



**AlaskaUSA**<sup>®</sup>  
Federal Credit Union

# A Record Year of Service

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2017 Annual Report

## *Doing the Right Thing*

We're motivated by you. For 69 years, your family, your community, and your financial well being have come first. And our dedication continues—to further the financial well being of members, free from traditional, profit-motivated banking.

### **The Alaska USA Story**

In 1948, fifteen civil service personnel gathered in Anchorage's Alaska Air Depot, pooled their savings, and their conviction in one another, to form a member-owned credit union.

At the heart of that decision was a simple truth—local financial institutions simply could not or would not support the credit needs of the personnel who had been recently transferred to Alaska. Accordingly, the credit union was founded and members began extending credit to one another while volunteering their time to operate the credit union.

Today, Alaska USA still builds upon the strength of members—bringing its not-for-profit, financial service cooperative model to new families and businesses across Alaska, Arizona, California, and Washington.

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# The Board of Directors' and President's Report

We are very pleased to present this 2017 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 69 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 2017, the credit union set new records for membership, deposits, loans, regulatory net worth, and assets, while reporting net income of \$26.5 million. At year end, assets totaled \$7.2 billion with regulatory net worth of \$667.5 million, and the credit union membership totaled 642,751.

Throughout the credit union's 69 years of operations, it has remained true to its purpose as 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.

## BETTER THAN BANKING

In terms of financial performance, 2017 was one of the most successful years in the credit union's history, as stated in the enclosed Treasurer's Report. At the same time, the credit union expanded and enhanced services and processed a record 338 million transactions and 118,297 new loans totaling nearly \$4.5 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.

As a member-owned cooperative, Alaska USA 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 2017 was a record \$133 million, an increase of \$3.5 million over 2016. That is an approximate return of \$207 per member.

## PEOPLE HELPING PEOPLE

In addition to returning profits back to the members, Alaska USA is committed to serving the communities in which members live, work and attend school. Through corporate giving and community support programs, Alaska USA contributed more than \$600,000 to non-profit organizations in more than 50 distinct communities and employees separately donated over \$50,000 to the United Way in 2017. Charitable contributions weren't limited to the credit union and its employees; credit union members donated over \$80,400 to local food banks in the annual "Cash for Cans" food drive and an additional \$99,000 to the Alaska USA Foundation, an organization that directly funds needs-based services to children, veterans, and active duty members of the armed services. While financial support of non-profit organizations is incredibly important to the co-operative mission of the credit union, Alaska USA employees in Alaska, Arizona, California, and Washington also volunteered more than 620 hours supporting organizations they are passionate about.

As financial security is a cornerstone of a strong society, we focused on providing financial literacy courses to over 2,100 school-aged children, and nearly 3,000 high school students participated in financial reality fairs presented by credit union staff. Lastly, we hosted numerous retirement, Social Security, and Medicare seminars ensuring members are financially prepared for major life events.

## RIGHT WHERE YOU BELONG

In terms of service, numerous enhancements were made during the year to make the credit union more convenient for members. Full-service financial centers were opened in Tacoma, Washington and Glendale, Arizona; and a new retail branch was opened in Scottsdale, Arizona. Planning was also completed for a new financial center that will open in Renton, Washington in 2018. At year end, the credit union operated 87 branches, which includes nine financial centers in four states. Also, a total of seven new branded ATMs were added in remote communities that had little to no other physical account access. Finally, several enhancements were made that improved electronic and mobile account navigation, and the mobile app authentication process was streamlined with the introduction of biometric login on equipped mobile devices.

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 19 years. In 2017, the survey responses revealed the highest levels of member service satisfaction ever recorded. In addition, the credit union was again selected by consumers as the favorite financial institution in ten separate communities, including the four largest market areas in Alaska. 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 small business loans in Alaska.

## STRENGTH IN MEMBERS®

Alaska USA has a 69-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 and Alaska USA Mortgage Company, both wholly owned subsidiaries of the credit union.

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 70th year of operation will be another year of success in serving members' financial needs.

We want to thank the membership for their nearly seven decades 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 2017.

**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*

**Geoff Lundfelt**, *President and CEO*

# Better than Banking

When you join Alaska USA, you become a part of something bigger—a not-for-profit financial services cooperative that provides for life's financial needs in a way that banks don't.



# We are Where You are

The benefits of Alaska USA membership follow wherever you go.



# Investing in Members

*“The best investment we can make is a loan to a member. It’s the reason the credit union was founded, and it will be what carries us into the future.”*

**Wayne Bailey**, Chief Lending Officer

Alaska USA thrives on the investments we make in members. Their financial well being is our well being, and that of other members too. Following through on this investment requires more than a comprehensive portfolio of products and services. It relies on thoughtful, skilled, and well-trained professionals who guide members toward the best possible outcomes.

Along with the investments we make in members, we make investments in Alaska USA’s employees as well. Alaska USA prides itself on a knowledgeable employee workforce built in part through the Alaska USA University, which trains employees, expands their skill sets, and encourages them to pursue increased responsibilities within the organization, all which benefit members in turn.

Across the organization we have accredited financial advisors and insurance brokers who are experts in all facets of the coverage they research for members, experienced mortgage loan originators with Certified Military Housing certification, and a dynamic executive staff with years of experience in working face-to-face with members. The common thread is this: a complete commitment to the credit union philosophy, where every interaction is treated with the member’s best interest in mind and with the highest level of expertise.

## MEMBER QUOTES



*Alaska USA recently financed my “new” car. It was touch and go at the dealership until Alaska USA stepped up to the plate. Like so many, I have good credit, little debt, but limited income. Alaska USA believes in me and I will be forever grateful.*

**Jack S.** – California



*I joined Alaska USA in 1994 through my job at the Salvation Army. I was a bank customer at the time, but closed my bank account because the fees were higher and the bank rejected my loan to buy a home. I haven’t used a bank since.*

**Gail S.** – Washington



*I still can’t believe we were able to get our mortgage processed so quickly—and painlessly! I have since used Alaska USA for an ATV loan and we’ll be using them for anything we need in the future.*

**Randi M.** – Alaska

# Commitment to Community

Alaska USA's commitment extends beyond members and into the communities we serve. Through financial donations and volunteerism, Alaska USA supports a wealth of organizations and non-profits—because healthy communities benefit everyone.

## ARMED SERVICES YMCA

Alaska USA's history is deeply connected with the U.S. military and honored to be able to contribute to organizations that help military families. The Armed Services YMCA provides specialized programs and services focused on building resilient military families that can thrive under the immense challenges faced while their loved ones preserve the security of our nation.

## KIDS DAY

Alaska USA is the primary sponsor of Kids Day, a yearly event focused on family fun and celebrating youth—through 80 youth-serving organizations that provide programs and a day of fun activities, including free access to the Alaska Zoo courtesy of Alaska USA.

## TACOMA RAINIERS BASEBALL

For over five decades, Cheney Stadium has served as a vibrant community hub for the Tacoma area, and now operates as home to the Tacoma Rainiers—Triple-A affiliate of Major League Baseball's Seattle Mariners. More than 375,000 people attend games and events every year.

In 2017, Alaska USA partnered with the Tacoma Rainiers to host the Alaska USA Federal Credit Union Triple-A Home Run Derby—a Cheney Stadium first. The partnership also provides free tickets and special attendance nights for Alaska USA members and professional partners.

## UNITED WAY

Alaska USA employees stepped up in a big way in 2017, raising more than \$50,000 to benefit the United Way. The employee donations help United Way's missions to empower families to be financially stable, prepare kids for future success in life and work, and connect families to affordable healthcare options.

## FINANCIAL EDUCATION

Financial well being starts with a strong foundation in personal finance and budgeting. Alaska USA Financial Education programs and the credit union community's Get Real Financial Reality Fairs show youth how short-term financial choices can have long-term implications. In 2017, Alaska USA employees spent 636 volunteer hours coaching nearly 800 high school seniors through real life scenarios and events and the impact financial choices they make can have on their future.

## CHILDREN'S MIRACLE NETWORK

More than 10 million children a year, 1 in 10 children in North America, are treated by Children's Miracle Network Hospitals. Those 10 million children make for 32 million total hospital visits each year, and not all of the costs of those visits are covered by Medicaid or other insurance programs. Contributions from Alaska USA help fill the gap in funding and help ensure that sick and injured kids get the best care possible.

# Lending Report

The credit union continued to experience positive performance from its portfolio of loans in 2017.

Wayne Bailey  
Chief Lending Officer

Total funding of new loans by the credit union and its subsidiary mortgage company during 2017 was \$4.46 billion. A total of 118,297 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, 2017, totaled 437,513, for \$5.99 billion, an increase of 6,591 loans and \$595 million over year-end 2016. During the credit union's 69-year history, over 2.8 million loans totaling over \$49 billion have been granted to members by Alaska USA.

Total outstanding consumer loan and credit card balances increased \$489.2 million, or more than 11.08% during the year, to over \$4.90 billion.

Member business loans outstanding grew 22.47% in 2017, with \$311.2 million in new business loans during the year. Business loans in portfolio at year end totaled 1,320 for \$704.8 million.

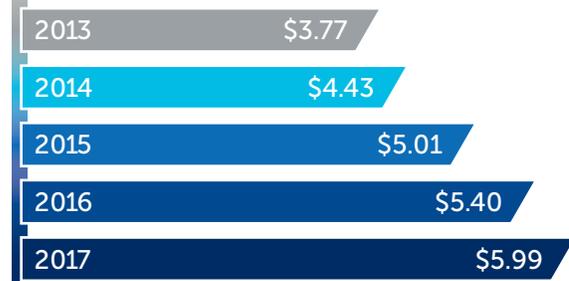
The credit union and its mortgage subsidiary granted over \$1.01 billion in mortgage and real estate loans during 2017. Most of the mortgage loans were sold to secondary market investors or pooled into mortgage-backed securities and sold in the financial markets. By taking this approach, the credit union 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 26,778 loans totaling \$5.1 billion.

Real estate loans held in portfolio and held for sale decreased \$17.6 million in 2017 to a total of \$393.3 million.

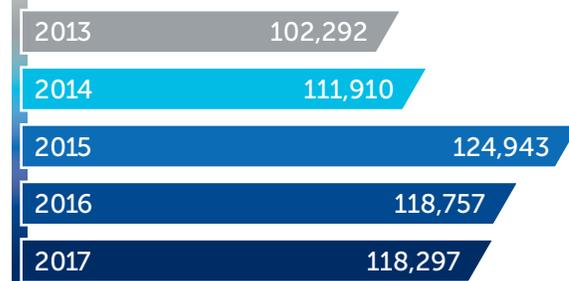
The quality of underwriting and soundness of the overall loan portfolio are reflected in the 1.05% delinquent loan ratio at year end, which is down from 1.20% in 2016. Net loan charge offs in 2017 were \$35.3 million, up from \$29.2 million in 2016.

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 69-year tradition of being a trusted and reliable source of credit for members.

## LOANS (in billions)



## LOANS GRANTED



# Treasurer's Report

Alaska USA's 2017 consolidated financial results continue to reflect a growing, profitable, and well-capitalized financial institution.

Gary L. Sholly  
Secretary-Treasurer

John Cassidy  
Chief Financial Officer

The credit union experienced growth in most key areas during 2017. Membership totaled 642,751 at December 31, 2017, an increase of 39,144 members, or 6.49% over prior year end. Member deposits and member loans both experienced significant growth in 2017, with deposits increasing 8.60% and loans increasing 11.03% over prior year-end balances. Assets totaled \$7.23 billion at December 31, 2017, an increase of \$570.91 million, or 8.57% over prior year end.

Net income totaled \$26.54 million in 2017, a reduction of \$25.27 million from 2016 net income. This decrease primarily reflected the impact of a one-time gain of \$17.06 million that was realized in 2016 on the sale of Alaska USA Insurance Brokers' commercial lines of business. The remaining variance in net income was mainly comprised of the net impact of increases in net interest income, provision for loan losses, and noninterest expense.

Alaska USA's regulatory net worth at December 31, 2017, totaled \$667.48 million, an increase of 4.14% over the prior year-end regulatory net worth. The credit union's regulatory net worth to asset ratio was 9.23% at December 31, 2017, 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.

Alaska USA's financial strength and stability demonstrate that the credit union is well positioned for continued success in serving the financial needs of its members.

## DEPOSITS (in billions)



## REGULATORY NET WORTH



# Supervisory Committee Report

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, 2017, and that the credit union operates and is managed on a sound basis, in accordance with current federal regulations.

**Richard F. Hawley**, *Chairman*

**RaeDene K. Turner**, *Secretary*

**Will Lacy**, *Member*

**Jack E. Short**, *Member*

**Craig S. Wood**, *Member*

# Consolidated Statements of Financial Condition

ALASKA USA FEDERAL CREDIT UNION AND SUBSIDIARIES

December 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 265,542	\$ 225,908
Interest-bearing deposits in other financial institutions	1,780	1,768
Securities purchased under agreements to resell	212,608	311,818
Total cash and cash equivalents	479,930	539,494
Investment securities available for sale	332,942	317,129
Member loans		
Loans to members, net of allowance of \$47,755 and \$38,595 as of December 31, 2017 and 2016	5,873,872	5,254,030
Real estate loans held for sale	120,225	144,382
	5,994,097	5,398,412
Deposit in National Credit Union Share Insurance Fund	57,034	53,718
Federal Home Loan Bank stock, at cost	7,978	7,380
Accrued interest receivable	14,909	12,892
Other receivables	12,292	9,111
Premises and equipment, net	183,466	165,561
Assets acquired in liquidation of loans, net	6,220	6,209
Goodwill	5,295	5,295
Intangible assets, net	1,669	2,223
Mortgage servicing rights	40,724	39,441
Net pension asset	79,215	87,032
Other assets	15,126	16,093
<b>Total assets</b>	<b>\$ 7,230,897</b>	<b>\$ 6,659,990</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities		
Members' share accounts	\$ 6,564,364	\$ 6,044,351
Accrued expenses and accounts payable	136,428	124,742
Total liabilities	6,700,792	6,169,093
Members' equity		
Statutory reserves	42,658	42,658
Undivided earnings	624,823	598,279
Accumulated other comprehensive loss	(137,376)	(150,040)
Total members' equity	530,105	490,897
<b>Total liabilities and members' equity</b>	<b>\$ 7,230,897</b>	<b>\$ 6,659,990</b>

# Consolidated Statements of Income

ALASKA USA FEDERAL CREDIT UNION AND SUBSIDIARIES

Years Ended December 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
<b>Interest Income</b>		
Interest and fees on member loans	\$ 219,727	\$ 195,113
Interest on investment securities	12,049	9,581
Other interest income	4,346	2,535
	<u>236,122</u>	<u>207,229</u>
<b>Interest expense</b>		
Dividends on members' shares	28,729	24,821
Borrowings	3,793	680
	<u>32,522</u>	<u>25,501</u>
Net interest income	203,600	181,728
Provision for loan losses	44,517	33,387
Net interest income after provision for loan losses	159,083	148,341
<b>Noninterest income</b>		
Service fees and charges	36,719	45,514
Interchange fees	38,169	35,668
Net gain on sale of loans	28,569	26,325
Net gain on sale of investment securities	-	582
Net gain on sale of AUIB commercial lines of business	-	17,062
Other	33,770	34,759
Total noninterest income	<u>137,227</u>	<u>159,910</u>
<b>Noninterest expense</b>		
Compensation and benefits	166,113	163,007
Occupancy and equipment	52,829	43,448
Other	50,824	49,978
Total noninterest expense	<u>269,766</u>	<u>256,433</u>
<b>Net income</b>	<u>\$ 26,544</u>	<u>\$ 51,818</u>

# 2017 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:

**Richard F. Hawley**, *Chairman, Supervisory Committee*

**RaeDene K. Turner**, *Secretary*

**Will Lacy**, *Member*

**Jack E. Short**, *Member*

**Craig S. Wood**, *Member*

## 2017 Executive Staff

**Geoff Lundfelt**, *President and CEO*  
**Wayne Bailey**, *Chief Lending Officer*  
**Tom Newins**, *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*  
**Steve Larson**, *Executive Director, Mortgage & Real Estate Lending*  
**Chad Meadows**, *Executive Director, Retail Financial Services*  
**Julia Niziolek**, *Executive Director, Insurance & Investment Services*  
**Chris Brown**, *Senior Vice President, Special Credits*  
**Shawn Brume**, *Senior Vice President, IM Governance*  
**Jessica Graham**, *Senior Vice President, General Counsel*  
**Kay Huebner**, *Senior Vice President, Member Service Center*  
**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, Member Service Center*  
**Tod Miller**, *Senior Vice President, Indirect Consumer Lending*  
**Rachel Norman**, *Senior Vice President, Human Resources*  
**Troy Shelden**, *Senior Vice President, Accounting*  
**Joel Swanson**, *Senior Vice President, Branch Administration*  
**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*  
**Elizabeth Pavlas**, *Vice President, Electronic Services*  
**Jayson Schmett**, *Vice President, Secondary Marketing*  
**David Vanzant**, *Vice President, Enterprise Security*  
**Sonya Watkins**, *Vice President, Branch Administration, AK Region*  
**Chris Wilder**, *Vice President, Operations*



***AlaskaUSA***<sup>®</sup>  
*Federal Credit Union*

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