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2002
Annual Report

Arkansas Federal Credit Union

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EXPANSION

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breaking
new ground

SENIOR MANAGEMENT



LEFT TO RIGHT:

H.C. Klein
President/CEO

Terry Borreson
Senior Vice President/Finance

Craig Savell
Senior Vice President/Operations

Dennis Gibson
Senior Vice President/Service Delivery

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CEO STATEMENT —

In 2002, Arkansas Federal Credit Union embarked on many successful journeys. We expanded our physical branch facilities and locations, increased our use of technology to provide services that are more efficient, increased our loan portfolio, developed a new retail marketing image strategy, and paid a bonus dividend for the sixth time in nine years.

In January, we opened a new branch location in Conway, Arkansas located at 220 Skyline Drive, Highway 65 North. The new branch features 2,500 square feet of office space, parking for 20 vehicles, four drive-thru lanes, and a drive-up ATM.

As the year ended, we moved and expanded our West Little Rock branch to provide much needed drive-thru services and additional parking. Located at 1221 South Shackelford Rd., the new 6,600 sq. ft. facility offers four drive-thru teller lanes, a drive-up ATM, a Kid Zone, a leading edge Remote Teller System, three Internet Branch kiosks, a Retail Delivery environment, and a 24/7 Xpress Self-Service Lobby that allows members to perform a full-range of account activities, day or night.

Visitors to the new branch will find a modern, easy-to-navigate interior that promotes both service and style. The branch also represents a quantum leap for Arkansas Federal in its use of technology to serve more members, more efficiently, in less time. In place of traditional teller stations, a Remote Teller System enables tellers housed in a secure area to assist both drive-thru and walk-in members via interactive video screens. Plasma screens in the lobby and waiting areas, plus video monitors at each teller window and drive-up lane, provide, full-motion display graphics to build product and brand awareness. In addition, the full-service 24/7 Xpress Self-Service Lobby provides a secure convenient electronic resource that allows members to access their accounts online - even apply for a loan through Phone-A-Loan - 24 hours a day, 365 days a year.

In conjunction with the new retail marketing strategy, AFCU teamed with ADRENALINE, Inc., an Atlanta advertising agency, to develop a branding effort and produce all design work for our branches' new multi-format, in-store graphics system. The image enhancement that began with our new West Little Rock branch will ensure all marketing materials are consistent across all mediums of communication with the members and will be added to our other branches in early 2003. As our local facilities have increased so too have our shared branching facilities. In 2001, we joined the Credit Union Service Centers network to provide our out-of-state members with local branch convenience. Today this network has grown to over 972 branch locations in 37 states and 6 foreign countries.

We were pleased to announce in November of 2002, that we would be paying our sixth bonus dividend in nine years. With the success we enjoyed in 2002, we were in a position to return over \$6.6 million to our members with this dividend. This truly exemplifies the credit union philosophy of member/ownership.

We began the year with \$320 million in assets and we ended the year with over \$336 million in assets, which was a 5.0% growth. Our membership grew from 55,998 in 2001 to 57,187 in 2002 for a 2.1% increase in our member base. Arkansas Federal Credit Union remains the best-insured financial institution in the state; insuring accounts up to \$350,000, (deposits are insured to \$100,000 through NCUA and an additional \$250,000 through Excess Share Insurance). This, once again, is a testament to our strength and our position in the marketplace.

You may have noticed a new look to our ATM receipts if you have visited one of our 16 convenient ATM locations in 2002. All ATM receipts now have information about our advanced feature ATMs and a discount coupon for you to use. These receipts will help inform you about the many features of our ATMs. Our ATMs are convenient for withdrawals and are able to perform many advanced functions. They also provide these safety features to protect you while using our ATM:

- All AFCU ATMs are disability accessible featuring ramp access for wheelchairs, Braille buttons, large easy to read color monitors, and voice assistance.
- Cash Checks - Our ATMs will be happy to cash that check for you! An internal scanner scans your check and displays it for you on the ATM screen. Do you need \$34.63? No problem, our ATMs will cash checks to the penny.
- Member's Choice Withdrawals - You can make withdrawals in any amount from most AFCU ATMs with a number of choices. Your withdrawal can come from your Share Savings account, your Checking account, or you may obtain a cash advance your AFCU VISA Credit Card with no transaction fee AND the best choice of all is that you can choose your withdrawal in any denomination of bills and coins you want. Want \$138.73? You can have it at AFCU's ATMs.
- Make a Loan Payment at the ATM - Members may make a payment on any AFCU loan at any of our ATMs.

So stop by one of our 16 convenient ATM locations today and see how easy and safe our advanced feature ATMs are to use.

In 2002, AFCU instituted new Quik-Receipts to serve our members more efficiently. With the new Quik-Receipt process, you can now bypass the check desk and avoid completing a deposit slip. Simply present your membership card and government issued photo identification to the teller and tell them your financial needs.

With Quik-Receipts, there are no more pre-printed receipts for the credit union to purchase and store. Receipts are now printed on blank thermal laser paper rolls, which substantially reduces AFCU's cost in stocking receipts. Information from the completed receipt is stored electronically on our server for fast easy access with the click of a button. New signature scanners at the teller line, new accounts, and loan areas capture your signature and appends it to the receipt prior to printing the member's receipt copy.

Quik-Receipt represents a major improvement to our current teller process. There are no longer 1,000,000 transaction requests for members to fill out, employees to microfilm, and file. No longer does the credit union have to store 1,000,000 receipts a year and then (at a later time) shred and dispose them. This new system is one of many ways AFCU continues to use technology to provide the most efficient and effective service possible to our members and employees while also reducing operating costs.

While our successes give satisfaction in a job well done, we at Arkansas Federal Credit Union will always strive to move forward and further our commitment to provide you with the best products and services.



H. C. Klein
President/Chief Executive Officer



H.C. KLEIN, PRESIDENT/CHIEF EXECUTIVE OFFICER

"BEING A TECHNOLOGY LEADER IN ARKANSAS AND AROUND THE NATION HAS BEEN SYNONYMOUS WITH ARKANSAS FEDERAL CREDIT UNION."

- H.C. KLEIN

LEADER

REPORT OF THE BOARD OF DIRECTORS



Gerald White
Vice Chairman

In 2002, while the economy was still on the verge of a recession, the Federal Reserve Board maintained their timid approach by reducing interest rates even further than the 40-year lows from 2001. This continues to cause a tremendous impact on personal stock portfolios, 401K plans, and pension plans, making your deposits at Arkansas Federal Credit Union even more important. While members are losing up to 50% of the value in many mutual funds and stocks, no member has ever seen their balance lose value in an insured credit union account.



Robert Batton
Treasurer

While the economy strives to regain strength, Arkansas Federal Credit Union produced an above-average return on assets. Our 1.43% return on assets is higher than credit unions in our peer group. We accomplished this by expense control and dividend rate reductions on deposits to match the declining rates charged on loans. Also, reductions in interest rates were passed on to our members through auto loan rates as low as 3.9% and Home Equity Loan rates as low as 3.99%.

One of the few ways that any credit union has to control deposits is through interest rates. While the credit union continued to pay above average rates on deposits, these rates were at historic lows. Despite lower rates in all savings products, our assets have continued to increase at Arkansas Federal Credit Union.

The financial success of Arkansas Federal Credit Union during current economic conditions is evidence of the stability and soundness of your credit union. We continue to strive for ways to make your financial expectations a reality. Thank you for your continued confidence in the officials, management, and staff of Arkansas Federal Credit Union.



Art Williams
Secretary

A handwritten signature in red ink that reads "Phillip B. Boudreaux".

Phillip B. Boudreaux
Chairman of the Board



REPORT OF THE SUPERVISORY COMMITTEE



The role of the Supervisory Committee is to review the financial health of Arkansas Federal Credit Union (AFCU) and to protect the credit union's assets. It serves as the official auditor and member representative in the review of overall financial operations of the credit union. Through this review, it ensures that all regulations, policies, and procedures governing the credit union are followed.

The Internal Audit Department has made further advances in automating many of the internal audit processes. The Internal Audit Director, Jennifer Holbrook, has focused on reviewing the operations of the credit union, auditing select functional areas, and verifying member accounts.

In 2002, the committee retained the services of McGladry and Pullen, a certified public accounting firm, to perform its annual audit. The audit found Arkansas Federal Credit Union's June 30, 2002, financial statement to be fairly presented and in conformity with generally accepted account principles.

Our National Credit Union Administration (NCUA) examination in 2001, reported AFCU complied with federal rules and regulations and the by-laws of this credit union assigning AFCU the top rating. Therefore, the examiners elected to skip the 2002 examination and schedule the next examination in 2003.

Bauer Financial Reports, an independent firm that measures the financial practices of financial institutions across the country, assigned Arkansas Federal Credit Union a five-star rating in 2002, identifying it as one of the strongest and safest credit unions in the country.

Arkansas Federal Credit Union has proven to be well managed and ready to meet the challenges of the future through its strong financial performance.

Jerry Spratt, CPA, CFE, CGFM, CFSA
Chairman of the Supervisory Committee



Robert Rodgers
Secretary



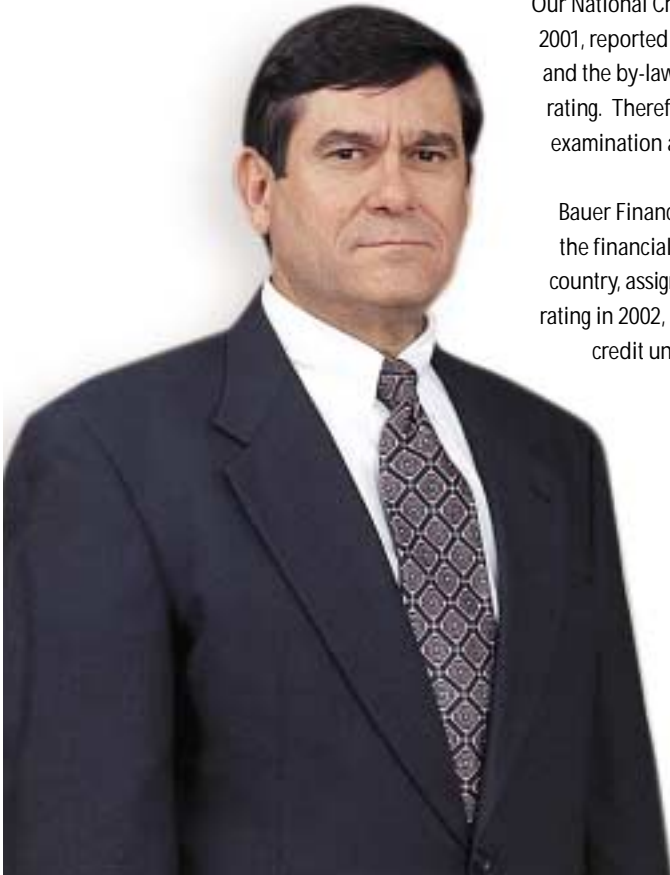
Don Greene
Member



Jay Simmons
Member



Fred Van Driesum
CFP, AFC



REPORT OF THE CREDIT APPEALS COMMITTEE



Carol Lundry
Member

Arkansas Federal Credit Union's Credit Appeals Committee, appointed by the Board of Directors, meets on an as-required basis to review members' special loan requests. Loans to members are the driving force behind the growth, financial strength, and stability of your credit union. In 2002, Arkansas Federal Credit Union continued to set exemplary standards with consistent and responsible lending practices.

Your credit union strives each year to give members the greatest lending options at the lowest lending rates. In 2002, we were successful in offering the best in consumer loans at highly competitive rates and terms. Automobile loans continue to make-up the highest percentage of Arkansas Federal's loan portfolio at 56.3%. In 2002, Callahan and Associates recognized Arkansas Federal Credit Union as having the 8th largest home equity loan growth in the country among credit unions.



Pat Hudon
Member

Even with the continued recession-like economy our loan portfolio increased by 5.0%, bringing our loan-to-share ratio to 77.4%. With the lowest interest rates in history and many choices in loan terms, our home equity loans experienced a 55.3% increase in 2002.

In total, 7,197 loans were approved in 2002, up from 6,610 in 2001, for a total of \$131,774,566. Delinquency was held at .81% for 2002, and charged-off loans showed a decrease from .44% in 2001, to .40% in 2002.

In 2002, the Board of Directors implemented an automated approval lending process within the phone-a-loan system that will automatically approve loans. With this new process, the best loan requests may be approved by the "Automated Approval Loan Officer". This means faster approval and frees-up loan officers to concentrate on other loan applications that needs more attention.

The year 2002 was another successful year in providing quality, low-cost loan services to members in a less-than-stellar economy. Thank you for helping us prove that Arkansas Federal is the best source for member borrowing needs.

A handwritten signature in red ink that reads "Dale A. Duell".

Dale A. Duell
Chairman of the Credit Appeals Committee



STATEMENT OF FINANCIAL CONDITION

as of December 31, 2002 and December 31, 2001

Assets	2002	2001
Loans	\$222,932,808	\$212,364,331
Less: Allowance for Loan Losses	<u>(1,810,540)</u>	<u>(1,572,296)</u>
Net Loans	\$221,122,269	\$210,792,035
Cash	2,882,114	2,241,823
Other Accounts Receivable	3,177,229	3,029,957
Investments	87,729,230	87,861,518
NCUSIF and ESI	2,881,567	2,792,764
Loans held for sale	3,496,150	5,759,550
Accrued Interest Receivable:		
Loans	958,248	1,133,959
Investments	805,098	651,921
Property and Equipment		
At Cost, Net of Accumulated Depreciation	12,619,838	8,956,496
Prepaid and Other Assets	<u>909,453</u>	<u>491,317</u>
Total Assets	<u>\$336,581,197</u>	<u>\$320,918,575</u>

Liabilities	2002	2001
Accounts Payable	\$1,271,504	\$1,803,524
Other Accrued Liabilities	1,512,105	984,480
Commitment & Contingent liabilities		
Total Liabilities	\$2,783,609	\$2,788,004

Members' Equity	2002	2001
Member Shares	\$287,903,117	\$276,940,773
Reserves:		
Regular Reserve	7,525,740	7,525,740
Appropriated undivided earnings & Undivided earnings	<u>38,368,730</u>	<u>33,664,058</u>
Total Reserves	<u>45,894,470</u>	<u>41,189,798</u>
Total Liabilities & Members' Equity	<u>\$336,581,197</u>	<u>\$320,918,575</u>

STATEMENT OF INCOME

Year-to-Date - December 31, 2002 and December 31, 2001

Interest Income	2002	2001
Interest on Loans	\$14,802,128	\$17,086,652
Interest on Investments	<u>3,002,814</u>	<u>3,421,430</u>
Total Interest Income	\$17,804,942	\$20,508,082

Interest Expense	2002	2001
Dividends	\$6,661,954	<u>\$10,254,319</u>
Net Interest Income	11,142,988	10,253,763
Provision for loan losses	<u>1,100,003</u>	<u>950,000</u>
Net Interest Income after Provision for loan losses	10,042,984	9,303,763
Other Income	5,080,701	4,424,786
Total non-operating Income	<u>42,898</u>	<u>37,744</u>
Total Income	<u>\$15,166,583</u>	<u>\$13,766,293</u>

Operating Expenses	2002	2001
Employee Compensation	\$3,457,348	\$3,209,796
Employees Benefits	974,656	860,453
Travel & Conference	193,707	156,198
Associate Dues	41,867	43,379
Office Occupancy Expenses	741,841	727,786
Office Operation Expenses	2,976,606	2,617,615
Loan Servicing Expenses	464,685	368,432
Professional Expenses	1,363,632	1,176,302
Member Insurance	8,019	11,250
Operating Fees	74,902	64,620
Misc. Operating Expenses	<u>164,649</u>	<u>138,149</u>
Total Operating Expenses	<u>\$10,461,912</u>	<u>\$9,373,978</u>
Net Income	<u>\$4,704,672</u>	<u>\$4,392,315</u>

MEMBER STATISTICS

YEAR	ASSETS
92	145,201,856
93	156,098,416
94	173,085,446
95	195,433,409
96	208,966,223
97	227,434,956
98	246,151,654
99	253,271,350
00	288,933,257
01	320,918,575
02	336,581,197



YEAR	MEMBERS
92	39,196
93	39,671
94	42,661
95	45,438
96	46,496
97	48,496
98	49,931
99	51,838
00	54,187
01	55,998
02	57,187



YEAR	SAVINGS
92	131,062,562
93	139,770,598
94	153,686,561
95	172,485,060
96	182,511,650
97	198,474,949
98	213,707,360
99	218,682,503
00	249,482,275
01	276,940,773
02	287,903,117

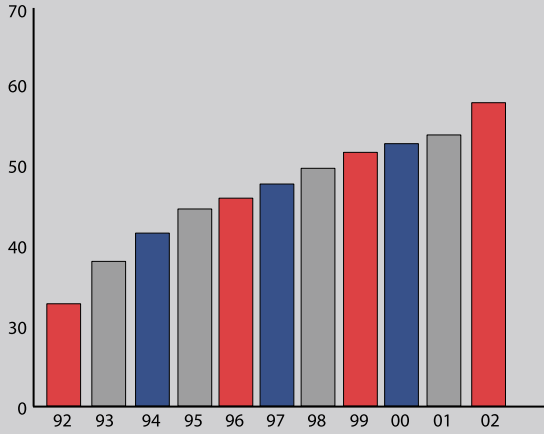


YEAR	LOANS
92	101,831,238
93	114,904,379
94	136,423,344
95	155,527,609
96	160,608,938
97	165,926,098
98	170,376,129
99	202,365,819
00	217,945,683
01	212,364,331
02	222,932,808

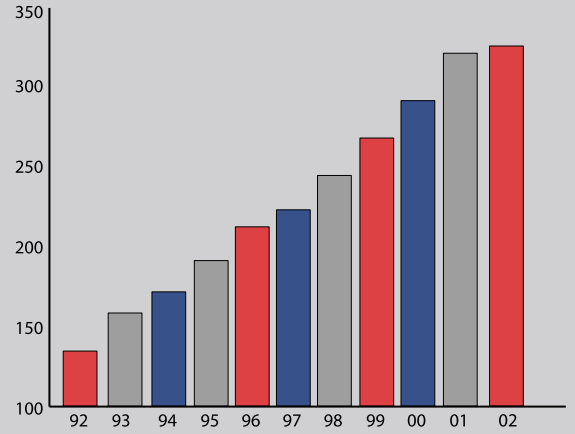


STATISTICS

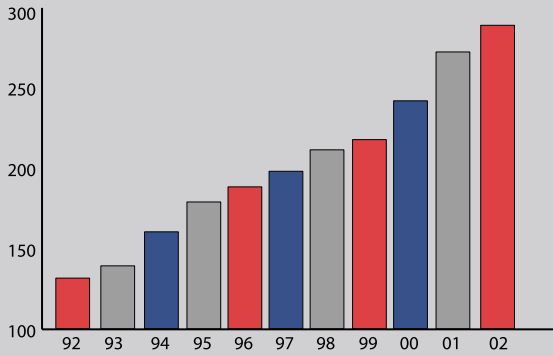
MEMBERS IN THOUSANDS



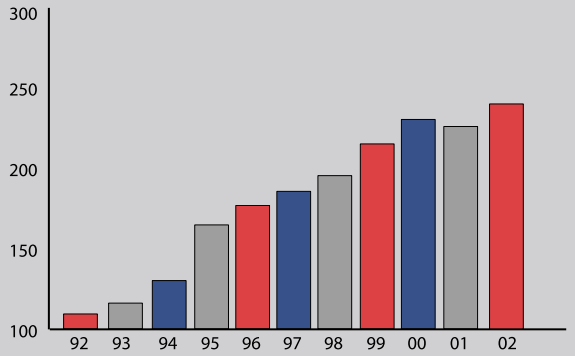
ASSETS IN MILLIONS OF DOLLARS



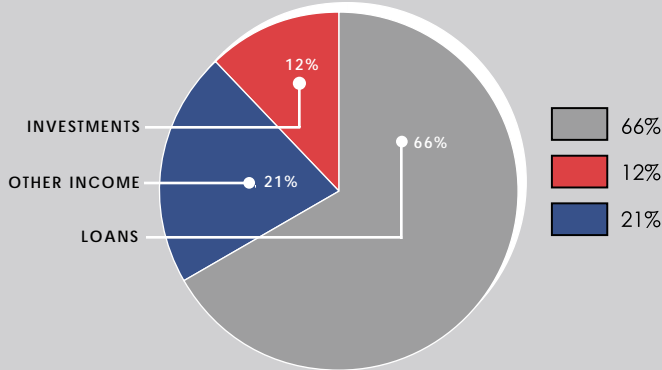
SAVINGS IN MILLIONS OF DOLLARS



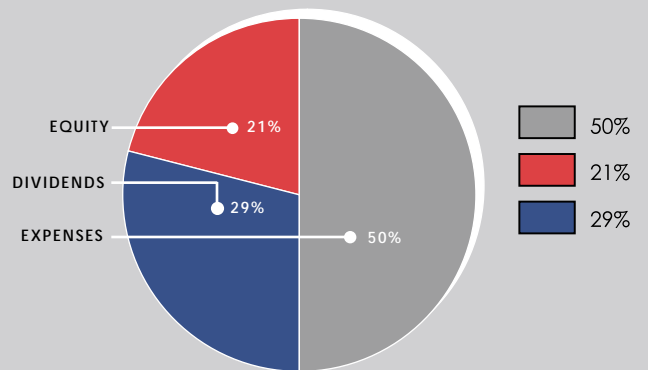
LOANS IN MILLIONS OF DOLLARS



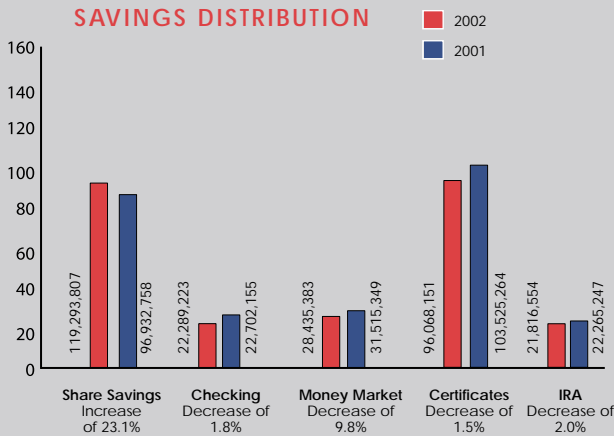
SOURCES OF INCOME



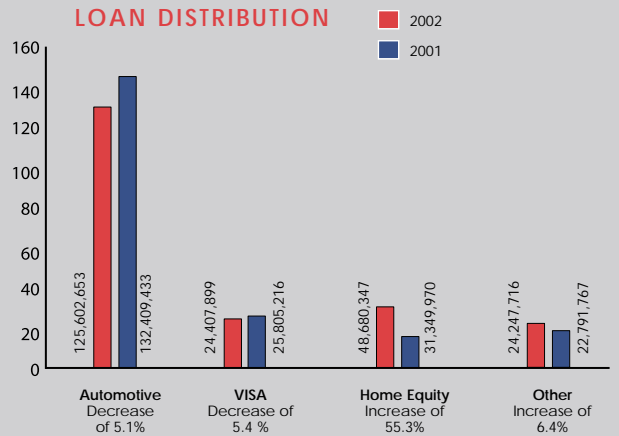
DISTRIBUTION OF INCOME



SAVINGS DISTRIBUTION



LOAN DISTRIBUTION



2002 AFCU EMPLOYEES

Danielle D. Adams, Member Services Representative
Toni K. Barentine, Parttime Teller
Theresa S. Bauman, Payroll/Benefits Administrator
John C. Bax, Member Services Representative
Sandra K. Beary, Branch Manager
Keeli A. Beaulieu, Telephone Service Representative
Justin S. Becker, Member Services Representative
Brian R. Berstler, Accounting Manager
Terrance J. Borreson, Senior Vice President/Finance
Chandra A. Boyd, Telephone Services Representative
Laura J. Bradley, Branch Manager
Betty Bratton, Telephone Services Representative
Melinda D. Brown, Loan Officer
David A. Cavender, Membership Development Coordinator
Maria V. Chiquete, Account Research Representative
Tammy R. Christian, Head Teller
Peggy A. Clark, Loan Officer
Khriss A. Coello, Member Services Representative
Taelor Condie, Telephone Services Representative
Millicent A. Cross, Mailing Clerk
Patricia D. Davis, Loan Officer
Agena M. DeChaine, Member Services Representative
Robert C. DeMoss, Courier
Cristina M. DiBello, Member Services Representative
Teresea L. Dollar-Ruple, Telephone Branch Manager
Alicia S. Dryden, Savings Counselor
Timothy A. Edwards, Savings Counselor
Kelly L. Elrod, Marketing Assistant
Teresa J. Esmailpour, Loan Disburser
Rebecca J. Fischgrabe, Parttime Teller
Cheryl E. Fraser, Member Services Representative
Nina L. Furman, Collection Officer
April L. Garland, Parttime Teller
Dennis E. Gibson, Senior Vice President/Service Delivery
Bradley D. Glass, Technical Support Specialist
Denise D. Goforth, Member Services Representative
William J. Goodwin, Loan Officer
Melody J. Grigg, Loan Disburser
Lona R Hall, Loan Officer
Sandra L. Hancock, Member Services Representative
Sharron A. Harriman, Mortgage Loan Originator
Virginia Harris, Parttime Teller
Tamara J. Haughn, Collection Clerk
Angela D. Heard, Branch Manager
Deborah J. Hendrix, Account Research Representative
Tina D. Higgins, Collection Officer
Michele Renee Hill, Payroll Processor
Sandy K. Hillman, Head Teller
Jennifer J. Holbrook, Internal Audit Director
Savannah V. Horn, Savings Counselor
Patricia A. Howard, Check Processor
Anna M. Hudson, Loan Disburser
Karen E. Hurst, Member Services Representative
Kelley M. Jackson, Account Research Representative
Erma L. Jarry-Vier, Loan Officer
Sharon J. Johns, Mortgage Loan Shipper
Mary C. Johnson, Branch Manager
Teresa D. Johnson, Telephone Services Representative
Kristine N. Jones, Telephone Services Representative
Celia A. Jornet, Mortgage Loan Processor
Roxanne G. Kasi, Account Research Representative
Henry C. (Hank) Klein, President/CEO

Deborah I. LaFave, Accountant
Stacy L. Lackey, Member Services Representative
Virginia L. Larson, Savings Counselor
Donna G. Lewis, Executive Secretary
Cory R. Liebhardt, Loan Disburser
Michael S. Lyons, Member Services Representative
Susan A. Mansfield, Check Proofer
Nicole L. Matsoukas-Eilts, Account Research Manager
Yumiko K. McCaulley, Record Control Clerk
Angela E. McDonald, Mortgage Loan Processor
Gay E. McGough, Member Services Representative
Terri R. Miessner, Collection Manager
Gwendolynn D. Millen, Member Services Representative
Courtney E. Miller, Parttime Teller
Valerie P. Mitchell, Member Services Representative
Teresa K. Moore, Member Services Representative
Jill M. Oberkirsch, Member Services Representative
Sherri D. Patrom, Member Services Representative
Angella R. Perry, Loan Disburser
Leslie M. Perry, Head Telephone Services Representative
Mandy O. Piper, Accounting Clerk
Amy D. Poye, Parttime Teller
Michelle D. Pulliam, Telephone Services Representative
Thomas A. Reed, Vice President/Information Systems
Viola S. Richarme, Reconciliation Clerk
Susan D. Richmond, Member Services Representative
Ashley L. Roberts, Member Services Representative
Angela M. Rockins, Telephone Services Representative
Nancy J. Rowan, Members Financial Services Coordinator
Natalie A. Roystuart, Loan Officer
Sandra S. Sadler, Telephone Services Representative
Craig B. Savell, Senior Vice President/Operations
Katherine D. Scott, Training/Development Coordinator
Rodney P. Showmar, Vice President/Marketing
Jason T. Skinner, Network Administrator
Rebecca N. Skinner, Telephone Services Representative
Linda S. Smallwood, Administrative Secretary
Deloney I. Smith, Member Services Representative
Heather D. Smith, Record Control Clerk
Janis Smith, ATM Processor
Karen L. Smith, EFT Manager
Laura A. Smith, Member Services Representative
Patricia A. Smith, Mortgage Loan Underwriter
Stephen G. Smith, Purchasing Manager
Carol L. St John, Mortgage Loan Manager
Lea R. Stoll, Head Teller
Gina M. Terry, Parttime Teller
Wanda L. Thompson, Member Services Representative
Loleatha T.J. Thornton, Telephone Services Representative
Diane Torres, Member Services Representative
Terry L. Vick, II, Branch Manager
Jennifer C. Warden, Account Research Representative
Janie E. Warner, Vice President/Human Resources
Brenda M. Whaley, Mailing Clerk
Jennifer D. Williamson, Loan Officer
Erin J. Wilson, Member Services Representative
Victoria M. Wilson, Branch Manager
Evelyn C. Witham, Marketing Development Coordinator
Trista A. Wussick, Member Services Representative
Shana C. Young, Parttime Teller
Angela C. Zrebski, Savings Counselor

EMPLOYEES

Arkansas **A** 2002 Federal Credit Union Branch Information

Local: 501-982-1000
 Ft. Smith Local: 479-782-1000
 Conway: 501-329-1000
 Toll Free Services: 800-456-3000
 TDD: 501-982-8732
 Fax: 501-982-FAXX (3299)

Touch Tone Teller: 501-982-AFCU (2328)
 800-982-AFCU (2328)

Branch Hours: Monday-Thursday 9:00-5:00
 Friday 9:00-6:00

Internet Branch www.afcu.org
 E-mail info@afcu.org

Branch & ATM Locations

Jacksonville Branch
 2424 Marshall Road

North Little Rock Branch
 4848 North Hills Blvd.

Camp Robinson Branch
 Building 5400, Canteen
 Closed 1:00-2:00



Little Rock Branch
 1001 W. Capitol Ave.

West Little Rock Branch
 1221 South Shackelford Rd.



Conway Branch
 220 Skyline Drive, Highway 65 North

Ft. Smith Branch
 1301-C South Waldron Rd.

Telephone Branch
 P.O. Box 9, Jacksonville, AR 72078-0009

ATM-only Locations

LRAFB Exchange ATM Facility
 Building 940 at Arnold Dr.

LRAFB Shoppette ATM Facility
 Building 1996, Arnold Dr. & Arkansas Blvd.

Donaghey Building South ATM Facility
 7th & Main, First Floor-Little Rock

State Capitol ATM Facility
 First Floor Lobby-Little Rock



**CREDIT UNION
 SERVICE CENTERS.**

The Member-Friendly Financial Network

*We also have 972 branch offices at credit union
 service center locations in 37 states and six foreign
 countries to serve you. To find a location near you,
 go to www.cuservicecenters.com*



Arkansas Federal
CREDIT UNION

Arkansas' Largest Financial Cooperative