



2016 ANNUAL REPORT

SMART
Solutions

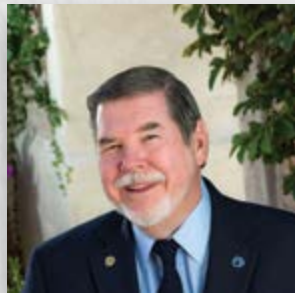
SIMPLE
Banking

PERSONAL
Interactions

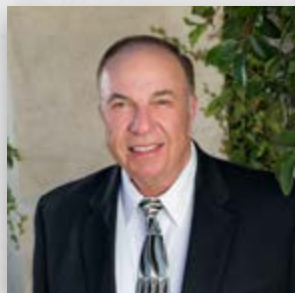
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The Board of DIRECTORS



James Kisner
Board Chairman



David Bosman
Vice Chairman



Pedro Nájera
Treasurer



Linda Kennedy
Secretary



James Knoff
Board Member



Tim Dunne
Board Member



David Finerson
Board Member

The MANAGEMENT

President/Chief Executive Officer

Eric Renaud

SVP/Chief Retail Officer

Bruce Baca

SVP/Chief Lending Officer

Cindy Campano

SVP/Chief Human Resources & Marketing Officer

Angi Griffin

SVP/Chief Risk Officer

Laura Ward

Vice President of IT

Robert Dutcher

Vice President of Retail Support & Development

Tricia Norman

Vice President of Consumer Lending

Danny Smith

Vice President of Finance

Antonio Dias

The COMMITTEES

Supervisory Committee

Victor Thornton, *Chair*
Linda Dhaemers
David Finerson

Michael Klinicki
Ron Parker
Van Elrod (alternate)

Credit Review Committee

Linda Kennedy, *Chair*
Cindy Campano
John Davis
Ramon Gonzalez

Rudy Ingersoll
Eric Renaud
Danny Smith

Loan Review Committee

Harold Semrock, *Chair*
Cindy Campano

James Kisner
Danny Smith

Mr. James Kisner, Board Chair, opened the April 19, 2016, Pima Federal Credit Union Annual Meeting at 6:55 p.m. There were 199 members registered with 350 meals served. He then introduced the Credit Union's new President and CEO, Eric Renaud. Mr. Renaud thanked the members and guests in attendance and recognized the Credit Union's volunteers and staff for their appreciation of the Credit Union movement.

Mr. Renaud reviewed the financials highlighting the steady increase in total assets and shares/deposits year over year. Total loans ended at \$258.6 million, a record high for the Credit Union, and net income ended at \$3.9 million, the highest annual amount for the last eight years. The positive overall results for 2015 showed an increase of the regulatory capital ratio from 10.19% to 10.41% year over year. Trends demonstrate five consecutive years of successful growth and a 5-star rating for 39 consecutive quarters (10 years) from Bauer Financial, an independent rating agency.

Mr. Renaud reported on the Credit Union's commitment to giving to the community, with over 2,000 hours volunteered by 95% of employees in 2015. He spoke of the association partnerships with Literacy Connects, Friends of the Pima County Library, and the Children's Museum. He reported that the Credit Union continues to support many organizations while its main emphasis is Amphi, Marana, Flowing Wells, and Sunnyside School Districts. In doing so, teachers from those school districts are the benefactors of the Pima Federal Golf Classic. In 2015, Pima Federal raised \$45,000 and partnered with Tucson Values Teachers (TVT) and Walgreens who provided a match, bringing total funds raised to \$90,000. He thanked everyone involved in making the Golf Classic a success.

Mr. Renaud ended his report with an update on the construction of the newest financial center located in Oro Valley. The Steam Pump Financial Center's design will enhance efficiencies and maintain relevancy. He spoke about the different mortgage programs offered by the Pima Federal Home Loans Department and the platforms provided for member's banking needs through technology. Mr. Renaud then turned the meeting back over to the Chairman of the Board.

Mr. James Kisner thanked everyone in attendance and he recognized the committee volunteers for their continued dedication to the Credit Union, its members and staff. He acknowledged that the Credit Union staff continues to volunteer their time in the community at many different organizations including the Pima Federal Golf Classic. He stated that the Board was pleased with the Golf Classic's success and the proceeds it generates for our local school teachers. Mr. Kisner recognized the Steam Pump Financial Center Project Team and announced that the team anticipates a September 2016 opening. He then officially opened the 2016 Business Meeting at 7:13 p.m.

Mr. Kisner, Chairman, asked for a motion to approve the April 28, 2015 Annual Meeting Minutes as printed. A motion was made by Ms. Linda Kennedy seconded by Mr. Dave Finerson, and the motion carried. Mr. Kisner then introduced Mr. Pedro Nájera, Board Treasurer.

Mr. Nájera reported that the Credit Union had another successful year with an increase in total assets of \$27.5 million, and growth in deposits of \$20.8 million. The loan portfolio grew by \$32.9 million and loan quality remains high. He reported that loan rates remain low benefiting the membership and allowing the Credit Union to improve earnings year over year. The Credit Union continues to be financially sound while meeting the financial needs of its membership in the current economic environment.

The Chairman introduced Ms. Linda Kennedy, Credit Review Committee Chair. Ms. Kennedy reported that delinquency and charge-offs continue to remain low and at year-end the delinquency ratio was 0.29%, compared to 0.27% in 2014, and 0.19% in 2013. The charge-off ratio was 0.75%, compared to 0.74% in 2014, and 0.84% in 2013. She commended the consistency in loan underwriting and the staff for their commitment to providing outstanding service to our members.

The Chairman introduced Mr. Harold Semrock, Chairman of the Loan Review Committee. Mr. Semrock asked for the approval of the Loan Review Committee Report as written.

Next, the Chairman introduced Mr. Victor Thornton, Supervisory Committee Chair. Mr. Thornton reported that the Committee engaged Nearman, Maynard, Vallez, an independent public accounting firm, to perform the financial audit for the fiscal year ending June 30, 2015. Additionally, examiners from the National Credit Union Association, a federal regulatory agency, conducted separate annual reviews to evaluate the financial condition, the safety and soundness of the Credit Union, and compliance with applicable laws and regulations. All internal audits completed in 2015 by Clifton Larson Allen disclosed no material violation of law or any unsound business practices. He thanked the Board of Directors and management for their continued support and cooperation and he thanked the members for their trust in the Supervisory Committee.

The Chairman then requested the approval of the annual report. A motion was made by Mr. Dave Bosman to approve the annual report as printed. Mr. Tim Dunne seconded the motion and the motion carried.

The Chairman announced the results of the 2016 elections stating that Mr. Dave Finerson, Mr. Pedro Nájera, and Mr. Tim Dunne were re-elected to the Board by acclamation to a three year term. Mr. James Knoff

was elected to the Board by acclamation to a one year term, completing the term of his predecessor.

Being that there was no new business or further discussion, the Chairman adjourned the meeting at 7:28 p.m.

James Kisner, *Board Chairman*
Linda Kennedy, *Secretary*
Georgina Beattie, *Recording Secretary*

Below | Momma Bear and Brother Bear at a book reading event in Springerville, AZ.



2016 ANNUAL MEETING MINUTES

A message from **OUR CHAIRMAN & PRESIDENT /CEO**



James Kisner
Chairman of the Board



Eric H. Renaud
*President &
Chief Executive Officer*

Pima Federal Credit Union retains a long history of providing member value as a financial cooperative chartered to provide thrift and credit to the communities it serves. The Credit Union's success is demonstrated through growth in membership, growth in assets under management, equity, and of course a strong brand and reputation in the communities served. Through the years, we have grown and become more sophisticated in the way we deliver services to our members; however, one constant remains – our commitment to helping our members and their families.

The Credit Union ended 2016 with \$486.8 million in assets; growth of \$20.6 million year-to-year and a strong capital ratio of 10.56%. In addition, membership grew by 1.9%, resulting in 55,903 members at year-end. The Credit Union once again received a 5-star rating from Bauer Financial.

During this past year, the Credit Union was committed to enhancing our value proposition of providing smart solutions, simple banking, and personal service. First, and most significantly, the Credit Union opened the new Steam Pump Financial Center in Oro Valley. Opened in September 2016, this state-of-the-art financial center provides a unique service model that balances both technology and personal member service. Our Credit Union will continue to progress by installing digital self-serve kiosks at all financial center locations in the near future.

Second, the Credit Union began the process to significantly improve service for debit card issuance and replacement. The added benefit of instant issue debit cards, combined with our free checking account, is another way your financial cooperative provides outstanding value. By the end of May 2017, all financial centers will be equipped to replace any lost, stolen, or compromised debit cards onsite. When a member opens a new checking account, the debit card will now be issued at the time of account opening.

Thirdly, given the importance of youth financial literacy, the Credit Union held numerous Berenstain Bear book reading events at all Financial Centers to increase awareness around financial responsibility. Along with other community events, the bear readings helped to promote our special high yield youth accounts and good grades programs, providing tools for parents and teachers to create excitement around financial education.

Finally, Pima Federal Credit Union is about more than earnings and strong capital, it is also about serving. In 2016, our employees have volunteered over 2,700 hours in the community, taught financial literacy to over 660 students, and donated close to \$180,000 in sponsorships and donations to organizations that

directly benefit the communities in which we serve. Through new membership donations, Pima Federal was able to contribute a total of \$40,360 to Friends of the Pima County Public Library, the Children's Museum, and Literacy Connects thereby increasing membership with these non-profits. As a member-owned financial cooperative, Pima Federal is, at its core, all about giving back to our communities. Not only are we proud about how many hours we serve, we are particularly proud that over 80% of our employees participated in giving back to the community. The 4th annual Pima Federal Golf Classic alone raised \$50,000 for local teachers. Through our partnership with Tucson Values Teachers, we distributed 1,000 gift cards to teachers to assist them in purchasing supplies for their classroom.

On behalf of our entire organization, we are grateful to our Board of Directors and Committee Members for their continued dedication to the Credit Union. As members, you elect these individuals to represent your best interest, and they continue to fulfill this critical duty for your financial cooperative.

Your Credit Union's strength relies on active participation and engagement from all members. Let us be your first choice for your financial solutions, together making our credit union even stronger. The Board of Directors, the Management Team, and all employees are dedicated to providing you, our members, with service excellence at each and every interaction. We exist because of you, and we remain committed to your success. We know you have many choices as a consumer, and we are thankful that you choose to be a member of Pima Federal Credit Union.



Above | Pima Federal receiving 2nd place for the 2016 Dora Maxwell Social Responsibility Award and Honorable Mention for the 2016 Desjardins Award.

Below | Steam Pump Financial Center Grand Opening event on September 21, 2016



Your member-owned financial cooperative, Pima Federal Credit Union, increased total assets \$20.6 million, to a new high of \$486.8 million as of December 31, 2016. Growth in loan balances outstanding was led by autos, followed by residential and other consumer loans. Total shares (deposits) grew by \$24.4 million to a year-end balance of \$406.9 million. Share (deposit) growth was supported primarily in regular savings, checking and money market accounts. All deposits products increased year-over-year.

During the year, the Credit Union funded \$176 million in new loans, resulting in a year-end balance of \$284.9 million in receivables. Loan quality remained high as demonstrated by the low year-end delinquency rate of 0.34% and year-to-date loan losses of 0.87%. The allowance for loan losses increased \$0.5 million to \$3.1 million, or 1.09% percent of total outstanding loans, providing the Credit Union with sufficient reserves for future loan losses. The Credit Union finished the year with net income of \$2.9 million or 0.60% return-on-assets, resulting in a healthy year-end capital ratio of 10.56%.

As of year-end, the Credit Union's investment portfolio consists of \$147.6 million in fixed income securities, bank and credit union certificates of deposits. The investment portfolio permits the Credit Union to earn additional interest income, manage cash flow and interest rate risk, while also providing the Credit Union with the ability to meet the increasing demand for loans.

The economy in Tucson continued to improve, following national trends, while Springerville remained relatively unchanged year-over-year. Tucson in particular improved in several measures; job growth, improved unemployment rate, and positive home price appreciation. Demand for the Credit Union's products and services remained strong, as demonstrated in both deposit and loan growth.

In 2016, the Federal Reserve moved from an accommodative monetary policy to a policy of tightening. The Federal Reserve began to increase the overnight rate charged to banks and credit unions. The accommodative, or low rates, were meant to help the economy grow. The Federal Reserve, in changing the overnight, rate now believes the economy is strong enough to absorb higher rates, trusting the economy will continue to improve in 2017. Based on "normal" market rates, the current low rate environment will continue to have a negative impact on savers; however, the impact to borrowers is favorable, offering an opportunity to purchase homes and automobiles at attractive borrowing rates.

As we enter 2017 and beyond, the Credit Union will carefully manage deposit and loan rates through an active Asset & Liability Management process, balancing the needs of the cooperative and individual members ensuring interest margins are reasonable to support the asset growth and operations of the cooperative. Members will receive value of membership by utilizing the Credit Union for all financial solutions. This full utilization by the membership allows the Credit Union to mitigate the effects of a reduced margin while continuing to thrive in an ever-changing financial landscape.

Pima Federal Credit Union is financially strong and continues to offer competitively-priced financial solutions. Pima Federal is positioned to help our members achieve their financial hopes and dreams.

Pedro Nájera, *Treasurer*

Treasurer's REPORT

Supervisory COMMITTEE REPORT

The Supervisory Committee is required by the Federal Credit Union Act and is appointed by the Board of Directors. The Supervisory Committee is the Credit Union's audit committee – a kind of "watchdog" for the members. It is responsible for ensuring that the financial records are in order and that the internal controls are in place to protect the assets of the credit union and its members. The Committee also determines whether the Credit Union is in compliance with all relevant regulations and laws, and whether the board policies are being followed.

In order to fulfill its responsibilities, the Supervisory Committee:

- ▶ Engaged the services of the CPA firm of Nearman Maynard Vallez (NMV) to perform the annual Financial Audit and annual Verification Program and other regulatory compliance audits.
- ▶ Engaged the services of the CPA firm of Clifton Larson Allen (CLA) to perform internal audits and other compliance audits.
- ▶ Developed an annual internal audit plan with the assistance of its audit firm, the Board of Directors, Risk Department and management, with special emphasis on areas of higher risk.

In summary, based on the various reports of the two certified public accounting firms, regulatory examinations and meetings with Credit Union's management and members of the Risk Management Department, we believe the Credit Union's financial condition and internal controls and procedures are sound.

On behalf of the Supervisory Committee, I want to thank the Board of Directors and Management for their support and cooperation throughout the year. I also want to thank our members for their trust in the Credit Union.

Victor Thornton, *Chair*



Above | Brother Bear and Sister Bear with members of Pima Federal's /Fly Committee at Community Partner Day at Steam Pump on December 10, 2016.

Credit Review COMMITTEE REPORT



Above | Marketing Director with Teacher of the Game, Amy Rudd (right), at the Pima Federal sponsored UA Football game on November 12, 2016.

Below | Danielle Mulleneaux, recipient of Amphi's Legendary Teacher Award sponsored by Pima Federal, with her students.



The Credit Review Committee meets on a quarterly basis and is comprised of three volunteers, and five paid employees. The primary purpose of this committee is to ensure appropriate oversight of credit-related issues and to monitor that loan programs are in place to manage credit risk. The committee's ongoing responsibility and commitment is to balance the borrowing needs of the membership with the safety and soundness of the credit union's assets. At a minimum, this includes reviewing allowance for loan losses, delinquency trends by product, credit tier, collateral, dealer management and underwriter performance. The committee also works with management to monitor economic trends and the potential impact to members.

At year-end 2016, the delinquency ratio was 0.34% and the year-to-date net charge-off ratio was .87%, a slight increase over year-end 2015 delinquency ratio of 0.29% and the year-to-date charge-off ratio of 0.75%. Overall, delinquency and charge-offs continued to remain within acceptable and manageable levels, which is the result of the membership commitment to the cooperative, strong partnership with loan underwriting and effectively working with members as they encounter financial difficulties.

Linda Kennedy, *Chair*

The Loan Review Committee consists of two volunteers and two paid employees. The Committee's primary responsibility is to ensure an unbiased lending process is available for all members of the credit union in the event a member requests an appeal of a loan decision. The Committee meets to review loan application appeals submitted by management on behalf of the credit union's members. A member may, if desired, personally meet with the Loan Review Committee to discuss their loan appeal. This process of review assures members that loan requests will receive equitable and full consideration.

The Credit Review and Loan Review Committees remain committed to helping our members with their lending needs while also appropriately managing credit risk. This balance helps our credit union grow while maintaining safety and soundness of our member-owned assets. Thank you for your ongoing trust in the credit union.

Harold Semrock, *Chair*



Above | Children coloring Pima Federal piggy banks at the Oro Valley Holiday Festival Of The Arts & Tree Lighting Celebration in December 2016.

Below | President/CEO Eric Renaud presenting check to Tucson Values Teachers with proceeds from the 2016 Pima Federal Golf Classic.



Loan Review COMMITTEE REPORT

2016 BALANCE SHEET

	December 31, 2016	December 31, 2015	December 31, 2014
ASSETS			
Loans to Members	\$286,379,677	\$258,649,105	\$225,689,363
Less: Allowance for Loan Losses	3,105,425	2,558,175	2,553,796
Net Loans Outstanding	283,274,252	256,090,930	223,135,567
Cash and Investments	171,136,372	184,344,041	188,073,372
Land and Buildings & Furniture and Equipment	20,890,816	19,002,171	18,870,841
NCUSIF Deposit	3,898,016	3,739,231	3,559,021
All Other Assets	7,559,068	2,942,593	4,935,470
Total Assets	\$486,758,525	\$466,118,966	\$438,574,271
LIABILITIES			
Total Member Shares/Deposits	406,992,235	382,565,831	361,717,825
Notes Payable	25,000,000	32,500,000	29,650,000
Accounts Payable and Other Liabilities	7,376,635	5,194,299	4,499,334
Total Liabilities	\$439,368,871	\$420,260,130	\$395,867,160
CAPITAL			
Undivided Earnings and Regular Reserves	51,405,960	48,536,189	44,669,668
Other Comprehensive Income & Investment Market Valuation	(4,016,305)	(2,677,353)	(1,962,557)
Total Capital	\$47,389,655	\$45,858,836	\$42,707,111
Total Liabilities & Equity	\$486,758,525	\$466,118,966	\$438,574,271

2016 INCOME STATEMENT

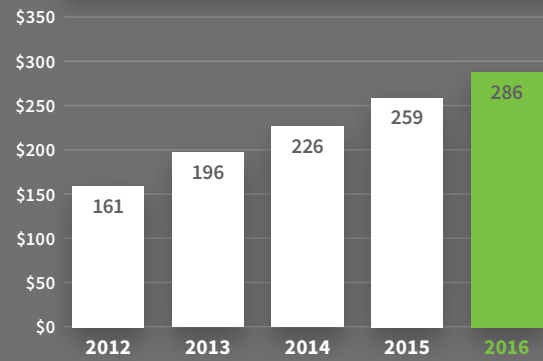
	2016	2015	2014
Interest on Loans	\$13,694,143	\$12,794,489	\$11,803,715
Interest on Investments	3,327,225	3,909,806	3,639,283
Total Interest Income	17,021,368	16,704,295	15,442,998
Dividend Expense	678,065	635,193	600,705
Funds Purchased	118,192	60,764	34,172
Total Interest Expense	796,256	695,957	634,877
Net Interest Income	16,225,112	16,008,338	14,808,121
Provision for Loan Loss	2,923,848	1,801,774	1,873,213
Net Interest Income after Prov	13,301,263	14,206,564	12,934,908
Fee & Other Income	8,779,480	7,933,114	7,026,713
Operating Expense	19,210,973	18,273,157	16,705,925
Net Income	2,869,771	\$3,866,521	\$3,255,696

Below | Players on the driving range at the 2016 Pima Federal Golf Classic at Dove Mountain.



5-Year FINANCIAL TRENDS

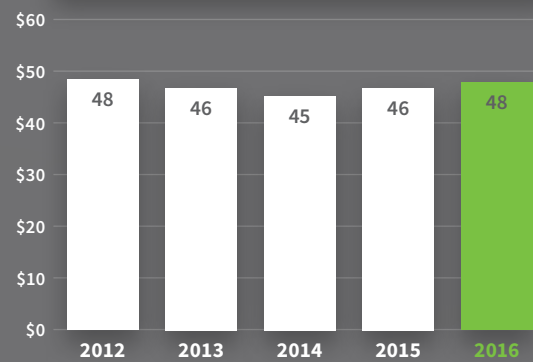
Total Loans in Millions



Total Shares in Millions



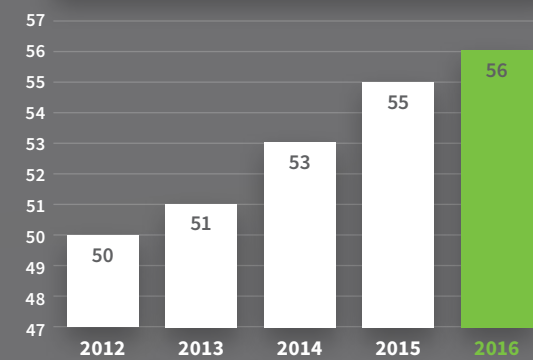
Term Shares Certificates in Millions



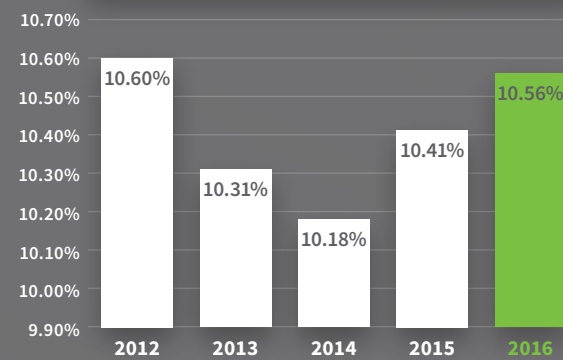
Total Assets in Millions



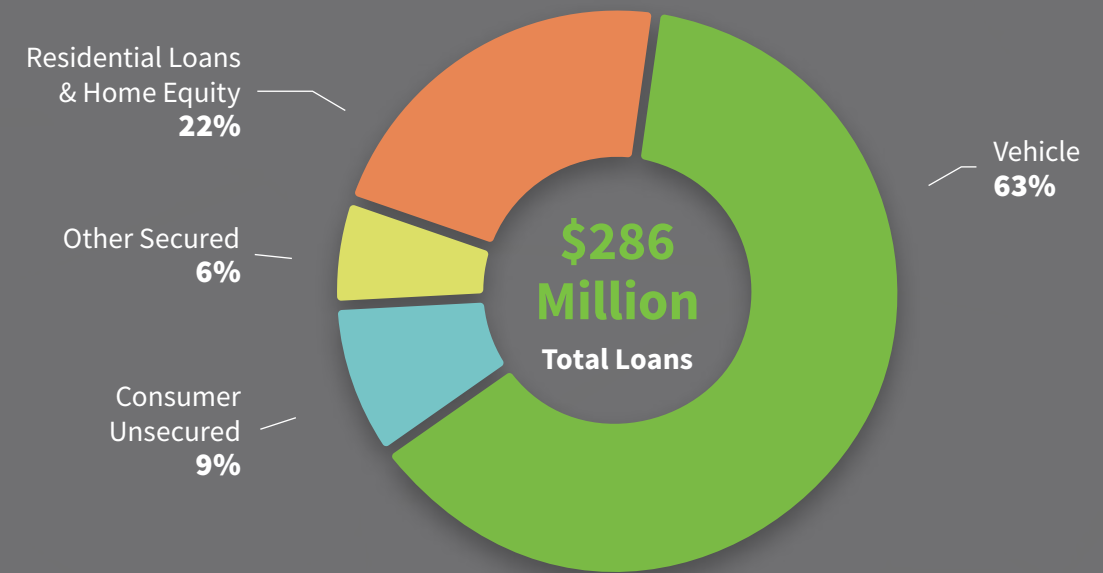
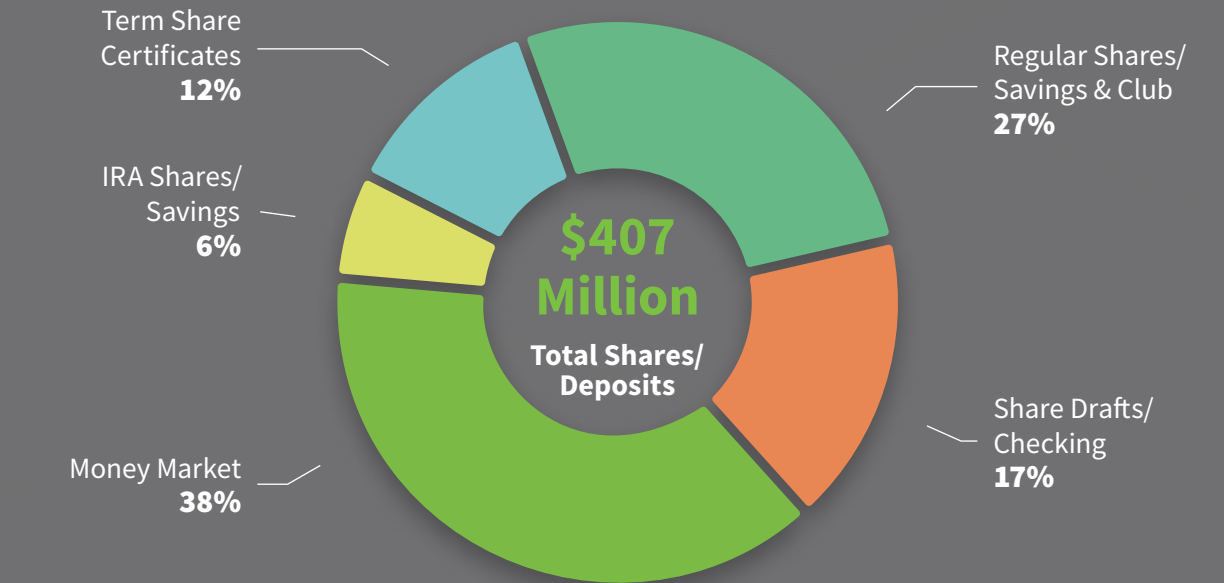
Number of Members in Thousands



Capital Ratio in Percentage



Share COMPOSITION



Loan COMPOSITION



Celebrating **65** Years

of Helping Others

Smart Solutions.

Simple Banking.

Personal Interactions.



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April 2017.