

2022

ANNUAL REPORT

PRESIDENT'S REPORT



Amy Hysell
President & CEO

With a second bank acquisition, charter change and name change, 2022 was certainly a notable year in our credit union's history. But on both a personal and professional note, an even more significant change for me was the retirement announcement from Ronald L. Westad, our president and CEO for more than 26 years.

I joined the organization in 1996 and have had the privilege of working with Ron for my entire career with Arizona Financial. I am forever grateful to Ron and his brand of service. His centered leadership style, full transparency, and always doing the right things for the right reasons has always and will continue to guide me. I intend to carry on those same values with deep care for both our members and employees.

Financial performance during unsettled times

As we entered 2022 with increasing inflationary pressures and the threat of a potential recession, I am happy to report that your credit union remains financially solid. We've experienced strong growth in both loans and deposits while loan delinquency remains at all-time lows.

Although the credit union's capital ratio has declined over the last few years as a result of strategic decisions to grow through the acquisition of two banks, Arizona Financial remains well capitalized at 10.94%. We will continue to operate prudently, always focusing on the safety and soundness of the organization that our 155,000+ members depend on for their banking needs.

Achievements & highlights

In addition to our charter change, name change and acquisition of Horizon Community Bank, which is covered in the Chairman's Report, I would like to highlight a few other notable achievements from the past year.

> Debit card giveback. As part of our community-focused philosophy, Arizona Financial gives members a convenient way to provide ongoing support to local nonprofits every time they make a purchase with their *Local Causes*, 100 Club of Arizona or Arizona Humane Society debit card.

Based on members' debit card activity in 2022, Arizona Financial donated more than \$165,000 to 23 different organizations serving our communities in the areas of education, equality/social inclusion, community services, children and youth, sustainability, first responders, and animal welfare. This brings our total to more than \$500,000 in donations since 2018.

> New website. In the fall, the credit union launched an improved website that offers an enhanced navigation and design to assist members in finding the information they need. In addition, the site will allow Arizona Financial to attract new members through improved search engine optimization and marketing automation tools.

> Member Bonus Payout. The credit union ended 2022 with a \$6 million bonus payout, in alignment with our commitment to return excess earnings to participating members when the credit union performs well. Since 2012, we have returned more than \$51 million to members through this program.

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Looking ahead

I'm excited to welcome 2023 as your new President and CEO and share our approach for the new year, which is guided by five key initiatives.

- 1. Production** – We will continue to focus on growing the credit union's deposit and loan balances to keep our organization financially sound.
- 2. Service Delivery** – We will successfully complete the system conversion of Horizon Community Bank while maintaining and optimizing our operations to enhance member experiences.
- 3. Products & Pricing** – We will continue to evolve our consumer and business products to meet your needs and attract new members.
- 4. Markets & Membership** – With two recent acquisitions, we will ensure everyone knows we're Arizona's premiere local banking partner, and we will thoughtfully expand to new markets to take advantage of our expanded field of membership.
- 5. Employee Investment** – We are committed to investing in our employees to ensure we continue to provide our members with the most effective banking solutions while at the same time creating a good working environment.

As I accept the handoff from Ron, one primary premise remains – our member-owners are the only reason Arizona Financial exists, and under my leadership we will continue to build on the values that have been the foundation of our culture. I believe it's what sets us apart and gives us focus on serving you.

A handwritten signature in black ink that reads 'Amy L. Hysell'. The signature is written in a cursive, flowing style.

Amy L. Hysell
President/CEO

CHAIRMAN'S REPORT



Bill Greene
Board Chairman

2022 was a momentous year in the history of the credit union. As part of the Board's strategic plan to focus on activities supporting growth and creating value for members, the credit union completed the following key initiatives.

Change to state charter

In April, to support our growth initiatives across Arizona, credit union members voted to approve a proposed charter change to convert the credit union from a federal to a state charter. The charter change was confirmed by regulators in June and became effective on July 1, expanding our field of membership to 10 counties across Arizona: Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai and Yuma.

Rebrand, name change to Arizona Financial

The transition from a federal to a state charter prompted our name change to Arizona Financial Credit Union. In July, we began numerous rebranding activities across the credit union (branch signs, credit/debit cards, systems, business cards, etc.), as well as notifying vendors and sponsors such as the venue now known as Arizona Financial Theatre.

Expansion, Horizon Community Bank acquisition

As a first step to expand services across Arizona, the credit union successfully acquired the assets and liabilities of Horizon Community Bank, an Arizona state-chartered bank headquartered in Lake Havasu City. At the time of acquisition, the bank held \$550 million in assets, served 12,000 clients, and operated branches in Lake Havasu City, Fort Mohave, Kingman, Parker, Quartzsite and Mesa.

The acquisition expanded the credit union's footprint into western Arizona, added six new branches, diversified assets, and increased revenue streams. We also gained the talent and expertise of the bank's employees, who have developed deep roots within the communities they have served for more than 20 years.

Looking ahead

As we look ahead to 2023, the final step in the acquisition is the account conversion planned for April 3, 2023. The conversion will transition Horizon Community Bank members' accounts to Arizona Financial's core banking systems and provide all members with an expanded branch and ATM network, 24/7 account support and new loan and account options.

In addition, the credit union will continue to invest in both high-tech and high-touch banking options (e.g., online/mobile services, new branch locations, etc.) to provide member with convenient banking choices that meet their needs.

Bill Greene
Board Chairman



From Left to Right: Christine C., Director of Project Management; Manny G., Marketing Partnerships; and team members from the Avondale Branch: Daniela R., Service Manager; Rolando A., Training Mentor; Christopher A., Personal Banker; Jackie C., Senior Teller; and Emily V., Teller.

SUPERVISORY COMMITTEE REPORT



Jeff Barton
*Supervisory Committee
Chairman*

The four-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 credit unions

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 and I remain committed to you, our members, and the mission, vision and values that form the foundation of Arizona Financial 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 Financial owns two CUSOs - Western States Financial Group, LLC (WSFG) and Arizona Federal Insurance Solutions, LLC (AFIS). Both are wholly-owned subsidiaries of Arizona Financial. 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 2022, MAC observed a 16% decrease in commission revenue. Factors that attributed to the decline were the ongoing pandemic, the scarcity of inventory and an increase in interest rates. Despite this, MAC continues to be an excellent option for members looking to purchase a new or used vehicle.

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 2022, a total of 398 new policies were purchased through TAG. At the end of 2022, almost 2,200 members held a total of more than 3,500 policies.

TREASURER'S REPORT

Arizona Financial performed well in fiscal year 2022 and, on October 1, 2022, completed the purchase of assets and assumption of liabilities of Horizon Community Bank, expanding our footprint to Western Arizona, adding six branches and increased our diversification of assets.

Noteworthy highlights include:

- > Total assets: \$3.2 billion (a 14.1% increase from 2021)
- > Total Members: 158,238 (up 9.40% from 2021)
- > Net operating income: \$24.8 million (up from \$15.9 million in 2021), after a \$6 million Member Bonus Payout.
- > Total net worth: \$346.9 million (up 7.7% from 2021)
- > Total loans to members: \$1.7 billion (up 44.2% from 2021)
- > Loan delinquency: 0.10% (no change from 2021)
- > Total member deposits: \$2.9 billion (18.2% increase from 2021)



Zeek Ojeh
Treasurer

Arizona Financial remains well-capitalized with a 10.94% net worth ratio, significantly above the 7% requirement to be considered well-capitalized by regulators.

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.

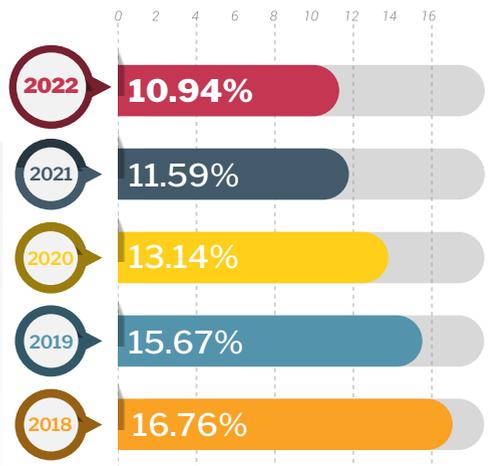
As Treasurer, I would like to thank the management and staff for their hard work during these challenging times, and their dedication to excellence. I am confident we will continue to maintain Arizona Financial's sound financial status and look ahead to growth in 2023 and beyond.

Zeek Ojeh, CPA
Treasurer

Total Assets



Capital Ratio/Net Worth



ArizonaFinancial.org | 602-683-1000

