



**INVESTING IN
THE BEST IN
MEMBERSHIP
EXPERIENCES**
2018 ANNUAL REPORT



BANK-FUND STAFF FEDERAL
CREDIT UNION

DEDICATED TO SERVING OUR MEMBERS SINCE OUR INCEPTION

Over 71 years ago, 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 BankFund Staff Federal Credit Union was created. As a cooperative, we have the opportunity to tailor our products and services to the unique needs of our members. Today, we remain true to our original mission of providing the best value available in financial services to those we serve, but we must also adapt. The competitive landscape is redefining banking and we are committed to reshaping your member experience so that we may remain your financial partner in a digital world.





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SUMMARY OF FINANCIAL STATEMENTS 2018 vs 2017



(In Thousands, US\$)	2018	2017	% Change
STATEMENTS OF FINANCIAL CONDITION			
Cash and Cash Equivalents	\$ 210,813	\$ 232,252	(9.23)
Investments	1,865,350	1,748,275	6.70
Loans (Net of Allowance for Loan Losses)	2,798,196	2,707,677	3.34
Loans in Process	36,193	22,007	64.46
Other Assets	61,284	80,672	(24.03)
Total Assets	4,971,837	4,790,884	3.78
Deposits	4,348,837	4,229,471	2.82
Other Liabilities	39,383	32,951	19.52
Members' Equity	593,911	536,041	10.80
Total Liabilities and Members' Equity	4,971,837	4,790,884	3.78
STATEMENTS OF INCOME			
Interest Income	\$ 136,533	\$ 115,622	18.09
Interest Expense (Dividends)	26,935	19,546	37.81
Net Interest Income	109,597	96,076	14.07
Provision for Loan Losses	(1,331)	5,605	(123.75)
Noninterest Income	19,433	15,792	23.06
Noninterest Expense	72,491	67,696	7.08
Net Income	57,870	38,567	50.05
KEY EQUITY RATIOS			
Members' Equity to Deposits	13.66%	12.67%	7.75
Members' Equity to Total Assets	11.95%	11.19%	6.76
OTHER HIGHLIGHTS			
Mortgage Servicing Portfolio	\$ 242,446	\$ 279,569	(13.28)
Operating Expense to Assets	1.52%	1.49	2.01
Members	88,413	87,058	1.56
Mobile Banking Users	32,834	28,324	N.M.
Online Banking Users	45,351	43,825	3.48

Fully audited financial statements are available at BFSFCU.org.

LEADERSHIP: BOARD OF DIRECTORS



SENIOR MANAGEMENT





MESSAGE FROM THE CEO AND THE BOARD PRESIDENT

2018 was a year of change in the financial markets. After years of unprecedented financial stimulus, the Federal Open Market Committee (FOMC) more aggressively raised short-term interest rates. The reason for this monetary tightening was to remove stimulus due to concerns about potential inflation and the economy approaching full employment. The one-month U.S. Treasury bill yield rose from 1.29% at the beginning of the year to 2.44%. The 10-year U.S. Treasury note yield, an important driver of long-term mortgage rates, started the year yielding 2.46%, rose to a high of 3.24% in early November, and by year-end dropped to 2.69%. Clearly, interest rates have a significant impact on financial institutions and our members which is why it leads our annual message introduction.

Despite this volatility and throughout the year, BFSFCU remained a safe haven for our members to maintain deposits and served as a source of funding for member borrowing needs. Our member deposits grew by over \$119 million while loans outstanding increased by over \$85 million. Total dividends paid to members in 2018 increased by over 37%. Loans

granted to BFSFCU members, including advances on lines of credit and credit cards, exceeded \$1.15 billion in 2018.

Return on assets improved by almost 43% to a five-year high of 1.19%. Member capital grew by 76 basis points to a five-year high of 11.94%. Strong cost control and sound underwriting continued to maintain our expense to asset ratio, efficiency ratios and loan loss ratio at favorable industry-leading levels. This financial success was due largely to the ongoing loyalty and support of our member-owners who continued to turn to BFSFCU for their savings and borrowing needs. In appreciation of this loyalty and to celebrate this success, the Board of Directors approved a distribution of \$12,500,000 on January 18th, 2019 – our 24th annual supplemental dividend.

Success in 2018 was not defined only by financial measures. While financial success is important to our institution, we must remain committed to investing in initiatives that improve the service and value we deliver to our members. Continuous improvement in our member satisfaction ratings will be supported by

ongoing investments in our staff and member-facing technology. We recognize that the stability and future growth of our Credit Union depend on the patronage and loyalty of our members, so investing for the future is an ongoing effort.

We strive to be the preferred financial institution for all our members by delivering exceptional value through better rates and lower fees, and providing a superior member experience at every interaction. Our 2018 initiatives reflected this commitment, as we continued to focus on elevating the member experience while providing exceptional financial value by:

- » Raising our base deposit rates on many share accounts and share certificates.
- » Consistently offering among the lowest mortgage rates in the market and helping members save thousands through our HomeAdvantage™ Program. In 2018, our members received \$396,000 in cash rewards from the purchase and/or sale of their homes through realtors participating in our HomeAdvantage™ Program. And, over the life of this program, our members have benefited from over \$4.8 million in rebates.
- » Returning over \$1,013,000 to members through our ATM Surcharge Rebate Program.
- » Saving our members an estimated \$1.5 million on car purchases with our car buying service powered by TrueCar.

» Introducing the new BOLD Visa® Platinum Credit Card with one of the lowest rates in the marketplace.

In addition to exploring ways to reward our members' loyalty, we have continued to enhance the member experience through process efficiencies and better solutions to meet our members' unique needs by:

- » Maintaining our mortgage loan processing times at industry-leading levels. On average, BFSFCU mortgage loan processing times are 30 business days. These processing times remain *best in class* – *much lower than many banks and credit unions*.
- » Upgrading our consumer loan application process by deploying a new system with greater real-time approvals and digital documents.
- » Improving our in-branch new membership opening experience through new technology and a convenient online appointment tool.
- » Launching new payment options and improving exchange rates on international payments.

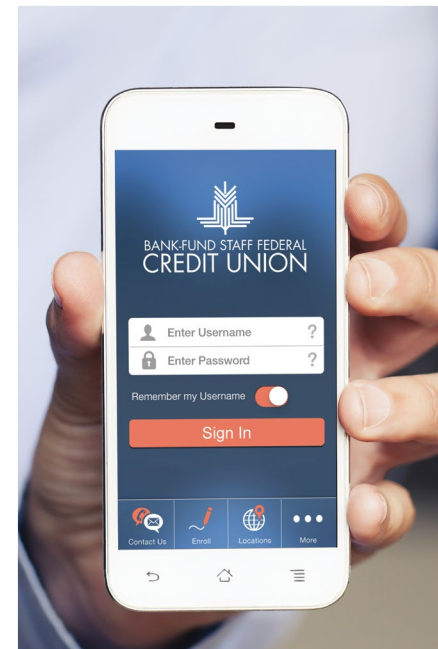
As we look to 2019 and beyond, we are making significant investments in enhancing the member experience by improving how our members access accounts and services through our website and mobile apps, as well as phone, e-mail and in-person channels. We understand that in order to stay relevant and rise above the competition in an increasingly digital world, we must dedicate significant resources to the ongoing

modernization of our technology-based services. Major initiatives for 2019 include consolidating our debit and credit card processing into a single platform that will provide a multi-functional card mobile app and a more seamless member experience. We will also initiate the replacement and consolidation of our mobile and online banking platforms into a unified digital platform. This digital solution will provide enhanced alerting, mobile payment capabilities, and a more personal member experience. We will also invest in new technology that will further simplify member authentication in our call center.

We thank you for the privilege of serving you and your financial service needs. The Board, Management, and Staff of BFSFCU remain committed to being your financial partner and to delivering the exceptional products and services you deserve from your Credit Union.

KERRY MACK
President, Board of Directors

ELI VAZQUEZ
Managing Director and Chief Executive Officer





FINANCIAL RESULTS

Total assets increased 3.78% to \$4.97 billion from \$4.79 billion at year-end 2017. Net loans increased 3.34% to \$2.80 billion, reflecting a continued demand for first mortgage loans amid the increasing interest rate environment and lower housing inventory.

Total deposits increased \$119.4 million, or 2.82%, to \$4.35 billion from over \$4.23 billion at year-end 2017. Our savings accounts experienced the largest deposit increase of approximately \$57.6 million, or 6.42%.

Revenue, defined as interest income and noninterest income, was \$156.0 million for the year ended December 31, 2018, as compared to \$131.5 million for the same period last year. This increase of \$24.5 million was primarily driven by rising market interest rates. Investment income increased by \$12.9 million and loan interest income increased by \$8.0 million; further, the Credit Union received a one-time rebate of \$2.1 million from the NCUA for prior assessments on insured credit unions, and experienced a \$1.5 million increase in noninterest income.

Dividend expense increased significantly by \$7.4 million in 2018 to \$26.9 million compared to \$19.5

million in 2017. This increase in dividend expense was a result of increases to deposit rates across all products throughout the year. The Board of Directors approved a supplemental dividend of \$12.5 million.

Noninterest expenses, or operating expenses, increased by \$4.8 million, or 7.08%, compared to 2017. Cost control efforts continued throughout 2018 to minimize operating expenses; however, expenses associated with supporting a growing membership and regulatory requirements continue to drive year-over-year increases. Higher credit card usage and higher utilization of rewards by members contributed \$3.3 million to this year-over-year variance. Our expense ratio increased from 1.49% in 2017 to 1.52% in 2018.

In 2018, the qualitative and economic factors of the general reserve were reviewed and updated to incorporate aspects of the current economic environment. This analysis led to a decrease in the required reserves of approximately 20 basis points, or \$4.7 million, compared to the prior year, and the decrease in our provision for loan loss of \$6.9 million.

Net charged-off loans were \$3.4 million for the year ended December 31, 2018, compared to \$3.9 million for the same period last year.

Net income grew to \$57.9 million in 2018 as compared to \$38.6 million in 2017, an increase of \$19.3 million.

Currently, our reserve ratio, defined as the allowance for loan losses to gross loan balances outstanding, is 0.80%, a 20 basis point reduction from 1.00% as of December 31, 2017.

LIQUIDITY AND INVESTMENTS

The Credit Union's goal is to maintain a liquidity level sufficient to accommodate potential fluctuations in deposits and loan demand. The cash and cash equivalents position decreased \$21.4 million, or 9.23%, relative to 2017 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 \$117 million compared to 2017. The investments balance was \$1.87 billion at December 31, 2018, compared to \$1.75 billion a year ago. The

total investment portfolio yield for the period ended December 31, 2018, was 1.93% versus 1.34% 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 11.95% at December 31, 2018, and continues to exceed the NCUA's "well capitalized" threshold of 7.00%. The Credit Union's capital base increased \$57.9 million, or 10.80%, in 2018 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, 2018. In addition, independent public accountants, CliftonLarsonAllen LLP, completed their audit for the period January 1, 2018 to December 31, 2018, and 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

Stuart Cohen
Jennifer Elliott
Hamish Flett
Heather S. H. Woolls

ALTERNATE MEMBERS

Tatiana Gudumac
Meherji Madan

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, 2018, and December 31, 2017, were approximately \$2.8 billion and \$2.7 billion, respectively. The Credit Union's gross loans-to-deposits ratio was 64.96% at the end of 2018 compared to 64.75% at the end of 2017. Our loan portfolio is comprised of 92.46% real estate loans and 7.54% consumer loans. Outstanding real estate and consumer loan balances as of year-end were \$2.6 billion and \$213 million, respectively.

The Credit Union experienced a significant decrease in the total amount of delinquent loans to \$29.1 million as of December 31, 2018, from \$34.3 million as of December 31, 2017. Delinquencies remain low at 1.03% of total gross loans outstanding, down from 1.25% a year ago.

Reportable delinquent loans, defined by the NCUA as those delinquent loans 60 days or more past due, were \$13.4 million (0.47% of total gross loans outstanding) as of December 31, 2018, compared to \$18.9 million (0.69% of total gross loans outstanding) as of December 31, 2017.

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.

SUPERVISORY COMMITTEE REPORT



RIAZ AHMED
Chair

MEMBERS

Packiaraj Murugan
Nicholas Pardoe
Honeylet Tuanda

Under the Federal Credit Union Act, the Supervisory Committee is responsible for confirming that management's financial reporting objectives have been met and that management's practices and procedures safeguard members' assets. In carrying out this responsibility, the Committee oversees the activities of BFSFCU's Internal Audit department, evaluates the adequacy and effectiveness of internal controls established by management, and obtains an annual audit of the BFSFCU's financial statements performed by an independent certified public accounting firm.

The Committee engaged CliftonLarsonAllen LLP (CLA) to conduct an audit and express an opinion on BFSFCU's financial statements for the period January 1, 2018 through December 31, 2018. CLA completed their audit in accordance with generally accepted auditing standards and their unmodified opinion, along with the Credit Union's audited financial statements, is available on the Credit Union's website: 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.

2018 SUCCESS IN NUMBERS



37% INCREASE
IN TOTAL DIVIDENDS PAID TO MEMBERS



\$12,500,000
SUPPLEMENTAL DIVIDEND
TO MEMBERS



\$396,000 CASH REWARDS
THROUGH OUR HOMEADVANTAGE™ PROGRAM



\$1.5 MILLION IN SAVINGS
ON CAR PURCHASES THROUGH OUR CAR BUYING SERVICE



88,413
TOTAL MEMBERS



\$1,013,000
RETURNED TO MEMBERS
THROUGH OUR ATM SURCHARGE REBATE PROGRAM



\$4.97 BILLION
IN TOTAL ASSETS



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