



APPLE FEDERAL CREDIT UNION | **Annual Report** | **2017**

Board of Directors



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Our Mission

Member trust is our number one priority. We earn trust by:

- Providing caring, personal service
- Delivering competitive financial solutions
- Supporting education and the communities we serve.

Our Vision

We will improve lives and fulfill dreams.

Letter from the Board Chair

Last year marked a time of transition for Apple when Larry Kelly, Apple's President and CEO of 22 years, retired in June. In advance of his departure, the Board of Directors launched a nationwide search for a candidate that could build upon Larry's legacy. After vetting more than 50 individuals and rigorously interviewing a group of finalists, we selected someone close to home: Andy Grimm, Apple's executive vice president and chief operating officer. The Board is confident in Andy's ability to strategically lead Apple into the future, while maintaining our 60 year tradition of improving the lives of all Apple stakeholders.

Despite a leadership shift, 2017 was yet another great year; earnings and capital increased, while expenses decreased. We also welcomed nearly 22,000 new members. From these new additions to our long-time loyalists, as surveyed, members indicated their highest levels of overall satisfaction and likelihood to recommend Apple to date. Given the highly-competitive financial market we serve, these are particularly proud accomplishments.

Our staff continually focused on service and process improvements, as well as remaining relevant and competitive. Refining the consumer loan process, for instance, cut the time to getting a loan in half. A roadmap for our digital services ushered in upgrades, and Chat was added to our website to satisfy member demand for additional information.

Apple's community outreach continues to thrive, and our staff is unmatched when it comes to our investment in and commitment to the communities we serve. Dedicating nearly 1,300 volunteer hours, staff supported programs that directly impact the community, education and well-being of local families and children.

Looking ahead, we eagerly anticipate the completion of our new, high-performance headquarters at Fairfax Corner. Not only will the building serve as a testament to our past growth, but it also represents our commitment to the Northern Virginia market in the years ahead.

We fully understand that the success we've enjoyed in the past is not guaranteed. We will continue to evolve: adapting to new technologies, appealing to new consumers and keeping pace with their rapidly changing priorities and expectations. We will work hard to maintain your trust and to demonstrate that our approach to service and financial integrity is different from other choices in the marketplace.

I would like to thank my fellow members of the volunteer Board, and Apple's management and staff for ensuring the Credit Union's prosperity. And thank you to our members for your continued support and trust. The fulfillment of your dreams is why we exist, and it's our privilege to serve you.



Dr. Calanthia Tucker
Board Chair

Message from the President



Andy Grimm
President/CEO

To begin, I wish to express my gratitude to the Board for selecting me to lead Apple Federal Credit Union. It's an honor and privilege to serve as President/CEO, having succeeded Larry Kelly in July, following his retirement. Having served with him for more than 20 years, I vow to continue our tradition of improving the lives of the entire Apple family.

As I reflect on the year as a whole, it is clear that we succeeded in our effort to remain competitive, relevant and forward-thinking.

Our institution's financial strength continues to be the foundation on which our success is built. In 2017, we eclipsed \$2.5 billion in assets and more than \$21 million in net income, representing new levels of financial achievement for the Credit Union. New loan servicing and commercial lending software increased efficiency and drove our expense ratio down. Membership growth exceeded 7% as compared to 2016, finishing the year just short of 200,000 members. The successful launch of our new digital banking platform in late 2016, provided double-digit growth for mobile deposits and account transactions. We'll keep this digital momentum as a complement to our strong, local branch presence.

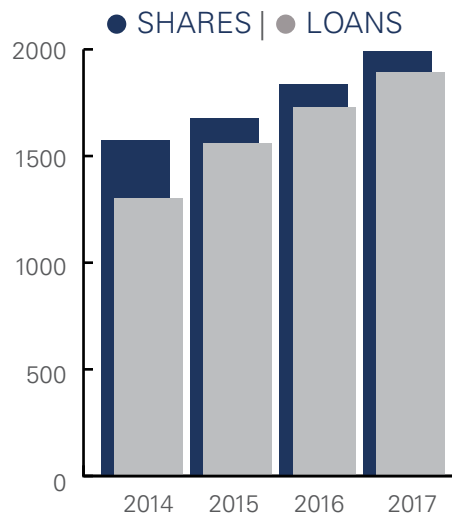
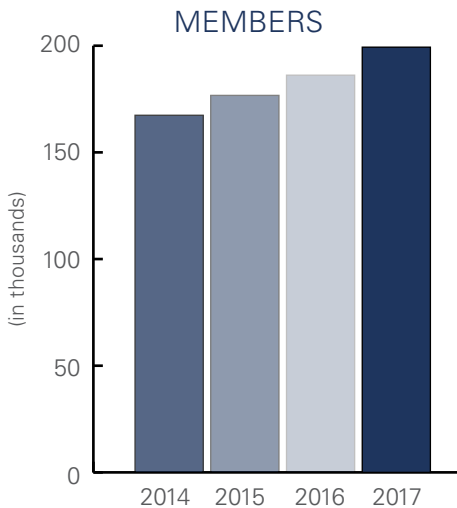
Construction advanced on our new branch and headquarters facility at Fairfax Corner. Following our spring of 2018 move, our staff will enjoy a first-class office space designed to provide a more collaborative work environment. Similarly, utilizing a 'branch of the future' planning mindset, we'll deploy a progressive service delivery system using new technology at our Fairfax Corner and Springfield locations.

Aiding in our members need of long-term financial security, Apple Financial Services reported their best year ever, surpassing more than \$1 million in investment revenue and a record-breaking \$155 million in assets under management, as well as exceeding insurance revenue and net income expectations.

Member account security remained a primary focus at Apple FCU. In the wake of the Equifax breach, we added resources and new tools to help combat fraudulent activity. This was in addition to growing our cybersecurity team in 2017.

Core to our mission, Apple continues to serve the education sector. Looking ahead for future progress, we want to fill a growing void that's been created by bank mergers and consumer distrust, by reaching out and serving our entire community. We truly are a local institution – when you deposit money at Apple, it goes back out as loans to friends, neighbors and others in the region. We hire locally, help local businesses and enrich our community through volunteerism and giving through the Apple FCU Foundation.

As we usher in a new year, Apple remains dedicated to providing meaningful value to all we serve. We will listen and ask the right questions, make things easy for you and get it right the first time. On behalf of the staff, we appreciate the opportunity to serve you as a member-owner of Apple Federal Credit Union. Thank you for your membership and for your continued loyalty.



Loan Committee Report

Apple Federal Credit Union is committed to providing quality loan products and services to its members, helping to improve their lives and fulfill their dreams. 2017 proved to be a year in which Apple was able to help many members, originating more than 22,000 loans for \$555,181,566. Apple's loan-to-share ratio (funds on deposit versus funds loaned to members) increased from 95.21% at year-end 2016, to 96.19% as of December 31, 2017.

Apple FCU's lending practices have always been conservative, a fact which has protected the assets of members and the Credit Union for the past 60 years. As a result, the Credit Union grew stronger and remained safe and secure. Loans for the year grew 9.53%, for a year-end total of \$1,913,493,763.

Apple continues to remain dedicated to its education roots by providing unique products to benefit the education community. Products such as our New Teacher Transition Loan and the Educator Visa® Credit Card which uniquely offers no payments during the summertime months are designed with the needs of educators in mind.

Members continued to utilize Apple's HomeAdvantage™ program. This unique service assists members in the purchase or sale of a home, connects them with a trusted Real Estate Agent, vast property search options, and ultimately gains a

partial rebate of their agent's commission at closing. In 2017, we served 137 buyers and sellers, resulting in total rebates of almost \$260,000.

To respond, as in the past, to business owners whose growth and success could benefit from assistance, Apple focused on helping our community thrive, increasing our Commercial Loan portfolio by more than 14%.

Given that the world's largest financial institutions saturate our local market, Apple must prove its value as a lending provider to meet member demand. Since the inception of online member reviews in the spring of 2015, more than 1,160 reviews have been submitted for our Loan and Credit Card products, garnering a 4.80 rating out of 5 stars. Proven in this score and Apple's successes during 2016, the Credit Union has certainly drawn the distinction of a trusted lending source.

In the year ahead, we'll continue to emphasize the overall welfare of our members through sound lending practices, and further empower a dedicated, dynamic staff that is passionate in its approach to helping members achieve their dreams.



Jeff Long
Loan Committee Chair

Supervisory Committee Report



Thomas D. Garber
Supervisory Committee Chair

The Apple Federal Credit Union Supervisory Committee was established to safeguard member assets by ensuring that Board of Directors' policies and operating procedures are executed in a timely, efficient and effective manner. The Committee is dedicated to certify that member programs and services adhere to government regulations and the strict guidelines established in our bylaws.

Our annual financial statements are audited by Doeren Mayhew, an independent CPA firm. Each year we receive an unmodified opinion, which attests to the accuracy of our financial statements. Doeren Mayhew also conducts an annual verification of accounts during the year. Similarly, annual exams performed by the National Credit Union Administration verify that Apple's business practices remain sound and comply with, or exceed, the standards set forth by the credit union regulatory agencies. These annual reviews are vital to assess and maintain the health of the Credit Union.

In addition, Apple FCU's Bank Secrecy Act policies and procedures were independently tested in 2017 by Doeren Mayhew. This review was undertaken to establish that Apple FCU has the appropriate anti-money laundering detection systems in place to satisfy regulatory requirements. Apple's internal controls and suspicious activity report protocols were also surveyed to ensure proper compliance with government regulations. Doeren Mayhew confirmed during this assessment that Apple's management and staff adhere to all requirements set forth by the Bank Secrecy Act.

To further bolster operating effectiveness

and financial soundness, Apple's Internal Audit Department performs a variety of operational, compliance and financial audits that verify proper adherence to regulatory and Credit Union policy. They also monitor organizational controls designed to protect Credit Union assets. During 2017, CliftonLarsonAllen (CLA) was contracted to help complete our internal audit plan and provide additional audit expertise. A sampling of the audits conducted included reviews of Marketing, eServices, Lending Compliance, Payroll, Wire Transfers, Collections and Branch Operations. These reviews help to ensure that the credit union is operating in a safe and sound manner.

The vulnerability of Apple's computer network to outside entities was also tested with comprehensive security assessment audits performed by NetBankAudit and Castlegarde. These in-depth assessments ensured that a dynamic security program was in place to protect the digital assets of the organization, and meet regulatory requirements for an independent third-party evaluation. Additionally, we conducted quarterly phishing awareness exercises internally to audit our exposure to email-based threats.

Should members have a concern or comment that cannot be addressed by Apple Management, contact the Committee by writing to:

Apple Federal Credit Union
ATTN: Supervisory Committee
P.O. Box 1370
Fairfax, VA 22038

All communications will remain confidential.

Tribute to Larry Kelly

Apple's President/CEO 1995-2017



Larry Kelly retired as Apple Federal Credit Union President/CEO in June 2017, after nearly 22 years of service.

Mr. Kelly's strategic approach, as well as his unparalleled guidance and personal involvement, elevated Apple's standing in the region and the credit union industry nationally. During his tenure, he guided the Credit Union from 41,000 members and \$230 million in assets, to more than 186,000 members and \$2 billion in assets. Apple currently holds the rank of a Top Ten Credit Union in Virginia in terms of asset size and is in the top 100 of all credit unions in the U.S; an honor accomplished through Mr. Kelly's vision and commitment to technological advancement, education, the community and staff.

Few words can convey the importance of his contributions to the Apple FCU family, members and staff alike.

As a steward of the membership, Kelly's commitment to improve lives and fulfill dreams was invaluable to their individual success. The suite of products grew to include many niche offerings for teachers and students, and he ensured the institution remained competitive, being one of the first to implement online banking.

It was also his pledge to be an employer of choice that earned the loyalty of many hard-working, talented individuals. Almost as a testament to this belief, the institution was named one of the Best Places to Work in Virginia by Virginia Business Magazine just before his retirement.

Mr. Kelly's two decades of superior leadership brought the Credit Union to where it is today, helping to make Apple FCU a regional financial institution within our community. This level of devoted service can only truly be honored with a most sincere, Thank You.

Andrew (Andy) C. Grimm, Apple FCU's executive Vice President and Chief Operating Officer, succeeded Larry as President/CEO effective July 1, 2017. Mr. Grimm continues to move Apple forward in innovative and strategic ways, while maintaining the organization's core values and operating philosophy. With a capable senior management team and staff, Apple remains well positioned for its next phase of growth and development.

Making An Impact

Community outreach is part of our identity; we believe that support and education are vital at both the individual and local levels. It's not new to us... it's who we are. **Here's how we helped in 2017.**



\$50,000 RAISED

The 17th Annual Charity Golf Tournament raised funds for Apple FCU Education Foundation Community Impact Grants to aid Second Story, numerous Fairfax County Fire and Rescue community initiatives and Northern Virginia Family Service (NVFS).



17,095 POUNDS SHREDED

Hundreds of members enjoyed safe and secure on-site disposal at six Shred Day Events.

1,299 VOLUNTEER HOURS



Apple employees set a new record, donating nearly 1,300 hours for organizations such as NVFS SERVE Hunger Resource Center, Habitat for Humanity ReStores, Lorton Community Action Center, Providence Elementary School, Junior Achievement Finance Park, American Cancer Society and MORE!



30 COMMUNITY EVENTS

Apple supported various local festivals and events.



200% RED CROSS DONATION

Apple's staff blood drive satisfied nearly 200% of the Red Cross's goal for blood units collected.

MORE THAN
39,000
STUDENTS SERVED



Serving as a collection site for the Collect for Kids School Supply Drive, Apple FCU supported students by collecting and distributing school supplies, backpacks and donations.

\$140,000
SCHOLARSHIPS
AWARDED



In 2017, twenty-eight graduating, high school seniors were able to supplement their college expenses thanks to \$5,000 scholarships.

1,216
POUNDS OF FOOD



Employees and members generously donated 1,216 pounds of non-perishable food to five non-profit organizations in our Fairfax, Prince William, Stafford and Winchester communities.

\$3,500
HOLIDAY FUNDRAISER



The Credit Union and staff donated more than \$3,500 to purchase presents for school-aged youth living in our Fairfax, Prince William, Stafford and Winchester communities.

Education

BALANCE Financial Fitness Program

Free and confidential for all Apple members to use, BALANCE is provided to select Early Head Start and Head Start programs as part of their parent-education series in Fairfax, Loudoun, Prince William and Stafford Counties, through Northern Virginia Family Service.

Financial Education Video Game & Curriculum by Visa®

Helping to tackle the importance of financial education, Apple continues to provide the Financial Football program to area middle and high schools. Financial Football is a free, NFL-themed educational video game and curriculum developed by Visa Inc.

Mentoring & Math Readiness

Since 2007, Apple has partnered with Providence Elementary School in Fairfax to provide one-on-one mentoring, as well as math tutoring for kindergarten students.

Bullying Prevention Awareness

Apple partnered with NBC Washington during October in observance of National Bullying Prevention Month. Public service announcements, part of NBC4's Changing Minds Initiative, aired on bullying prevention featuring Robert Sowell, senior vice president of community relations.

Giving

NBC4 Backpacks Drive

Apple partnered with NBC Washington to collect school supplies and backpacks for children in need throughout the Northern Virginia area. This year the community rallied, making more than \$1,500 in monetary donations, filling eight large crates with various school supplies and providing 136 backpacks, 26 of which were already packed with supplies.

Warm Coats Project: Operation Warm

In partnership with Fairfax County Fire & Rescue, Apple helped distribute new winter coats to local children in need.

Ending Homelessness in Fairfax County

Apple joined forces with the Fairfax County Government Office to Prevent and End Homelessness, the Fairfax-Falls Church Community Partnership to Prevent and End Homelessness, the Northern Virginia Chamber of Commerce and Second Story to assist in funding programs that assist homeless youth with education, transportation and certification.



Education Foundation



Apple Federal Credit Union Education Foundation, a conduit for the Credit Union's charitable activities, moved forward in 2017 by building upon past strengths and success, providing more than \$900,000 in scholarships and grants to area youth, educators and organizations in Northern Virginia.

Charitable Giving

The Education Foundation assisted in raising more than \$116,000 for charitable causes outside of the education realm, including Fairfax County Firefighters, Northern Virginia Family Service, Second Story, Salvation Army Hurricane Relief Fund, Fairfax Futures and the Stafford Food Security Foundation.

Student Scholarships

Twenty-eight graduating, high school seniors were able to supplement their college expenses thanks to \$5,000 scholarships. Every school system in the Apple FCU service area, and three education-based organizations, received individualized endowments for enriching educational initiatives.

Virginia Teacher of the Year

The Foundation continued its support of the Virginia Teacher of the Year award, which honored individual excellence and achievement in classroom education. Regional winners were additionally recognized by the Foundation for their contributions.



Teacher Induction Program Funding

As school budget cuts threatened the integrity of local new teacher induction programs, Apple agreed to provide sizeable sponsorship grants to support such efforts in developing and retaining effective teachers within the following school divisions:

- Alexandria City
- Clarke County
- Fairfax County
- Falls Church City
- Fauquier County
- Frederick County (VA)
- Loudoun County
- Manassas City
- Manassas Park City
- Prince William County
- Shenandoah County
- Stafford County.

Providing new teachers with vital information about effective classroom management, lesson planning, and communication with students and parents, these freshman teachers are also given the opportunity to learn from seasoned educators. The grants ensured the 3,500 new teachers and 550 mentors and coaches entering the system would receive a top-notch orientation.

One hundred percent of all donations were directed toward charitable giving and were 100% tax deductible for contributors.

Financial Condition 2017

Statement of Financial Condition

Assets	2017	2016	2015	2014
Net Loans	\$ 1,893,361,519	\$ 1,727,660,355	\$ 1,558,801,105	\$ 1,302,467,057
Cash and Cash Equivalents	\$ 180,829,944	\$ 154,246,949	\$ 109,130,671	\$ 158,670,045
Other Investments	\$ 273,313,776	\$ 271,013,805	\$ 321,883,666	\$ 456,012,559
Fixed Assets	\$ 92,076,298	\$ 59,762,570	\$ 43,339,197	\$ 43,038,953
Other Assets	\$ 66,490,775	\$ 55,570,582	\$ 60,045,616	\$ 54,866,502
Total Assets	\$ 2,506,072,312	\$ 2,268,254,260	\$ 2,093,200,255	\$ 2,015,055,116

Liabilities	2017	2016	2015	2014
Notes Payable	\$ 243,391,623	\$ 185,531,489	\$ 197,626,788	\$ 237,771,356
Other Liabilities	\$ 35,039,343	\$ 29,724,004	\$ 22,307,672	\$ 20,342,566
Shares	\$ 1,989,333,662	\$ 1,834,842,030	\$ 1,675,463,711	\$ 1,575,017,392
Reserves	\$ 16,776,652	\$ 18,598,953	\$ 18,789,088	\$ 20,512,956
Undivided Earnings	\$ 221,531,032	\$ 199,557,784	\$ 179,012,996	\$ 161,410,846
Total Liabilities	\$ 2,506,072,312	\$ 2,268,254,260	\$ 2,093,200,255	\$ 2,015,055,116

Statement of Changes in Undivided Earnings

	2017	2016	2015	2014
Balance at Beginning of Year	\$ 199,557,784	\$ 179,012,996	\$ 161,410,846	\$ 145,456,281
Additions				
Net Income	\$ 21,973,247	\$ 20,544,788	\$ 17,602,150	\$ 15,954,565
Adjustments	\$ 0	\$ 0	\$ 0	\$ 0
Provisions for Losses	\$ 0	\$ 0	\$ 0	\$ 0
Subtotal	\$ 221,531,031	\$ 199,557,784	\$ 179,012,996	\$ 161,410,846
Deductions				
Transfers to Reserves	\$ 0	\$ 0	\$ 0	\$ 0
Balance at End of Year	\$ 221,531,031	\$ 199,557,784	\$ 179,012,996	\$ 161,410,846

Distribution of Earnings

Interest	
Interest Income - Loans	\$ 82,246,858
Interest Income - Investments	\$ 5,862,702
Non-Interest Income	\$ 35,501,908
Total Income	\$ 123,611,468

Expenses	
Compensation and Benefits	\$ 40,404,579
Office Operations	\$ 14,453,425
Office Occupancy	\$ 5,230,383
Loan Servicing	\$ 6,765,322
Education and Promotional	\$ 3,210,377
Professional and Outside Services	\$ 1,789,686
Other	\$ 1,238,748
Total Expense	\$ 73,092,520

Provision for Loan Loss	\$ 12,673,629
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Income Before Dividends and Interest Expenses	\$ 37,845,319
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Dividend Expense	\$ 11,157,800
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Interest in Borrowed Funds	\$ 4,714,272
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Net Income	\$ 21,973,247
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P.O. Box 1200, Fairfax, VA 22038-1200
703-788-4800 • AppleFCU.org