

2017 ANNUAL REPORT



6:00pm - Refreshments
6:30pm - Business Meeting

2018 Annual Meeting Agenda

1. Open the Meeting – Welcome
2. Minutes of 2017 Meeting / Approval
3. Establish a Quorum
4. Nominating Committee Report
5. Supervisory Committee Report
6. Treasurer's Report
7. Board Chair Report
8. Other Business
9. Open Questions & Answers
10. Meeting Adjourned



SPIRIT OF ALASKA FEDERAL CREDIT UNION 2017 ANNUAL MEETING MINUTES

April 18, 2017

Open the Meeting – Welcome: Spirit of Alaska Federal Credit Union's (SoAFCU) 57th Annual Meeting was called to order by Chairman Charlie Sparks at 6:00 pm at the Johansen Branch of SoAFCU. Charlie welcomed everyone to the annual meeting. The agenda presented will be followed and the meeting will adjourn with an Open Questions and Answers session afterwards. The board directors present were: Charlie Sparks, Jeannie Phillips, Charlie Dexter, and Bruce Foote. Anthony Rizk was introduced as the new President/CEO. Anthony started transitioning June 1, 2016 and has officially been in the position since January 9, 2017.

Establish Quorum – 15 Present: A quorum was established by Kevin Berry, Chairman of the Supervisory Committee, with at least 15 members present and the board members as presented previously. Kevin introduced himself and this is his second year as Chairman of the Supervisory Committee.

Read Minutes of 2016 Meeting: Motion made and seconded to waive the reading and approve the minutes of the Annual Meeting of April 19, 2016. No discussion. No objection. Motion passed.

Nominating Committee Report: Jeannie Phillips, board director, gave the Nominating Committee Report. Board members Charlie Sparks and Charlie Dexter terms expired this year. Both have agreed to serve another term. The Spirit of Alaska bylaws state if the slate is filled by the Nominating Committee, no nomination is needed from the floor. Jeannie asked that Charlie Sparks and Charlie Dexter be elected by unanimous consent to serve for the period from 2017 to 2020. Motion made and seconded to approve the slate by unanimous consent. No discussion. No objection. Motion passed.

Supervisory Committee Report: The Supervisory Committee Report appears in the Annual Report for 2016. Charlie said Kevin is doing a great job. Charlie added that the Annual Report states that there were no exceptions for a clean audit report. We are functioning well and in compliance.

Treasurer's Report: Charlie Dexter gave the Treasurer's

Report as it appears in the Annual Report for 2016. Charlie has been on the board for a while and is proud to be a part of the growth of the credit union. Charlie felt he wanted to do something different with the Treasurer's Report so he explained this in detail and went through the questions and answers.

Charlie asked Anthony Rizk to come forward. We are sponsoring 10 high school sophomores and juniors who are now enrolled at the university as freshmen. Anthony was presented with a thank you note from them. Charlie continued with the report. The audit and financials are on the back of the report. After the meeting we will ask our CFO and the President and Chairman of the Board to come up and answer questions. Thank you and you are part of a big deal and what you do is really significant.

Board Chair Report: Charlie Sparks said his report as the Chairman is also in the Annual Report for 2016. Charlie asked that you recognize the board members present and give them credit for their services to the credit union. It is a noncompensating position.

Charlie went through the highlights of his report. The biggest news was Mike Lombardino's retirement and his accomplishments of growing the credit union. Anthony Rizk of our IT Group was chosen as our new CEO. We feel very fortunate to have him. Anthony has been with the credit union since 2003. Charlie felt so far Anthony is doing a fantastic job.

The other thing is we are trying to restructure and streamline things. We should see some strong financial results from those efforts in the next year.

At this time, Anthony added that we are redesigning our website which is a huge project. With his background, Anthony wanted to improve that and this is part of his vision. Anthony also wanted to recognize two other Supervisory Committee members who are Mario Gatto and Mike Bartch.

Anthony pointed out he really relies on his managers. He doesn't make a major decision until he talks with his managers. Anthony recognized his managers that were present. Anthony then recognized Lynne Pohlman who has been with the credit union 25 years and Vice President of HR. Lynne has worked in a lot of different areas in the credit union. Lynne is retiring next January.

Other Business: A member would like to put a proposal on the floor that instead of having member comments and

concerns after the meeting that they be made a part of the minutes for this meeting. Motion made and seconded to have member comments and concerns a part of the meeting minutes. No discussion. No objection. Motion passed.

Open Questions and Answers: A member thanked everyone for all their good work and the board especially for their good guidance. Her question was is there an impact from the university and general education cuts that have been happening over the past few years as far as impacting our membership. Anthony explained all of us are looking at that, but at this point we cannot tell if it is affecting us yet. We are definitely monitoring delinquencies and loans. Anthony has not seen any fallout at this time from the university.

Charlie Sparks added that is a big part of our membership. Charlie felt in the school district a lot of it has come through retirements, so a lot of members are still in the community. Anthony felt any one should be looking at their expenses and areas to cut. The member's concern was that the people were moving away as their jobs were disappearing and since that is our base, it must impact us. Anthony agreed that it is a large segment of our base.

Also, this member had problems with log-ins. She is talking about on-line banking and e-Teller. Anthony said our e-Teller works with every single browser platform. Anthony explained what she can do to reset her password and also plans going forward. Charlie Sparks realizes it is frustrating, but it is also for the members' protection.

Another member asked about any geographic expansion in the future. Anthony explained that when first taking the position an opportunity came for putting a branch in the Bentley Mall, actually in Safeway, but it just did not work out. We are looking at North Pole, maybe Delta or Healy, but would like to see what the economy is doing first. This is one of the things the board had asked Anthony is that we want to grow.

Charlie Sparks added that because of compliance costs that are being imposed on all credit unions, probably credit unions less than \$500M will go away eventually. Realistically another option is merging with another credit union in Alaska that would probably be the most likely scenario for a big expansion. Nationally that has been the kind of direction if you look at all credit unions in the US. Anthony explained the NCUA and so they come in and look at what is the best fit. They help make that decision. Charlie Sparks said we are a strong, healthy credit union, but down the road there could

be an opportunity like that.

Charlie Dexter said he is a member of the Asset Liability Management Committee and because of the strategic decisions of management and the board have made over the years it has been a struggle in a zero interest environment and we have made money every year. But because of the decisions that have been made, if and when interest rates start to rise, the credit union's profits will rise geometrically to that. So if that is a position we can put ourselves in that as interest rates increase, so will the profits to the credit union and therefore it benefits the members.

Another member mentioned the notice of annual meeting and not being able to find out anything. People are happy with the turnout and that is good. She has already talked to the person in charge of that and thank you.

Quorum was another concern. This was explained and the 15 person quorum has been maintained. The member suggested all the ways to notify members and having part of our questions, answers, and concerns being part of the meeting makes us feel like we are part of it. We are not just being talked at. Anthony agreed we could send an email to members and make the voice of the credit union stronger, so we will work on that. As a new CEO and Mike too, rather than waiting to the annual meeting, come into his office, come see me at Gillam and voice your opinions. The member thanked everyone very much for their patience and respectful responses.

Meeting Adjourned: Motion made and seconded to adjourn. No discussion. No objection. Motion passed and the Annual Meeting was adjourned at 6:30 pm

Prepared by:

Joan S. O'Leary	Recording Secretary
Glenn Potts	Secretary
Charlie Sparks	Chairman



Supervisory Committee Report

The Supervisory Committee is composed of a group of volunteer members responsible for helping ensure the safety and soundness of the Credit Union.

This responsibility is exercised in accordance with the Federal Credit Union Act and Spirit of Alaska Federal Credit Union's bylaws. The Committee fulfilled its responsibilities through the supervision of the internal audit function, engagement of an external financial auditor, and review of the National Credit Union Administration's (NCUA) recent examination results and related matters.

It is the Supervisory Committee's responsibility to oversee all aspects of the Credit Union to determine that it operates within regulatory guidance and internal procedures to ensure members' assets are safeguarded. To fulfill this function, the committee monitors and evaluates the quality of the Credit Union's finances, operations, and records using various tools. Additionally, the committee reviews member account records to verify their accuracy.

The Vice President of Internal Audit is the primary contact and performs the audit functions. The internal audit duties are overseen by the Supervisory Committee to separate this function from management control. This provides both independence and streamlined reporting.

Moss Adam LLP conducted the 2016 audit. After soliciting and reviewing several proposals, Hauser Jones & Sas were hired to conduct the 2017 external financial audit of the Credit Union. **The results of the 2017 audit concluded that the financial statements of the Credit Union accurately represent the**

financial position of the organization and support management's commitment to accurate financial reporting.

During 2017, the Committee met monthly, except for June, July, and November, to review institutional procedures to safeguard the Credit Union's assets. The business continuity and cyber breach plans were also reviewed in April. In July, the Member Verification process was audited and a report was presented to the Board. In October, the Loan Quality Control program was reviewed for effectiveness with issues reported to the board. **Results of audits show the Credit Union is performing its duties well with financial accountability and prudent management decisions.**

Because of life circumstances, the Supervisory Committee experienced significant turnover in 2017. As a result, we added two new members, Ruth Prato and Peggy Keiper.

We would like to express our appreciation to the Board of Directors and management for their support and assistance during the various audits and continued efforts in making Spirit of Alaska Federal Credit Union our members' primary financial institution.

**Kevin Berry (Chair),
Peggy Keiper
Ruth Prato.**

Treasurer's Report

Charlie Dexter, Board Treasurer

We are positioned to increase profits for members in a rising interest rate environment. Our 2017 audit was clean, and we received an excellent NCUA examiner report.

How Spirit of Alaska Benefited Our Members In 2017

1. 7% increase in member loans from 2016 - 2017, for a total of \$7,052,841.
2. \$17,658 increase in dividend payments to members, despite extremely low federal reserve interest rates.
3. First time ever net income over \$1 million (nearly 4X greater than 2016).
4. Excellent profitability ratios (see President/Chair report).
5. A -\$279,290 decrease in employee salaries and benefits.

Our Johansen branch features a comfortable lounge with fireplace, waterfall, coffee and Wi-fi. On Saturdays, the Johansen branch is open, and our Peger Road indoor kiosk is open 24/7.

How Spirit of Alaska Benefited Our Community In 2017

- Chamber of Commerce
- Monroe Hockey
- West Valley Soccer
- American Heart Association
- All local high school graduations
- Fairbanks Family Friendly Awards
- Fairbanks Golf Association
- UAF School of Management
- UAF Community and Technical College scholarship fund
- Catholic Schools of Fairbanks
- Alaska Crippled Children and Adults
- Alaska Nanooks Athletics



2017 Loan Growth

All of our loan departments performed well last year, particularly Consumer Loans.

85

New Mortgage Loans

Total Value: \$13,278,666

8

New Construction Loans

Total Value: \$2,383,317

39

New Business Loans

Total Value: \$4,982,645

1036




New Consumer Loans

Total Value: \$21,935,530

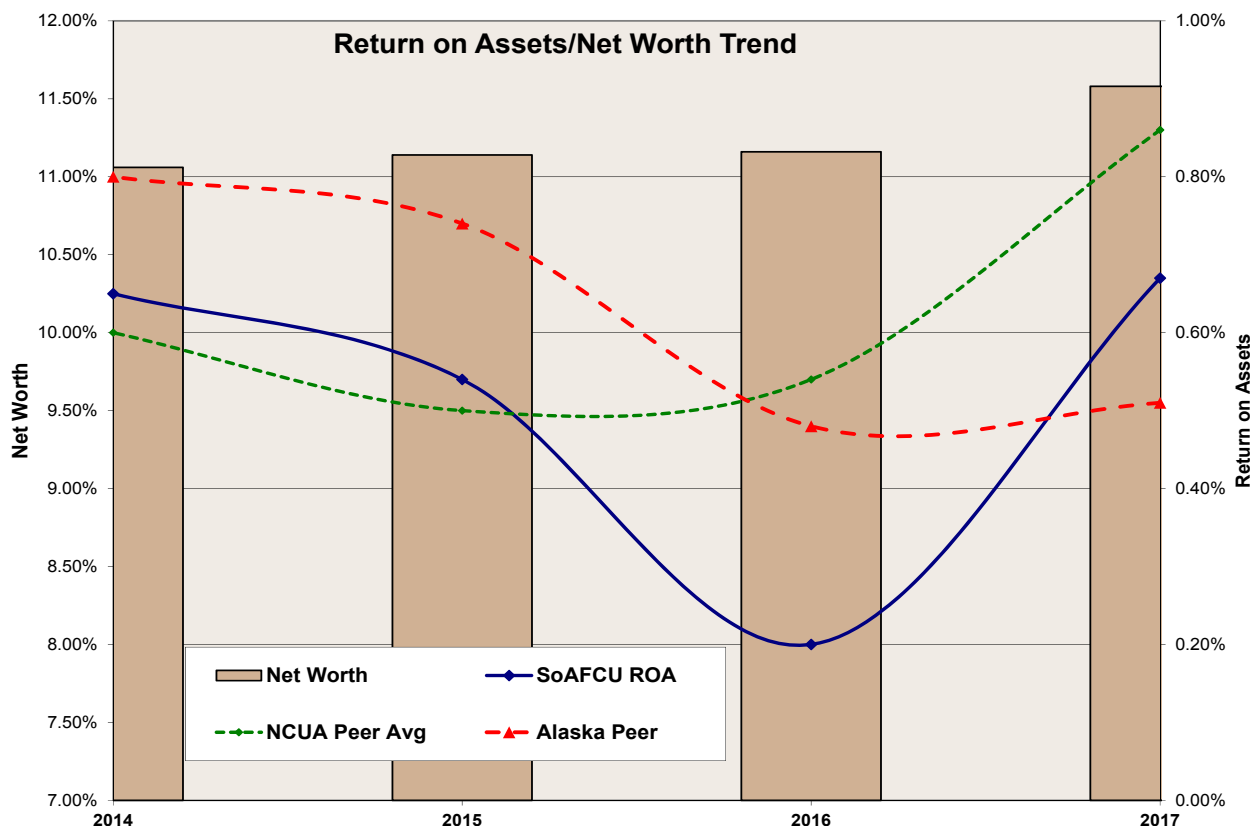


Performance Ratios

The below ratios detail our performance from 2015 - 2017 based on other banks and credit unions in Alaska, as well as national NCUA data.

RATIOS	2017	2016	2015
Net Income 	\$1,004,768	\$286,048	\$780,214
Net Worth 	11.58%	11.16%	11.14%
ROA (average assets) 	0.67%	0.20%	0.54%
NCUA Alaska Average ROA	0.51%	0.48%	0.74%

The below graph details our performance from 2014 - 2017 based on other banks and credit unions in Alaska, as well as national NCUA data. See detailed income and assets yearly comparison figures on the next page.





Assets

ASSETS	2017	2016	2015
Cash Items	\$2,221,969	\$1,810,927	\$1,909,447
Total Loans	\$109,317,133	\$102,140,281	\$93,325,917
Allow Losses	(\$564,563)	(\$440,552)	(\$349,738)
Adj Total All Loans	\$108,752,570	\$101,699,729	\$92,976,179
Total Investments	\$28,173,689	\$33,760,307	\$40,276,008
Fixed Assets	\$7,160,124	\$7,350,888	\$7,546,509
Other Assets	\$2,931,277	\$3,082,435	\$3,242,299
TOTAL ASSETS	\$149,239,629	\$147,704,286	\$145,950,442

Liabilities

LIABILITIES	2017	2016	2015
Other Liabilities	\$5,270,722	\$4,332,588	\$7,539,963
Total Shares	\$126,546,631	\$127,056,192	\$122,339,813
Total Reserves	\$17,422,276	\$16,315,506	\$16,070,666
TOTAL LIABILITIES	\$149,239,629	\$147,704,286	\$145,950,442



Income

INCOME	2017	2016	2015
Interest Loans	\$5,965,200	\$5,373,311	\$5,342,200
Total Investments	\$481,367	\$526,825	\$515,887
Total Interest Income	\$6,446,567	\$5,900,136	\$5,858,087
Total Non-Interest Income	\$1,938,522	\$2,049,737	\$2,215,418
TOTAL INCOME	\$8,385,089	\$7,949,873	\$8,073,505
NET INCOME	\$1,004,768		

Expenses

EXPENSES	2017	2016	2015
Total Comp & Benefits	\$3,959,116	\$4,238,406	\$3,937,743
Total Operating Expense	\$2,753,138	\$2,830,010	\$2,760,717
Total Dividend Expense	\$283,067	\$265,409	\$285,831
Provision for Losses	\$385,000	\$330,000	\$309,000
TOTAL EXPENSES	\$7,380,321	\$7,663,825	\$7,293,291

I am proud to report that 2017 was a fantastic year for Spirit of Alaska Federal Credit Union (SoAFCU). The Board is encouraged by 2018’s early performance as well. See performance measures below.



0.67 %

Return on Assets (ROA)



5.8 %

Return on Equity (ROE)



1.54 million

Assets Increase Over 2016

Total 2017 Assets of 149.2 million

Chairman & President's Report

This was Anthony Rizk's first year as CEO and he had a notable year in terms of performance.

The Board feels extremely fortunate to have someone with Anthony Rizk's abilities and strong commitment to the Fairbanks community. His information technology background will serve SoAFCU very well over the coming years as technology continues to have a major impact on the financial services industry.

We are confident that under his leadership, we will continue to prosper financially while providing outstanding service to our members.

One of our initiatives began in late 2016 was the restructuring of our service departments within SoAFCU. SoAFCU, like all credit unions, faces challenges to maintain or improve member services while lowering operating costs.

This effort was initiated by Anthony Rizk and his management team, and challenged all of our staff to evaluate existing reporting relationships with a goal of integrating and consoli-

dating responsibilities to provide better service. This restructuring has been completed and is beginning to pay dividends by having a noticeable impact on our 2017 financial results.

One major activity undertaken in 2017 involved our mortgage lending department. We selected and installed a new software platform that enables better monitoring of mortgage loans from application through

As the largest locally operated credit union in the Fairbanks market, community engagement has been a major focus.

closing. The new system integrates many required tasks that formerly were managed separately. The system provides an immediate status for any loan currently in process so that member inquiries or those from 3rd parties can be readily addressed.

As the largest locally operated credit union in the Fairbanks market, community engagement has been a major focus

for SoAFCU. During 2017, SoAFCU supported numerous local organizations and events like **Ice Alaska, UAF Athletics, Community & Technical College & School of Management, Golden Days, and Yukon Quest** to name just a few.

On behalf of our Board and our staff, we would like to thank you for your membership and support of SoAFCU. We are a member-owned financial coo-

perative that prospers through the support of its members. As always, we are thankful for your continued support and we welcome the opportunity to serve all your financial needs.

H. Charles Sparks
- Board Chair

Anthony Rizk
- President/CEO

Committees & Management



Management Staff

Anthony Rizk..... President & CEO
Christy Waters..... Chief Operating Officer (COO)
Steve Carlson..... Chief Financial Officer (CFO)
Angela Maddex..... Vice President Systems Strategy & Integration
Nicolle DeVito..... Vice President Internal Audit
Missy Olson Senior Vice President Real Estate Lending Services
Cindy Cevasco..... HR Manager
Sarah Geer..... Marketing Director



Board of Directors

Charlie Sparks..... Chairman
Joe Little..... Vice Chairman
Glenn Potts..... Secretary
Charlie Dexter..... Treasurer
Bruce Foote..... Director
Jeannie Phillips..... Director
Herb Kuss..... Director




Supervisory Committee

Kevin Berry..... Chair
Ruth Prato..... Member
Peggy Keiper..... Member

NOTES

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