OPENING DOORS TO OPPORTUNITY

2016 ANNUAL REPORT
At that time, the staffs of the Bank and Fund were unable in many cases to transfer capital from their homelands. Europe was in the grip of post-war austerity and there was an acute dollar shortage. The new staff of the infant institutions urgently needed credit for even such workday requirements as clothing and household equipment. Because of the housing shortage in Washington, many of them gravitated towards apartments. It was against this background that 25 staff members heard a representative from the Federal Deposit Insurance Corporation explain the working of a credit union, a cooperative savings and loan association to be operated solely for the benefit of the staff. They voted unanimously to proceed with the project. Five of them advanced the funds needed to qualify for its Charter.

—Bank Notes, November 1972, on the Credit Union’s 25th anniversary
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70 YEARS STRONG

In 1947, the employees of the World Bank and the International Monetary Fund came together to find a convenient and affordable way to save and borrow—and Bank-Fund Staff Federal Credit Union was created.

This year, we are celebrating our 70th anniversary of serving you—a time to reflect on our history and again honor our legacy and its enduring achievements. It is also a time to renew our commitment to you that with our strong foundation, we will continue to meet future challenges by your side.

As a cooperative, we have an obligation to tailor our products and services to the unique needs of our member-owners. We acknowledge that you have many choices in financial services providers in today’s world and we thank you for your continued loyalty and support. We pledge to continue to work tirelessly to provide you with the best value in financial services and the exceptional personal service you deserve.

As we celebrate the successes of the last 70 years, we also celebrate the future—invigorated with purpose and resolve to enrich the financial lives of our members. We look forward to another 70 years of opening doors to opportunity for you and your families.
SUMMARY
FINANCIAL STATEMENT
2016 vs 2015
Fully audited financial statements are available at BFSFCU.org.
MESSAGE FROM THE CEO AND THE BOARD PRESIDENT
In our 2015 Annual Report, we asked that you “Take Us with You” — a theme that spoke to our commitment to being there for our members whether they are home or away. In 2016, mobile and convenient access to our products and services continued to be of the highest priority for us along with providing an exceptional service experience for all our members. Our dedicated BFSFCU team was hard at work on many initiatives in 2016, and we would like to update you on the exciting progress we have made.

The highlight of the year has been the successful deployment and vigorous adoption of our Mobile Banking apps for both Apple® and Android™ smartphone and tablet devices. In response to member demand, we also introduced the Passcode feature as well as Touch ID to more easily access the full functionality of the mobile app. Almost 23,000 members are actively using the apps to deposit checks with the camera on their devices, transfer money, view balances, pay bills and receive activity alerts.

We expanded the reach of mobile payments by adding Android Pay™ and Samsung Pay for credit cards to complement our Apple Pay™ offering which was launched in 2015.

We enhanced our Visa® Signature Card by introducing “No Foreign Transaction Fees” with this card. This premier card also offers greater rewards, concierge level service, no annual fee and no balance transfer fee.

In 2015, we introduced the 7-year/10-year Split High Yield share certificates which offer significantly higher yields for our longer-term investors. In 2016, we added the 5-year and 6-year options, plus we added all of these High-Yield share certificates to our IRA account offerings. Many members who are longer-term depositors are taking advantage of these higher rate deposit options.

We introduced EMV chip-enabled Visa debit cards to complement our existing and popular EMV chip-enabled Visa credit cards.

We upgraded our Online Banking platform to improve functionality, enhance our alert options, offer credit card eStatements, add advanced person-to-person payment capabilities, and provide an improved member experience.

We added paperless document and electronic signature functionality to our new mortgage loan origination system which has received high praise from our members.

In addition to these achievements, we were excited to see that our members value and take advantage of the products and services available to them:

- Nearly 7,700 members obtained low-rate loans and credit cards totaling over $718 million.
- $453,506 was rebated to our members for the purchase and/or sale of their home through realtors in our HomeAdvantage™ program.
- Members saved an estimated $1.4 million plus on car purchases with our Car Buying Service powered by TrueCar®.
- Over 15,400 members were protected by TruStage™ insurance products.
- Over $891,000 was refunded to members through our ATM Surcharge Rebate Program.

As we look to 2017, we remain dedicated to providing you with the best options in financial services and we will focus on continual improvement efforts on our products, technology, and your service experience. We encourage you to invite your family to join Bank-Fund Staff Federal Credit Union to begin enjoying the same exclusive benefits available to you. This will be an important year for our Credit Union as we celebrate our 70th anniversary and more specifically, you, our members. As always, we thank you for the privilege of serving as your financial partner.

**KERRY MACK**  
President, Board of Directors

**ELI VAZQUEZ**  
Managing Director and Chief Executive Officer
FINANCIAL STATEMENTS
Total assets increased 6.32% to $4.5 billion from $4.2 billion at year-end 2015. Net loans increased 8.62% to $2.5 billion, reflecting a continued demand for first mortgage loans amid the low rate environment.

Total deposits increased $237.0 million, or 6.36%, to $4.0 billion from over $3.7 billion at year-end 2015. Our checking accounts experienced the largest deposit increases of approximately $102.4 million, or 11.21%.

Net income was $34.0 million in 2016 as compared to $22.8 million in 2015, an increase of slightly more than $11.2 million increase driven by higher net interest income and gains on sales from our investment portfolio.

Revenues, defined as net interest income and noninterest income, were $103.2 million for the year ended December 31, 2016, as compared to $87.4 million for the same period last year. This increase of $15.8 million was driven primarily by higher interest income and gains on our investment portfolio.

Dividend expense decreased marginally in 2016 by $276 thousand to $14.3 million compared to 2015. This slight decrease in dividend expense year over year was a result of a shift of deposit balances to lower yielding products. The Board of Directors approved supplemental dividend remained at $10.0 million, unchanged from 2015.

We experienced an increase in our provision for loan loss of $1.9 million to $6.4 million from $4.5 million. This increase was primarily driven by the increase in balances of our overall loan portfolio and net loan charge-offs, resulting in a higher provision needed as compared to 2015 to achieve the targeted allowance for loan loss and delinquency coverage ratios. Net charged-off loans were $4.3 million for the year ended December 31, 2016, compared to $2.9 million for the same period last year.

During 2016, the allowance for loan losses (the “reserve”), which represents management’s estimate of loan losses inherent in the loan portfolio, increased to $25.7 million from $23.7 million in 2015. This increase is driven by historical loss rates and growth in loan balances. Currently, our reserve ratio, defined as the allowance for loan losses to gross loan balances outstanding, is 1.00% and is unchanged from 1.00% as of December 31, 2015.

Noninterest expenses, or operating expenses, increased by $2.7 million or 4.35% compared to 2015. Cost control efforts continued throughout 2016 in an attempt to maintain low operating expenses at the Credit Union; however, expenses associated with supporting a growing membership and regulatory requirements drove year-over-year increases. Our expense ratio decreased from 1.50% in 2015 to 1.47% in 2016.

**LIQUIDITY AND INVESTMENTS**

The Credit Union’s goal is to maintain a liquidity level to accommodate potential fluctuations in deposits and loan demand. The cash and cash equivalents position decreased $37.5 million or 14.4% to 2015 balances as we invested excess cash into short-term liquid investments with higher yields than cash.

Investments, which are composed primarily of U.S. Treasury and U.S. government agency supported mortgage-backed securities, increased approximately $75.2 million compared to 2015. The investments balance was $1.59 billion at December 31, 2016, compared to $1.52 billion a year ago. The total return for the investment portfolio for the period ended December 31, 2016, was 0.87% versus 0.61% a year ago.

**CAPITAL STRENGTH**

Members’ Equity, or capital, and the related capital ratio are primary indicators of a financial organization’s strength and soundness. Members’ Equity to Total Assets was 11.10% at December 31, 2016, and continues to exceed the NCUA’s “well capitalized” threshold of 7.00%. The Credit Union’s capital base increased $34.0 million, or 7.3% in 2016 and continues to demonstrate our commitment to ensuring the organization’s ongoing financial viability, while investing in improvements and expansion of services to members.

**NCUA EXAMINATION / EXTERNAL AUDIT**

Our NCUA examiners completed their most recent examination of the Credit Union effective June 30, 2016. In addition, our outside independent public accountants, CliftonLarsonAllen LLP, completed their audit for the period January 1, 2016 to December 31, 2016. Their complete report containing the entirety of our audited financial statements can be found on our website at BFSFCU.org.
CREDIT COMMITTEE REPORT

PAUL B. BRAVERY
Chair

Members
SIMON CAUCHI
STUART COHEN
FERNANDO GAITÁN
HEATHER S. H. WOOLLS

Alternate Members
TATIANA GUDUMAC
MEHERJI MADAN
GISELA ULMSCHNEIDER
On behalf of the Credit Committee, it is a pleasure to report on another strong year in the lending area. Total gross loans outstanding at December 31, 2016, and December 31, 2015, were approximately $2.6 billion and $2.4 billion, respectively. The Credit Union’s gross loans-to-deposits ratio was 64.84% at the end of 2016 compared to 63.46% at the end of 2015. As our members continue to find the Credit Union safe and sound for deposits, we continue to explore options to grow loans and add value to the membership. Our loan portfolio is comprised of 91.26% real estate loans and 8.74% consumer loans. Outstanding real estate and consumer loan balances as of year-end were $2.3 billion and $224.6 million, respectively.

Our mortgage loan servicing portfolio decreased in 2016 to $332.5 million from $403.2 million in 2015. The decrease in the servicing portfolio is a result of our members refinancing existing fixed rate mortgages to lower rate products offered throughout the year or simply paying down debt.

The Credit Union experienced a slight decrease in the total amount of delinquent loans to $36.2 million as of December 31, 2016, from $36.7 million as of December 31, 2015. Delinquencies remain low at 1.44% of total gross loans outstanding, down from 1.55% a year ago.

Reportable delinquent loans, defined by the NCUA as those delinquent loans 60 days or more past due, were $13.7 million (0.54% of total gross loans outstanding) as of December 31, 2016, compared to $19.4 million (0.82% of total gross loans outstanding) as of December 31, 2015.

I would like to thank the staff of the Lending Services Department, as well as the members and alternate members of the Credit Committee, for all of their dedicated efforts on behalf of the Credit Union and its membership.
The Supervisory Committee is responsible for confirming that management’s financial reporting objectives have been met, and that management practices and procedures safeguard members’ assets. The Committee engaged the auditing firm of CliftonLarsonAllen to conduct an audit and express an opinion on the financial statements of the Credit Union for the period January 1 through December 31, 2016.

CliftonLarsonAllen has completed their audit, which was performed in accordance with generally accepted auditing standards. Their unmodified opinion, along with the Credit Union’s audited financial statements, is available on the Credit Union’s website located at BFSFCU.org.

We confirm that the auditors’ report is based on information obtained from the Credit Union’s records and through direct observation by the auditors, acting on behalf of the Supervisory Committee, and that, to the best of our knowledge and belief, the statements covered by their opinion are accurate.

NICHOLAS PARDOE
Chair

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