



2019 Annual Report



PRESIDENT'S REPORT

Without question, 2019 was an exciting time for Arizona Federal Credit Union. We began the year by implementing welcome changes to our account structure – the elimination of monthly membership dues, waiving service fees on our Checking Plus Account with qualifying activity, a reduction in par value requirements, and simplifying eligibility for our Plus Payout program. Even with all these changes, there was more to come as the year progressed ...

Making History

Arizona Federal made history in June 2019 when we announced our planned acquisition of Pinnacle Bank, a Scottsdale-based community bank with approximately \$260 million in assets and 2,000 clients. This marked the first time an Arizona-based credit union had acquired a bank.



Ronald L. Westad
President & CEO

After several months of planning and activity surrounding operational integration and shareholder and regulatory approval, the transaction officially closed on November 30, 2019. Through this unique transaction, both institutions benefited. Arizona Federal members gained access to new services, specifically expanded residential lending options and small business banking and lending services. Meanwhile, Pinnacle Bank realized greater scale and increased value for its clients, employees and shareholders.

As part of the acquisition, Arizona Federal retained the expertise of all 60 Pinnacle Bank employees and rebranded the bank's four locations to Business & Home Loan Centers. Throughout 2019 and into 2020, these locations continued to serve former Pinnacle Bank clients until the planned account conversion to Arizona Federal's core banking systems in early 2021.

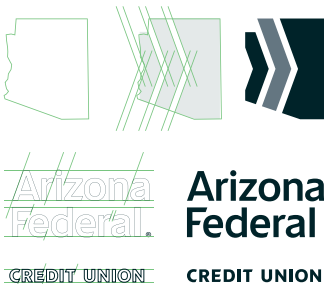
Financial Performance

Arizona Federal remained focused on continuing our strong financial performance. The loan portfolio grew to over \$1.2 billion, a 37.45% annualized increase, which included \$130 million in year-over-year growth and \$185 million in loan balances from the Pinnacle Bank portfolio.

Total assets grew to more than \$1.9 billion, a 20.9% increase over 2018, and our capital ratio remained strong at 15.65%. In addition, Arizona Federal experienced net membership growth of 8,443 new members, which included roughly 2,000 clients from Pinnacle Bank.

Refreshed Brand & A New Partnership

The acquisition of Pinnacle Bank provided the perfect opportunity to redefine the credit union's brand and logo, which had been in place for nearly 40 years. The new logo features:



- > An outline of the state of Arizona – the community we serve
- > Right-facing chevrons representing forward motion in helping our members achieve their dreams
- > Dark blue to represent the heritage of Arizona Federal
- > Yellow and golden hues to signify the legacy of Pinnacle Bank

We unveiled our new brand to the community at a special press event on December 18, 2019. The event coincided with the announcement of our sponsorship of Arizona Federal Theatre, located in downtown Phoenix. Through this 5-year partnership with LiveNation, Arizona Federal gained exclusive naming rights to this 5,000-seat venue that has hosted over 2,000 acts, including Jerry Seinfeld, Janet Jackson, David Bowie and Michelle Obama.

Community Focus

Along with the high level of excitement surrounding our newest partnership, Arizona Federal continued its rich history of community involvement by engaging with the following local organizations.

- > **100 Club of Arizona:** provided ongoing financial support to benefit the families of fallen and injured first responders, including a \$45,960 donation from our 100 Club Visa® debit card program.
- > **Arizona Humane Society:** donated nearly \$14,000 as a result of our exclusive Arizona Humane Society Visa® debit card program.
- > **Maricopa Community Colleges Foundation:** funded \$10,000 in annual scholarships to worthy students in the community.
- > **Wilson Community Center:** offered ongoing financial support – including \$10,800 from our holiday raffle – to provide food, clothing and educational supplies for homeless and at-risk youth in the community.
- > **Downtown Phoenix Farmers Market:** sponsored our community farmers market to benefit local farmers and small business owners.
- > **Arizona Soccer Association:** provided financial support and financial education resources to the state's largest youth sports organization.
- > **Phoenix Rising FC:** supported Arizona's premier soccer franchise as the team's exclusive credit union partner.
- > **HandsOn Greater Phoenix:** provided ongoing financial support and rent-free office space to support their mission of putting volunteers to work where they are needed the most in the community.
- > **Local First Arizona:** provided support through our legacy partnership.

2019 was truly a historic year, and I offer my gratitude to our Board of Directors and Supervisory Committee for their dedicated leadership and stewardship of Arizona Federal, and for their representation of our members' interests. To my fellow co-workers, thank you for your tireless efforts in service to our members. To the (former) employees and clients of Pinnacle Bank, I offer a heart-felt welcome to the Arizona Federal family. And finally, thank you to our 130,000+ members – we exist to serve you and we appreciate the trust you've placed in us to serve your financial needs.

Ronald L. Westad
President & CEO



CHAIRWOMAN'S REPORT

As chairwoman of your member-elected Board of Directors, it is my pleasure to share with you the key milestones and progress made by your financial cooperative in 2019.

2019 Highlights

- > Made history with the acquisition of Pinnacle Bank – the first time an Arizona-based credit union acquired a community bank.
- > Announced our partnership with the Arizona Federal Theatre in downtown Phoenix.
- > Launched our new corporate logo and redefined our brand promise.
- > Paid a year-end Plus Payout of surplus capital of nearly \$6 million to participating members.
- > Grew total member deposits to \$1.61 billion.
- > Launched the new Arizona Federal Visa® Signature Rewards card with 1.5% cash back on qualifying purchases.
- > Made nearly \$60,000 in combined donations to the 100 Club of Arizona and Arizona Humane Society through our co-branded debit card programs.
- > Selected as one of the Phoenix Business Journal's Best Places To Work for the fifth year in a row.



Libby Bissa
Board Chairwoman

Membership Growth & Ease of Doing Business

In 2019 the Board initiated a number of changes to add greater value for members and position Arizona Federal for future growth. These changes made it easier for current and prospective members to do business with the credit union:

- > Elimination of monthly membership dues and waiving monthly service fees on our Checking Plus Account when members completed just 10 qualifying transactions per month.
- > Removing the requirement to open a checking account to establish membership, which provided flexibility to prospective members who only needed a loan, credit card or savings account/certificate.

As a result of these changes – and our addition of nearly 2,000 members through the Pinnacle Bank acquisition – we welcomed nearly 8,500 net new members to Arizona Federal in 2019.

Looking ahead to 2020

The credit union has a number of changes planned to increase member satisfaction and provide greater value – such as the completion of the Pinnacle Bank systems integration and the rollout of our new Compass member experience survey platform.

And once the Pinnacle Bank systems integration is completed in early 2021, members will have access to four new branch locations as well as expanded home loan services and business banking products and services.

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

TREASURER'S REPORT

Arizona Federal experienced another year of strong financial performance in 2019, and the Pinnacle Bank acquisition further enhanced those results. Noteworthy highlights include:

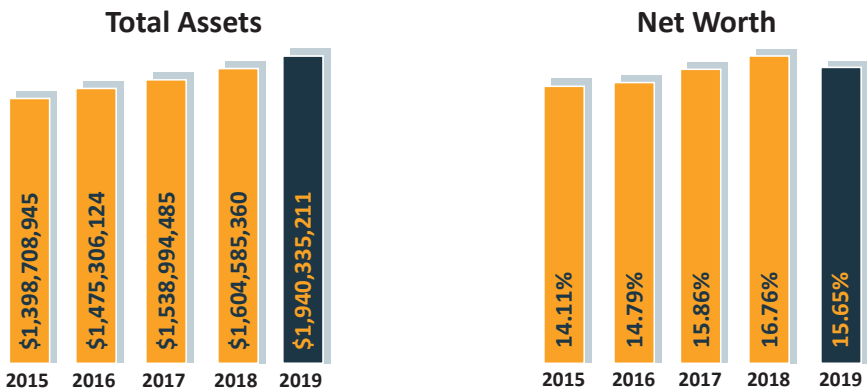
- > Net operating income: \$34.6 million (after \$6 million in Plus Payouts to participating members)
- > Total net worth: \$303.6 million (12.86% year-over-year increase)
- > New loan originations: \$328.7 million (1.13% increase from 2018)
- > Total loans to members: \$1.21 billion (a 37.45% increase, including approximately \$185 million in loan balances from the bank acquisition)
- > Loan delinquency: 0.35% (compared to 0.20% in 2018)
- > Total member deposits: \$1.61 billion (including \$228 million in deposits from former Pinnacle Bank clients)



Tim Black
Treasurer

Arizona Federal remains well-capitalized with a 15.65% net worth ratio, a decline of just 1.11% after factoring in expenses related to the acquisition. 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 that we will continue to maintain Arizona Federal's sound financial status in 2020 and beyond.

Tim Black
Treasurer



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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, John Bushko, Randy Posey, Manny Verdugo, Jessica Zygmunt 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 are able to provide valuable services that complement our accounts and 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 having to visit a dealership. MAC continues to be a great option for members. In 2019 nearly 1,300 vehicles were purchased through MAC, saving members an estimated \$2.6 million off the suggested sales price and generating more than \$30 million in additional loans for the credit union.

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 a number of insurance providers, TAG is able to match member's individual needs to a policy that provides the best solution for coverage and value. In 2019 more than 800 new policies were purchased through TAG. At the end of 2019, almost 3,000 members held a total of more than 4,000 insurance policies.

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