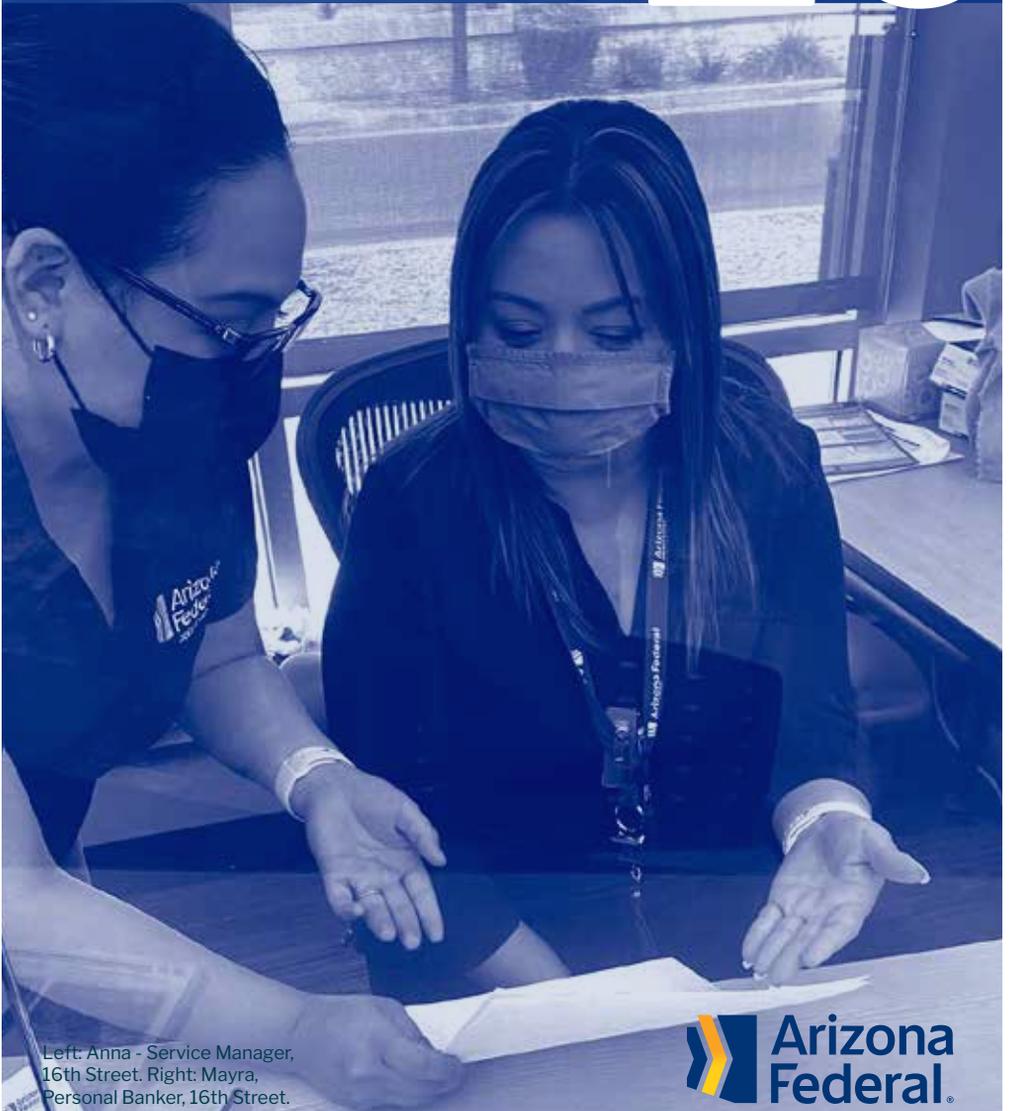


ANNUAL REPORT 2020



Left: Anna - Service Manager,
16th Street. Right: Mayra,
Personal Banker, 16th Street.



PRESIDENT'S REPORT

The year 2020 has left an indelible mark. Even with the uncertainty and challenges of the COVID-19 pandemic, I am proud of how our Board of Directors, employees and members of Arizona Federal Credit Union responded.

Shifting priorities

We began the year with preparation for our planned account conversion related to our 2019 acquisition of the relationships, assets, and liabilities of Pinnacle Bank. Our priorities had to shift quickly with the pandemic declaration. Modifying the way we did business, how to protect employees and how to serve our members became our focus.

Financial support & resources for members

One of our first actions was to implement programs and policies to assist members who were financially impacted by the pandemic. This included implementing a hardship loan program; eliminating, waiving and refunding fees; and in some cases subsidizing and deferring loan payments.

In addition, we reorganized to help small businesses by mobilizing a team of our lending experts and implementing technology to support the Paycheck Protection Program. Through this federal initiative, we issued more than \$50 million in loans to over 500 local businesses.

Changes to ways we served members

With financial services identified as an essential service, our branches remained open to serve members throughout the pandemic. We struck a balance between protecting our employees and serving our members. For the first two months we used split schedules at branches to minimize employee exposure. We required members to make appointments for branch visits, practiced social distancing, enhanced cleaning and disinfecting measures, and placed greater emphasis on alternative delivery channels – drive-thru service, ATMs, mobile/online banking, and banking by phone. We continued throughout the year to practice similar safety measures in an effort to



Employees at our Chandler Branch



Thalia - Personal Banker, 16th Street



Nidia - Digital Marketing Specialist

protect both members and employees. I am grateful to our front-line employees for their commitment to serve during this extraordinary time.

Financial performance

Leading up to the pandemic, Arizona Federal was (and remained) in a strong financial position with a 2019 year-end net worth ratio of 15.65% – more than double what is considered well-capitalized by regulators. In anticipation of potential member hardships, we fortified our loan loss reserves by \$25.4 million. Even with that reallocation of funds, we ended the year with a net worth ratio of 13.07%.

The pandemic also affected our loan portfolio, which remained flat at \$1.2 billion. Although we experienced tremendous demand for residential loans due to historically low interest rates, most of the mortgage loans originated were sold to the secondary market. Shrinking demand for other consumer loans dampened portfolio growth and earnings, while commercial loans helped offset some of the weakness on the consumer side.

Despite these challenges, the credit union ended the year with near break-even performance. However, that also meant there was no surplus capital available to distribute to members through our Plus Payout program. Our intention is to distribute surplus capital in the future as we restore net income levels.

Conversion delayed to 2021

A casualty of the pandemic was the planned account conversion of member accounts acquired through Pinnacle Bank. With so many resources focused on responding to the pandemic, something had to give. The conversion was rescheduled to March 1, 2021.

Glimmers of hope

Despite the pandemic, there were several points of pride. First was our sponsorship of the KNIX Teacher of Month – which had an added level of significance with so many students learning remotely. Through this program, we honored 10 local educators for their teaching excellence with \$1,000 awards. Courtney Thompson from North Canyon High School was recognized as Teacher of the Year and received an additional \$10,000 in recognition.

Another achievement was the implementation of our Compass member survey program, which provided real-time member feedback that allowed us to respond to service trends more quickly.

A final point of pride was the August rollout of our new *Local Artist, Local Causes Visa*® debit card. Through this program, Arizona Federal donated to local nonprofits for every purchase made with the card. In our first round of giving, we awarded \$25,500 in grants to 14 organizations. We also continued to support our debit card giveback programs for the 100 Club of Arizona and Arizona Humane Society.

Moving forward

As the year came to an end, we looked forward to the promise of the first vaccines to fight the virus. We know there are still challenges to overcome, but we remain confident in our 84-year history of service to our members and the community. I offer my gratitude to our Board of Directors and Supervisory Committee for their leadership and direction, our employees for remaining agile and adapting to unplanned circumstances, and to our members for the trust and confidence you have placed in us. We look forward to brighter days ahead.

Ronald L. Westad
President & CEO



Ronald L. Westad
President & CEO

CHAIRWOMAN'S REPORT

Due to the challenges of the COVID-19 pandemic, Arizona Federal reported a mix of both positive and negative financial and performance results. Fortunately, because of our strong financial position heading into the pandemic, the credit union was able to weather those challenges and maintain its sound financial performance.



Libby Bissa
Board Chairwoman

2020 Key Performance Indicators

- > Net operating income for the year was \$2.7 million – a key success after allocating \$25.4 million to loan loss reserves
- > Total member deposit balances increased 24% to \$1.99 billion – a result of decreased consumer spending and federal stimulus payments
- > Despite a \$1.3 million growth in the loan portfolio, loans to members were down \$39.6 million (net) while non-member participation loans were up \$41.1 million (net)
- > Although we experienced strong growth in new accounts opened online, a steep decline in accounts opened in branch resulted in an overall decrease in new accounts of 20.9%
- > The commercial lending team issued over \$50 million in Paycheck Protection Loans to approximately 520 local businesses
- > For the sixth year in a row, Arizona Federal was selected as one of the Phoenix Business Journal's Best Places To Work.

Member Trends

Due to branch restrictions and changes in consumer behavior during the pandemic, we saw an increase in the use of alternative delivery channels:

- > Overall ATM use was down; however, use of ATMs for deposits was up 40%
- > Online banking and mobile app logins were up 30.6% and 16.2% respectively
- > Teleservices calls increased 22.7%
- > Branch transactions were down 28.4%
- > Branch lobby visits were down 20.3%

Looking ahead to 2021

For 2021 the credit union will focus on completing the conversion of legacy Pinnacle Bank accounts to Arizona Federal's core banking systems – which will give members access to two new branch locations as well as convenient access to residential lending services and business banking products and services.

In addition, the credit union will continue its focus on value creation for the mutual benefit of members, employees, our organization and the community. 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, John Bushko, Randy Posey, Manny Verdugo, Jessica Bingham 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 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 having to visit a dealership. In 2020, members purchased 717 vehicles through MAC, saving them an estimated \$1.1 million and generating over \$18 million in additional funded loans for the credit union. Due to the financial challenges of the pandemic, this represented a 45% decline in units sold compared to 2019; however, MAC continues to be a great option for members by providing a safe, timesaving option to shop and purchase a new or used car from home.

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 2020 more than 500 new policies were purchased by members through TAG.

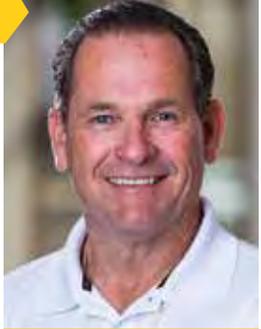
We are pleased to report that both WSFG and AFIS continue to make valuable contributions to members who utilize their services, and both are committed to our mission of empowerment, financial expertise and mutually beneficial results.

TREASURER'S REPORT

Despite the economic and financial challenges of the pandemic, Arizona Federal achieved near break-even earnings for fiscal year 2020.

Noteworthy highlights include:

- > Net operating income: \$2.7 million (after allocating \$25.4 million to loan loss reserves)
- > Total net worth: \$306.2 million (just 0.10% less than our all-time high achieved in February 2020)
- > Total loans to members: \$1.2 billion (a modest \$1.3 million increase)
- > Loan delinquency: 0.26% (versus 0.35% in 2019)
- > Total member deposits: \$1.99 billion (24% increase from 2019)



Tim Black
Treasurer

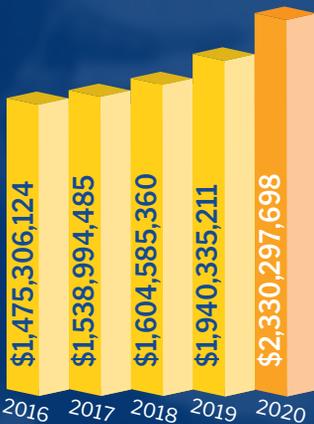
Arizona Federal remains well-capitalized with a 13.07% net worth ratio, a decline of just 2.58%. By the end of the year, we had replenished net worth by nearly all the amounts reallocated in 2020 for future loan loss provisions and negative balance account loss provisions.

These results, along with our agile response during the pandemic, 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 2021 and beyond.

Tim Black
Treasurer

Total Assets \$2,330,297,698



Capital Ratio/Net Worth 13.07%

