



## *2014 Annual Report*



# PRESIDENT'S REPORT

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Arizona Federal is a not-for-profit financial cooperative – a group of people who have joined together in pursuit of our common goal: taking control of our financial lives. That means we all share responsibility for operating and maintaining our cooperative; and when the cooperative does well, all active and participating members share in the rewards. In 2014, we did plenty of both.

We entered the year making final preparations to upgrade our core processing system to a modern, flexible platform that allows us to take advantage of technological advances to improve delivery, more easily add or enhance products and services, and ensure stability and sustainability for many years to come. That upgrade took effect April 1, following more than a year of effort involving virtually every employee of the credit union, and a weekend of interrupted service to members while we made the final changeover. I offer my sincere thanks to members for their patience, and to our engaged employees for their efforts to ensure a smooth conversion.



**Ronald L. Westad**  
*President & CEO*

Those efforts immediately bore fruit, as we introduced streamlined online and in-person loan application processes, the emailing of transaction receipts, a more efficient holiday loan payment skip program and a number of behind-the-scenes efficiencies. The initial goals were to complete the upgrade with no unknown negative impact to members or their accounts and to be able to do on day one what we did on the last day of the retired system. With these goals achieved, a vast array of additional improvements becomes possible over time. A number of projects were underway as we finished the year that will take advantage of our new technology to improve our product offerings and add to the value of membership.

This upgrade, which involved a substantial investment of capital, was made possible by members continuing and increasing their utilization of credit union services, generating revenue for the cooperative while benefiting themselves through our competitive rates, low fees and convenient delivery options. It's a good example of all of *Us* fulfilling our shared responsibility to maintain and operate the cooperative by participating in its products and services.

One area where that increased utilization of services was especially pronounced in 2014 was in the lending arena, as we issued nearly 13,600 new loans to members totaling \$164 million. That's an increase of 22 percent over our loan production for 2013, and it led to the first year-over-year growth in our loan portfolio since before the recession. We want to be our members' lender of choice whenever they have a borrowing need. So, if you have a need, I encourage you to at least give us the chance to meet it – even if we may have failed to do so in the past.

In addition to enabling us to upgrade our technology, members' participation also allowed us to increase the net worth of our cooperative by 17.5 percent in 2014, making us one of the most financially-sound credit unions in Arizona. This leads me to the other side of the equation I mentioned at the outset: what happens when the credit union does well. For us, there's no question what happens: we return any surplus capital to the active and participating members in the form of **PLUs** (Paybacks for Loyalty to *Us*). In 2014 that meant \$6 million in payments to 86,000 members, averaging \$70 per member. Business conditions may not always allow us to match that level of return, but we're committed to continuing our practice of distributing proceeds to the membership whenever our income allows. Returning surplus capital is one of our fundamental member value-propositions.

Away from the dollars and cents side of the business, in 2014 we also continued our efforts to help all of *us* become more financially savvy, in hopes of reducing our financial stress and increasing our level of control over our financial futures. In September we held our first “Take Control of Your Credit” event, providing free credit consultations to the general public as we celebrated International Credit Union Day. We invite you to visit us and receive one of these valuable consultations, during which one of our financial experts will review your credit report and score, look for opportunities to save you money on loans you may have, and provide you with specific action steps you can take to improve your score and set yourself up to get lower interest rates on any future loans you may need. Even if you know you have great credit, you’ll benefit from getting an in-depth look at where you stand and where you’re headed. It’s a free benefit of membership you shouldn’t miss out on.

As we move through 2015 we’ll continue efforts to take advantage of our new technological flexibility, introducing enhancements such as a mobile app that gives our members unprecedented control over their debit and credit cards, Apple Pay® for more secure payments, envelope-free ATMs that let you deposit cash or checks on your schedule without waiting to access the funds, even easier loan applications (including mobile access) and much more. And we’ll continue our efforts to expand the financial expertise of members and the public, recognizing that positive financial habits benefit both our cooperative and our community.

As always, I offer thanks to our Trustees, the Board of Directors and Supervisory Committee, for their dedicated leadership; to my co-workers for their efforts and commitment to creating value for our members; and to our loyal members for their continuing support and participation with their cooperative. Together we made 2014 the success it was, and together we’ll create even more success in 2015 and beyond.

That truly is the *power of us*.

Sincerely,

Ronald L. Westad  
*President & CEO*



# CHAIRPERSON'S REPORT

On behalf of your elected Board of Directors, I am happy to report on the success of our cooperative during 2014. We have worked hard to uphold our mission to develop and serve an empowered membership through the delivery of financial services and expertise, producing mutually beneficial results. For 2014, this means we were able to meet more members' needs than ever before, increase self-service options and usage, expand our financial education efforts, and honor our commitment to share excess profits with our members through **PL Us** (Paybacks for Loyalty to *Us*).



**Kelvin Smith**  
*Board President*

This past calendar year we continued to expand our loan portfolio, issuing nearly 13,600 new loans valued at \$164 million. Not only does this mean an increase in interest income for the cooperative; but we also helped more members finance their cars, homes, boats, etc. at low, competitive interest rates, helping them save even more of their hard-earned money.

In addition to expanding the loan portfolio, we continued to improve upon the ways members can manage their money. Throughout 2014 we added more envelope-free ATMs to our network, making it easier and more convenient for members to deposit checks and cash to their accounts. Members also continued to embrace mobile technology, with our mobile app usage increasing to 37 percent of all member transactions. Financial technology will continue to be a key investment for our cooperative's future – making it more convenient and more empowering to be one of *Us*.

Through our quarterly personal finance magazine, *Financially Empowered*, we were able to share financial tips, tricks and tools with all of our 125,000 members. We've received great member feedback on the information provided through this magazine, and we will continue to deliver helpful financial advice throughout the upcoming year. In addition, we maintained our commitment to providing financial expertise by offering free credit consultations and financial education workshops on topics ranging from budgeting to managing and understanding credit.

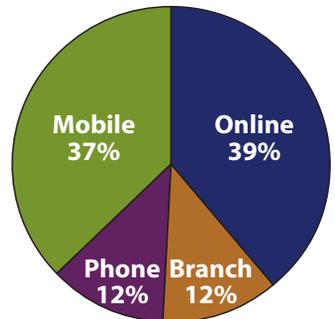
Due to the credit union's strong performance, we were able to make a **PL Us** payout for the third straight year. Total payout was \$6 million to 86,000 active members. That equates to an average of \$70 per payout. Both the amount of **PL Us** and the number of members who received payment increased in 2014, which means even more of *Us* are using Arizona Federal as our primary financial institution. While **PL Us** cannot be guaranteed every year, your further participation in the credit union helps increase both the likelihood and the total amount of **PL Us**. How can you increase your participation? Think of *Us* first when you have financial needs, such as auto and homes loans, savings accounts, insurance, investments and more.

With a successful 2014 behind us, we look forward to the future and an even better 2015.

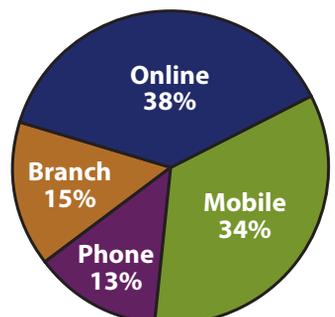
"It's *awesome* being one of *Us*!"

Kelvin Smith  
*Board Chairman*

**Transactions by Channel for 2014**



**Transactions by Channel for 2013**



# TREASURER'S REPORT

In 2014 Arizona Federal continued to experience strong financial results. Highlights of our performance from this year include:

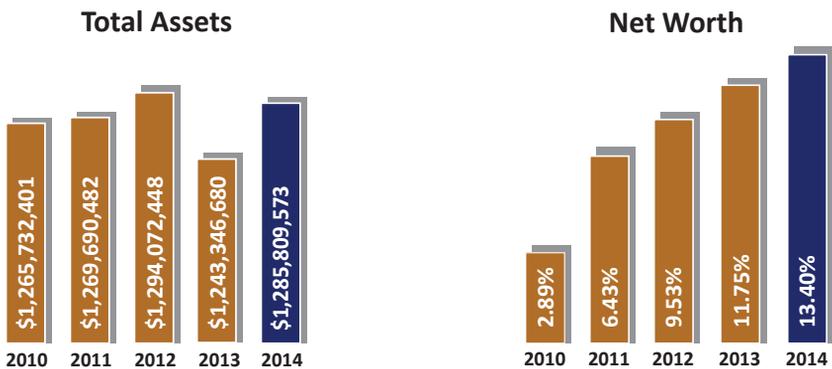
- Net operating income of \$25.8 million (after a \$6 million **PLUs** payout to members)
- Total net worth of \$172.3 million, a 17.5 percent year-over-year increase
- A 22 percent increase in new loan originations totaling \$164 million
- Total loans to members grew to nearly \$560 million, a 7 percent increase from 2013
- Loan delinquency decreased from 0.92 percent to 0.61 percent
- Total member deposits nearing \$1.1 billion with 125,264 members



**J.R. Pooler**  
*Treasurer*

Government and independent auditors have once again given Arizona Federal the highest rating possible. We remain well capitalized – with 13.40% net worth (a 165 basis point increase from 2013). This is a testament to our continuing financial strength, guided by the principles of safety and soundness. These practices ensure that our members' assets will be protected 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.

J.R. Pooler  
*Treasurer*



# SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is a group of five volunteers appointed by the Board of Directors to provide oversight of the policies, procedures and practices used to safeguard members' assets and meet the required financial reporting obligations.

The Supervisory Committee performs several specific functions, which include:

- Ensuring internal controls are established and effectively maintained to achieve financial reporting objectives
- 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



**Elizabeth Bissa**  
*Supervisory Committee Chair*

The Supervisory Committee continues to work closely with the Compliance and Review Services Department to confirm internal controls provide sufficient safeguards. In addition to our regular Supervisory Committee meetings, the committee members participate in the monthly Board of Directors meetings, planning sessions and special committees as deemed appropriate to assist with decision-making in support of credit union initiatives.

Your Supervisory Committee members, Jeffrey Barton, William Greene, Christopher DeChant, David Albertson and I, remain committed to you and to the mission, vision and values that are the foundation of Arizona Federal. We are grateful for your support throughout 2014 and for the opportunity to serve you.

Elizabeth Bissa  
*Supervisory Committee Chair*



# CUSO REPORT

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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 (MAC) 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 *Us* to conveniently shop and purchase a vehicle, complete all title and registration paperwork, obtain financing, purchase extended warranties or other protections, and even have our new cars delivered to the Serv*Us* Center that is most convenient for *Us*— all without having to visit a dealership! MAC continues to be a great option for members. In 2014 more than 1,400 vehicles were purchased through MAC, saving members an estimated \$1.7 million off the Manufacturer's Suggested Retail Price (MSRP) and generating \$23.5 million in additional loans for the credit union.

## Arizona Federal Insurance Solutions, LLC

In 2006, Arizona Federal purchased The Arizona Group, an established local insurance agency, to form what has come to be known as Members' Insurance Center (MIC). Through the insurance professionals at MIC, members have access to a full suite of insurance services, including automobile, homeowners, business, life and health insurance protections. With access to a number of insurance providers, MIC is able to match your individual needs to a policy that provides the best solution for coverage and value. For more information on Members' Insurance Center, please visit [ArizonaFederal.org/insurance](http://ArizonaFederal.org/insurance).

We are pleased to report that both WSFG and AFIS continue to make valuable contributions to members who utilize their services and are committed to our mission of providing expertise.



Experience the *power* of *Us*.<sup>®</sup>