

A photograph of the Arizona Federal Credit Union building. The building is modern with a white, cantilevered upper section supported by several thick, white, angled columns. Large glass windows are visible on the ground floor. The "Arizona Federal" logo is mounted on the white overhang. To the left, a purple ATM kiosk is partially visible. The foreground shows a paved parking lot with yellow and blue markings. The sky is blue with some light clouds. The image is framed by a dark blue background with white geometric line art patterns of cubes and triangles at the top and bottom.

Arizona Federal

2021

ANNUAL REPORT



PRESIDENT'S REPORT



Ronald L. Westad
President & CEO

The year began with optimism as the availability of a COVID-19 vaccine signaled a possible end to the pandemic. However, vaccine reluctance, conflicting information and new variants brought us to the realization we would need to move

forward – managing our business operations and personal lives – while balancing the ongoing challenges of living through a pandemic.

Financial performance

Our 2021 financial results were consistent with the macro-economic environment – heightened growth in members' deposit balances, softening consumer loan demand, narrow interest margins, and rising costs of operations all contributed to a 19.3% rise in total assets and a modest return on average assets of 0.62%. Our bottom-line earnings continued to improve in the second half of the year as a function of investment earnings, the reversal of prior loan loss provisions, and non-interest revenues.

Account conversion

On March 1 we achieved a significant milestone – the completion of the account conversion process related to our 2019 Pinnacle Bank acquisition. While the conversion had little impact on most members, for the approximately 2,500 former bank clients, it meant adjusting to new account numbers, debit cards, online and mobile banking platforms, and other changes.

For all of us – all 145,000 Arizona Federal members – the conversion meant exciting opportunities for the future and the ability to serve our communities' financial needs in more ways than ever before.

Commercial banking & loan services

One of the biggest benefits from the bank acquisition was the introduction of a full suite of services for business owners. From checking, savings, credit cards, commercial and SBA loans, merchant bankcard services, and more, Arizona Federal is able to meet the business banking needs of just about any of our members or potential members.

Residential lending trends & expertise

During 2021, home prices rose dramatically both nationally and locally. With inventory of homes for sale at near-record lows, prices rose significantly. According to the S&P CoreLogic Case-Shiller report, Phoenix topped the nation in price growth with a 32.5% year-over-year gain.

Arizona Federal felt the effects of this increased demand,



as members turned to us for mortgages, loan refinances, and home equity loans. The timing of our acquisition of Pinnacle Bank was a big win for the credit union as members had access to expanded home loan options and expertise, and the increased demand for home loans offset reduced demand for other consumer loans.

Changes to branch hours

The pandemic also changed the way members interacted with us. More members moved to digital channels like online and mobile banking, ATMs and digital payments. Despite an easing of pandemic-restrictions throughout the year, 2021 branch transaction volume was down 26% from 2019 pre-pandemic highs.

Due to these shifts, we reduced branch hours beginning in October – closing one hour earlier Monday through Thursday.

Strategic planning for 2022 & beyond

During our 2022 planning session, our Board of Directors and executive leadership team met to discuss future initiatives to create value for our membership. As we enter what could be described as a post-pandemic era, sustained membership growth was an important topic. This led to conclusions and actions regarding two

opportunities:

- Converting from a federal charter to a state charter. Doing so will allow Arizona Federal to expand services beyond its current field of membership – Maricopa and Pinal counties and the City of Tucson – to a charter that covers the entire state.
- The intended purchase of assets and assumption of liabilities of Horizon Community Bank based in Lake Havasu City. The bank was seeking to be sold, and Arizona Federal's track record acquiring Pinnacle Bank made us an ideal partner. We anticipate completing the purchase and assumption in late 2022.

The upcoming year will certainly be an exciting time of growth and new initiatives. Thank you to our Board of Directors and Supervisory Committee for their guidance and support as we navigate through a changing operational landscape. Thank you to our employees for their resilience and adaptability. And most importantly, thank you to our members for the trust you place in Arizona Federal in helping you fulfill your financial dreams.

Ronald L. Westad
President/CEO

CHAIRWOMAN'S REPORT

In 2021, despite the continued economic challenges of the pandemic, Arizona Federal saw strong financial performance compared to 2020 results. In addition, we successfully completed the conversion of legacy Pinnacle Bank accounts with minimal impact to members.

Member Bonus Payout is Back

When Arizona Federal performs well financially, we return excess earnings to eligible members. In 2021, the credit union paid out a \$3 million year-end Member Bonus Payout (formerly Plus Payout).



Libby Bissa
Board Chairwoman

Eligible members, based on their level of participation, a year-end bonus dividend and a loan interest refund (with a qualifying loan or credit card account). For new home loans opened in 2021, there was also a one-time bonus equal to 0.10% of the original loan amount. The more business members bring to Arizona Federal – like checking, credit cards, loans and home mortgages – the bigger their potential payout.

Since 2012 we've returned more than \$45 million in payouts to members.

Partnerships & Giving Back

Arizona Federal is committed to making a difference in the communities we serve by engaging with local organizations and supporting nonprofits across the state.

- > **Local Causes Debit Card giveback program:** awarded \$58,000 in grants to 29 local nonprofits. Since August of 2020, we've distributed more than \$80,000 to 43 local nonprofits serving our community in the areas of education, equality/social inclusion, community services, children and youth, and sustainability.
- > **Kicks For Kids:** donated over \$5,000 as part of a joint effort of the Phoenix Rising and Valley of the Sun United Way to help end childhood hunger in our community.
- > **Debit Card Partnerships:** raised more than \$57,000 for the 100 Club of Arizona and nearly \$32,000 for the Arizona Humane Society.
- > **Phoenix Rising FC:** supported Arizona's premier soccer franchise as the team's exclusive credit union partner.
- > **Wilson Community Center:** offered ongoing financial support – including an employee raffle that raised \$5,340 – to provide food, clothing and educational supplies for homeless and at-risk youth in the community.
- > **Maricopa Community Colleges Foundation:** funded \$10,000 in annual scholarships to worthy students in the community.

2021 Key Performance Indicators

- > Completed the conversion of legacy Pinnacle Bank accounts to Arizona Federal's core banking systems.
- > Net operating income for the year was \$15.9 million
- > Total member deposit balances increased over 22% to more than \$2.4 billion.
- > We achieved net growth in commercial real estate loans (\$64.0 million), 1st mortgage loans (\$9.3 million), government-guaranteed loan participations (\$18.2 million), and other miscellaneous loans (\$2.2 million)
- > Welcomed nearly 20,000 new members to the credit union

Looking ahead to 2022

For 2022 the credit union will be focused on activities to support growth – including the change from a federal to a state charter and the planned acquisition of the assets and liabilities of Horizon Community Bank headquartered in Lake Havasu City.

As always, thank you for continuing to place your trust in our financial cooperative and for giving me and your Board of Directors the opportunity to serve you.

Libby Bissa
Board Chairwoman

SUPERVISORY COMMITTEE REPORT

The five-member Supervisory Committee is appointed by the Board of Directors to oversee the policies, procedures, and practices in place to safeguard members' assets and meet all required financial reporting obligations. The functions of the Supervisory Committee include:

- Ensuring internal controls are established and effectively maintained to protect members and the credit union
- Monitoring the timely preparation and accuracy of accounting records and financial reports
- Contracting for an independent verification of financial reporting and member accounts
- Overseeing the proper administration of and adherence to the rules and regulations guiding federal credit unions



Jeff Barton
*Supervisory Committee
Chairman*

The Supervisory Committee and Compliance and Review Services Department work closely together to confirm internal controls provide sufficient safeguards. In addition, they participate in regularly scheduled Supervisory Committee meetings, Board of Directors meetings, planning sessions and special committees to assist with the decision-making in support of credit union initiatives.

As part of this committee, Jessica Bingham, John Bushko, Randy Posey, Manny Verdugo and I remain committed to you, our members, and the mission, vision and values that form the foundation of Arizona Federal Credit Union.

Jeff Barton
Supervisory Committee Chairman

CUSO REPORT

A Credit Union Service Organization (CUSO) is established to primarily serve the needs of its credit union owner. Its business relates to the daily operations of the credit union it serves. Arizona Federal owns two CUSOs – Western States Financial Group, LLC (WSFG) and Arizona Federal Insurance Solutions, LLC (AFIS). Both are wholly-owned subsidiaries of Arizona Federal. Through these subsidiaries we provide valuable services that complement our core services. Currently, we operate Members' Auto Center (MAC) through WSFG and The Arizona Group (TAG) through AFIS.

Western States Financial Group, LLC

MAC is a partnership of WSFG and Centennial Leasing and Sales, Inc. This service was designed to provide members with a more convenient car buying experience. MAC allows members to shop and purchase a vehicle, complete all title and registration paperwork, and even have their new car delivered to their home or office – all without visiting a dealership. In 2021 we observed a steady recovery after the pandemic with a 22% increase in commission revenue. Factors that prevented a full recovery include the ongoing pandemic and the scarcity of inventory. Despite this, MAC continues to be an excellent option for members.

Arizona Federal Insurance Solutions, LLC

Through the insurance professionals at TAG, members have access to a full suite of insurance services, including automobile, homeowners, business, life, and health insurance policies. With access to many insurance providers, TAG can match members' individual needs to a policy that provides the best solution for coverage and value. In 2021 a total of 448 new policies were purchased through TAG. At the end of 2021, almost 2,300 members held nearly 3,600 policies..

We are pleased to report that WSFG and AFIS continue to make valuable contributions to members who utilize their services. Both are committed to our mission of empowerment, financial expertise, and mutually beneficial results.

TREASURER'S REPORT

Despite the continued challenges of the pandemic and the resulting economic impact, Arizona Federal performed well in fiscal year 2021.

Noteworthy highlights include:

- > Net operating income: \$15.9 million after a \$3 million Member Bonus Payout (increase from \$2.7 million in 2020)
- > Total net worth: \$322.1 million (5.2% increase from 2020)
- > Total loans to members: \$1.195 billion (0.8% decrease from 2020)
- > Loan delinquency: 0.10% (decrease from 0.26% in 2020)
- > Total member deposits: \$2.436 billion (22.2% increase from 2020)



Tim Black
Treasurer

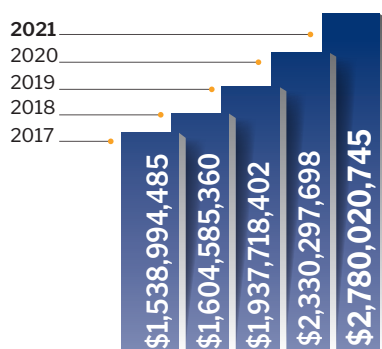
Arizona Federal remains well-capitalized with a 11.59% net worth ratio, a decline of just 1.55%. The decline was primarily due to growth in net income not keeping pace with the significant increase in member deposits and the resulting growth in our total assets.

These results continue to showcase our commitment to financial strength – and the goals of the Board of Directors to maintain a stable and sound financial institution that will protect members' assets for years to come.

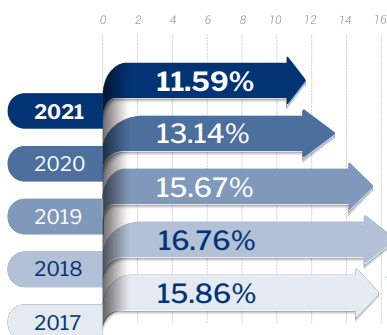
As Treasurer, I am confident we will continue to maintain Arizona Federal's sound financial status and look ahead to growth in 2022 and beyond.

Tim Black
Treasurer

Total Assets



Capital Ratio/Net Worth



[ArizonaFederal.org](https://arizonafederal.org) | 602-683-1000

