



2016 | ANNUAL REPORT

serving more than **600,000** members

Federally insured by NCUA

AlaskaUSA
Federal Credit Union®

Contents

- 2** The Board of Directors' and President's Report
- 4** Lending Report
- 6** Treasurer's Report
- 7** Supervisory Committee Report
- 8** Financial Reports
- 10** 2016 Officials
- 11** 2016 Executive Staff

The Board of Directors' and President's Report

Bobby W. Alexander
Chairman

Ken D. Campbell
1st Vice Chairman

Ronald E. Lee
2nd Vice Chairman

Gary L. Sholly
Secretary-Treasurer

Kent B. Berthiaume

Lorran J. Skinner

Geri M. Wacker

William B. Eckhardt
President & CEO

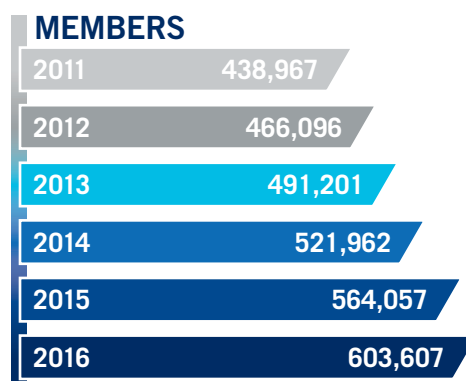
We are very pleased to present this 2016 Annual Report as it summarizes an outstanding year in Alaska USA's history in terms of service, membership growth, lending and financial performance. It also celebrates Alaska USA's 68 years of serving members.

Since chartered in 1948, the credit union's mission has been to provide financial services to members, affordably, conveniently and professionally. In 2016, the credit union set new records for membership, deposits, loans, capital, net worth, and assets, while reporting record net income of \$51.82 million. At year end, assets totaled \$6.66 billion with regulatory capital of \$641 million and the credit union membership totaled 603,607.

The credit union's successful performance in 2016 is noteworthy given the economic and political environment and the federal government's focus on consumer protection and reforming Wall Street. The cumulative complexity of ever-changing state and federal laws, and the rules and regulations of dozens of regulatory agencies profoundly impacts credit union operations, services and the related cost of monitoring and compliance. During 2016, a total of 195 proposed, new and revised laws and regulatory matters were tracked by the credit union and required changes were implemented. It is estimated that the cost of regulatory compliance for the credit union in 2016 totaled \$33 million or \$55 per member.

In terms of financial performance, 2016 was the most successful year in the credit union's history, as stated in the enclosed Treasurer's Report. The credit union was able to control the rate of growth in operating expenses by focusing on efficiency and the wise use of technology. This is evidenced by an increase of 5.26% in operating expenses, a rate substantially below benchmark measures such as membership growth of 7.01%, deposit growth of 7.33%, and loan growth of 7.79%. The operating expense to average asset ratio for 2016 was 4.00, which is the sixth straight year of improvement in this efficiency measurement. At the same time, the credit union expanded and enhanced services and processed a record 321 million transactions and 118,757 new loans totaling over \$4.49 billion. The majority of this loan volume was consumer loans as the credit union continued to expand its market presence and members were in a position to benefit from Alaska USA's historically low loan interest rates.

In terms of service, numerous enhancements were made during the year to make the credit union more convenient for members. Eleven new branch offices were opened in 2016 including one in Alaska, four in Arizona, one in California and five in Washington. Planning was also completed for two new financial centers that will open in early 2017; one in Tacoma, Washington and the other in Glendale, Arizona. At year end, the credit union operated 85 branches in four states and eight financial centers in three of those states. Also, a total of 34 new ATMs were added to the surcharge-free network; and several enhancements were made that improved electronic and mobile account access.



Alaska USA, as a member-owned cooperative, transfers value to members by providing services more cost effectively than other financial organizations. To measure the credit union's success in this regard, the value transferred is rigorously calculated based on the dollar benefit Alaska USA members receive from higher rates on deposits, lower loan rates and lower fees compared to those of competing banking institutions. We are pleased to report that this value transfer to members in 2016 was a record \$129.5 million, an increase of \$16.6 million or 14.70% over 2015. The average value transfer per member in 2016 was \$214.

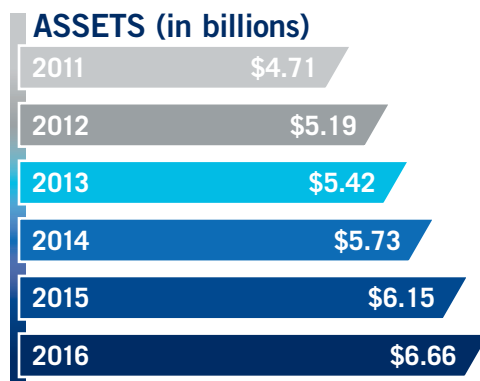
Another way the credit union measures its success in serving members is to conduct regular surveys asking members their opinion about the level of service the credit union provides. This member service survey has been conducted each month for the last 18 years. In 2016, the survey revealed high levels of member service satisfaction each month, and was the second highest year ever recorded. In addition, the credit union was again selected by consumers as the favorite financial institution in the three largest market areas in Alaska, as well as the credit union's largest market area in California. Also, mortgage operations received several first place awards as the best mortgage company and the credit union business and commercial lending program was honored once again by receiving an award recognizing it for providing the largest number of SBA 504 loans in Alaska.

Alaska USA has a 68-year history and proud record of serving members and helping them during both good and bad economic times. Alaska USA is uniquely positioned to do so because of its very strong balance sheet, membership diversification by geography and industry, experienced management and staff, significant earnings capacity, broad range of services and diversified business activities. In addition to the credit union's traditional savings and lending services, business activities include Alaska USA Insurance Brokers, Alaska USA Mortgage Company, and Alaska USA Trust Company, all wholly owned subsidiaries of the credit union.

Throughout the credit union's 68 years of operations, it has remained true to its purpose and a reliable partner to its members by providing them a safe place to save and earn highly competitive rates on savings and, at the same time, an available source of low cost credit.

We are confident that Alaska USA's experience, sound business philosophies and practices, and strong financial foundation position the credit union well to meet the many challenges and opportunities that lie ahead. We are certain that Alaska USA's 69th year of operation will be another year of success in serving members' financial needs.

We want to thank the membership for their 68 years of support and participation in the credit union. We also want to congratulate and thank the volunteer officials and all the employees for their service to members and contributions to Alaska USA in 2016.



Lending Report

Wayne Bailey
Chief Lending officer

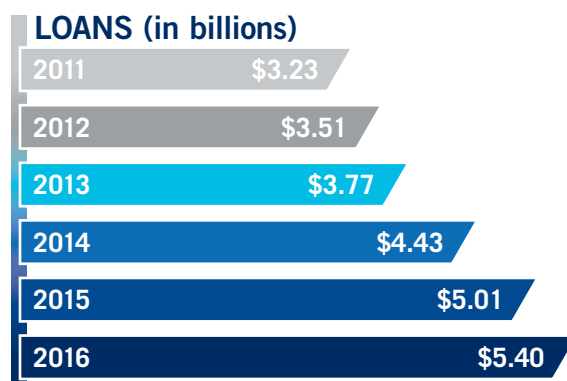
The credit union continued to experience positive performance from its portfolio of loans in 2016.

Total funding of new loans by the credit union and its subsidiary mortgage company during 2016 was a record \$4.49 billion. A total of 118,757 consumer, real estate and business loans were approved and closed by the credit union and its mortgage subsidiary during the year. Loans outstanding at December 31, 2016, totaled 430,922, for \$5.40 billion, an increase of 28,122 loans and \$390 million over year-end 2015. During the credit union's 68 year history, over 2.7 million loans totaling over \$45 billion have been granted to members by Alaska USA.

Total outstanding consumer loan and credit card balances increased \$200.5 million, or more than 4.76% during the year, to over \$4.41 billion. The quality of underwriting and soundness of the overall loan portfolio are reflected in the 1.20% delinquent loan ratio at year end, which is up from 1.09% in 2015, but down from 1.29% in 2014.

Member business loans outstanding grew 51.01% in 2016, with \$333.6 million in new business loans during the year. Business loans in portfolio at year end totaled 1,254 for \$575.4 million and 11 were reportable delinquent.

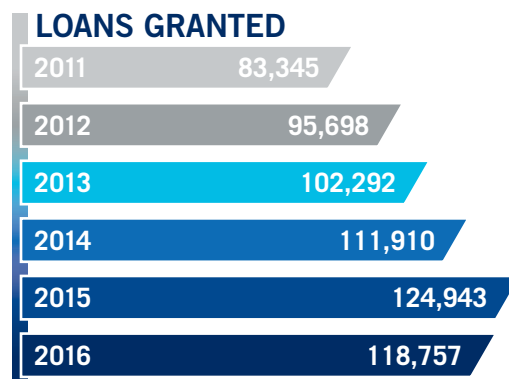
The credit union and its mortgage subsidiary granted over \$1.17 billion in mortgage and real estate loans during 2016. Most of the mortgage loans were sold to secondary market investors or pooled into mortgage backed securities and sold in the financial markets. By taking this approach, the credit union is able to offer members a wide variety of mortgage programs and, at the same time, significantly reduce the credit and interest rate risks associated with portfolio real estate lending. The credit union retains the servicing rights on many of those sold loans, thereby providing borrowers with quality servicing from a trusted source. At year end, the credit union's mortgage loan servicing portfolio included 27,527 loans totaling \$5.2 billion.



Real estate loans held in portfolio and held for sale increased \$8.8 million in 2016 to a total of \$410.9 million. The real estate and mortgage loan delinquency ratio decreased from 4.98% in 2015 to 4.91% in 2016.

Net loan charge offs in 2016 were \$29.2 million, up from \$23.9 million in 2015.

The credit union remains committed to ensuring that all members receive comprehensive consumer, real estate, mortgage and business loan services, and a fair and timely review of their loan requests. Given the challenges presented by the economy, the credit union continues to take appropriate action to ensure the loan portfolio continues to grow and remains strong in the years ahead. These actions ensure the credit union maintains its 68-year tradition of being a trusted and reliable source of credit for members.



Treasurer's Report

Gary L. Sholly
Secretary-Treasurer

Alaska USA's 2016 consolidated financial results reflect a growing, profitable, and well capitalized financial institution.

The credit union experienced growth in all key areas during 2016. Membership totaled 603,607 at December 31, 2016, an increase of almost 40,000 members, or 7.01% over the prior year end. Member deposits and loans both experienced significant growth in 2016, with deposits increasing 7.33% and loans increasing 7.79% over the prior year end balances. Assets totaled \$6.66 billion at December 31, 2016, an increase of \$507.70 million, or 8.25% over prior year end.

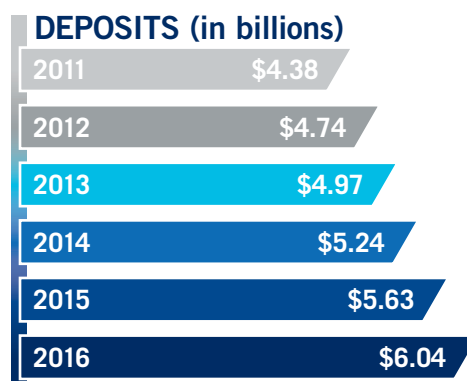
Operating income totaled \$367.14 million in 2016, an increase of \$32.04 million, or 9.56% over 2015. This increase was primarily due to a gain of \$17.06 million realized on the sale of Alaska USA Insurance Brokers' commercial book of business, and greater interest earned on member loans due to growth in the credit union's loan portfolio.

Operating expenses totaled \$256.43 million in 2016, an increase of \$12.81 million, or 5.26% over 2015. The operating expense to average asset ratio for 2016 was 4.00% compared with 4.10% in 2015, illustrating that the credit union's operating expenses are growing at a slower rate than organization growth as measured by assets.

Net income was \$51.82 million in 2016, the highest earnings recorded in the credit union's 68-year history. This increase in net income is due to the impact of the commercial insurance sale and the ongoing expansion of lending activities.

Alaska USA's net worth at December 31, 2016, totaled \$641 million, an increase of 8.80% over the prior year end. The credit union's net worth to asset ratio was 9.62% at December 31, 2016, far exceeding the 7% threshold that is required to be considered "well capitalized" by the National Credit Union Administration, the credit union's federal regulatory agency.

The financial strength and stability reflected in the 2016 results demonstrate that the credit union is well positioned for continued success in serving the financial needs of its members.



Supervisory Committee Report

Kent B. Berthiaume
Chairman

Craig S. Wood
Secretary

Richard F. Hawley

Will Lacy

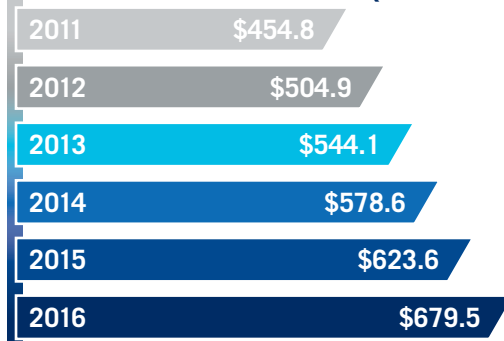
RaeDene Turner

The credit union's Supervisory Committee is comprised of five volunteer members who function as the credit union's audit committee. It is the Committee's responsibility to ensure that internal controls are effectively maintained; accounting records and reports are promptly prepared and accurately reflect the results of operations; the operation of the credit union is in accordance with the policies and procedures established by the Board of Directors; and member account inquiries are promptly and fairly considered. Your Supervisory Committee has fulfilled these responsibilities during the past year as follows:

- Retained Crowe Horwath, a certified public accounting firm, to conduct the credit union's annual audit;
- Worked with the credit union's Internal Audit Department to ensure that internal controls were maintained;
- Responded directly to members with account inquiries;
- Completed a random sample verification of member account balances and of closed accounts through direct correspondence; and
- Met regularly, and as required, to consider matters that were within the Supervisory Committee's area of responsibility.

It is our opinion that the enclosed financial statements fairly and accurately reflect the financial condition of Alaska USA Federal Credit Union on December 31, 2016, and that the credit union operates and is managed on a sound basis, in accordance with current federal regulations.

TOTAL RESERVES, ALLOWANCES, AND UNDIVIDED EARNINGS (in millions)



Consolidated Statements of Financial Condition

Alaska USA Federal Credit Union and subsidiaries
December 31, 2016 and 2015
(dollars in thousands)

	2016	2015
Assets		
Cash and due from financial institutions	\$ 225,908	\$ 360,705
Interest-bearing deposits in other financial institutions	1,768	1,762
Securities purchased under agreements to resell	<u>311,818</u>	<u>9,047</u>
Total cash and cash equivalents	<u>539,494</u>	<u>371,514</u>
Investment securities available for sale	317,129	414,295
Member loans		
Loans to members, net	5,254,030	4,758,940
Real estate loans held for sale	144,382	131,007
Auto loans held for sale	<u>-</u>	<u>118,115</u>
	<u>5,398,412</u>	<u>5,008,062</u>
Deposit in National Credit Union Share Insurance Fund	53,718	49,814
Federal Home Loan Bank stock, at cost	7,380	6,870
Accrued interest receivable	12,892	11,937
Other receivables	9,111	11,479
Premises and equipment, net	165,561	155,927
Assets acquired in liquidation of loans, net	6,209	9,220
Goodwill	5,295	22,930
Intangible assets, net	2,223	5,036
Mortgage servicing rights	39,441	38,424
Net pension asset	87,032	38,900
Other assets	<u>16,093</u>	<u>7,884</u>
Total assets	<u>\$ 6,659,990</u>	<u>\$ 6,152,292</u>
Liabilities and Members' Equity		
Liabilities		
Members' share accounts	\$ 6,044,351	\$ 5,631,731
Accrued expenses and accounts payable	<u>124,742</u>	<u>95,615</u>
Total liabilities	<u>6,169,093</u>	<u>5,727,346</u>
Members' equity		
Statutory reserves	42,658	42,658
Undivided earnings	598,279	546,461
Accumulated other comprehensive loss	<u>(150,040)</u>	<u>(164,173)</u>
Total members' equity	<u>490,897</u>	<u>424,946</u>
Total liabilities and members' equity	<u>\$ 6,659,990</u>	<u>\$ 6,152,292</u>

Consolidated Statements of Income

Alaska USA Federal Credit Union and subsidiaries
years ended December 31, 2016 and 2015
(dollars in thousands)

	2016	2015
Interest income		
Interest and fees on member loans	\$ 195,113	\$ 182,479
Interest on investment securities	9,581	10,289
Other interest income	<u>2,535</u>	<u>240</u>
	<u>207,229</u>	<u>193,008</u>
Interest expense		
Dividends on members' shares	24,821	22,669
Borrowings	<u>680</u>	<u>6</u>
	<u>25,501</u>	<u>22,675</u>
Net interest income	181,728	170,333
Provision for loan losses	<u>33,387</u>	<u>19,454</u>
Net interest income after provision for loan losses	<u>148,341</u>	<u>150,879</u>
Noninterest income		
Service fees and charges	51,056	54,737
Interchange fees	35,668	34,328
Net gain on sale of real estate loans	16,823	16,314
Net gain on sale of auto loans	3,960	1,324
Net gain on sale of investment securities	582	705
Net gain on sale of commercial insurance book of business	17,062	-
Other	<u>34,759</u>	<u>34,681</u>
Total noninterest income	<u>159,910</u>	<u>142,089</u>
Noninterest expense		
Compensation and benefits	163,007	156,550
Occupancy and equipment	43,448	42,753
Other	<u>49,978</u>	<u>44,323</u>
Total noninterest expense	<u>256,433</u>	<u>243,626</u>
Net income	<u>\$ 51,818</u>	<u>\$ 49,342</u>

2016 Officials

Board of Directors

Bobby W. Alexander, Chairman
Ken D. Campbell, 1st Vice Chairman
Ronald E. Lee, 2nd Vice Chairman
Gary L. Sholly, Secretary-Treasurer
Kent B. Berthiaume, Director
Lorran J. Skinner, Director
Geri M. Wacker, Director

Supervisory Committee

Kent B. Berthiaume, Chairman Supervisory Committee
Craig S. Wood, Secretary
Richard F. Hawley, Member
Will Lacy, Member
RaeDene K. Turner, Member

2016 Executive Staff

Bill Eckhardt, President & CEO
Geoff Lundfelt, Executive Vice President
Wayne Bailey, Chief Lending Officer
Brian Wolf, Chief Operations Officer
John Cassidy, Chief Financial Officer
Mike Brady, Chief Information Officer
Cory Schwab, Chief Risk Officer
Dave Hamilton, Executive Director, Business & Commercial Services
Scott Hansen, Executive Director, Consumer Lending
Debbie Ingle, Executive Director, Mortgage & Real Estate Lending
Chad Meadows, Executive Director, Retail Financial Services
Shawn Brume, Senior Vice President, IM Governance
Tamara Budahl, Senior Vice President, Special Credits
Kay Huebner, Senior Vice President, Member Service Center
Steve Larson, Senior Vice President, Mortgage Finance & Servicing
Mike Longlet, Senior Vice President, IM Applications
Nelson Lowe, Senior Vice President, Treasury
Rochelle Marshall, Senior Vice President, Marketing
Dan McCue, Senior Vice President, Corporate Administration
Phenie Miller, Senior Vice President, Branch Administration
Tod Miller, Senior Vice President, Indirect Consumer Lending
Troy Shelden, Senior Vice President, Accounting
Rachel Norman, Senior Vice President, Human Resources
Brian Spink, Senior Vice President, Internal Audit
Bob Thompson, Senior Vice President, Corporate Properties & Supply
Marci Aguayo, Vice President, Branch Administration, SW Region
Vilma Chavez, Vice President, Commercial Services Administration
Scott Chertkow, Vice President, IM Operations
John Collins, Vice President, Mortgage Operations
Joe Crosson, Vice President, Direct Consumer Lending
Mendy Daugherty, Vice President, Operations Center
Holli Frenchik, Vice President, Consumer Loan Administration
Cindy Fry, Vice President, Branch Administration, PNW Region
Robert McNaughton, Vice President, Business & Commercial Lending
Julie Moore, Vice President, Mortgage Administration & Compliance
Joel Swanson, Vice President, Electronic Services
David Vanzant, Vice President, Enterprise Security
Chris Wilder, Vice President, Operations



AlaskaUSA
Federal Credit Union[®]

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