

CEO'S REPORT

Jeff Meshey



I am thrilled to say that 2018 was a year of incredible opportunity, generosity and growth for Desert Financial! It was our Year of Giving, in which we pledged to give back \$7M to our members, our team and our community. We were able to share such a large amount because of the unprecedented level of success that we have experienced.

104,000+ MEMBERS
RECEIVED A
MEMBER GIVEBACK BONUS
IN 2018

Sweepstakes, with four winners receiving a total of \$100,000 in cash prizes to help turn their home renovation dreams into reality. Plus, we introduced three all-new sweepstakes, receiving nearly 200,000 entries in total and helping 14 additional winners get one step closer to their financial goals.

The giving didn't end there. In 2018, we held Teacher Appreciation Events in recognition of our heritage as a financial institution founded by educators. We also started a Kindness Revolution by performing more than 60 random acts of generosity in our community. Some of our most touching and impactful surprises were providing a much-needed water filtration system for a child with cerebral palsy, helping a mother fund her infant son's heart surgery and thanking a member who joined Desert Financial in 1948 with \$50 for every year he's been with us.

We ended our Year of Giving on a celebratory note by serving as the title sponsor for the 2018 Fiesta Bowl Parade and distributing \$25,000 in gift cards to the crowd as one final random

act of kindness for the year. I am pleased to announce that we will be continuing our title sponsorship of the Fiesta Bowl Parade for another two years!

Going forward, we are extending our Random Acts of Kindness and Teacher Appreciation events into 2019. We are responding to member feedback with an exciting upgrade to Relationship Rewards that will simplify the process and allow even more members to take advantage of the program's benefits. Finally, to further our goal of making banking easier, we are introducing an Amazon Alexa skill that allows members to conduct financial transactions with just the power of their voice.

As we continue in the most successful period of Desert Financial's 80-year history, I want to let our members and our team know just how much your contributions mean to our organization. We share our success because it's the right thing to do — and we couldn't do it without you.

All the best,

JEFF D. MESHEY | CEO

14,474 FREE CHECKING ACCOUNTS OPENED

In July, we introduced truly FREE checking as a way to distinguish ourselves in the market and attract new members. As a result, we welcomed more than 35,500 new members last year, and our numbers continue to grow at record rates! We also launched a Fixed-Rate Home Equity Line of Credit so homeowners can take advantage of their equity for home repairs, remodeling and other needs.

As part of our Year of Giving, we introduced the Member Giveback Bonus as a thank-you to members who have built a strong relationship with Desert Financial. In just two years of the program, we've given back a total of \$13M to our most dedicated members — a gesture that went a long way to show our appreciation.

We also brought back the popular Love My Home



A SNAPSHOT OF 2018

As part of our Year of Giving goal to give \$7M back, Desert Financial shared success with the community by donating time and money, starting a #Kindness Revolution and hosting Teacher Appreciation events throughout the year.

HELPING OUR COMMUNITY BY GIVING MORE

\$500,000
in grants and scholarships

\$600,000+
raised for Children's Miracle Network Hospitals

\$2M
commitment to Phoenix Children's Hospital over the next 3 years

200
volunteer projects participated in by our team

PAYING IT FORWARD WITH RANDOM ACTS OF KINDNESS

\$15,000
to a child's heart surgery fund

\$20,000
to help a family recover from a devastating fire

We purchased **SUPPLIES AND FURNISHINGS** for Home 'Fur' Good Animal Rescue & Placement

\$500
surprise scholarship toward tuition for an ASU student

THANKING TEACHERS FOR THEIR HARD WORK

\$120,000
donation from credit card transactions to local schools

50
local schools helped with supplies and thank-you lunches for educators

\$15,000
in grants supporting the Fiesta Bowl Charities Wishes for Teachers Program

\$250
gift cards to five local teachers nominated on social media

desert
FINANCIAL
CREDIT UNION



2018 ANNUAL REPORT
A YEAR OF GIVING AND GROWTH



CHAIRMAN'S REPORT

John C. Fung

\$252,656,743

In new home equity loans

Children's Miracle Network Hospitals. We also pledged to raise a record \$2M over the next three years as the sole sponsor of the One Darn Cool School at Phoenix Children's Hospital, which helps kids continue their education while receiving treatment.

Our financial health is what allows us to share our success, and I am pleased to report that our organization continues to show steady growth. In 2018, loans to our members increased by more than \$187M

and we ended the year with a strong net worth ratio of over 12.5%. In 2018, we helped 874 members buy a new home. We were also the #1 home equity lender in the local market for the majority of the year, closing more than 3,500 loans.

I would like to recognize our volunteer board and supervisory committee for their support, and to thank the members and Desert Financial team members for making our success possible. With our balance of financial growth and our continued passion for helping our community, I have confidence that our organization will continue to grow and prosper in the years to come.

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$239,149,701	\$171,790,145
Investment securities		
Trading	326,903	2,042,762
Available-for-sale	1,046,894,167	1,066,059,257
Held-to-maturity	887,119,652	930,303,329
Loans held-for-sale	4,692,557	23,097,281
Loans to members, net of allowance for loan losses	2,098,692,680	1,911,523,717
Accrued interest receivable:		
Loans	4,913,735	4,153,351
Investments	9,105,134	9,282,021
Other real estate owned and other assets in liquidation	5,491,091	5,891,115
Federal Home Loan Bank (FHLB) stock	17,250,000	46,278,000
Prepaid and other assets	21,525,713	16,778,446
Defined benefit pension asset	666,452	-
Life insurance policies	58,906,970	26,355,359
Mortgage servicing rights	9,292,094	9,985,466
Property and equipment	66,599,397	67,947,631
NCUSIF deposit	38,020,535	36,124,378
Total assets	\$4,508,646,781	\$4,327,612,258
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares and savings accounts	3,857,315,247	3,661,791,206
Borrowed funds	-	50,000,000
Postretirement healthcare liability	2,370,153	5,911,006
Defined benefit pension liability	-	9,109,179
Accounts payable and other accrued liabilities	45,265,447	60,701,590
Total liabilities	\$3,904,950,847	\$3,787,512,981
MEMBERS' EQUITY — SUBSTANTIALLY RESTRICTED		
Regular reserve	29,788,065	29,788,065
Undivided earnings	591,802,381	522,642,271
Accumulated other comprehensive loss	(17,894,512)	(12,331,059)
Total members' equity	603,695,934	540,099,277
Total liabilities and members' equity	\$4,508,646,781	\$4,327,612,258

DESERT FINANCIAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year ended December 31,	
	2018	2017
INTEREST INCOME		
Loans to members	\$78,980,685	\$67,648,411
Investments	62,811,886	70,483,832
Total interest income	\$141,792,571	\$138,132,243
INTEREST EXPENSE		
Members' share and savings accounts	21,686,317	12,636,639
Borrowed funds	4,736,840	16,741,770
Total interest expense	\$26,423,157	\$29,378,409
Net interest income	115,369,414	108,753,834
PROVISION FOR LOAN LOSSES (RECAPTURE)		
Net interest income after provision for loan losses	1,776,930	(8,298,233)
	113,592,484	117,052,067
NON-INTEREST INCOME		
Fees and service charges	45,332,886	48,626,054
Interchange income	33,072,882	31,047,720
Gains on sales of investments	10,495,972	-
Gains on sales of loans	5,659,938	8,943,274
Sales of insurance and investment products	7,259,544	6,926,307
Loan servicing fees	4,522,548	4,366,771
Gains on capitalization of mortgage servicing rights	2,665,006	3,544,212
Share insurance refund	2,480,611	-
Gains on disposition of other real estate owned (OREO) and other assets in liquidation	646,815	1,134,705
Other miscellaneous income	1,589,068	605,585
Total non-interest income	\$113,725,270	\$105,194,628
NON-INTEREST EXPENSES		
Compensation and benefits	93,053,823	91,276,833
Office operations	33,884,225	33,067,783
Occupancy	10,813,665	9,951,798
Member education and marketing	10,540,737	7,856,393
Professional and outside services	5,534,266	3,798,499
Operating expenses	3,184,394	2,971,783
Loan servicing	1,146,534	1,996,226
Total non-interest expenses	\$158,157,644	\$150,919,315
NET INCOME	\$69,160,110	\$71,327,380

Desert Financial entered 2018 with a strong financial foundation and a new name, positioned to solidify our standing in the market. Since becoming Desert Financial, we have grown our membership to more than 330,000 members!

332,023

Members as of December 31, 2018

We strengthened our commitment to our community by giving back over \$2M through volunteer hours, grants and scholarships, donations, and more. With the help of our Desert Financial members, employees and partners, we provided \$600,000+ to the

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 sound financial practices. As a result, our members can remain confident in our continued success. ■