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ANNUAL REPORT



Arkansas Federal
**CREDIT
UNION**

Federally insured by NCUA

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A WORD FROM THE PRESIDENT

Thanks to our amazing members and dedicated staff, AFCU has achieved its best year in the 60-year history of the credit union based on total income of \$6.158 million. This was achieved by growing our consumer and small business loan and investment income. AFCU's business services team, which was in its first full year of operations in 2016, had a significant impact on our success and was tasked with providing the same great service to businesses that our consumer members have enjoyed over the past 60 years. AFCU had the 8th largest increase in member business loans of all credit unions in the nation.

Today, AFCU is at \$1.1 billion in assets and we look forward to continuing to make a difference in the lives of our members by providing the best overall value through a combination of competitive loan rates, above market dividend rates and continued excellent service.

Not only did we exceed all our goals for the year, AFCU made substantial investments in our technology including a new, easier and more robust online banking experience, a new mobile app, as well as a more intuitive and educational website. In 2017, AFCU will also be getting an upgraded core operating system, which will allow our employees to provide faster and better service to our members going forward. The upgraded core system has been two years in the making and is the result of a great deal of research, time, effort and investment. The upgraded core system will roll out in May of 2017.

I am proud of what our team has accomplished this past year and look forward to conquering the goals and challenges that lie ahead in 2017 and beyond by continuing to invest in technology, employees, our members and our communities. Along with impacting our members, it is our desire to make a difference in the lives of our team, communities, and business partners. Come join us as we prepare to make 2017 the best year yet for Arkansas Federal Credit Union.

“AFCU achieved the best year in our
60-year history of the credit union.”



Rodney Showmar
President/CEO

SENIOR MANAGEMENT

Rodney Showmar

President | CEO

Terry Vick

Executive Vice President | Chief Lending Officer

Eric Mangham

Senior Vice President | Chief Financial Officer

Martin Schrodt

Senior Vice President | Chief Operating Officer

Nicole Matsoukas

Vice President | Information Technology & Strategic Initiatives

Valerie Erkman

Vice President | Marketing

Heather Savage

Vice President | Human Resources & Organizational Development

BOARD OF DIRECTORS

Art Williams
Chairman

Phillip B. Boudreaux
Vice Chairman

Jerry E. Spratt
Secretary

Garold L. White
Treasurer

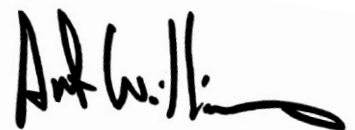
Bill Shrigley
Director

In 2016, your Board of Directors instructed management and staff of Arkansas Federal Credit Union to improve technology and offer a more robust business services portfolio, while controlling costs and increasing deposits.

This strategy has paid off. In 2016, your credit union saw the best year in our history with \$6.158 million in total income, and a membership that continues to grow. This growth is due to the conscientious efforts of your Board and credit union management in 2016! The credit union also added to the leadership management team with Martin Schrodt as Chief Operating Officer.

Your credit union maintains a very competitive loan rate structure and continues to reward those members who use the cooperative to the fullest. This strategy makes your Arkansas Federal membership even more important.

The financial success of Arkansas Federal Credit Union in 2016 proves that we are a leader in the credit union industry nationally and financial industry locally. We will continue to direct your credit union on a path that will ensure you are receiving the best value for your membership. Thank you for your continued confidence in the management, staff and volunteer officials of Arkansas Federal. We fully expect 2017 to be even more rewarding to the members of Arkansas Federal Credit Union.



Art Williams
Chairman

SUPERVISORY COMMITTEE

Jay Simmons
Chairman

Jon Moore
Secretary

Don Greene
Member

Arkansas Federal Credit Union's (AFCU) Supervisory Committee (Committee) consists of three credit union members, appointed by your Board of Directors, who volunteer their time to fulfill the responsibilities of a Federally Chartered Credit Union's Supervisory Committee as defined by the National Credit Union Association. These responsibilities are defined as follows.

- (a) Basic. The Supervisory Committee is responsible for ensuring that the Board of Directors and management of the credit union
 - (1) Meet required financial reporting objectives and
 - (2) Establish practices and procedures sufficient to safeguard members' assets.
- (b) Specific. To carry out the responsibilities set forth in paragraph (a) above, the Supervisory Committee must determine whether:
 - (1) Internal controls are established and effectively maintained to achieve the credit union's financial reporting objectives, which must be sufficient to satisfy the requirements of the Supervisory Committee audit, verification of members' accounts and its additional responsibilities;
 - (2) The credit union's accounting records and financial reports are promptly prepared and accurately reflect operations and results;
 - (3) The relevant plans, policies, and control procedures established by the Board of Directors are properly administered; and
 - (4) Policies and control procedures are sufficient to safeguard against error, conflict of interest, self-dealing, and fraud.

In order to fulfill these responsibilities, the Committee directs an Internal Audit Department and utilizes external experts in the fields of audit, compliance and information technology. These resources assist the Committee in providing assurance that the Credit Union operations are performed in accordance with the Federal Credit Union Act, National Credit Union Administration regulations and the bylaws of AFCU.

Additionally, the Committee evaluates the internal controls established by AFCU's Board and Management to ensure the controls are present and functioning in a manner that adequately safeguards your assets. The Committee also monitors compliance with the Board approved policies and procedures by credit union employees, as well as the elected and appointed officials. The Committee meets monthly to review, evaluate, and report to the Board the work performed by the Internal Audit Department, as well as the external resources.

The certified public accounting firm of CliftonLarsonAllen LLP performed an audit on the financial statements of AFCU for the period ending December 31, 2016. Based on the activities of our Internal Audit Department, external resources and our own observations, the Committee can report that AFCU continues to maintain a solid level of financial safety and soundness while providing quality member service.



Jay Simmons
Chairman

2016 FINANCIALS

Statement of Financial Condition (As of December 31, 2016)

ASSETS	2016	2015
Cash & Equivalents	\$91,688,693	\$68,748,190
Investments	\$53,905,588	\$86,795,400
Loans Receivable (Net Allowance for Loan Losses)	\$888,180,348	\$764,539,530
Premises & Equipment, Net	\$27,567,890	\$29,985,110
NCUSIF Deposit	\$7,704,383	\$7,578,105
Other Assets	\$49,745,259	\$49,697,324
Total Assets	\$1,118,792,161	\$1,007,343,659

LIABILITIES	2016	2015
Member's Share & Savings Accounts	\$795,215,261	\$759,851,684
Non-Member Deposits	\$47,993,524	\$16,619,383
Borrowed Funds	\$169,098,140	\$129,184,522
Accounts Payable & Other Liabilities	\$5,720,054	\$6,146,403
Total Liabilities	\$1,018,026,979	\$911,801,992

MEMBER'S EQUITY	2016	2015
Regular Reserve	\$7,618,867	\$7,618,867
Appropriated Undivided Earnings	\$0	\$0
Unrealized Gain/Loss on AFCU Investments	\$(525,905)	\$(302,933)
Other Comprehensive Income	\$(4,391,730)	\$(3,679,748)
Undivided Earnings	\$98,063,950	\$91,905,482
Total Member's Equity	\$100,765,182	\$95,541,667

Total Liabilities & Member's Equity

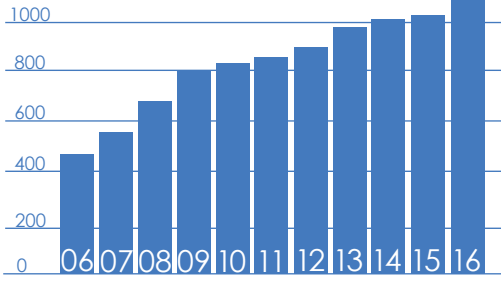
\$1,118,792,161

\$1,007,343,659

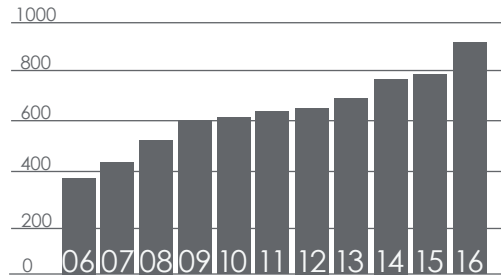
ASSETS		MEMBERS		SAVINGS		LOANS	
2006	\$476,603,203	2006	65,328	2006	\$381,042,806	2006	\$331,118,984
2007	\$559,668,703	2007	69,874	2007	\$436,086,802	2007	\$406,692,216
2008	\$695,912,861	2008	75,316	2008	\$518,789,187	2008	\$501,250,367
2009	\$796,392,706	2009	80,832	2009	\$596,148,091	2009	\$582,387,630
2010	\$821,206,178	2010	84,668	2010	\$607,382,409	2010	\$593,702,638
2011	\$837,739,463	2011	87,118	2011	\$630,744,629	2011	\$617,791,205
2012	\$864,467,863	2012	88,860	2012	\$651,247,884	2012	\$639,767,245
2013	\$957,446,462	2013	91,118	2013	\$687,835,686	2013	\$700,612,111
2014	\$1,029,107,268	2014	95,725	2014	\$771,506,567	2014	\$781,331,949
2015	\$1,007,343,659	2015	92,195	2015	\$776,471,067	2015	\$769,384,117
2016	\$1,118,792,161	2016	94,702	2016	\$843,208,785	2016	\$893,570,381

INTEREST INCOME	2016	2015
Loans	\$33,888,503	\$30,097,116
Investments	\$1,185,242	\$1,973,122
Total Interest Income	\$35,073,745	\$32,070,238
INTEREST EXPENSE	2016	2015
Share & Savings Accounts	\$2,712,242	\$2,596,156
Borrowed Funds	\$4,760,802	\$4,883,357
Total Interest Expense	\$7,473,044	\$7,479,513
Provision for Loan Losses	\$5,244,966	\$3,973,159
Net Interest Income (after Provision for Loan Losses)	\$22,355,735	\$20,617,566
NON-INTEREST INCOME	2016	2015
Fee Income	\$8,827,439	\$7,745,047
Other Operating Income	\$10,302,835	\$8,716,437
Gain (Loss) on Disposition of Fixed Assets	\$(430,412)	\$(42,376)
Other Non Operating Income	(\$58,305)	\$56,631
Total Non-Interest Income	\$18,641,557	\$16,475,739
NON-INTEREST EXPENSE	2016	2015
Compensation & Employee Benefits	\$14,537,099	\$13,080,106
Travel & Conference Expense	\$352,749	\$368,246
Office Occupancy Expense	\$2,448,422	\$2,420,877
Office Operations Expense	\$4,695,439	\$4,650,628
Educational & Promotional Expense	\$1,179,564	\$1,572,705
Loan Servicing Expense	\$4,101,018	\$3,114,639
Professional Outside Services	\$6,722,123	\$7,019,348
Member Insurance	\$73,407	\$56,921
Operating Fees	\$183,316	\$188,162
Miscellaneous Expenses	\$545,685	\$414,923
Total Non-Interest Expense	\$34,838,822	\$32,886,555
Net Income	\$6,158,470	\$4,206,750

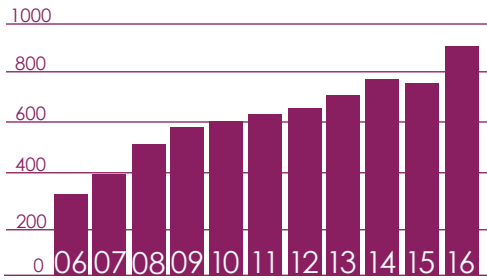
STATISTICS



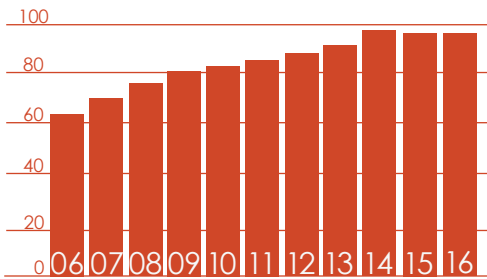
ASSETS
in Millions



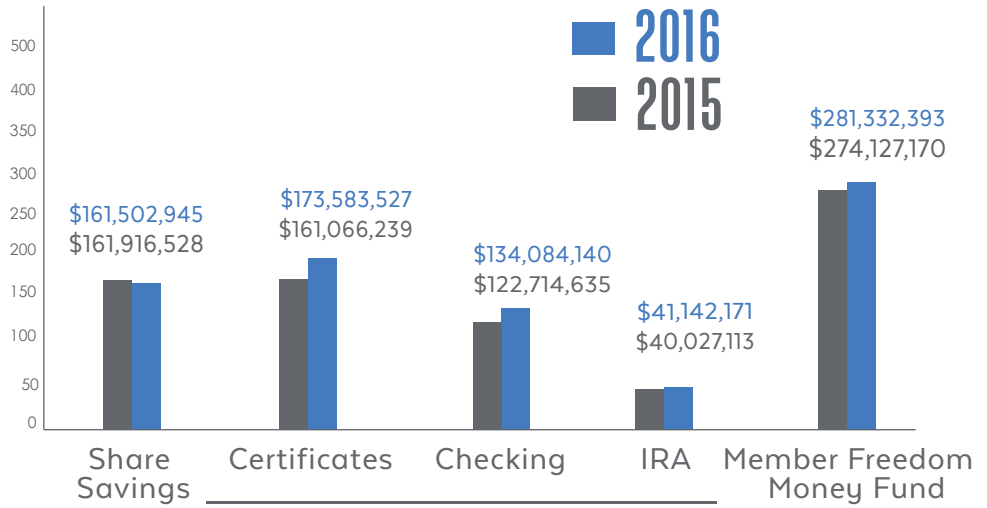
SAVINGS
in Millions



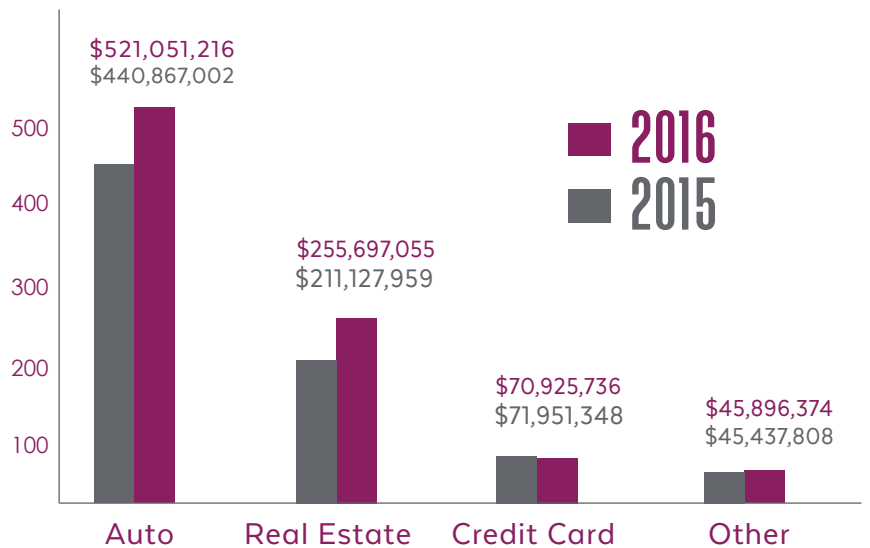
LOANS
in Millions



MEMBERS
in Thousands



DISTRIBUTION OF SAVINGS
in Millions



DISTRIBUTION OF LOANS
in Millions

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