F&A Federal Credit Union
2017 ANNUAL REPORT

LEADER IN SERVICE SATISFACTION

F&A Federal Credit Union
For Them it's Business,
For Us it's Personal

Andy Doyle,
Board Chairman

CHAIRMAN'S REPORT

On behalf of our Board of Directors and Credit Union Staff, I am pleased to present our Annual Report for the year ended December 31, 2017.

F&A Federal Credit Union continues to be one of the most financially sound financial institutions in the nation, with one of the highest capital and efficiency ratios in comparison to credit union peers. Our last audit by an independent CPA firm and federal examiner, National Credit Union Administration (NCUA), continues to validate that F&A is a safe and secure financial institution.

Highlights from 2017 include extending nearly $100 million in new consumer and real estate loans to members, increasing net loans by nearly 3.5%. F&A was again ranked as a top 3% nationwide performer by the market research firm Raddon Financial Group. The Credit Union will receive a Crystal Performance Award to recognize its efforts in achieving a balanced scorecard measurement of growth, income, efficiency and margin management.

We introduced new custom image credit and debit cards and instant issue cards to make it more convenient to replace lost and stolen cards. In response to member feedback, we reviewed and made adjustments to our plastic card process to reduce the number of point-of-sale card denials. We also streamlined the process for reporting and receiving credit for fraudulent transactions.

There are even more exciting things to come in 2018. We are increasing our telephone service center staff to better serve our members. On the technology front we are working on both Samsung and Android/ Google Pay, and are in development with a new real estate loan origination system for faster and easier loan decisions.

F&A will continue its focus on financial education to help you achieve your financial goals. In 2018, we will offer a new seminar to help guide parents on how to set an allowance and teach their children about managing money. We will also continue to offer several popular seminars on topics including personal finance, estate planning, and uninsured investments.

As we look forward to a prosperous 2018, we thank you for your continued support and trust in F&A Federal Credit Union.

Andy Doyle,
Board Chairman

Mike Takeshita,
Supervisory Committee Chairman

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is appointed by the Board of Directors as stipulated by the Federal Credit Union Act and the Federal Credit Union Bylaws. As outlined by the act and bylaws, the Supervisory Committee is responsible for an annual audit, biennial verification of member accounts, reviewing performance data, and making recommendations to the Board of Directors for improving Credit Union efficiency and operations.

Our goal as your Supervisory Committee is to ensure that all operational and financial functions are performed accurately and in compliance with federal and state regulations and Credit Union policies and Board directions. Supervisory Committee members are volunteers who attend the monthly Board of Directors' meetings and serve as members on multiple committees.

The Supervisory Committee is actively involved in all phases of internal and financial auditing functions, which are used to assist management and the Board to make decisions that best serve our members' interests while maintaining effective and efficient practices. The Supervisory Committee reviews the financial records and results from internal audits to ensure that F&A Federal Credit Union remains financially strong, acts in compliance with federal regulatory requirements, and operates within our charter and bylaws.

The Supervisory Committee has selected Turner, Warren, Hwang & Conrad Certified Public Accountants & Consultants, a certified public accounting firm with expertise in the credit union industry, to perform the required annual opinion audit of our financial statements, in accordance with Generally Accepted Accounting Principles.

This audit is in addition to National Credit Union Administration regulatory examinations, as well as multiple additional audits and reviews performed by various outside professionals, to ensure F&A Federal Credit Union remains in compliance with regulations.

The Supervisory Committee is pleased to inform our members that after careful review of our most recent audits and accounting records, F&A Federal Credit Union remains strong and in compliance with federal regulatory requirements.

On behalf of myself and fellow Committee Members, Robert Heinzel, J. Lopez, Margaret Kanishock, and Pablo Valadez, I want to thank the Board of Directors and management for their commitment to the success of F&A Federal Credit Union.

Mike Takeshita,
Supervisory Committee Chairman

Mary Gutierrez,
Board Secretary/Treasurer

TREASURER'S REPORT

2017 was another successful year for F&A and its members. Net income totaled more than $15.6 million, slightly above our 2016 results. Our return on average assets for the year, which is net income for the year divided by our average assets, was 0.99%.

The success of F&A and our long-term financial strength is displayed through our net worth ratio of 15.58%, which not only places us as one of the strongest credit unions in the country, it is more than double the National Credit Union Administration's definition of "well-capitalized" at 7%.

Member deposits grew by more than $79 million during the year. Coupled with the repayment of $40 million in loans our total assets climbed to just under $1.6 billion, a 3% increase from the prior year.

Our focus remains to create value for our members by offering some of the highest dividend rates in the nation, low or no fees and offering the lowest loan rates possible. I am pleased to report that dividends paid to our members rose more than 20% in 2017 from the prior year.

We look forward to another prosperous year in 2018.

Mary Gutierrez,
Board Secretary/Treasurer

F&A Federal Credit Union
Statement of Financial Condition
At December 31, 2017 (Unaudited)

Assets	
Loans to members	$ 299,844,463
(Less) Allowance for loan losses	(1,292,325)
Total net loans to members	298,552,138
Cash and cash equivalents	$ 77,532,364
Investments:	
Securities available for sale	$1,172,235,784
Securities held to maturity	4,872,703
Other	16,326,859
Total investments	1,193,435,346
Accrued interest on loans	$ 652,645
Accrued interest on investments	3,671,222
Land and building, net of depreciation	6,240,459
Other fixed assets, net of depreciation	596,610
National CU Share Insurance Fund deposit	12,268,512
Other assets	3,139,979
Total Assets	$1,596,089,275
Liabilities, Member Deposits and Equity	
Accounts payable and other liabilities	$ 7,547,028
Member Shares:	
Regular shares	$ 230,027,246
Share drafts	172,831,673
Money market accounts	546,310,081
Share certificates	324,786,541
IRA shares and certificates	79,411,023
Total member share accounts	1,353,366,565
Member Equity:	
Regular reserves	$ 15,021,792
Undivided earnings	233,084,695
Accumulated other comprehensive loss	(13,480,431)
Capital arising from acquisition	549,627
Total members' equity	235,175,683
Total Liabilities, Member Deposits and Equity	$1,596,089,275

F&A Federal Credit Union
Statement of Income & Expense
For the Year Ended December 31, 2017 (Unaudited)

Interest Income	
Loan receivable	$ 12,780,113
Interest-bearing accounts and investments	29,355,669
Total interest income	42,135,782
Interest Expense	
Members' share accounts	$ 12,744,607
Borrowed funds	5,094,366
Total interest expense	17,838,973
Credit for Loan Losses	$ -
Net Interest Income after Credit for Loan Loss	$ 24,296,809
Non-interest Income	$ 6,859,079
Non-interest Expense	15,536,800
Net Income	$ 15,619,088

F&A Federal Credit Union's capital ratio increased to 15.58%, as of December 31, 2017, from 15.04%, as of December 31, 2016, further solidifying our financial strength. Our capital ratio is one of the strongest nationally for a credit union with more than $1 billion in assets, supporting our long-term ability to serve members and provide protection against unforeseen risks.

Our return on assets of 0.99% in 2017 remains strong and demonstrates our success in generating favorable returns for our members. At December 31, 2017, our total assets were $1,596,089,275, an increase of 3.00% from the prior year's total. Member loans grew 3.48% in 2017. Member share deposits increased by 6.22% from the prior year. With net income of $15,619,088 for the year ended December 31, 2017, our members' total equity increased by 6.70% from December 31, 2016. We remain committed to providing our members among the highest dividend rates available in the market while we maintain among the lowest loan rates with minimal fees and charges.

Michael Harden,
Executive Vice President/Chief Investment Officer

CREDIT COMMITTEE REPORT

As we look back on 2017, it appeared much like the past several years: higher interest rates during the first quarter of the year, followed by a notable drop in rates during the second quarter, with these low rates holding in the third quarter, and then an upward climb during the fourth quarter. While appearing similar to previous years, last year will likely mark the end of the ultra-low rate environment as the Federal Reserve increased rates three times in 2017. We seem poised for several more increases in 2018 as the economy gains strength and inflation begins to slowly emerge. This increase in rates will result in higher borrowing costs for all consumers and will impact loan origination with a continued shift away from mortgage refinancing. Despite the rise in rates, loan rates are still very low and are expected to remain low throughout the coming year.

Loans to members ended the year at $299,844,463, the highest total since August 2009, as loan balances increased by over $10 million or 3.48% in 2017. During the year, the Credit Committee assisted loan officers in approving over 83% of the 3,745 applications received during the year for $103,853,838 in loans approved. These totals represent a decrease in application volume of 22% and 13% in the amount approved.

In 2017, our real estate equity and specialty loan programs continued to offer among the most favorable terms and lowest rates and fees in the state and showed growth of over $12 million or 10%. Home equity lines of credit, which are generally not the best member option when rates are poised to increase, declined by over 7%. New auto loan growth was once again very strong as balances increased by 10% in 2017. Used autos and unsecured loans showed modest growth of 2%. Credit card balances declined by 2%. All other loan types the Credit Union offers were basically unchanged.

As interest rates begin a more noticeable rise, our continued financial strength enables us to provide our members with lower loan rates and fees than other financial institutions, making the Credit Union the best option for our members' borrowing needs. As always, we remain committed to providing the best possible value to our members.

Michael Harden,
Executive Vice President/Chief Investment Officer

BOARD OF DIRECTORS

Andy Doyle,
Board Chairman

Theresa Barrera,
Vice Chair

Mary Gutierrez,
Secretary/
Treasurer

William "Blackie"
Blackburn,
Board Member

Jesus Burciaga,
Board Member

Ed Dahlen,
Board Member

Michael F. Idol,
Board Member

Van Mark Madrigal,
Board Member

Richard Russell,
Board Member

SUPERVISORY COMMITTEE

Mike Takeshita,
Supervisory
Committee Chair

Robert Heinzel,
Supervisory
Committee Member

Margaret Kanishock,
Supervisory
Committee Member

J. Lopez,
Supervisory
Committee Member

Pablo Valadez,
Supervisory
Committee Member

SENIOR MANAGEMENT

Rich Andrews,
President/Chief
Executive Officer

Michael Harden,
Executive Vice
President/Chief
Investment Officer

Pam Chick,
Chief Electronic
Services Officer

Ralph Ramirez,
Chief Operations
Officer

Yong Whang,
Chief Technology
Officer

Melia Keller,
Vice President
Marketing

Gina Salvucci,
Vice President
Risk Management
& Facilities

David Spivack,
Vice President
Accounting &
Finance

Aymee Yanes,
Vice President
Member Services

Gail Yarbrough,
Vice President
Human Resources

MISSION AND VISION

To provide our members with the highest quality service on a wide range of products and services, continue our competitive status and remain on the leading edge of technology while maintaining a sound financial position.

For our members we commit to:

- Continually consult with them in order to provide quality products and services that focus on their needs
- Assist them in achieving success through a wide range of products and services
- Outperform the marketplace in innovation, creativity and performance
- Maintain our integrity and respect for all people

F&A Federal Credit Union
For Them it's Business,
For Us it's Personal

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CO-OP ATM
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