell Road
5505 W. Bell Rd.
Glendale, AZ 85308

Buckeye In-Store
(Inside Fry's)
1300 S. Watson Rd.
Buckeye, AZ 85326

Cave Creek Road
12401 N. Cave Creek Rd.
Phoenix, AZ 85022

Chandler
1311 W. Chandler Blvd.
Chandler, AZ 85224

Deer Valley
2650 W. Ross Dr.
Phoenix, AZ 85027

Downtown
300 W. Jefferson St.
Phoenix, AZ 85003

Fiesta Mall
1457 W. Southern Ave.
Mesa, AZ 85202

Gateway
333 N. 44th St.
Phoenix, AZ 85008

Germann In-Store
(Inside Wal-Mart)
2750 E. Germann Rd.
Chandler, AZ 85249

Gilbert
1675 E. Elliot Rd.
Gilbert, AZ 85234

Glendale
5485 W. Northern Ave.
Glendale, AZ 85301

Greenfield
4403 E. Broadway
Mesa, AZ 85206

Mesa
1125 E. Southern Ave.
Mesa, AZ 85204

Scottsdale
3396 N. Hayden Rd.
Scottsdale, AZ 85251

South Mountain
7227 S. Central, Suite 1010
Phoenix, AZ 85040

Tucson
2900 E. Broadway, Suite 190
Tucson, AZ 85716

Tucson Community
1069 E. Silverlake Rd.
Tucson, AZ 85713



Arizona Federal
The credit union for the way you define service.

For further information, contact:
Arizona Federal Corporate Office | 333 N. 44th St., Phoenix, AZ 85008
(602) 683-1000 | www.ArizonaFederal.org



Arizona Federal
The credit union for the way you define service.

WHAT WE DO ...
WHO WE ARE ...
WHAT WE WILL BECOME.

WHAT WE DO

The expansion of the Arizona Federal branch network; the offering of insurance protections for your automobile, home or business; the expansion of mortgage options; the enhancements to CU Online functionality; the development of services in Spanish; the addition of 32,000 surcharge-free ATMs nationwide; the contributions and commitments to the communities we serve; the management of our

Ronald L. Westad
President & CEO



“TO DO GOOD,
WE MUST DO WELL.”

financial performance to maintain our safety and soundness; the efforts to provide a positive service experience for all members all of the time; and, the return of accumulated capital of \$10 million to members.

**This is what we do.
And, this is what we did in 2006.**

Within the pages of this annual report you may learn more of what we do. You may also learn of the power of a not-for-profit financial cooperative—Arizona Federal, to be specific. You see, with the active participation and involvement of every individual member and individual employee we have the potential to create real, tangible and measurable financial value. This is what we do. And, this is what we did in 2006.

Look again at the results listed on the opposite page. And I didn't even mention the everyday value represented by the above average savings rates, loan rates below market averages, fees that are both short in number and low in amount, and in many cases services that carry no fee whatsoever. I also did not mention the extensive number of community service hours contributed by both employees and members. Often the community service hours of employees were paid for by Arizona Federal and we matched members' community service hours with dollars through our Community Partners grant program. This is what we do. And, this is what we did in 2006.

In recent annual reports, I have acknowledged that “to do good, we must do well,” and I have written of our belief that we are a “credit to our community,” and last year I addressed our commitment to provide more convenience, less cost, and greater care. This is what we do. And, this is what we did in 2006.

WHO WE ARE

And as you turn the pages of this Annual Report, I would like to remind you of who we are and what we stand for. We are a collection of over 200,000 individual members (as of December 31, 2006) and nearly 700 employees, all of whom represent the communities we serve. We have members and employees from all walks of life, from varied backgrounds to varied futures. We have individuals with resources to lend, and others with purchases to finance. We are guided by values and principles that recognize the worth of each and every individual. We are locally-owned (by you, our members) and locally-operated (by us, our employees) for the benefit of both. This is who we are.

We do **not** have a group of stockholders to satisfy—we need only satisfy each other. It is the most fundamental, and I would argue the most fundamentally successful, business model in America. It is the exchange of mutual commitments for mutual benefit—it is a mutual promise of fulfillment. If I fulfill my promise, and you fulfill your promise, everyone wins. A true financial cooperative can't sustain itself, let alone create mutual value, without the fulfillment of mutual promises. This is who we are.

WHAT WE WILL BECOME

As I reach for the proverbial crystal ball, I offer this forecast of our future in 2007 and beyond: we are an organization creating real, tangible and measurable financial value for members and employees; we are an organization making and fulfilling promises; and we are the credit union of choice for both membership and employment.

**This is what we do, who we are,
and what we will become.**

CONCLUSION

As is my custom in each annual report, I close with a note of thanks. I extend my sincere gratitude to our volunteer Board of Directors and Audit Committee for their tireless efforts to represent the interests of each and every member and employee. This dedicated group of individuals has created value for members through their governance. They are elected by the membership and they serve for the benefit of members, employees and our overall communities. I'd also like to thank each employee of Arizona Federal for their contribution to define “who we are.” And, similarly, I must thank our loyal members for allowing us to fulfill our promise and for contributing to both what Arizona Federal is today and what we will become.

Ronald L. Westad
President & CEO

"THE \$10 MILLION DISTRIBUTION TO MEMBERS CAPPED A VERY SUCCESSFUL YEAR."

On behalf of the Board of Directors, I am pleased to present Arizona Federal's 2006 Annual Report. The following financial statements present our 2006 operational results, reflecting the Board's commitment to the continued safety and soundness of our credit union.

Arizona Federal returned \$10 million in excess capital to our members in 2006. By belonging to the credit union, members have created significant value in their financial cooperative. I am pleased to have this opportunity to thank them for their participation in our success. That we were able to declare this return, even after delivering substantial value to members in the form of convenient and competitively priced products and services, is also a testament to our talented and dedicated staff.

The \$10 million distribution to members capped a very successful year. In 2006, the Board acted to benefit our members on a daily basis through an assortment of strategic initiatives including: a larger network of surcharge-free ATMs; additional branch locations; enhanced dividend and interest rates; new and expanded product offerings, such as

mortgage and insurance services; and more convenience throughout all delivery channels; branches, telephone and online.

In addition to our 2006 financial success, Arizona Federal experienced one of the highest member satisfaction ratings in our history. We also enjoyed one of the highest member satisfaction ratings among our credit union peers.

In 2007 and beyond, we look forward to continuing our promise of delivering additional value. Members will benefit in the form of enhanced convenience, pricing and service delivery options. Our members recognized just one of the many benefits of credit union membership through the recent \$10 million return, and will continue to benefit on a daily basis throughout the years to come.

On behalf of the Board of Directors and the staff, I sincerely thank our members for their continued support and commitment to Arizona Federal. Each member has contributed to making Arizona Federal what it is today.

Cathleen Gleason
Board Chair

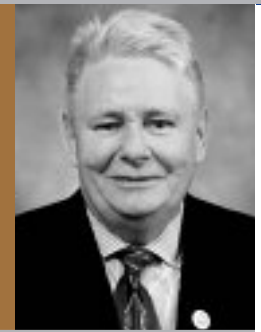
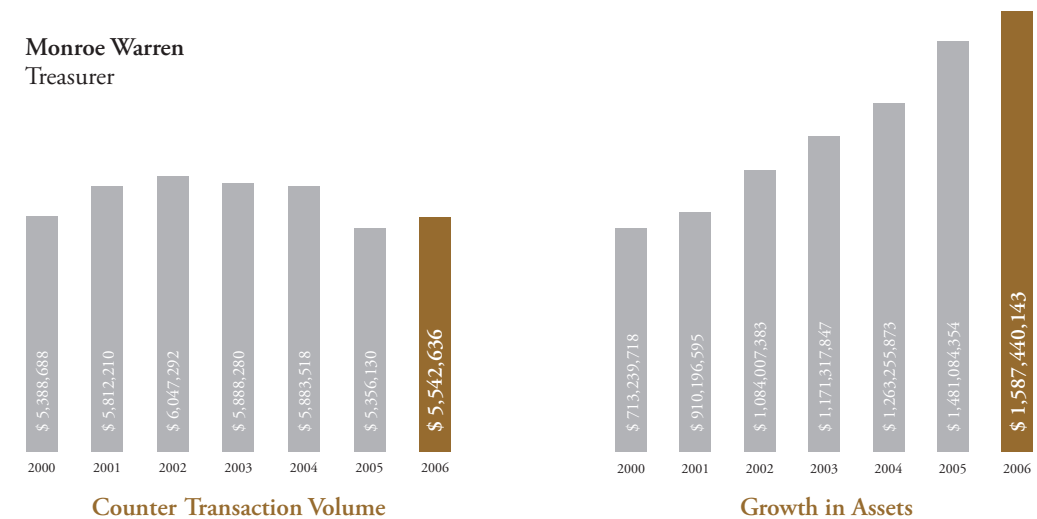
"FIND SECURITY IN OUR SAFETY AND SOUNDNESS."

In 2006, Arizona Federal continued to experience excellent growth. Highlights of our performance from this year include:

- Total assets grew to over \$1.5 billion, an increase of 7%
- Net capital reserves grew by \$27 million, to 12.67% of total assets
- Member deposits increased by \$82 million, an increase of 7%
- 15,034 new households were added
- Arizona Federal membership at the end of 2006 was 213,217 members, an increase of 9%
- Net loans to members were over \$1.2 billion

Government and independent auditors have once again given Arizona Federal the highest ratings possible. This is a testament to our continuing financial strength, guided by the principles of safety and soundness. These practices ensure that our members' assets will be protected for years to come. As Treasurer and Chairman of the Finance Committee, I can confidently say that we will continue to fulfill Arizona Federal's exceptional financial status far into the future.

Monroe Warren
Treasurer

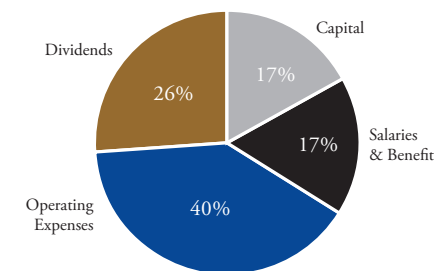


Monroe Warren
Treasurer

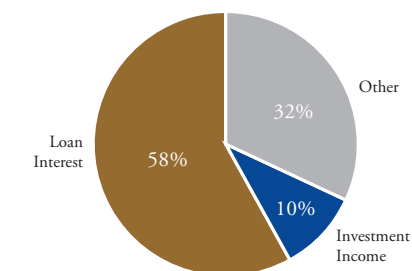
ARIZONA FEDERAL BOARD OF DIRECTORS



Kelvin Smith Vice-Chair | Monroe Warren Treasurer | J.R. Pooler Secretary | Don Ayers Director | Tim Black Director | Tom Burgess Director | Roy Levenda Director | Jack Thomas Director



Income Distribution



Source of Income Dollar

“SERVING TO PROTECT THE MEMBER.”

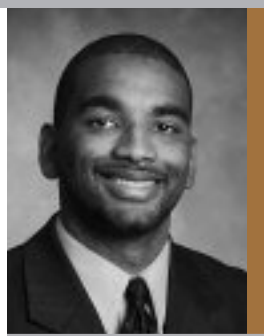
The Audit Committee is comprised of volunteers who are appointed by the Board of Directors to represent Arizona Federal’s members. **The committee is responsible for ensuring that member funds and interests are protected at all times.** To accomplish this goal, the Audit Committee performs several specific duties, including:

- Overseeing an annual independent audit of the credit union.
- Ensuring the soundness of the annual Board of Directors Election.
- Verifying members’ accounts.
- Reviewing internal accounting systems and controls.
- Ensuring that all policies and procedural guidelines are followed.
- Initiating an internal Fraud Audit as a proactive approach to ensuring the safety and soundness of Arizona Federal.

The Audit Committee has worked closely with the Compliance and Review Services department, confirming the reliability of controls in place and the consistency of the credit union’s protection processes. Along with participating in monthly board meetings and planning sessions, the Audit Committee continues to serve members on an individual basis.

With pleasure, we received 2006 CPA and regulatory examination results that affirm Arizona Federal continued to be one of the safest and best-run financial institutions in the state. The members of the Audit Committee include Elizabeth Bissa, Mary Modelski and myself. We are grateful for this opportunity to serve.

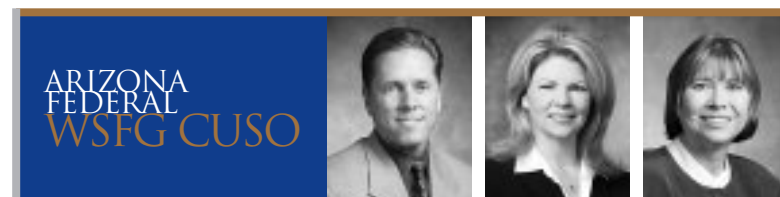
Jeffrey Barton
Audit Committee Chair



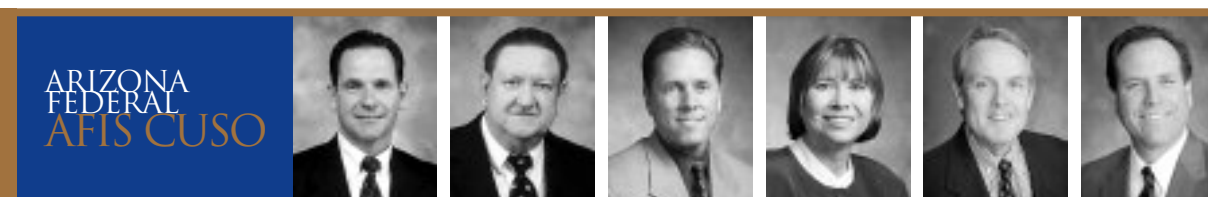
Jeffrey Barton
Audit Committee Chair



Mary Modelski Elizabeth Bissa



Ron Westad Ann Burns Therese Price



Tim Black Don Ayers Ron Westad Therese Price Paul Cyr Doug Carr

“WHAT IS A CREDIT UNION SERVICE ORGANIZATION?”

By definition, a Credit Union Service Organization (CUSO) is an organization established primarily to serve the needs of its credit union owner and whose business relates to the daily operations of the credit union it serves. Arizona Federal’s CUSO consists of Western States Financial Group, LLC (WSFG) and Arizona Federal Insurance Solutions, LLC (AFIS), wholly-owned subsidiaries of Arizona Federal. Through these subsidiaries, we’re able to provide additional services to our members that complement our core credit union services. Currently we operate our Members’ Auto Center (MAC) through WSFG and The Arizona Group through AFIS.

Western States Financial Group, LLC

MAC is a partnership between WSFG and Centennial Leasing and Sales, Inc. This automobile buying service was designed to provide our members with an option to the traditional car buying experience. Through **Members’ Auto Center**, members are able to conveniently shop for vehicles of their choice, complete all title and registration paperwork, obtain financing, take delivery and purchase extended warranties or other protections if desired. All of this can be completed without ever stepping foot into a traditional automobile dealership. For some of our members, this is a very valuable option. In 2006, Members’ Auto Center sold over 3,000 vehicles and saved members an estimated \$8.7 million off the Manufacturer’s Suggested Retail Price (MSRP).

Arizona Federal Insurance Solutions, LLC

The Arizona Group is an established, local insurance agency that Arizona Federal purchased in 2006 to form AFIS. Still operating under the name **The Arizona Group**, this subsidiary offers our members a full suite of services including automobile, homeowners, business, life and health insurance coverage. Our members can now enjoy the convenience of one-stop shopping for loans and insurance as well as the discounts offered to members of Arizona Federal through The Arizona Group. In its first year under AFIS, Arizona Federal referred over 2,300 members to The Arizona Group for various insurance quotes, demonstrating the value of adding this subsidiary to the offerings of Arizona Federal.

The results of operation of WSFG and AFIS have been consolidated with the financial statements of Arizona Federal and are presented within this report. We’re pleased to report that both WSFG and AFIS made a positive contribution to Arizona Federal, but more importantly made a positive contribution to our members that utilized these services.

J.R. Pooler,
Chair
WSFG

Tom Burgess,
Chair
AFIS



**Western States
Financial Group, LLC**
J.R. Pooler, Chair



**Arizona Federal Insurance
Solutions, LLC**
Tom Burgess, Chair

AUDIT COMMITTEE REPORT

CUSO REPORT

\$10 MILLION (...AND MORE) REASONS TO BE A MEMBER!

While our \$10 million giveback at the end of 2006 was exciting—one of the largest credit union payouts in the country—there are more than \$10 million reasons to be a member with us.

The following page lists just a few more reasons that you'll find every day at Arizona Federal.

- Active in the communities we serve
- Twenty-five convenient locations ... and growing
- Friendly service
- No or low fees on many of our services
- Wide variety of checking and savings options
- Members' Auto Center for your auto-buying needs
- Services for Spanish-speaking members
- Competitive loan rates
- No-fee checking accounts
- Visa Platinum with ScoreCard Rewards
- Over 120 mortgage product options
- AIG Financial Advisors with investment/financial planning expertise
- The convenience of secure online banking
- Share certificate investment options
- Free financial education seminars
- Identity theft prevention and reparation products
- Dollar Dot and CU Succeed accounts for children and teens
- Financial calculators on ArizonaFederal.org
- Free online Bill Pay
- Saturday hours at your neighborhood branches
- Individual Retirement Accounts (Traditional and Roth)
- Scholarships for high school students
- Home Equity loans for your home improvements
- Boat, RV and mobile home loans
- Federally guaranteed student loans
- 24x7 lending options
- TouchTone 24 automated phone teller
- Automatic loan payments and savings plans
- Money orders and cashier's check available
- Safe deposit boxes at selected branches
- Free notary service



"Well, Mr. Nielsen, you can LOVE it here at Arizona Federal ... you just can't LIVE here."



"I've been sending these out ... all without checks. Now I can pay bills without checks online with Arizona Federal's free Bill Pay!"



"With an auto loan from Arizona Federal, we'll have you back in the race in no time!"

HIGHLIGHTS OF 2006

Increased surcharge-free ATM network

Arizona Federal partnered with the Allpoint ATM Network, which has over 30,000 surcharge-free ATMs nationwide and 450 in Arizona. These ATMs are conveniently located at major businesses such as Costco, Target, Chevron and ExxonMobil. The addition of the Allpoint network to our existing ATM network provides members with access to over 57,000 surcharge-free ATMs nationwide.

Expanded Mortgage Services

We've expanded our mortgage services with over 120 mortgage product options, our three *Fast.Easy.Home.* guarantees, Home Loan Consultants in our branches and online resources available at mortgage.ArizonaFederal.org.

More CU Online features

Enhancements to CU Online continued through 2006, including **digital check images**, online **stop payments on ACH items** and **added security**. Our "See My ID" system offers a **multi-factor authentication**, which greatly increases the difficulty for unauthorized users to access our members' account information.

Introducing: The Arizona Group

In early 2006 we purchased **The Arizona Group**, an established local insurance agency, and formed **Arizona Federal Insurance Solutions** to serve our members' insurance needs. Now Arizona Federal members have access to affordable, comprehensive insurance solutions ranging from auto insurance and homeowner's insurance to life insurance and business insurance.

\$10 million reasons to be a member!

The Board of Directors were honored to announce the distribution of \$10 million to our member-owners. This distribution of accumulated capital was a way to thank and reward our members for participating in the growth of our not-for-profit financial cooperative.

COMING IN 2007

We want to create even *more reasons* to be a member at Arizona Federal! Look for more value and convenience in the form of exciting new services and an expanded branch network in 2007.

Member Business Services

In response to member feedback, we're developing a full suite of Member Business Services, including a checking account with premium dividends and no opening balance or monthly minimum balance requirements. Other features will include savings options, share certificates, business loans and more.

SURE Account

Inspired by Arizona Attorney General's Fraud Fighter account, we will offer our SURE Account to those members who are seeking added account protection. This account may appeal to those willing to trade some convenience for additional security features on their account.

Debit rewards

Look for a debit rewards program where members can earn points when making purchases using their Arizona Federal Visa check card. These points can be combined with their Visa Platinum points and redeemed for travel and name-brand merchandise.

New branches

We plan to move forward with the development of the following new branches across the Valley:

- South Phoenix (16th Street and Southern Avenue)
- Laveen Wal-Mart In-Store (35th Avenue and Southern Avenue)
- Queen Creek Wal-Mart In-Store (Rittenhouse Road and Ellsworth Road)
- Maryvale YMCA In-Store (67th Avenue and Indian School Road)
- Surprise (Greenway Road and Reems Road)

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

Members of the Audit Committee and Board of Directors
Arizona Federal Credit Union and its subsidiaries
Phoenix, Arizona

We have audited the accompanying consolidated statements of financial condition of Arizona Federal Credit Union and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of a wholly-owned subsidiary of Arizona Federal Credit Union; Arizona Federal Insurance Solutions, LLC and its subsidiary, whose consolidated financial statements reflect total consolidated assets of \$17,674,808 as of December 31, 2006 and total consolidated net income of \$151,770 for the year ended December 31, 2006. Those consolidated financial statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for Arizona Federal Insurance Solutions, LLC and its subsidiary, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Credit Union has reported members' share and savings accounts as equity in the accompanying consolidated statements of financial condition that, in our opinion, should be reported as liabilities in order to conform with accounting principles generally accepted in the United States of America. If members' share and savings accounts were properly reported, liabilities would increase and equity would decrease by \$1,273,572,243 and \$1,193,809,632 as of December 31, 2006 and 2005, respectively.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arizona Federal Credit Union and its subsidiaries as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Phoenix, Arizona
March 23, 2007

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2006 and 2005

ASSETS	2006	2005
Cash and cash equivalents	\$ 13,720,072	\$ 26,464,722
Investment securities:		
Available-for-sale	159,509,883	304,733,950
Other investments	7,585,922	98,234,149
Federal Home Loan Bank stock	5,310,200	5,207,000
Loans held-for-sale	7,642,086	5,924,400
Loans to members, net of allowance for loan losses	1,274,207,629	949,194,225
Accrued interest receivable	9,106,259	7,099,375
Premises and equipment, net	42,041,361	37,177,190
NCUSIF deposit	11,613,909	10,721,917
Deferred compensation investments	5,240,560	2,792,148
Intangible assets, net of accumulated amortization	5,364,000	—
Goodwill	9,227,800	—
Other assets	35,140,097	33,535,275
TOTAL ASSETS	\$1,585,709,767	\$1,481,084,351
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accrued expenses and other liabilities	\$ 42,316,833	\$ 35,609,783
Deferred compensation payable	2,402,494	1,571,542
Notes payable	80,889,000	90,000,000
Total liabilities	125,608,327	127,181,325
MEMBERS' EQUITY — substantially restricted		
Members' share and savings accounts	1,273,572,243	1,193,809,632
Regular reserve	15,628,532	15,628,532
Individual earnings	173,724,934	149,910,415
Accumulated other comprehensive income (loss)	(2,824,269)	(5,445,553)
Total members' equity	1,460,101,440	1,353,903,026
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$1,585,709,767	\$1,481,084,351

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2006 and 2005

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2004	\$ 15,628,532	\$ 123,736,067	\$ (1,086,585)	\$ 138,278,014
COMPREHENSIVE INCOME				
Net income	—	26,174,348	—	26,174,348
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	—	—	(4,461,395)	(4,461,395)
Net change in unrealized gain on deferred compensation investments	—	—	102,427	102,427
Total comprehensive income	—	26,174,348	(4,358,968)	21,815,380
BALANCE, DECEMBER 31, 2005	15,628,532	149,910,415	(5,445,553)	160,093,394
COMPREHENSIVE INCOME				
Net income	—	23,814,519	—	23,814,519
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	—	—	2,062,738	2,062,738
Net change in unrealized gain on deferred compensation investments	—	—	558,546	558,546
Total comprehensive income	—	23,814,519	2,621,284	26,435,803
BALANCE, DECEMBER 31, 2006	\$ 15,628,532	\$ 173,724,934	\$ (2,824,269)	\$ 186,529,197

The accompanying notes are an integral part of the consolidated financial statements.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2006 and 2005

INTEREST INCOME	2006	2005
Interest on loans to members	\$ 85,151,754	\$ 62,464,879
Interest on investment securities and cash equivalents	12,546,065	14,994,209
Total interest income	97,697,819	77,459,088
INTEREST EXPENSE		
Dividends on members' share and savings accounts	37,895,177	20,902,876
Interest on borrowed funds	3,065,604	2,883,228
Total interest expense	40,960,781	23,786,104
Net interest income	56,737,038	53,672,984
PROVISION FOR LOAN LOSSES	12,775,447	10,588,708
Net interest income after provision for loan losses	43,961,591	43,084,276
NON-INTEREST INCOME (LOSSES)		
Other non-interest income	43,812,571	32,858,919
Courtesy pay fee income	7,560,707	7,166,605
Gain on sales of loans held-for-sale	1,254,626	—
Non-operating losses	(2,332,764)	(670,207)
Total non-interest income	50,295,140	39,355,317
Total income	94,256,731	82,439,593
NON-INTEREST EXPENSE		
Compensation and benefits	33,508,684	25,901,434
Occupancy	4,114,706	3,569,706
Operations	32,818,822	26,794,105
Total non-interest expense	70,442,212	56,265,245
NET INCOME	\$ 23,814,519	\$ 26,174,348

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005

CASH FLOWS FROM OPERATING ACTIVITIES	2006	2005
Net income	\$ 23,814,519	\$ 26,174,348
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,426,461	3,675,834
Amortization of premiums and discounts, net	1,229,862	3,101,693
Amortization of deferred loan fees, net	2,261,773	1,397,590
Provision for loan losses	12,775,447	10,588,708
Amortization of intangible assets	406,000	—
Loss on sale of investments available-for-sale	2,057,306	672,712
Gain on sale of premises and equipment	(384,373)	(2,505)
Effect of changes in operating assets and liabilities:		
Loans held-for-sale	(1,717,686)	(3,788,350)
Accrued interest receivable(2,006,884)	(1,361,916)	—
Other assets	(1,547,915)	(15,649,358)
Deferred compensation payable	830,952	513,297
Accrued expenses and other liabilities	6,707,050	13,379,314
Net cash provided by operating activities	48,852,512	38,701,367
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments or maturity of available-for-sale securities	71,543,211	51,691,646
Proceeds from sale of available-for-sale securities	96,596,487	30,266,359
Purchases of available-for-sale securities	(24,140,061)	(138,797,080)
Proceeds from repayments or maturity of held-to-maturity securities	—	58,787,013
Proceeds from repayments or maturity of other investments	90,399,947	28,000,000
Purchases of other investments	(100,000)	(48,714,755)
(Increase) decrease in deposits in corporate credit union accounts	348,280	(433,492)
(Increase) decrease in Federal Home Loan Bank stock	(103,200)	369,200
Loans to members, net of principal collections	(340,107,531)	(212,269,410)
Increase in NCUSIF deposit	(891,981)	(2,234,248)
Purchases of deferred compensation investments	(1,889,866)	(37,975)
Purchase of goodwill and intangible assets	(14,997,800)	—
Proceeds from sale of premises and equipment	1,193,483	2,758
Purchases of premises and equipment	(10,099,742)	(4,996,744)
Net cash used in investing activities	(132,248,773)	(238,366,728)

CASH FLOWS FROM FINANCING ACTIVITIES	2006	2005
Net increase in members' share and savings accounts	\$ 79,762,611	\$ 193,354,040
Proceeds received from notes payable	27,389,000	21,500,000
Repayments on notes payable	(36,500,000)	(31,500,000)
Net cash provided by financing activities	70,651,611	183,354,040
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,744,650)	(16,311,321)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,464,722	42,776,043
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,720,072	\$ 26,464,722

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest:		
Dividends on members' share and savings accounts	\$ 37,895,177	\$ 20,902,876
Interest on borrowed funds	3,291,787	2,840,305
Total	\$ 41,186,964	\$ 23,743,181

The accompanying notes are an integral part of the consolidated financial statements.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Arizona Federal Credit Union (Credit Union) and its wholly-owned subsidiaries, Western States Financial Group, L.L.C. (WSFG) and Arizona Federal Insurance Solutions, LLC and its subsidiary (AFIS). The Credit Union's wholly-owned subsidiary WSFG is engaged in providing auto-buying services to members through third party relationships. The Credit Union's other wholly-owned subsidiary AFIS was duly formed and organized under the laws of the State of Arizona on November 21, 2005. AFIS is licensed to own and operate general property/casualty and life insurance agencies. AFIS operates principally in the southwest region of the United States. Effective January 1, 2006, AFIS acquired substantially all of the assets of The Arizona Group, Inc., an Arizona corporation and Nevada Insurance Group, Inc., a Nevada Corporation. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

Arizona Federal Credit Union is a federally chartered credit union organized under the Federal Credit Union Act and administratively responsible to the National Credit Union Administration. The Credit Union's primary source of revenue is from automobile and real estate loans to its members. A substantial portion of members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

Arizona Federal Credit Union provides a variety of financial services to its members, most of whom are employees of most municipalities in Maricopa County, Arizona and their families, its wholly owned subsidiaries, and selected employee groups within the region. The Credit Union obtained community charters from NCUA; the field of membership includes: all persons who live, work, worship, or attend school in and businesses and other legal entities located in Maricopa and Pinal Counties, Arizona and the City of Tucson, Arizona.

Cash and Cash Equivalents

Cash consist of certificates of deposit, funds due from banks, credit unions, corporate credit unions and cash in vaults and on hand. For purposes of the statements of cash flows, the Credit Union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Credit Union does not maintain a held-to-maturity portfolio. Other investments are classified separately and are stated at cost.

Federal Home Loan Bank Stock

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. There is no ready market value for the FHLB stock; therefore, it has no quoted market value and is reported on the statement of financial position at cost.

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse.

Mortgage loans held-for-sale are generally sold without the mortgage servicing rights retained by the Credit Union. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights, if they were recorded. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans to Members

The Credit Union grants mortgage, commercial and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 91 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income.

Indirect loan origination fees are deferred, and the net fee is recognized as an adjustment to interest income using the straight-line method, which approximates the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for Loan Losses

The allowance for loan losses established based on an estimate of losses to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in SFAS No. 5. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data. In instances where the Credit Union has large non-homogeneous impaired loans, these loans will have a specific allowance established. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of carrying value or net realizable value, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or net realizable value. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Buildings and improvements, furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

Goodwill and Other Intangible Assets

AFIS has adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangibles. The adoption of SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives will not be amortized, but rather will be tested at least annually for impairment. Intangibles with a finite useful life are amortized over their useful lives.

Accounts Receivable from Insurance

At December 31, 2006, accounts receivable from AFIS represent billed insurance premiums and commission for insurance coverage provided by various insurance carriers represented by AFIS. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest. The total amount of accounts receivable from AFIS, included in other assets on the consolidated statements of financial condition, is \$860,959 as of December 31, 2006.

AFIS follows the direct write-off method of recognizing uncollectible accounts receivable, which management believes approximates the allowance method. The direct write-off method recognizes a bad debt expense only when a specific account is determined to be uncollectible. In the opinion of management of AFIS, no existing accounts receivable are deemed uncollectible. For the year ended December 31, 2006, bad debt expense was \$706.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Recognition from Insurance

Commission and fee income, included in other non-interest income on the consolidated statements of income, from AFIS is recognized when the insured is invoiced, which approximates the effective date.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes. Income from WSFG and AFIS LLC flows through to the Credit Union and, therefore, are not subject to federal and state income taxes.

Pension Plan

The Credit Union has a qualified 401(k) employee benefit plan that has a defined contribution retirement savings fund pension plan provision covering substantially all of its employees.

Advertising Costs

Advertising costs are generally charged to operations when incurred. Certain advertising costs related to pre-paid marketing campaigns are capitalized and expensed as the advertising takes place.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated statement of financial condition. For 2006 and 2005, other comprehensive income includes no reclassification adjustments.

Reclassifications

Certain reclassifications have been made to the 2005 consolidated financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 – RESTRICTIONS ON CASH

The Credit Union is required to maintain balances with a corporate credit union as membership shares that are uninsured and require a notice before withdrawal. Membership share balances were \$1,907,992 and \$2,256,272 at December 31, 2006 and 2005, respectively. The Credit Union was also required to maintain other compensating balances with the corporate credit union in the amount of \$5,000,000 at December 31, 2006 and 2005, respectively.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2006:				
U.S. government and federal agency securities	\$ 33,064,762	\$ 25	\$ (502,867)	\$ 32,561,920
Mortgage-backed securities	<u>129,895,058</u>	<u>139,932</u>	<u>(3,087,027)</u>	<u>126,947,963</u>
Total	\$ 162,959,820	\$ 139,957	\$ (3,589,894)	\$ 159,509,883
December 31, 2005:				
U.S. government and federal agency securities	\$ 39,803,789	\$ –	\$ (762,953)	\$ 39,040,836
Mortgage-backed securities	<u>270,442,837</u>	<u>67,087</u>	<u>(4,816,810)</u>	<u>265,693,114</u>
Total	\$ 310,246,626	\$ 67,087	\$ (5,579,763)	\$ 304,733,950

In October 2005 management made the decision to transfer all of the remaining investment securities classified as held-to-maturity to available-for-sale. The decision was based on managements revised investment philosophy. In 2004 management began managing the investment portfolio using a total return philosophy, therefore holding all investment securities as available-for-sale supports this philosophy by allowing management the flexibility to sell investment securities with unattractive risk/reward profiles. Mortgage-backed investment securities with a carrying value (book value) of \$58,054,540 and unrealized losses of \$1,275,686 were transferred from held-to-maturity to available-for-sale at their current fair market value, with the unrealized losses recorded as accumulated other comprehensive income in members' equity.

Gross gains of \$-0- and \$7,216 and gross losses of \$2,057,306 and \$679,928 from sales of securities available-for-sale were realized in 2006 and 2005, respectively.

At December 31, 2006 and 2005, securities carried at approximately \$116,355,000 and \$102,933,000, respectively, were pledged as collateral to secure borrowed funds.

In order to meet the liquidity needs of providing financial services to its members, the Credit Union maintains funds on deposit in various demand and investment accounts in excess of the insured deposit limits. As of December 31, 2006 and 2005, the amount of uninsured deposits and investments totaled approximately \$8,295,000 and \$110,114,000, respectively.

The amortized cost and fair values of investment securities available-for-sale at December 31, 2006 and 2005, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 12,025,241	\$ 11,897,748	\$ 6,641,622	\$ 6,570,950
Due in one year through five years	<u>21,039,521</u>	<u>20,664,172</u>	<u>33,162,167</u>	<u>32,469,886</u>
	33,064,762	32,561,920	39,803,789	39,040,836
Mortgage-backed securities	<u>129,895,058</u>	<u>126,947,963</u>	<u>270,442,837</u>	<u>265,693,114</u>
Total	\$ 162,959,820	\$ 159,509,883	\$ 310,246,626	\$ 304,733,950

Gross unrealized losses and fair values by length of time that available-for-sale investment securities have been in a continuous unrealized loss position at December 31, 2006, are as follows:

	Continuous Unrealized Losses Existing for:			
	Fair Value	Less than 12 Months	Greater than 12 Months	Total Unrealized Losses
U.S. government and federal agency securities	\$ 31,561,339	\$ –	\$ (502,867)	\$ (502,867)
Mortgage-backed securities	<u>\$ 118,622,458</u>	<u>\$ (23,465)</u>	<u>\$ (3,063,562)</u>	<u>\$ (3,087,027)</u>

Gross unrealized losses and fair values by length of time that available-for-sale investment securities have been in a continuous unrealized loss position at December 31, 2005, are as follows:

	Continuous Unrealized Losses Existing for:			
	Fair Value	Less than 12 Months	Greater than 12 Months	Total Unrealized Losses
U.S. government and federal agency securities	\$ 39,040,836	\$ (105,534)	\$ (657,419)	\$ (762,953)
Mortgage-backed securities	<u>\$ 252,538,009</u>	<u>\$ (1,239,468)</u>	<u>\$ (3,577,342)</u>	<u>\$ (4,816,810)</u>

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
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December 31, 2006 and 2005

NOTE 3 – INVESTMENT SECURITIES (continued)

Management evaluates for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issues, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

When securities mature or are called, they are paid at par value. The Credit Union has the ability to hold the securities until maturity for a long period of time sufficient for recovery as experienced in the past years. Management concludes that there is no permanent or other-than-temporary impairment to all investment securities.

Other investment securities at December 31 are summarized as follows:

	2006	2005
Share certificates in credit unions	\$ 100,000	\$ 90,399,947
Membership capital shares in corporate credit unions	1,907,992	2,256,272
Permanent capital shares in corporate credit unions	5,000,000	5,000,000
Other investment securities	<u>577,930</u>	<u>577,930</u>
Total	\$ 7,585,922	\$ 98,234,149

NOTE 4 – LOANS TO MEMBERS

The composition of loans to members at December 31 is as follows:

	2006	2005
Automobile	\$ 672,838,871	\$ 528,430,900
Unsecured	28,800,064	19,600,013
Credit card	181,834,496	113,708,993
Share secured	5,902,882	5,283,426
Real estate	231,887,628	155,473,395
Home equity line of credit	95,936,095	84,340,725
Other	40,577,666	34,723,084
Line of credit	17,342,648	15,812,812
Participation loans	9,097,226	–
Overdraft lines	<u>1,968,955</u>	<u>2,602,608</u>
	1,286,186,531	959,975,956
Deferred loan origination fees	2,118,345	1,850,335
Allowance for loan losses	<u>(14,097,247)</u>	<u>(12,632,066)</u>
Total	\$ 1,274,207,629	\$ 949,194,225

The Credit Union has purchased loan participations originated by another credit union which are secured by vehicles to members of the other credit union. All loan participations were purchased without recourse and the originating credit union performs all loan servicing functions on these loans.

A summary of the changes in the allowance for loan losses at December 31 is as follows:

	2006	2005
Balance, beginning of year	\$ 12,632,066	\$ 15,087,277
Provision charged to operations	12,775,447	10,588,708
Loans charged-off	(14,583,131)	(16,257,803)
Recoveries	<u>3,272,865</u>	<u>3,213,884</u>
Balance, end of year	\$ 14,097,247	\$ 12,632,066

A summary of non-accrual loans at December 31 is as follows:

	2006	2005
Non-accrual loans	\$ 10,855,120	\$ 6,057,262
Foregone interest on non-accrual loans	\$ 494,796	\$ 275,183

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 is summarized as follows:

	2006	2005
Land	\$ 12,885,265	\$ 10,690,873
Buildings and improvements	25,959,161	25,022,652
Furniture and equipment	21,515,817	20,110,795
Leasehold improvements	2,029,781	2,046,688
Construction in progress	<u>2,540,297</u>	<u>369,317</u>
	64,930,321	58,240,325
Accumulated depreciation and amortization	<u>(22,888,960)</u>	<u>(21,063,135)</u>
Balance, end of year	\$ 42,041,361	\$ 37,177,190

Depreciation and amortization expense amounted to \$4,426,461 and \$3,675,834 for the years ended December 31, 2006 and 2005, respectively.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
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NOTE 6 – LEASE COMMITMENTS

The Credit Union leases certain office facilities under noncancelable operating leases expiring in various years through 2013. One of the leases is for the AFIS office facility which is conducted with an entity that is controlled by an officer of AFIS. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Future minimum lease payments under these leases are as follows:

2007	\$ 609,951
2008	587,065
2009	526,734
2010	482,215
2011	452,158
Thereafter	<u>300,636</u>
Balance, end of year	<u>\$ 2,958,749</u>

Minimum lease payments exclude rentals under renewal options, which, as of December 31, 2006, are not reasonably assured of being exercised.

Rent expense was approximately \$788,000 and \$714,000 for the years ended December 31, 2006 and 2005, respectively.

NOTE 7 – INTANGIBLE ASSETS

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. AFIS has the following intangible assets:

Expiration Lists

Expiration lists represent the valuation of acquired insurance account records and listings. As of December 31, 2006, the cost basis was \$5,690,000. The costs are amortized on the straight-line method over their estimated useful lives of fifteen (15) years. Amortization expense for the year ended December 31, 2006 was \$379,333. Accumulated amortization as of December 31, 2006 was \$379,333. Estimated amortization expense for each year through December 31, 2011 is \$379,333 per year.

Covenants Not-to-Compete

Covenants not-to-competes consist of amounts due to individuals as compensation for covenants against future competition. The total costs of the covenants not-to-competes are \$80,000, and are being amortized on the straight-line method over their respective terms of three (3) years. Amortization expense for the year ended December 31, 2006 was \$26,667. Accumulated amortization as of December 31, 2006 was \$26,667. Estimated amortization expense for each year through December 31, 2008 is \$26,667 per year.

Goodwill

Effective January 1, 2006, the Company acquired substantially all of the assets of The Arizona Group, Inc., an Arizona insurance broker and agency, and its subsidiary, The Nevada Insurance Group, Inc., a Nevada insurance broker and agency pursuant to an Asset Purchase Agreement dated January 4, 2006. Goodwill represents the excess of the cost of assets acquired over the fair value of the net assets at the date of acquisition. In addition, the Asset Purchase Agreement contains a holdback provision for a portion of the purchase price, and an earnout provision payable over a five year period. The holdback and earnout amounts will be added to the cost of the asset purchase, which will increase the amount of goodwill arising from the purchase. At December 31, 2006, the gross amount of goodwill is \$9,227,800.

NOTE 8 – MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts at December 31 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Regular share accounts	\$ 239,230,959	\$ 275,527,157
Share draft accounts	260,570,657	267,035,452
Money market accounts	<u>444,694,030</u>	<u>398,537,682</u>
Total share accounts	<u>944,495,646</u>	<u>941,100,291</u>
Share and IRA certificates		
0.0% to 4.0%	67,527,620	205,762,397
4.1% to 5.0%	119,336,748	26,689,210
5.1% to 6.0%	142,158,788	19,874,210
6.1% to 7.0%	-	379,250
7.1% to 8.0%	<u>53,441</u>	<u>4,274</u>
Total certificate accounts	<u>329,076,597</u>	<u>252,709,341</u>
Total members' share and savings accounts	<u>\$ 1,273,572,243</u>	<u>\$ 1,193,809,632</u>

Scheduled maturities of share and IRA certificates at December 31, 2006 are as follows:

Years Ending December 31

2007	\$ 245,650,778
2008	38,097,763
2009	15,177,381
2010	14,532,375
2011	<u>15,618,300</u>
Total certificate accounts	<u>\$ 329,076,597</u>

The aggregate amounts of members' share and savings accounts in denominations of \$100,000 or more were approximately \$212,583,000 and \$189,943,000 at December 31, 2006 and 2005, respectively.

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
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NOTE 9 – LINES OF CREDIT

The Credit Union maintains lines of credit with corporate credit unions as described below:

	First Corp Line	WesCorp Line	Total Lines
December 31, 2006			
Total available	\$ 70,000,000	\$ 2,000,000	\$ 72,000,000
Borrowed	<u>789,000</u>	<u>-</u>	<u>789,000</u>
Remaining available	<u>\$ 69,211,000</u>	<u>\$ 2,000,000</u>	<u>\$ 71,211,000</u>
Term	LOC	LOC	
Variable rate at December 31,	5.50%	n/a	
December 31, 2005			
Total available	\$ 25,000,000	\$ -	\$ 25,000,000
Borrowed	<u>-</u>	<u>-</u>	<u>-</u>
Remaining available	<u>\$ 25,000,000</u>	<u>\$ -</u>	<u>\$ 25,000,000</u>
Term	LOC	LOC	

The lines are collateralized by substantially all of the Credit Union's assets.

NOTE 10 – NOTES PAYABLE

The Credit Union maintains an Advance and Security Agreement with the Federal Home Loan Bank of San Francisco (FHLB) at rates determined by the lender when funds are advanced. At December 31, 2006 and 2005, the Credit Union had \$80,100,000 and \$90,000,000, respectively in outstanding advances on the Advance and Security Agreements. The agreements are collateralized by investment securities safekept at FHLB with outstanding par values of approximately \$119,066,000 and \$104,661,000, and market values of approximately \$116,355,000 and \$102,933,000 at December 31, 2006 and 2005, respectively.

Maturity Date	Interest Rate	2006	2005
Open LOC with First Corp	5.50%	\$ 789,000	\$ -
Short-term borrowings			
February 27, 2006	2.32%	-	9,000,000
March 30, 2006	3.73%	-	4,000,000
May 8, 2006	3.00%	-	5,000,000
July 5, 2006	1.99%	-	7,000,000
October 18, 2006	3.15%	-	5,000,000
November 13, 2006	3.05%	-	2,000,000
December 26, 2006	3.83%	-	4,500,000
January 2, 2007	5.00%	26,600,000	-
February 21, 2007	3.24%	5,000,000	-
March 21, 2007	2.52%	7,000,000	-
April 23, 2007	3.86%	4,000,000	-
May 22, 2007	4.94%	2,000,000	-
June 4, 2007	3.55%	3,500,000	-
August 27, 2007	3.19%	5,000,000	-
September 10, 2007	2.79%	7,000,000	-
November 19, 2007	3.39%	5,000,000	-
Total short-term borrowings		<u>65,889,000</u>	<u>36,500,000</u>
Long-term borrowings			
February 21, 2007	3.24%	-	5,000,000
March 21, 2007	2.52%	-	7,000,000
April 23, 2007	3.86%	-	4,000,000
May 22, 2007	4.94%	-	2,000,000
June 4, 2007	3.55%	-	3,500,000
August 27, 2007	3.19%	-	5,000,000
September 10, 2007	2.79%	-	7,000,000
November 19, 2007	3.39%	-	5,000,000
February 25, 2008	2.97%	6,000,000	6,000,000
February 25, 2008	3.99%	4,000,000	4,000,000
December 1, 2008	4.73%	<u>5,000,000</u>	<u>5,000,000</u>
Total long-term borrowings		<u>15,000,000</u>	<u>53,500,000</u>
Total notes payable		<u>\$ 80,889,000</u>	<u>\$ 90,000,000</u>

ARIZONA FEDERAL CREDIT UNION AND ITS SUBSIDIARIES
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NOTE 10 – NOTES PAYABLE *(continued)*

Scheduled maturities of notes payable at December 31, 2006, are as follows:

Years Ending December 31,

2007	\$ 65,889,000
2008	<u>15,000,000</u>
Total	<u>\$ 80,889,000</u>

NOTE 11 – ADVERTISING

Advertising expense totaled approximately \$2,786,000 and \$2,275,000 for the years ended December 31, 2006 and 2005, respectively.

NOTE 12 – OFF-BALANCE SHEET ACTIVITIES

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include open-end loans, credit cards, home equity and overdraft lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the financial statements.

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2006</u>	<u>2005</u>
Commitments to grant loans:		
Open-end loans	\$ 33,997,756	\$ 33,760,631
Home equity lines of credit	75,368,971	65,572,241
Credit cards	318,782,025	225,514,858
Mortgage loan commitments	–	836,100
Overdraft lines	<u>77,233,079</u>	<u>57,123,899</u>
Total	<u>\$ 505,381,831</u>	<u>\$ 382,807,729</u>

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under open end loans, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These commitments are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 13 – LEGAL CONTINGENCIES

The Credit Union is periodically a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the Credit Union's financial condition.

AFIS signed a tolling agreement that extends the statute of limitations for an insurance coverage dispute. Insurance coverage disputes are normal in the insurance agency industry, and accordingly, AFIS carries errors and omissions coverage to defend these claims. The amount of the dispute does not exceed the policy limits of AFIS's errors and omissions insurance coverage. AFIS believes this dispute is completely without merit, and if AFIS is sued, it intends to vigorously defend its position.

NOTE 14 – COMMITMENTS

The Credit Union has the following outstanding purchase commitments, which are not reflected in the financial statements as of December 31, 2006:

Land/Washington Park	\$ 3,306,688
Land/Hunt Highway	1,679,000
Land/99th and Lower Buckeye	1,300,000
Land/Maricopa	<u>2,111,788</u>
Total commitments	<u>\$ 8,397,476</u>

NOTE 15 – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the following table) of net worth (as defined in the regulations) to assets and RBNW ratios (as defined). As of December 31, 2006 and 2005, the Credit Union's RBNW requirement is 5.08% and 5.45%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes that, as of December 31, 2006, the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the Credit Union's category.

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NOTE 15 – CAPITAL REQUIREMENTS *(continued)*

As of December 31, 2006, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for Prompt Corrective Action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%. The Credit Union's actual capital amounts and ratios as of December 31, 2006 and 2005 are also presented in the table.

The Credit Union's actual capital amounts and ratios as of December 31, 2006 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	\$ 189,353,466	11.94%	\$ 95,142,586	6.0%	\$ 110,999,684	7.0%
Risk-based net worth requirement	\$ 80,554,056	5.08%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 5.08% is less than the net worth ratio of 11.94%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balances option, as permitted by regulation.

The Credit Union's actual capital amounts and ratios as of December 31, 2005 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	\$ 165,538,947	11.18%	\$ 88,865,061	6.0%	\$ 103,675,905	7.0%
Risk-based net worth requirement	\$ 80,719,097	5.45%	N/A	N/A	N/A	N/A

NOTE 16 - EMPLOYEE BENEFITS

401(k) Retirement Plan

The Credit Union provides a 401(k) employee benefit plan that has a defined contribution retirement savings fund pension plan provision which is available to employees with at least 12 months of service who have attained the age of 18 years at the anniversary date of the plan. The plan provides for a portion of each participant's gross base compensation to be contributed to the plan, based on the employee's number of years of services. Total pension expenses for the years ended December 31, 2006 and 2005 was \$656,044 and \$564,898, respectively.

Deferred Compensation Plans

The Credit Union has two non-qualified deferred compensation plans for members of top management. Under the terms of the 457(f) plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. Under the terms of the 457(b) plan, contributions made to the plan are the responsibility of the plan participants. The Credit Union is responsible for administering the plan and provides no funding. The deferred compensation investments are shown as assets on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation investments are \$5,240,560 and \$2,792,148 as of December 31, 2006 and 2005, respectively. The Credit Union has accrued liabilities of \$2,402,494 and \$1,571,542 at December 31, 2006 and 2005, respectively. Deferred compensation expense was \$824,488 and \$473,776 for the years ended December 31, 2006 and 2005, respectively.

NOTE 17 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credits to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2006 and 2005 were \$1,169,107 and \$1,091,468, respectively. Loans to related parties are made under the same terms available to other members. Deposits from related parties at December 31, 2006 and 2005 amounted to \$787,474 and \$481,576, respectively.

At December 31, 2006, an entity controlled by an officer of AFIS is owed for the holdback and earnout consideration in accordance with an Asset Purchase Agreement. The holdback amount payable is \$77,722, and the earnout amount payable is \$130,324, resulting in an aggregate payable of \$208,046.

AFIS has entered into a non-cancelable operating lease agreement for an office facility with an entity controlled by an officer of AFIS. The lease agreement is for a six (6) year period that expires December, 2011. The rental payments are increased annually by the greater of either three percent (3%) or the CPI increase for the Western United States. In addition, AFIS pays rental taxes and CAM charges. For the year ended December 31, 2006, AFIS's base office rental expense under the lease agreement was \$102,000.

NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.

Available-For-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Investment Securities: The carrying amounts of other investment securities approximate their fair value.

Federal Home Loan Bank Stock: The carrying amount of the Federal Home Loan Bank stock approximates the fair value.

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NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Loans Held-for-Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate.

Loans to Members: The fair value of fixed-rate loans is estimated by discounting the future cash flows for each loan category using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable-rate loans (primarily real estate and charge cards) is assumed to approximate their carrying amount.

Accrued Interest Receivable: The carrying amounts of accrued interest receivable approximate their fair value.

Deferred Compensation Investments: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Deferred Compensation Payable: The carrying amounts of deferred compensation payable approximate their fair values.

Notes Payable: The carrying amounts of borrowed funds maturing within 90 days approximate their fair values. Fair values of other borrowed funds are estimated using discounted cash flow analyses based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

Member Share and Savings Accounts: The fair values disclosed for share draft, regular savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on share certificates.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrowers' credit standings.

The estimated fair values of the Credit Union's financial instruments are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 13,720,072	\$ 13,720,000	\$ 26,464,722	\$ 26,465,000
Investment securities:				
Available-for-sale	159,509,883	159,510,000	304,733,950	304,734,000
Other investments	7,585,922	7,586,000	98,234,149	98,234,000
Federal Home Loan Bank stock	5,310,200	5,310,000	5,207,000	5,207,000
Loans held-for-sale	7,642,086	7,642,000	5,924,400	5,924,000
Loans to members	1,286,186,531	1,291,730,000	959,975,956	957,495,000
Plus net deferred loan origination fees	2,118,345	2,118,000	1,850,335	1,850,000
Less: allowance for loan losses	(14,097,247)	(14,097,000)	(12,632,066)	(12,632,000)
Loans to members, net of allowance for loan losses	1,274,207,629	1,279,751,000	949,194,225	946,713,000
Accrued interest receivable	9,106,259	9,106,000	7,099,375	7,099,000
Deferred compensation investments	5,240,560	5,240,000	2,792,148	2,792,000
FINANCIAL LIABILITIES				
Deferred compensation payable	\$ 2,402,494	\$ 2,402,000	\$ 1,571,542	\$ 1,572,000
Notes payable	80,889,000	80,918,000	90,000,000	90,151,000
Members' share and savings accounts				
Share, drafts, and money market Accounts	944,495,446	944,495,000	941,100,291	941,100,000
Certificate accounts	329,076,797	327,380,000	252,709,341	252,088,000
UNRECOGNIZED FINANCIAL INSTRUMENTS				
Commitments to extend credit	\$ –	\$ 505,382,000	\$ –	\$ 382,808,000

NOTE 19 – ASSET ACQUISITION

Effective January 1, 2006, AFIS (a wholly-owned subsidiary of Arizona Federal Credit Union) acquired substantially all of the assets of The Arizona Group, Inc., an Arizona insurance broker and agency, and its subsidiary, The Nevada Insurance Group, Inc., a Nevada insurance broker and agency pursuant to an Asset Purchase Agreement dated January 4, 2006. No consideration was paid for the net tangible assets, and negative goodwill was recorded in the amount of \$169,361, as the assets purchased were in excess of the liabilities assumed. The consideration paid for the intangible assets was \$14,263,700, which is net of a deduction relating to a "holdback" that is based on the future continued employment of a key employee. The holdback amount is \$466,327, and is payable over a six (6) year period. In addition, the purchase price is subject to an earnout agreement, whereby an earnout amount will be paid over a five (5) year period. One-third (1/3) of the earnout is contingent upon revenue growth, and two-thirds (2/3) is based on EBITDA growth.

Following is a condensed balance sheet showing the fair value of the assets acquired and the liabilities assumed as of the date of acquisition:√

Assets:		Liabilities:	
Cash and cash equivalents	\$ 545,107	Accounts payable - insurance companies	\$ 718,429
Accounts receivable - premiums	586,417	Accounts payable - trade	212,885
Accounts receivable - commissions	169,361	Producer commissions payable	101,730
Advance commissions receivable	19,653	Notes payable	51,025
Prepaid expenses	100,116	Customer deposits	312,936
Vehicle	26,105		
Furniture and equipment	69,810	Total liabilities assumed	\$ 1,397,005
Computer equipment	33,357		
Leasehold improvements	16,440		
Negative goodwill arising in the acquisition	(169,361)		
Total assets acquired	\$ 1,397,005		

At December 31, 2006, an account payable has been recorded to reflect the "holdback" amount that is due in accordance with the Asset Purchase Agreement in the amount of \$77,722. In addition, for the year ended December 31, 2006, an account payable has been recorded to reflect the earnout amount that is due in accordance with the Asset Purchase Agreement in the amount of \$130,324.

NOTE 20 – SUBSEQUENT EVENT

Effective January 1, 2007, AFIS purchased substantially all of the assets of Anderson Witt Insurance Agency, Inc. located in Mesa, Arizona for a purchase price of \$800,000. The purchase required a down payment of \$600,000. The remaining \$200,000 deferred portion of the purchase price is payable at \$50,000 per year over a four (4) year period, but can be increased or decreased based on the renewal of the expiration list during the four (4) year period.