

CHAIRPERSON'S REPORT

Alpena Alcona Area Credit Union is a member-owned, not-for-profit financial cooperative. As member-owners we elect volunteers to serve on the Board of Directors. The Board of Directors is comprised of seven member-owners who are elected to serve three-year terms. The Board meets monthly, works collaboratively with our CEO and management team to focus on the credit union's safety and soundness, the needs of our credit union, the needs of our members and our mission: "To be your most trusted and valued financial partner."

To meet the intent of our mission, board members have been active participants in a variety of credit union related activities beyond monthly board meetings. During the past year, board members participated in monthly financial literacy training, attended both local and chapter credit union events, and state credit union workshops and conferences...all in an effort to keep current of credit union related issues, legislation, and initiatives.

In October 2016, the Board of Directors, the Supervisory Committee, the Credit Committee, the CEO and management team joined together with AHO Consulting Inc., to review and update our 2015 strategic plan and goals. This plan is regularly referenced to guide the decisions made for our credit union cooperative and our member-owners.

In an effort to promote and encourage member-owners to participate in the leadership of our credit union, the Board recently adopted a new policy to include Associate Directors as part of the Board of Directors. The goal of this program is to ensure the continuity of practices, procedures, and policies and to provide a succession plan to fill open Board Member seats.

The Associate Director program is intended to:

- Increase member involvement
- Emphasize the member-owner philosophy
- Provide additional resources for committees
- Develop potential Board Members.

Associate Directors are members who participate in the activities of the Board of Directors in a non-voting capacity.

As is true for every Board of Director, an Associate Director will be required to abide by all applicable state and federal laws, rules and regulations, all policies and procedures set forth by the Board of Directors, be at least eighteen (18) years of age, and be a member in good standing.

If you are interested in more information related to the Associate Director program, please contact our President & CEO Donald J. Mills, one of our Board of Directors or myself, and we will gladly share additional information related to this program.

The Directors of the Board of Alpena Alcona Area Credit Union continue to work diligently to carry out the credit union philosophy of "People Helping People." It is an honor and privilege to serve the membership in this leadership capacity. We are dedicated, hardworking and determined to follow through on the mission of our credit union: "To be your most trusted and valued financial partner."

Sincerely,
Charlie Negro, Chairperson

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is the credit union's audit committee – a team of volunteer credit union members who are appointed annually by the Board of Directors. Our primary responsibility is you, our member-owner – ensuring your assets are safeguarded and your credit union is soundly managed.

To fulfill this function, the Supervisory Committee meets monthly with the Internal Auditor to ensure established policies and procedures are followed, operational and financial standards are met, and resources are used economically and efficiently.

Additionally, we are responsible for ensuring the credit union's financial records are in order and that internal controls are in place to protect the assets of the credit union and our member-owners. We do this by making certain an annual audit is conducted and internal controls are tested regularly. For the year 2016, the auditing firm of Cindrich, Mahalak & Co., P.C. reviewed the credit union's financial records. They examined evidence supporting the amounts and disclosures in financial statements and considered the internal control structure of the credit union to render their opinion. And, once again, your credit union received an exceptional financial management and performance report. We commend the Staff and Management Team for their excellence!

The Supervisory Committee as well as the Internal Audit Department has found the credit union's overall procedures and controls to be in good condition. The credit union records have been found to be maintained properly, honestly and accurately. Policies established by law and by the Board of Directors are carried out faithfully, and with certainty, members' assets are safeguarded and used according to the purposes of the credit union.

Respectfully submitted,
Byron Parr, Chairperson

TREASURER'S REPORT

Welcome to the 63rd Annual Meeting of the Alpena Alcona Area Credit Union. It is an honor to present our 28,155 member owners with the financial results for the years ending December 31, 2016 and December 31, 2015. Our theme for this evening's annual meeting is "To Be Your Most Trusted & Valued Financial Advocate," which is closely aligned with the Mission and Member Promise of Alpena Alcona Area Credit Union.

In 2016, the local and national economy have continued to show signs of improvement with unemployment rates declining and economic development taking place in the communities we provide service to. This in turn has resulted in strengthening demand for our loan products over the course of 2016. Our Lending Team is to be congratulated for exceeding our member-owner expectations with outstanding member service.

The Lending Team processed and closed 5,397 member loans with balances totaling \$62,345,780.47 over the year 2016. Total member loan balances outstanding increased \$18,531,347.10 in 2016 and ended the year 2016 with total balances equal to \$160,132,835.60. This equates to an annualized loan growth rate equal to 13.09 percent.

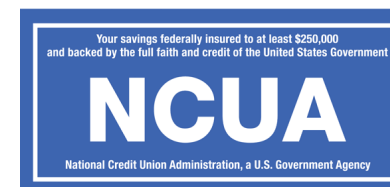
Another lending area showing significant growth over the year 2016 is in our VISA loan portfolio. The annual growth rate for the VISA portfolio was equal to 23.40 percent. Our December 31, 2016 VISA portfolio balance is \$18,000,913.69, compared to \$14,587,493.00 on December 31, 2015. A large number of member-owners took advantage of our 5.99 percent for the life of the balance transfer promotion to refinance higher interest rate credit card balances held at competing financial institutions.

Alpena Alcona Area Credit Union's Investment Services Program, which was launched in the first quarter of 2014, continues to experience impressive growth. As of December 31, 2016, our Financial Adviser Kevin Friddle has delivered investment services to 387 member-owners with total Assets Under Management equal to \$22,173,960.40. This compares to one year earlier when investment services were being provided to 280 member-owners with Assets Under Management equal to \$15,481,031.25. This represents positive growth in our total Assets Under Management in the year 2016 equal to 43.23 percent.

Our Credit Union experienced healthy growth in 2016 with assets climbing \$21,071,103.06 to \$328,696,158.55 which equates to a 6.83 percent asset growth rate. The Credit Union generated strong net income in 2016 equal to \$3,510,944.10. This represents a \$1,314,261.86 increase in net income as compared to the previous year 2015. These exceptional results translate in a very healthy 1.10 percent return on assets. Net Income is a very important component used in calculating our Credit Union net worth which is comprised of both regular reserves and undivided earnings. Our net worth to total assets ratio strengthened considerably in 2016 and stands at a "well capitalized" ratio of 9.59 percent.

Your Credit Union continues to be a strong financial cooperative, striving to deliver innovative products and services to our growing membership in the future. Our Staff and Management Team continue to be a group of hard working professionals dedicated to exceeding your expectations. The more products and services that each of our member-owners utilize, the stronger our financial cooperative will become. I encourage you to take advantage of the products and services that are available and Alpena Alcona Area Credit Union will strive "To be Your Most Trusted & Valued Financial Partner."

Respectfully yours,
Terry J. Nelkie, Treasurer



ANNUAL REPORT 2016



CREDIT COMMITTEE REPORT

Alpena Alcona Area Credit Union helps members achieve financial success and build wealth with a competitive rate and cooperative spirit. We deliver personalized financial solutions that are relevant to our members' financial needs.

We are committed to "lending" our support to help our members fulfill their financial dreams. Young couples buying their first home, families adding on a little more living space, or upgrading to the home of their dreams. These members fueled another outstanding year of real estate lending at AAACU.

2016 Real Estate Lending Overview:

- Interest rates remained low throughout 2016, supporting continued member demand for mortgage products.
- 363 members closed mortgage loans with a total value of \$31,753,930.12.
- Overall, the number of mortgages and home equity loans/lines of credit increased by 6.34 percent over 2015.

AAACU's lower auto rates leave our members with more money to buy better cars! We have the indirect auto dealer channel to thank for such great results, representing a third of 2016's auto loans. AAACU approved 504 indirect loans in 2016, totaling \$8,896,311.44.

Our VISA balance transfer rate puts more money in our members' pocket to help them save for the future! We saw great growth in our VISA program in 2016. We helped a total of 781 members save money by transferring \$3,676,277.95 in higher rate balances to our low rate, VISA loan program.

We closed \$45,094,141.35 in consumer loans, which includes 5,174 new and used auto, motorcycle, boat, RV, personal and home improvement loans. These figures represent a \$3,940,873.76 increase over 2015 in dollars loaned.

AAACU believes anyone can be financially successful, and we can help. As a financial cooperative, we exist to serve our members' financial well-being. We offer financial guidance, education, one-on-one coaching and financial programs to meet you wherever you are in your financial journey. This is proven time and time again with our low delinquency and loan charge off rates; 1.03 percent delinquency rate and .46 percent charge off rate as of year 2016

All members benefit from the credit union difference and our members have chosen AAACU for banking services to meet a lifetime of financial needs. Our members – who are also our owners – can feel confident that our employees and volunteers understand that and will work hard every day to be your most trusted and valued financial partner. Thank YOU for being a member of AAACU!

Respectfully Yours,
Dennis Artley, Chairperson

Balance Sheet

December 31, 2016 and December 31, 2015

| Assets | 2016 | 2015 |
|--|----------------------|----------------------|
| Loans to Members, Net of Allowance for Loan Losses | \$159,315,575 | \$140,970,783 |
| Cash | 2,415,619 | 2,431,276 |
| Investments | 157,900,616 | 155,819,436 |
| Fixed Assets, Land & Bldgs | 5,374,740 | 5,533,827 |
| Furniture & Equipment, Net | 415,618 | 503,189 |
| Other Assets | 3,273,991 | 2,420,544 |
| TOTAL ASSETS | \$328,696,159 | \$307,679,055 |

Liabilities & Equity

| | | |
|-----------------------------|-------------|-------------|
| Notes Payable | | |
| Accounts Payable | \$2,585,068 | \$1,907,492 |
| Dividend / Interest Payable | 161,708 | 164,508 |
| Member Savings | 294,438,158 | 277,606,775 |
| Statutory Reserves | 4,522,980 | 4,522,980 |
| Undivided Earnings | 26,988,245 | 23,477,300 |

| | | |
|--|----------------------|----------------------|
| TOTAL LIABILITIES & NET WORTH | \$328,696,159 | \$307,679,055 |
|--|----------------------|----------------------|

Statement of Income & Expense

December 31, 2016 and December 31, 2015

| Income: | 2016 | 2015 |
|---------------------|---------------------|---------------------|
| Interest on Loans | \$7,353,136 | \$6,497,633 |
| Investment Income | 1,521,292 | 1,207,072 |
| Other Income | 3,477,660 | 3,001,668 |
| TOTAL INCOME | \$12,352,088 | \$10,706,373 |

Operating Expenses

| | | |
|---------------------------------|--------------------|--------------------|
| Compensation & Benefits | \$3,993,523 | \$3,689,036 |
| Travel & Conference | 113,961 | 99,617 |
| Office Occupancy | 472,426 | 472,342 |
| Office Operations | 1,187,173 | 1,136,501 |
| Educational & Promotional | 261,681 | 201,619 |
| Loan Services | 499,295 | 477,050 |
| Professional Outside Svcs. | 746,270 | 740,572 |
| Provisions for Loan Loss | 849,739 | 766,205 |
| Member Insurance | | 267 |
| Operating Fees | 76,146 | 64,307 |
| Other Expenses | 32,253 | 28,789 |
| TOTAL OPERATING EXPENSES | \$8,232,467 | \$7,676,305 |

Other Income (Expense):

| | | |
|--------------------------------|---------|---------|
| Non-Operating Income & Expense | 392,545 | 247,508 |
|--------------------------------|---------|---------|

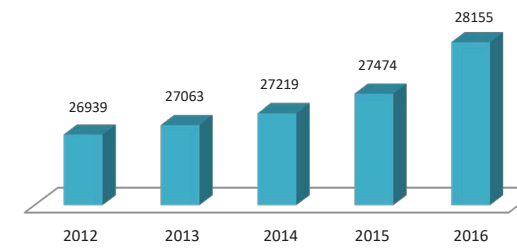
Dividend & Interest Expense

| | | |
|----------------------------|---------|---------|
| Interest on Borrowed Money | 645,225 | 711,594 |
| Interest on Deposits | | |
| Dividends on Shares | 355,997 | 369,300 |

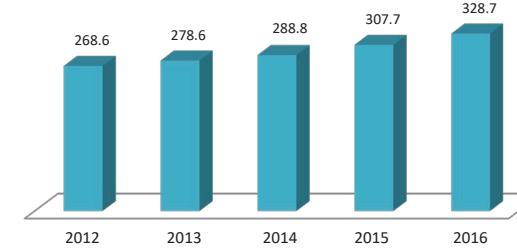
| | | |
|------------------------------|--------------------|--------------------|
| TOTAL DIV/INT EXPENSE | \$1,001,222 | \$1,080,894 |
|------------------------------|--------------------|--------------------|

| | | |
|-------------------|--------------------|--------------------|
| NET INCOME | \$3,510,944 | \$2,196,682 |
|-------------------|--------------------|--------------------|

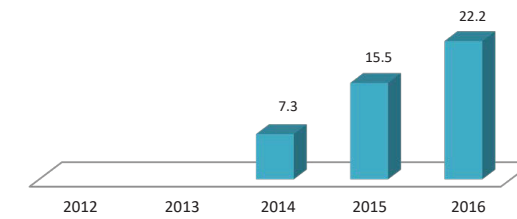
Total Membership



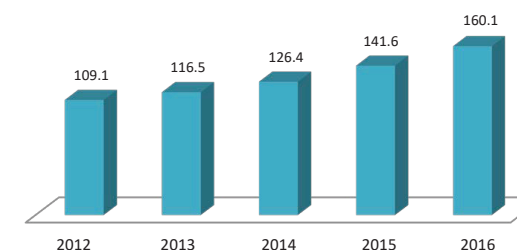
Total Assets - In Millions



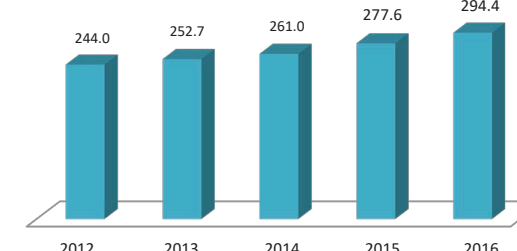
Assets Under Management - In Millions



Loans to Members - In Millions



Shares and Deposits - In Millions



AAACU 63rd Annual Meeting

Board of Directors

Charlie Negro, Chairperson. Retired,
Oscoda Area Schools
Alan Shillair, Vice Chairperson Retired,
Alcona Community Schools
Sheila Panknin, Secretary. Ludlow Enterprises

Terry Nelkie, Treasurer NCVW Management
Group LLC
David McNeil. Retired,
School Superintendent
Tom Lanway Retired, Superintendent AMA ESD
Brian Shumaker Alpena Regional Medical Center

Supervisory Committee

Byron Parr, Chairperson President, Michigan
Credit Services
Ann Martin, Secretary Alpena Public Schools

Credit Committee

Dennis Artley, Chairperson Retired, IRS
Sharon Kapalla, Secretary AAACU Staff
Lorna Dellar AAACU Staff
Paul Fredenburg Retired, AAACU Staff
Debbie Sucharski AAACU Staff
Beth Tessmer AAACU Staff

Security Officers

Donald J. Mills AAACU Staff
Mary Gilbertson AAACU Staff

President & CEO

Donald J. Mills

AAACU Mission Statement

"To be your most trusted and valued financial partner"

Our Member Promise

- Simplify your life
- Work in your best interest
- Be your advocate to help achieve your financial goals