



CEO'S REPORT

Jeff Meshey

2021 provided our organization and community new challenges. Together, Desert Financial and its subsidiaries invested generously in our members achieving their financial wellness goals, our community to ensure its resilience and our team members — resulting in tremendous success for all stakeholders despite global challenges from the pandemic.

As a financial co-operative, our purpose is to serve our members and provide financial solutions to make their lives better. We demonstrate this commitment by sharing success with members at the beginning of every year through the distribution of our Member Giveback Bonus. Last year, we were able to return our largest bonus ever to our members. In total, we deposited \$14 million across accounts for our members with the strongest relationships with us.

Across communities in Arizona, we gave back over \$3.8 million through grants, community partnerships and our incredible community giving programs. While our organization continued to face new challenges with the ongoing pandemic, we doubled down to demonstrate one of our core values, Passion to Help. Our team volunteered a record-breaking 12,141 hours in the community, provided assistance to over 80 organizations, completed over 8,300 Random

Acts of Kindness and raised \$360,000 through our Workplace Giving Campaign for the year. We also continued our support of educators by recognizing teachers through our Adopt-A-Teacher program, donating \$114,600 in supplies to dozens of Teacher Appreciation events and served as the title sponsor for the Arizona Educational Foundation Teacher of the Year program.

Our incredible team enables our efforts in the community and continued organizational growth. We strive to be a Best Place to Work and believe sharing success with our team is just as important, so in addition to our 80 Work Perks for team members, we supported our employees through our Taking Care of Our Own Fund, employee sweepstakes and our employee tuition assistance benefit called InvestED. Our commitment to employee growth was evident as 164 team members enrolled in fully funded degree programs via InvestED with Arizona State University (ASU), and we were honored to celebrate our first few graduates from the two-year-old program.

Desert Financial's ability to invest in our community is directly connected to our impactful organizational growth. We opened our first branch in Northern

Arizona, our Prescott Valley Fry's location, as part of our statewide expansion. This was our first branch opening since expanding to a statewide charter. Since opening in Fall 2021, the community has graciously welcomed us to the Prescott area, and our expansion has added hundreds of members to our Desert Financial family in a few short months. In addition to growing our physical footprint, we saw significant membership growth as 60,000 new members joined Desert Financial, making it our best year on record for membership growth.

Through our membership growth and deepening relationships with long-time members, our total assets grew by \$1.59 billion (23.8%), further cementing our position as the largest credit union in Arizona with nearly \$8.25 billion in assets. We had our strongest lending year in history and funded 40,000 loans for new and existing members throughout the state, totaling \$2.45 billion. As a result of that strong performance, total loan balances grew by 15.6% in 2021. As our existing members continued to entrust us with their financial needs and new membership growth grew by the thousands, our deposits grew by \$1.56 billion, equating to 27.7% growth.

Looking ahead in 2022, we are optimistic about our member-focused enhancements on the horizon for this year. We will expand our ability to share success by

opening additional new branches in Prescott and Flagstaff in the second half of the year. We also have many exciting enhancements to improve the digital service experience for our members. Our members can also look forward to advancements across our digital platforms and physical footprint — aiming to create a next-generation and member-focused experience for all.

While our digital enhancements are incredibly exciting, we remain committed to putting people squarely first. As the first financial institution in Arizona to offer free

checking to all of our members, we are excited to continue this commitment by reviewing our Non-Sufficient Funds (NSF) and Overdraft fees with the intent of reducing them. Additionally, we plan to double down on our efforts to increase the financial capability of our community by growing and scaling our digital financial literacy tools and education for adults, teens and even children.

On a final note, I want to personally thank the Board of Directors, Supervisory Committee members and all of our other volunteers.

Because of your unwavering support and feedback, we achieved so much as an organization last year and in the process helped hundreds of thousands of Arizonans.

Sincerely,

Jeff Meshey, CEO and President

LOOKING BACK AT 2021

21 WAYS THAT WE SHARED SUCCESS IN 2021

Expanded giving, exponential growth and the beginnings of transformation for the future

- 1 Desert Financial welcomed nearly **60,000 new members**
- 2 We gave back **\$3.8 million** to our community
- 3 **486 members** were empowered to buy a home with Define Mortgage
- 4 Our team volunteered **12,141 hours**
- 5 Our financial wellness content was viewed over **575,000 times**
- 6 We issued **344,450 NEW** contactless Visa® **debit cards**
- 7 We performed **8,308 Random Acts of Kindness** throughout Arizona
- 8 The Desert Financial Fiesta Bowl Kindness Arizona Caravan made **25 stops** across the state
- 9 We provided **\$20,000 for 50 underprivileged kids** to go shopping with a former Arizona Cardinals player
- 10 SwitchThink Solutions expanded its client base to **81 credit unions** nationwide.
- 11 Members received a record **\$14 million** through our annual Member Giveback Bonus
- 12 We hosted 83 Teacher Appreciation events and awarded **\$195,500 in college scholarships**
- 13 **5,646 members** received a Home Equity Line of Credit
- 14 **2,700 people** attended or watched a Desert Financial education class
- 15 We awarded **\$75,000** total to five people for home renovations in the Love My Home Sweepstakes
- 16 We donated over **\$400,000** to Northern Arizona communities
- 17 We provided **\$185,282,649** in business and commercial loans
- 18 **\$850,000** was raised for Phoenix Children's Hospital, helping more than 10,000 students receiving treatment
- 19 We "adopted" 10 Arizona teachers for the year, providing **\$51,610** in classroom supplies
- 20 Members saved a total of **\$274,872** with an auto refi
- 21 Our team raised **\$360,000** for local nonprofits through our Workplace Giving Campaign





CHAIR'S REPORT

Laura Watson

In 2021, Desert Financial continued to surmount challenges and increase our financial fortitude. Our commitment to growth and giving back was recognized by our members, community and local media.

Our net income for 2021 reached \$87,441,821 and our statutory net worth ratio remained strong at 9.80%. According to the Credit Union Times, our 1.15% Return on Assets (ROA) exceeded the average ROA of 1.09% for credit unions in 2021. These numbers illustrate our upward growth trajectory.

We were recognized with a 2021 AZ Business Angels Award for our Random Acts of Kindness program and named one of Arizona's Most Admired

Companies for our commitment in areas including social responsibility and leadership excellence. That leadership excellence was also recognized by AZ Big Media, which named executive vice president Cathy Graham one of the Most Influential Women in Arizona.

Based on public voting, Ranking Arizona named Desert Financial the No. 1 credit union in the state and one of the top 7 best places to work. Prescott residents named Desert Financial the Best Credit Union in Prescott Living magazine's "2021 Best of Yavapai County Services" polling before we even opened a branch there.

Our digital offerings garnered recognition in Finalytics.ai's 2021 Credit Union Digital Experience Report, which

positioned us as No. 1 in Digital Marketing and No. 5 for Digital Experience among credit unions nationwide.

But perhaps our best measure of success is member satisfaction. Recent surveys and online reviews contain such compliments as "For the first time ever, I found a bank who cares" and "I am happy to be a part of the Desert Financial family."

All of these accolades speak to how our financial strength bolsters our ability to make members' lives better. We recognize that together, we can continue to create transformational growth.

Laura Watson, Chair of the Board

A NOTE FROM OUR SUPERVISORY COMMITTEE

To reflect our commitment to and our vested interest in our members, the Supervisory Committee partners with our internal and external audit and accounting teams to oversee credit union activity. The results of our external audits reflect a continued strong adherence to sound internal controls and safe, conservative business practices.

This report is a testament to Desert Financial's commitment to responsible and robust financial practices. As a result, our members can remain confident in our continued success. ■

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2021	2020
ASSETS		
Cash and cash equivalents	\$601,184,084	\$558,933,192
Investment securities		
Equity securities	1,348,898	114,014,090
Available-for-sale	2,791,744,811	1,893,344,782
Held-to-maturity	1,684,913,261	1,447,713,183
Loans held-for-sale	4,679,303	6,015,740
Loans to members, net of allowance for loan losses	2,701,948,283	2,333,705,049
Accrued interest receivable:		
Loans	6,295,034	5,653,529
Investments	14,211,738	14,199,929
Federal Home Loan Bank (FHLB) stock	17,250,000	17,250,000
Prepaid and other assets	62,282,362	43,100,662
VISA Class B Stock	42,447,963	-
Life insurance policies	134,148,902	74,359,306
Mortgage servicing rights	11,573,593	9,131,968
Property and equipment	71,768,086	72,862,061
National Credit Union Share		
Insurance Fund (NCUSIF) deposit	60,571,032	47,666,275
Total assets	\$8,206,373,350	\$6,637,949,766
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares and savings accounts	\$7,140,001,976	\$5,599,005,794
Borrowed funds	200,000,000	205,000,000
Accounts payable and other accrued liabilities	94,329,952	74,090,490
Total liabilities	\$7,434,331,928	\$5,878,096,284
MEMBERS' EQUITY		
Regular reserve	29,788,065	29,788,065
Undivided earnings	778,165,217	690,723,395
Accumulated other comprehensive loss	(35,911,860)	39,342,022
Total members' equity	772,041,422	759,853,482
Total liabilities and members' equity	\$8,206,373,350	\$6,637,949,766

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2021	2020
INTEREST INCOME		
Loans to members	\$94,753,611	\$91,018,771
Investments	68,552,336	66,327,688
Total interest income	\$163,305,947	\$157,346,459
INTEREST EXPENSE		
Members' share and savings accounts	30,239,348	32,323,156
Borrowed funds	4,034,027	1,289,674
Total interest expense	\$34,273,375	\$33,612,830
Net interest income	129,032,572	123,733,629
PROVISION FOR LOAN LOSSES (RECAPTURE)		
Net interest income after provision for loan losses	(2,212,344)	13,133,373
NON-INTEREST INCOME		
Fees and service charges	48,581,493	42,216,268
Interchange income	45,617,953	36,043,388
Gains on sales of loans	22,712,784	26,115,984
Gains on VISA stock	20,504,997	-
Other miscellaneous income	13,406,056	14,883,924
Sales of insurance and investment products	9,022,769	7,165,058
Gains on capitalization of mortgage servicing rights	6,842,050	6,423,329
Income from change in cash surrender value from life insurance policies	4,348,507	2,733,916
Total non-interest income	\$171,090,609	\$135,581,867
NON-INTEREST EXPENSES		
Compensation and benefits	127,830,922	114,227,934
Office operations	45,480,294	40,181,526
Member education and marketing	14,082,823	12,325,345
Occupancy	13,051,898	13,735,177
Professional and outside services	7,498,956	10,505,908
Operating expenses	3,792,473	4,552,836
Loan servicing	3,156,337	8,111,922
Total non-interest expenses	\$214,893,703	\$203,640,648
NET INCOME	\$87,441,822	\$42,541,475