

CEO'S Report

Jeff Meshey



In a recent survey done in partnership with ASU, our members named Desert Financial's top three strengths as service, stability and trust. Though 2022 posed challenges from the oncoming recession, those three strengths helped us not only break records in giving back to our community but facilitated unprecedented financial growth, as well.

At a time when many people are uneasy about financial institutions because of bank closures and economic shifts, we can confidently say that Desert Financial is a well-managed organization with a solid balance sheet and healthy financial reserves. We have prepared for market conditions in ways that other financial institutions may have not. We are relying on our strengths – service, stability and trust – to continue our upward trajectory.

In the survey, our members described our service as warm and friendly. We take pride in being local and part of the community. Our team volunteered more than 15,000 hours in 2022 and completed over 12,000 Random Acts of Kindness. Their passion to help is truly inspiring and a huge part of Desert Financial's mission of sharing success.

Stability stems from being reliable, and our members know we are there for them and they can depend on us. Desert Financial has been around since 1939 and

we continually receive the highest marks in our annual examinations by the National Credit Union Administration and state regulators.

Our financial performance in 2022 illustrates our stability. Our deposits grew by 5.7%. We broke a record for lending, with loan production of \$2.7 million. Our loans grew by 37.8% in 2022! Our total assets saw a slight decrease of 0.28% but we still ended the year with nearly \$8.2 billion. Our net worth ratio grew from 9.80% in 2021 to 10.88% in 2022.

These numbers show just how much we have grown since Desert Financial was founded 84 years ago by 15 teachers with a total of \$78.75. And we continue to grow. We welcomed more than 65,000 new members to Desert Financial last year, and we opened our first branch in Flagstaff. That new location had almost \$1 million of lending in the pipeline within the first two months of opening.

Our members consistently vote us the No. 1 credit union in Arizona because they trust us to work in their best interest, and we value and honor that trust. Throughout the year, we were named Forbes' Best-in-State credit union and the No. 1 credit union in Ranking Arizona. One of the reasons our members cite for sticking with us is our transparency about fees. Coupled with our customer service that always puts members first, we've

built strong relationships with our members. We take pride in sharing our success, and that's how we started the year – with our largest Member Giveback Bonus to date: \$15 million.

Thanks to our incredibly passionate team and our focus on service, stability and trust, we finished 2022 strong and we're off to a great start in 2023.

Many of you know the story about how our credit union was founded by educators. But strong ties to education aren't just part of our history. They are an important part of our future.

Our partnership with Arizona State University is expanding. Over the past five years, we purchased the naming rights to Desert Financial Arena, home to the men's and women's basketball teams. We launched our InvestED program, providing tuition coverage for employees to pursue a degree or certificate at ASU Online. At the end of 2022, we had over 200 team members enrolled in InvestED and celebrated 20 graduates.

We're proud of the personal and professional development opportunities our partnership with ASU has provided. And we're very excited to announce that Desert Financial is now the official retail banking partner of Arizona State University. Our members will have access to ATMs and branches

at various ASU locations and campuses and can choose a debit card with a cool new ASU design.

It's one thing to win awards – and we won a lot of them in 2022 – but the thing that makes me most proud is, we got high marks from both our members and our employees on satisfaction. We closed out 2022 with a lot of discussions about getting personal in 2023.

We're putting the personal touch on how we assist members, work

with our teammates and care for our own growth and development. We will continue to help our members achieve their goals, especially during difficult times. These are the things that make us different from other organizations and help us excel in all that we set out to accomplish.

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

accomplished so much as an organization in 2022 and we're prepared for whatever 2023 might bring.

We're all still in this together. We look forward to building on our service, stability and trust even more in 2023!

Sincerely,

Jeff Meshey, CEO and President

2022 IN REVIEW

A Year of Service, Stability and Trust

Regardless of the economic environment, we remain committed to our mission of sharing success and making lives better. Here are some highlights from our year of service, stability and trust.



SERVICE

15,000+
volunteer hours

12,000+
Random Acts of Kindness

103
Teacher Appreciation events



STABILITY

\$4 million+
in community giving

37.8%
loan growth

1.08%
net worth ratio growth



TRUST

65,000+
new members

272,077
members with us for
10 YEARS or more

Voted
No. 1 credit union
in Ranking Arizona by our
members **7 YEARS** in a row





Chair's Report

Kevin Haskew

2022 was an exciting and challenging year for Desert Financial. We performed well and met most of our goals, and management has been looking ahead and taking measures to stay strong so we can continue to provide exceptional service to our members and our community.

We kicked off 2022 with our largest Member Giveback Bonus to date. We gave \$15 million in cash back to our members who have the strongest relationships with us. Our members truly trust us to help them find financial solutions to make their lives better, so it's incredibly special to announce when our eligible members are receiving a return on their investment.

In addition to being recognized as the best credit union in Arizona by Forbes, we received a handful of Excellence in Banking Awards in Az Business magazine, including 2022 Credit Union of the Year and the selection of Jeff Meshey among the Credit Union Leaders of the Year for his vision and leadership within the financial industry. Desert Financial's general counsel and Senior Vice President of Enterprise Risk, Sara Regan, was also honored as

one of the Most Influential Women in Arizona by AZ Big Media for her influence and business acumen.

Our members have voted us the No. 1 Credit Union in Ranking Arizona for several years running. Desert Financial was also voted Best Credit Union in the Arizona Republic and Best Financial Services in PHOENIX magazine in 2022. Our member satisfaction is perhaps the biggest marker of our success. But we have many markers.

Desert Financial's community giving efforts were also tremendous, providing more than \$4 million in corporate, foundation and employee giving. We awarded \$488,000 in Random Acts of Kindness and \$235,000 in community grants, including grants for the Boys & Girls Clubs of the Valley and the Tynkertopia community center in Flagstaff. We raised \$131,000 for the Phoenix Heart Walk in 2022. Together, with Desert Financial Foundation and our employees, we presented a check for \$1,020,000 to Phoenix Children's for its 1 Darn Cool School program.

Education-focused initiatives remain incredibly important to us.

In 2022, we adopted 14 teachers with our Adopt-A-Teacher program, held over 100 Teacher Appreciation events and impacted the lives of 685 students through foundation scholarships totaling \$253,250.

Being part of our credit union enables us to give back, add value and help others. One of the ways we try to add value is by leveraging new banking technologies. By providing solutions that enable members to utilize online and mobile banking in ways that increase their self-service and financial capabilities, Desert Financial is helping to make people's lives better. The credit union continues to grow and evolve with technology, and this constant change keeps me excited for the future.

Speaking of the future, we want to thank our members for their participation in our board election process for 2023. You are more than members – you are stakeholders, and your voices and your support help us continue to grow.

Kevin Haskew, Chair of the Board

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$196,813,410	\$601,184,084
Investment securities		
Equity securities	1,561,391	1,348,898
Available-for-sale	2,190,628,761	2,791,744,811
Held-to-maturity	1,648,865,036	1,684,913,261
Loans held-for-sale	1,434,250	4,679,303
Loans to members, net of allowance for loan losses	3,745,977,166	2,701,948,283
Accrued interest receivable:		
Loans	10,003,516	6,295,034
Investments	11,708,121	14,211,738
Federal Home Loan Bank (FHLB) stock	17,250,000	17,250,000
Prepaid and other assets	84,679,897	62,282,362
VISA Class B Stock	38,541,330	42,447,963
Life insurance policies	98,168,960	134,148,902
Mortgage servicing rights	10,626,272	11,573,593
Property and equipment	64,946,194	71,768,086
National Credit Union Share		
Insurance Fund (NCUSIF) deposit	71,077,593	60,571,032
Total assets	\$8,192,281,897	\$8,206,373,350
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares and savings accounts	\$7,556,395,910	\$7,140,001,976
Borrowed funds	—	200,000,000
Accounts payable and other accrued liabilities	167,338,391	94,329,952
Total liabilities	\$7,723,734,301	\$7,434,331,928
MEMBERS' EQUITY		
Regular reserve	—	29,788,065
Undivided earnings	893,976,149	778,165,217
Accumulated other comprehensive loss	(425,428,553)	(35,911,860)
Total members' equity	468,547,596	772,041,422
Total liabilities and members' equity	\$8,192,281,897	\$8,206,373,350

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2022	2021
INTEREST INCOME		
Loans to members	\$129,796,032	\$94,753,611
Investments	111,621,732	68,552,336
Total interest income	\$241,417,764	\$163,305,947
INTEREST EXPENSE		
Members' share and savings accounts	36,809,448	30,239,348
Borrowed funds	21,332,300	4,034,027
Total interest expense	\$58,141,748	\$34,273,375
Net interest income	183,276,016	129,032,572
PROVISION FOR LOAN LOSSES (RECAPTURE)		
Net interest income after provision for loan losses	(492,306)	(2,212,344)
Net interest income after provision for loan losses	183,768,322	131,244,916
NON-INTEREST INCOME		
Fees and service charges	55,121,743	48,581,493
Interchange income	48,606,318	45,617,953
Gains on sales of loans	4,174,676	22,712,784
Gains on VISA stock	—	20,504,997
Other miscellaneous income	7,683,230	13,406,056
Sales of insurance and investment products	10,367,952	9,022,769
Gains on capitalization of mortgage servicing rights	1,993,994	6,842,050
Income from change in cash surrender value from life insurance policies	3,525,987	4,348,507
Total non-interest income	\$136,465,585	\$171,090,609
NON-INTEREST EXPENSES		
Compensation and benefits	135,791,791	127,830,922
Office operations	49,333,409	45,480,294
Member education and marketing	16,000,555	14,082,823
Occupancy	13,371,402	13,051,898
Professional and outside services	4,731,683	7,498,956
Operating expenses	5,075,567	3,792,473
Loss on VISA stock	3,906,633	—
Non-operating expenses	6,000,000	—
Total non-interest expenses	\$234,211,040	\$214,893,703
NET INCOME	\$86,022,867	\$87,441,822

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. ■