



2016 Annual Report



Experience the *power of Us.*

PRESIDENT'S REPORT

In 2016 we celebrated 80 years of service to our members as a locally-owned and operated not-for-profit financial cooperative – owned by you, our member-owners. Over the course of the last year, as well as the prior 79 years, we continued our dedicated efforts to empower members to take hold of their financial future, to responsibly manage the common-wealth of our membership, and to ensure a safe and sound membership organization that is Arizona Federal Credit Union. Over the same time span, we experienced tremendous technological advancement, member and asset growth, community and demographic changes, shifts in service demand and utilization, and other significant changes. Consistently we have met all opportunities and challenges head-on and in a transparent and trustworthy manner. These values and our agility to move as our members move, have shaped Arizona Federal into the organization it is today and one that will be relevant in the future. It's an organization that I am proud to be a part of and one that I am happy to report had a very successful 2016, due to your active participation.



Ronald L. Westad
President & CEO

First-hand proof of members' active participation is reflected in our cooperative's solid financial performance in 2016 – including our fifth straight year of **PLUs** (Payback for Loyalty to **Us**) payouts, totaling more than \$5 million to over 89,000 actively participating members. That brings our total **PLUs** payout to more than \$24 million since 2012. The average payout for 2016 was \$57, with amounts ranging from \$36 to more than \$4,000 based on the individual level of participation of our members. **PLUs**, of course, is in addition to the everyday value that can be realized vis-à-vis membership with our credit union. Consistent with cooperative principles, we remain committed to distributing surplus capital to active members in proportion to their level of participation. That is the ultimate advantage of membership with our cooperative – the more of **Us** actively participating, the more of **Us** benefit.

Active participation means many things and at the very least it means performing 10 or more qualifying transactions on your account each month to qualify for **PLUs**. It also means taking full advantage of the benefits available to you as one of **Us**. In 2016 we took a unique approach to demonstrating those benefits by hosting our first-ever member benefits fair – The **Us** Experience! More than 2,000 members participated in the event held at our operations center in Phoenix. The energy and excitement was tremendous and participants had the opportunity to visit with our financial experts to learn about their benefits as member-owners: IDProtect™, Entertainment® discounts, insurance, investments, financial coaching, car-buying services, loans and credit cards, mobile banking, CU Online, and much more. Great music, food and many opportunities to win prizes – including a two-year pre-paid lease on a 2016 Toyota Camry – added to the excitement and success of the event. We received overwhelmingly positive feedback, and look ahead to hosting a similar event later in 2017.

In addition to encouraging members to activate their benefits of membership, other major undertakings in 2016 included the realignment of our branch network, additional investments in our digital channels, and expanded options for how and when members can reach one of our financial experts. You can read about these accomplishments in the Chairwoman's Report; however, to the point, our ultimate

goal with these adjustments was to respond to the changing ways members choose to conduct their financial businesses with Arizona Federal, prepare for the future, and be responsible stewards of the resources that our member-owners entrust us to invest and protect.

In 2016 Arizona Federal experienced growth in membership with more than 13,000 new members becoming one of *Us*. And our active and participating members continued to be our most valuable source of that growth, as they referred family, friends and co-workers to experience the power of *Us*. We thank you for the trust and confidence in Arizona Federal you've demonstrated by referring new members to become a member of our cooperative – that's the power of a cooperative, and the power of *Us!*

In addition to continuing to refer new business to the credit union, we also ask that you think of *Us* first when you need a loan, are shopping for a car, require investment advice, want to review your insurance needs, or need assistance building a budget or checking your credit. With your active participation in the cooperative, we can continue to build upon our mutually beneficial relationships and produce added value – like our ongoing commitment to *PLUS* payouts, competitive rates and fees, strategically-placed branch locations, and ongoing enhancements to online and digital self-service options.

As always, I offer my sincere gratitude to our member-elected Trustees, the Board of Directors, for their leadership, guidance, and service to all of *Us*; to our Board-appointed Supervisory Committee, for their contributions to ensure the fulfillment of annual operational and financial audits and verification of sound systems of internal control; to my co-workers for their efforts and commitment to creating and communicating our value propositions and delivering exceptional service; and to our active and participating members for your ongoing support of Arizona Federal Credit Union. The power and success of our cooperative is the responsibility of all of *Us*. And given what I see in each of *Us*, and what we achieved over the course of 2016, we can expect the next 80 years will be even more successful.

Sincerely,



Ronald L. Westad
President & CEO



CHAIRWOMAN'S REPORT

It is with great pleasure that I share our cooperative's success on behalf of your member-elected and volunteer Board of Directors.

This past year was a challenging one that presented many important decisions regarding the future of our credit union – not due to financial performance, but because of the changes in how our membership accesses their member benefits, completes transactions, and applies for loans.

We began the year with the task of reviewing our current offerings to our membership, including whether we had branches in the right locations and were offering the correct tools for our members to access their accounts. We found that our membership over the past several years has spread out to encompass all parts of the Valley, that they are continuing to increase their use of mobile (and online) technology rather than visit a branch, and that they want to be able to reach us when it's convenient for them.

It was due to these conclusions that we began the difficult task of restructuring our branch network to better meet our members' needs. In 2016, the credit union closed the Apache Junction, Cave Creek, Bell Road and 19th Avenue locations, as well as opened a highly-requested location in Surprise. In addition, the senior management and Board began reviewing options to open two more branches – one each in the far Southeast and Southwest Valley.

Our mobile apps and online system went through several upgrades to expand what members can do remotely, like mobile loan apps, online appointment scheduling and mobile payment upgrades. We also introduced a secure chat service and an after-hours call center for password resets and fraud notifications.

In addition to these mobile and online enhancements, our total loan volume increased by 6 percent with \$209.6 million in new loans issued to members for new homes, vehicles, home remodels, and more. Members continued to trust us as a place to hold their hard-earned savings, with deposits growing by \$52.4 million. As a result of our members' commitment to using our cooperative for their financial services, we were able to issue a \$5 million **PLUS** (Payback for Loyalty to **US**) payout to more than 89,000 members.

As a successful cooperative that has been serving its membership for more than 80 years, we are constantly looking forward to the future and asking, "How can we make next year better than this year?" In 2017, we're looking at even more mobile enhancements, opening new branches in new neighborhoods, and working to make it even easier for our members to apply for loans. How can you help? Remember that the success of our cooperative depends largely on our members looking to **US** for their financial needs. The greater the participation, the better the cooperative performs – which leads to a bigger **PLUS** pool and bigger payouts for all of **US**.

Thank you for continuing to place your trust in our cooperative, and for giving me and your Board of Directors the opportunity to serve you.

Cathleen Gleason
Board Chairwoman



Cathleen Gleason
Board Chairwoman

SUPERVISORY COMMITTEE REPORT

The five-member Supervisory Committee is appointed by the Board of Directors to oversee the policies, procedures, and practices in place to safeguard members' assets and meet all required financial reporting obligations. Committee functions include:

- Ensuring internal controls are established and effectively maintained to protect members and the credit union
- Monitoring the timely preparation and accuracy of accounting records and financial reports
- Contracting for an independent verification of financial reporting and member accounts
- Overseeing the proper administration of and adherence to the rules and regulations guiding federal credit unions



Jeff Barton
Supervisory Committee Chairman

The Supervisory Committee and Compliance and Review Services Department work closely together to confirm internal controls provide sufficient safeguards. In addition, they participate in regularly scheduled Supervisory Committee meetings, Board of Directors meetings, planning sessions and special committees to assist with decision-making in support of credit union initiatives.

As part of this committee, John Bushko, Randy Posey, Manny Verdugo, Jessica Zygmunt and I remain committed to you, our members, and the mission, vision and values that form the foundation of Arizona Federal Credit Union.

Jeff Barton
Supervisory Committee Chairman

CUSO REPORT

A Credit Union Service Organization (CUSO) is established to primarily serve the needs of its credit union owner. Its business relates to the daily operations of the credit union it serves. Arizona Federal owns two CUSOs – Western States Financial Group, LLC (WSFG) and Arizona Federal Insurance Solutions, LLC (AFIS). Both are wholly-owned subsidiaries of Arizona Federal. Through these subsidiaries we are able to provide the value of additional services to all of **Us** that complement our core credit union services. Currently, we operate Members' Auto Center (MAC) through WSFG and The Arizona Group (TAG) through AFIS.

Western States Financial Group, LLC

Members' Auto Center is a partnership of WSFG and Centennial Leasing and Sales, Inc. This service was designed to provide all of **Us** with a more convenient car buying experience. MAC allows members to conveniently shop and purchase a vehicle, complete all title and registration paperwork, and even have their new car delivered to their home or office – all without having to visit a dealership. In 2016 more than 1,300 vehicles were purchased through MAC, saving members an estimated \$1.6 million off the suggested sales price and generating \$22.8 million in additional loans for the credit union.

Arizona Federal Insurance Solutions, LLC

Through the insurance professionals at TAG, members have access to a full suite of insurance services, including automobile, homeowners, business, life and health insurance policies. With access to a number of insurance providers, TAG is able to match individual needs to a policy that provides the best solution for coverage and value.

We are pleased to report that both WSFG and TAG continue to make valuable contributions to members who utilize their services and are committed to our mission of empowerment, financial expertise and mutually beneficial results.

TREASURER'S REPORT

The 2016 financial year brought another year of strong performance for Arizona Federal Credit Union. Noteworthy highlights from this year include:

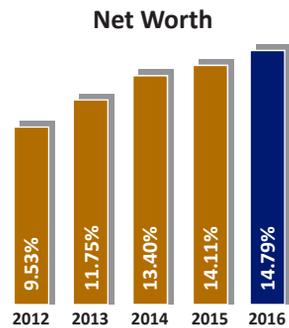
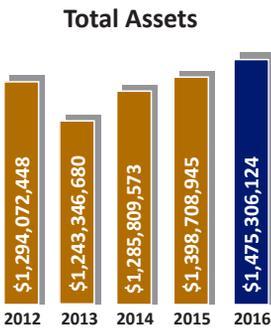
- Net operating income: \$20.9 million (after a \$5 million *PLUS* payout to members)
- Total net worth: \$218.3 million, (10.5 percent year-over-year increase)
- New loan originations: \$209.6 million (19 percent increase from 2015)
- Total loans to members: \$614.8 million (6 percent year-over-year increase)
- Loan delinquency: 0.39 percent (compared to 0.50 percent in 2015)
- Total member deposits: \$1.22 billion



Tim Black
Treasurer

Arizona Federal remains well-capitalized – the highest rating granted by federal examiners – with a 14.79% net worth ratio. These results continue to showcase our commitment to financial strength, and the goals of the Board of Directors to maintain a stable and sound financial institution that will protect members’ assets for years to come. As Treasurer, I am confident that we will continue to fulfill Arizona Federal’s exceptional financial status far into the future.

Tim Black
Treasurer



Experience the *power* of *Us.*[®]



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