California Credit Union and Subsidiary

Consolidated Financial Statements

December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors and Supervisory Committee
California Credit Union

Opinion

We have audited the consolidated financial statements of California Credit Union and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, the consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of California Credit Union and subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of California Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about California Credit Union's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of California Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about California Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Turner, Warren, Hwang & Conrad

Burbank, California
April 12, 2022

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2021 AND 2020

	2021	2020
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 488,767	$ 986,674
Restricted cash	893	-
Investments:		
Debt securities available for sale, at fair value	1,525,304	413,831
Debt securities held to maturity	124	216
Equity securities	19,615	15,133
Other	16,700	16,655
Loans held for sale	20,175	39,110
Loans receivable, net	1,931,792	2,132,004
Accrued interest receivable	11,914	10,310
Property and equipment, net	118,943	122,884
Note receivable	5,349	5,862
National Credit Union Share Insurance Fund (NCUSIF) deposit	31,627	27,146
Goodwill	23,115	23,115
Other assets	96,571	22,490
Total assets	$ 4,290,889	$ 3,815,430
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 3,792,955	$ 3,280,147
Borrowed funds	-	80,000
Accrued expenses and other liabilities	73,486	50,060
Total liabilities	3,866,441	3,410,207
Members' equity:		
Regular reserve	16,459	16,459
Undivided earnings	255,919	215,757
Equity acquired in merger	167,986	167,986
Accumulated other comprehensive income (loss)	(15,916)	5,021
Total members' equity	424,448	405,223
Total liabilities and members' equity	$ 4,290,889	$ 3,815,430

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands)	
INTEREST INCOME		
Cash balances	$ 1,040	$ 1,463
Loans receivable	76,303	94,396
Investments	12,368	7,619
Total interest income	89,711	103,478
INTEREST EXPENSE		
Members' share accounts	8,989	11,957
Borrowed funds	628	1,331
Total interest expense	9,617	13,288
NET INTEREST INCOME	80,094	90,190
PROVISION (CREDIT) FOR LOAN LOSSES	(8,551)	6,425
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	88,645	83,765
NON-INTEREST INCOME		
Deposit service charges and related fee income	11,678	10,798
Interchange Income	9,816	8,027
Service income and other	19,295	10,887
Net gain on sale of loans	8,942	9,389
Net gain on sale of Visa class B common stocks	11,496	-
Net gain on sale of investments	-	7
Net real estate rental income	2,161	3,508
Total non-interest income	63,388	42,616
NON-INTEREST EXPENSE		
Compensation and benefits	59,188	58,436
Office occupancy	13,353	12,901
Pension plan termination	-	16,795
Other	39,330	33,789
Total non-interest expense	111,871	121,921
NET INCOME	$ 40,162	$ 4,460

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands)	
NET INCOME	$ 40,162	$ 4,460
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the year	(20,937)	4,933
Reclassification adjustment for net gain included in net income	-	(7)
	(20,937)	4,926
Defined benefit plan:		
Actuarial loss due to settlement	-	43,382
	-	43,382
Total other comprehensive income (loss)	(20,937)	48,308
COMPREHENSIVE INCOME	$ 19,225	$ 52,768

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2021 AND 2020

	Regular Reserve	Undivided Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)		
Balance, December 31, 2019	$ 16,459	$ 211,297	$ 167,986	$ (43,287)	$ 352,455
Comprehensive income:					
Net income	-	4,460	-	-	4,460
Other comprehensive income	-	-	-	48,308	48,308
Total comprehensive income					52,768
Balance, December 31, 2020	16,459	215,757	167,986	5,021	405,223
Comprehensive income:					
Net income	-	40,162	-	-	40,162
Other comprehensive loss	-	-	-	(20,937)	(20,937)
Total comprehensive income					19,225
Balance, December 31, 2021	$ 16,459	$ 255,919	$ 167,986	$ (15,916)	$ 424,448

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 40,162	$ 4,460
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	(8,551)	6,425
Gain on sale of loans	(8,942)	(9,389)
Gain on sale of investments	-	(7)
Unrealized gain on equity securities	(2,057)	(1,692)
Accretion of fair value adjustment of acquired loans	(953)	(1,537)
Amortization of deferred loan costs, net	(1,828)	281
Amortization of debt securities, net	4,614	2,535
Depreciation and amortization	8,503	8,515
Capitalization of mortgage servicing rights	(2,886)	(2,574)
Amortization of mortgage servicing rights	2,732	3,114
Amortization of core deposit intangible	1,848	3,046
Net change in operating assets and liabilities:		
Loans held for sale	18,935	(35,415)
Accrued interest receivable	(1,604)	(2,008)
NCUSIF deposit	(4,481)	(3,632)
Other assets	(75,775)	52,095
Accrued expenses and other liabilities	23,426	12,243
Net cash provided by (used in) operating activities	(6,857)	36,460
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of debt securities available for sale	(1,234,433)	(269,477)
Proceeds from sales, maturities and prepayments of debt securities available for sale	97,412	93,077
Proceeds from sales, maturities and prepayments of debt securities held to maturity	89	87
Net increase in equity securities	(2,425)	(141)
Net increase in other investments	(45)	(509)
Net increase in loans receivable	(86,189)	(12,117)
Net decrease in note receivable	513	494
Proceeds from sale of loans	306,675	280,297
Purchases of property and equipment	(4,562)	(6,313)
Net cash provided by (used in) investing activities	(922,965)	85,398
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	512,808	627,989
Repayment of borrowed funds	(80,000)	(25,000)
Net cash provided by financing activities	432,808	602,989

The accompanying notes are an integral part of these consolidated financial statements.

	2021	2020
	(in thousands)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$ (497,014)	$ 724,307
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	986,674	262,367
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 489,660	$ 986,674
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on members' share accounts and borrowed funds	$ 9,556	$ 13,138
Trading securities transferred to equity securities	17,243	13,863

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: California Credit Union (the credit union) is a state-chartered credit union organized under the California Credit Union Act. Membership in the credit union is limited to qualified individuals as defined in its charter and bylaws. The credit union's primary source of revenue is providing loans to members. The credit union conducts its operations through 25 branches located in Los Angeles County, Orange County and San Diego County, California.

Field of Membership and Sponsor: Membership in the credit union is limited to those individuals who qualify under defined terms specified in the bylaws, including any employee of any public or private California school, community college, state college, university or their governing organizations (districts, regions, etc.), or any member of any organization affiliated with and recognized by said entities, and their successor organizations; or any and all persons who live, regularly work, currently attend school or currently worship in San Diego County, California, Orange County, California or Riverside County, California, as well as any businesses, corporations and other legal entities in those counties.

Principles of Consolidation: The consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, California Members Title Insurance Company (CMTIC). CMTIC is 100% owner of California Members Title Company (CMTC). CMTC is engaged in the business of preparing title searches, title examinations, title reports, certificates or abstracts of title upon the basis of which a title insurer writes title policies. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, the actuarial estimate of the defined benefit obligation and the fair value of financial instruments.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The credit union's financial instruments and other accounts that are subject to fair value measurement and/or disclosure are summarized in Note 9.

Cash and Cash Equivalents: For purposes of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand and in banks and all highly liquid debt instruments with original maturities of three months or less.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash: The credit union considers cash to be restricted when withdrawal or general use is legally restricted. A reconciliation of the credit union's cash and restricted cash in the consolidated statements of financial condition to the consolidated statements of cash flows is as follows:

	2021
	(in thousands)
Cash and cash equivalents	$ 488,767
Restricted cash	893
	$ 489,660

Restricted cash represents line of credit facilities established solely for the purpose of backing issuance of certain Standby Letter of Credits issued by City National Bank to the credit union for the benefit of two credit union members and is not to be utilized for any other purpose.

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities that management intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

Equity securities with readily determinable fair values are recorded at fair value with changes in fair value recognized as a component of non-interest income. Equity securities without a readily determinable fair value are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar securities of the same issuer.

Other investments are classified separately and stated at cost.

Federal Home Loan Bank (FHLB) Stock: The credit union, as a member of the FHLB of San Francisco system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its membership asset value, subject to a cap of $15 million or 2.7% of advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial condition at cost.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans held for sale are generally sold with the mortgage servicing rights retained by the credit union. Gains and losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying amount of the related mortgage loans sold.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable, Net: The credit union grants commercial, residential real estate and consumer loans to members and purchases U.S. government-guaranteed loans. The members' or borrowers' ability to honor their loan agreements is dependent upon the economic stability of the various groups that compose the credit union's field of membership and commercial real estate borrowers. Loans that the credit union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until the associated loans qualify for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In accordance with the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), the credit union excludes loans 30 days or less past due as of December 31, 2019 that were modified as COVID-19 forbearance or deferral loans from past due or nonaccrual status. In addition, the banking regulatory agencies issued an interagency statement on April 7, 2020 stating that COVID-19 short-term modifications (i.e., six months or less) that were current at the time of modification should generally not be reported as nonaccrual.

The credit union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the credit union enforces its first lienholder status and repossesses the collateral. Repossessed collateral normally consists of commercial and residential real estate and vehicles.

Loan origination fees and certain direct costs associated with the origination or purchase of real estate loans are deferred and recognized over the life of the related loans as an adjustment of the loan's yield using the interest method.

Troubled Debt Restructurings (TDRs): In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession to a member for other than an insignificant period of time that the credit union would not otherwise consider, the related loan is classified as a TDR. The credit union strives to identify members in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and avoid foreclosure or repossession of the collateral. In cases where the credit union grants a member new terms that provide for a reduction of interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The credit union has implemented various loan modification programs to provide its members with relief from the effects of the COVID-19 pandemic. In accordance with the CARES Act, the credit union has elected not to apply TDR classification to any COVID-19 related loan modifications performed after March 1, 2020 to existing borrowers who were current as of December 31, 2019. In accordance with the interagency statement, the credit union has elected not to apply TDR classification to any short-term (i.e., six months or less) COVID-19 related loan modifications that were current at the time of modification. Accordingly, these restructurings are not classified as TDRs. For loan modifications that include a payment deferral and are not TDRs, the member's past due status will not be impacted.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into four segments: commercial, U.S. government guaranteed, residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The commercial segment is comprised of commercial real estate loans and other commercial. The U.S. government guaranteed segment is comprised of purchased small business loans. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the credit union's allowance for loan losses and may require the credit union to make additions to the allowance based on their judgment about the information available to them at the time of their examinations.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the U.S. government guaranteed, residential real estate and consumer segments for impairment on a pooled basis, unless they represent TDRs, as part of the general loan loss allowance and evaluates the commercial segment individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date.

The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and the duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segment were historical and expected future charge-offs, borrower's credit and property collateral. Significant characteristics considered for the commercial segment were type of property, geographical concentrations and risks, and individual borrower financial condition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchased Credit Impaired Loans: Loans that the credit union has acquired in merger are aggregated into pools with similar risk characteristics. For loans with evidence of credit deterioration, expected cash flows are estimated, and, if they are less than the carrying value, a credit risk discount is established. The credit union calculates the carrying values of the pools, effective yields, impairment and underlying loans based on actual and projected events. The excess of the expected cash flows is considered to be accretable yield and is recognized as interest income over the estimated life of the loans. The accretable yield may fluctuate due to changes in the timing and amounts of expected cash flows.

Property and Equipment, Net: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases.

Estimated useful lives of the assets are as follows:

Buildings	25–45 years
Furniture and equipment	3–5 years
Leasehold improvements	5 years

NCUSIF Deposit: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit will be refunded to the credit union if its insurance coverage is terminated, if it converts insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premium: The credit union is required to pay an annual premium based on a percentage of its total insured shares as declared by the NCUA Board, unless the payment is waived or reduced by the NCUA Board.

Goodwill: On March 1, 2017, the credit union merged with North Island Credit Union (NICU). The merger resulted in goodwill of $23,114,683. The amount represents the fair value of the acquired entity as a whole in excess of the fair value of the individual assets and liabilities. Goodwill is determined to have an indefinite useful life and is not amortized. Management reviews goodwill for impairment on an annual basis. If impairment is noted, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds its estimated fair value.

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations (assuming multiple properties are involved) are performed by management and property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell. There is no other real estate owned as of December 31, 2021 and 2020.

Loan Servicing: Servicing assets are recognized as separate assets initially measured at fair value when the credit union sells mortgage loans with servicing retained. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, discount rate, custodial earnings rate, inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as non-interest income when earned.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined through stratifying servicing rights by predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the credit union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to have been surrendered when (1) the assets have been isolated from the credit union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the credit union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Members' Share Accounts: Members' share accounts are the deposit accounts of the members of the credit union. Share ownership entitles a member to vote in the annual elections of the Board of Directors and on other credit union matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed by the credit union. Interest rates on members' share accounts are set by the Asset Liability Committee and ratified by the Board of Directors based on an evaluation of current and future market conditions.

Regular Reserve: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Equity Acquired in Merger: Equity acquired in merger represents the aggregated entity value of NICU at acquisition, measured using a weighted approach that emphasizes probable future discounted cash flows (income approach) and takes into consideration guideline transaction and market value approaches.

Core Deposit Intangible: Core deposit intangible represents a stable source of low-cost funds acquired in business combinations. The value is estimated by discounting the current balance of share, share draft and certain low denomination certificate accounts over their expected lives by the credit union's incremental borrowing rate, with adjustments made for the credit union's relatively high account servicing costs. The core deposit intangible is amortized using a discounted cash flow method over an estimated useful life of approximately six years and is included in other assets.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and defined benefit plan adjustments, are reported as separate components of the members' equity section on the consolidated statements of financial condition.

Income Taxes: The credit union is exempt by statute from federal income taxes under the provisions of Section 501 of the Internal Revenue Code of 1986 and from state income taxes; however, the credit union is subject to taxes on unrelated business income as further discussed in Note 8. The credit union's wholly owned subsidiary is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended December 31, 2021 and 2020.

Advertising Costs: Advertising costs are expensed as incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statement presentation to correspond to the current year's format. Total equity and net income are not affected by these reclassifications.

Recent Accounting Pronouncements: ASU 2016-02—*Leases (Topic 842)* will require lessees to recognize right-of-use (ROU) assets and related lease liabilities at the present value of the lease payments on the balance sheet for all arrangements with terms longer than 12 months. On the income statement, the cost of the lease is allocated over the lease term, generally on a straight-line basis. Adoption of this standard was originally scheduled for periods beginning after December 15, 2019 for private entities, including credit unions. ASU 2019-01 introduced certain additional changes to the lease accounting standard and to ASU 2019-10, recognizing the challenges public companies had in implementation and extending the implementation date to periods beginning after December 15, 2020 for private entities. ASU 2020-05 was issued in response to the COVID-19 pandemic and further extended the implementation date for private entities to periods beginning after December 15, 2021.

ASU 2016-13—*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities available for sale and purchased financial assets with credit deterioration. Adoption of this ASU was originally scheduled for credit unions for fiscal years beginning after December 15, 2021. ASU 2018-19 clarified the effective date and that leases are excluded from the guidance. ASU 2019-10 extended the effective date of this standard for periods beginning after December 15, 2022.

Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The credit union has established a cross-functional team and is working with a third party to manage implementation of this guidance. The new guidance is expected to result in an increase in the allowance for loan losses; however, the credit union is still in the process of determining the impact on its consolidated financial statements.

ASU 2020-04—*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The expedients are in effect from March 12, 2020 through December 31, 2022.

ASU 2020-08—*Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs.* This amendment is issued as clarification of ASU 2017-08—*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortened the amortization period of purchased callable securities held at a premium to the earliest call date. The credit union adopted ASU 2017-08 on October 1, 2020. ASU 2020-08 clarifies that to the extent the amortized cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the next call date, the excess (i.e., the premium) shall be amortized to the next call date, unless estimated prepayments are taken into consideration. Securities within the scope of this guidance are those that have explicit, non-contingent call options at fixed prices and on preset dates at prices less than the amortized cost basis of the security. Private entities may adopt ASU 2020-08 for fiscal years beginning after December 15, 2021.

Subsequent Events: Subsequent events have been evaluated through April 12, 2022, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of debt securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021		(in thousands)		
Federal agency securities	$ 276,849	$ 965	$ (3,916)	$ 273,898
Mortgage-backed securities	1,080,713	1,262	(14,256)	1,067,719
Collateralized mortgage obligations	149,281	640	(322)	149,599
U.S. Treasury notes	15,520	-	(258)	15,262
Corporate Bonds	12,699	42	(137)	12,604
Exchange-traded debt securities	6,158	90	(26)	6,222
	$ 1,541,220	$ 2,999	$ (18,915)	$ 1,525,304
2020				
Federal agency securities	$ 73,515	$ 1,613	$ (921)	$ 74,207
Mortgage-backed securities	258,563	3,179	(148)	261,594
Collateralized mortgage obligations	76,732	1,436	(138)	78,030
	$ 408,810	$ 6,228	$ (1,207)	$ 413,831

The weighted average yield on debt securities available for sale was 1.37% and 1.47% as of December 31, 2021 and 2020, respectively.

The amortized cost and fair value of debt securities held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021		(in thousands)		
Mortgage-backed securities	$ 124	$ 1	$ (3)	$ 122
2020				
Mortgage-backed securities	$ 216	$ -	$ (6)	$ 210

NOTE 2 – INVESTMENTS (CONTINUED)

The weighted average yield on debt securities held to maturity was 1.52% and 1.17% as of December 31, 2021 and 2020, respectively.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities available for sale:			(in thousands)			
Federal agency securities	$ 173,099	$ (3,444)	$ 16,492	$ (472)	$ 189,591	$ (3,916)
Mortgage-backed securities	925,838	(12,125)	91,679	(2,131)	1,017,517	(14,256)
Collateralized mortgage obligations	39,863	(237)	12,070	(85)	51,933	(322)
U.S. Treasury notes	15,262	(258)	-	-	15,262	(258)
Corporate Bonds	8,689	(137)	-	-	8,689	(137)
Exchange-traded debt securities	2,113	(26)	-	-	2,113	(26)
	$ 1,164,864	$ (16,227)	$ 120,241	$ (2,688)	$ 1,285,105	$ (18,915)
Debt Securities held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 68	$ (3)	$ 68	$ (3)
2020						
Debt Securities available for sale:						
Federal agency securities	$ 11,723	$ (80)	$ 19,843	$ (841)	$ 31,566	$ (921)
Mortgage-backed securities	43,449	(147)	614	(1)	44,063	(148)
Collateralized mortgage obligations	28,024	(112)	8,721	(26)	36,745	(138)
	$ 83,196	$ (339)	$ 29,178	$ (868)	$ 112,374	$ (1,207)
Debt Securities held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 146	$ (6)	$ 146	$ (6)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2021, a total of 9 federal agency securities, 63 mortgage-backed securities, 3 collateralized mortgage obligations, 2 U.S. treasury notes, 184 corporate bonds and 20 exchange-traded debt securities have been in a continuous unrealized loss position for less than 12 months; 20 federal agency securities, 13 mortgage-backed securities and 4 collateralized mortgage obligations have been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity securities consist of the following:

	2021	2020
	(in thousands)	
Mutual funds	$ 17,243	$ 13,863
Co-Op restrictive stock	1,270	1,270
Common stock	1,102	-
	$ 19,615	$ 15,133

NOTE 2 – INVESTMENTS (CONTINUED)

The investment in the credit union service organization (Co-Op) does not have a readily determinable fair value; therefore, it is recorded at cost.

Other investments consist of the following:

	2021	2020
	(in thousands)	
Share certificates at other credit unions	$ 200	$ 200
Perpetual contributed capital in a corporate credit union	1,500	1,500
FHLB stock	15,000	14,955
	$ 16,700	$ 16,655

Share certificates are generally non-negotiable and non-transferable and may incur substantial penalties for withdrawal prior to maturity.

Perpetual capital accounts are uninsured equity accounts and are redeemable only if called by the corporate credit union.

The weighted average yield on share certificates was 0.10% and 0.10% as of December 31, 2021 and 2020, respectively. The weighted average yield on perpetual contributed capital was 0.61% and 1.43% as of December 31, 2021 and 2020, respectively.

The amortized cost and fair value of investments by contractual maturity as of December 31, 2021 are shown below. Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities and collateralized mortgage obligations may differ from the contractual maturities. Mortgage-backed securities and collateralized mortgage obligations are therefore classified with no specific maturity date.

	Debt Securities Available for Sale		Debt Securities Held to Maturity		
Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
			(in thousands)		
No contractual maturity	$ -	$ -	$ -	$ -	$ 16,500
Less than one year	449	448	-	-	200
Due in one to five years	26,637	26,293	-	-	-
Due in five to ten years	18,151	18,189	-	-	-
Due in more than ten years	265,989	263,056	-	-	-
	311,226	307,986	-	-	16,700
Mortgage-backed securities	1,080,713	1,067,719	124	122	-
Collateralized mortgage obligations	149,281	149,599	-	-	-
	$ 1,541,220	$ 1,525,304	$ 124	$ 122	$ 16,700

NOTE 3 – LOANS RECEIVABLE, NET

Total loans outstanding by portfolio segment and class of loan are as follows:

	2021	2020
	(in thousands)	
Commercial:		
Commercial real estate	$ 373,974	$ 341,743
Other commercial	14,914	40,759
	388,888	382,502
U.S. government guaranteed	117,716	65,786
Residential real estate:		
First mortgage	774,223	979,176
HELOC and other mortgage	223,387	273,337
	997,610	1,252,513
Consumer:		
Automobile	356,839	360,727
Credit card	38,248	41,042
Other consumer	42,021	47,481
	437,108	449,250
Total loans	1,941,322	2,150,051
Interest rate discount	(3,768)	(4,720)
Credit risk discount	(1,943)	(1,956)
Allowance for loan losses	(3,819)	(11,371)
Total loans, net	$ 1,931,792	$ 2,132,004

Other commercial includes Paycheck Protection Program (PPP) loans to qualified small businesses under the CARES Act. These loans carry an interest rate of 1% and are 100% guaranteed by the U.S. Small Business Administration (SBA). No allowance for loan losses was recorded on these loans as of December 31, 2021 and 2020. During 2021, the credit union funded 347 PPP loans for members with an outstanding loan balance as of December 31, 2021 totaling approxmimately $7,748,000, which is included in other commercial class. During 2020, the credit union has funded 579 PPP loans with an outstanding balance of approximately $40,759,000 as of December 31, 2020. The majority of the credit union's PPP loans have a term of two years. The SBA pays the credit union fees for processing PPP loans in the following amounts: (1) five percent for loans of not more than $350,000; (2) three percent for loans of more than $350,000 and less than $2,000,000; and (3) one percent for loans of at least $2,000,000. Loan processing fees paid to the credit union by the SBA totaled approximately $1,504,000 and $2,085,000 as of December 31, 2021 and 2020, respectively. Payments by borrowers on PPP loans begin ten months after the loan forgiveness covered period. Under the terms of the PPP, such loans are eligible to be forgiven if certain conditions are satisfied, in which case the SBA will make payments to the credit union for the forgiven amounts. If a loan is paid off or forgiven by the SBA prior to its projected estimated life, the remaining unamortized deferred fees will be recognized as interest income in that period.

Loans include the loans acquired in the business combination for which nonaccretable and accretable yields were recorded. The following provides additional information about these loans and the associated approximate amounts.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2021	Loans Receivable	Nonaccretable Balance Outstanding	Accretable Yield Outstanding	Carrying Amount of Loans Receivable
		(in thousands)		
Commercial real estate	$ 53,482	$ 394	$ 26	$ 53,062
First mortgage	72,401	1,401	3,730	67,270
HELOC and other mortgage	24,149	56	12	24,081
Automobile	6,432	91	-	6,341
Other consumer	2,335	1	-	2,334
	$ 158,799	$ 1,943	$ 3,768	$ 153,088
2020				
Commercial real estate	$ 62,117	$ 394	$ 105	$ 61,618
First mortgage	126,530	1,401	4,390	120,739
HELOC and other mortgage	38,591	56	225	38,310
Automobile	22,474	104	-	22,370
Other consumer	3,574	1	-	3,573
	$ 253,286	$ 1,956	$ 4,720	$ 246,610

The allowance for loan losses and the recorded investment in loans, by portfolio segment, are as follows:

2021	Commercial	U.S. Government Guaranteed	Residential Real Estate	Consumer	Total
			(in thousands)		
Allowance for loan losses:					
Beginning balance	$ 211	$ -	$ 8,109	$ 3,051	$ 11,371
Charge-offs	(2)	-	-	(2,559)	(2,561)
Credit for loan losses	(113)	-	(7,884)	(554)	(8,551)
Recoveries	842	-	1,338	1,380	3,560
Ending balance	$ 938	$ -	$ 1,563	$ 1,318	$ 3,819
Individually evaluated for impairment	$ 932	$ -	$ 264	$ -	$ 1,196
Collectively evaluated for impairment	6	-	1,299	1,318	2,623
Ending balance	$ 938	$ -	$ 1,563	$ 1,318	$ 3,819
Recorded investment in loans:					
Individually evaluated for impairment	$ 45,145	$ -	$ 15,727	$ -	$ 60,872
Collectively evaluated for impairment	343,739	117,716	964,135	433,864	1,859,454
Loans acquired with deteriorated credit quality	4	-	17,748	3,244	20,996
Ending balance	$ 388,888	$ 117,716	$ 997,610	$ 437,108	$ 1,941,322

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2020	Commercial	U.S. Government Guaranteed	Residential Real Estate	Consumer	Total
			(in thousands)		
Allowance for loan losses:					
Beginning balance	$ 399	$ -	$ 960	$ 4,958	$ 6,317
Charge-offs	(56)	-	(10)	(4,149)	(4,215)
Provision (credit) for loan losses	(400)	-	5,814	1,011	6,425
Recoveries	268	-	1,345	1,231	2,844
Ending balance	$ 211	$ -	$ 8,109	$ 3,051	$ 11,371
Individually evaluated for impairment	$ 180	$ -	$ 770	$ -	$ 950
Collectively evaluated for impairment	31	-	7,339	3,051	10,421
Ending balance	$ 211	$ -	$ 8,109	$ 3,051	$ 11,371
Recorded investment in loans:					
Individually evaluated for impairment	$ 46,751	$ -	$ 14,516	$ -	$ 61,267
Collectively evaluated for impairment	319,143	65,786	1,195,553	437,126	2,017,608
Loans acquired with deteriorated credit quality	16,608	-	42,444	12,124	71,176
Ending balance	$ 382,502	$ 65,786	$ 1,252,513	$ 449,250	$ 2,150,051

Credit Risk Discount: Loans acquired through a merger with deteriorated credit quality are evaluated and pooled separately from the allowance for loan losses calculation. The following presents activity in the credit risk discount valuation account by portfolio segment, including accretion (reclassifications of nonaccretable discount to accretable yield), amounts of loans charged off and any recoveries:

	Commercial	Residential Real Estate	Consumer	Total
		(in thousands)		
2021				
Beginning balance	$ 395	$ 1,458	$ 103	$ 1,956
Additions	-	-	-	-
Charge-offs	-	-	(13)	(13)
Accretion	-	-	-	-
Recoveries	-	-	-	-
	$ 395	$ 1,458	$ 90	$ 1,943
2020				
Beginning balance	$ 395	$ 1,584	$ 180	$ 2,159
Additions	-	-	-	-
Charge-offs	-	(82)	(77)	(159)
Accretion	-	(44)	-	(44)
Recoveries	-	-	-	-
	$ 395	$ 1,458	$ 103	$ 1,956

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Changes in Accounting Methodology: The credit union did not change its allowance for loan losses methodology during the years ended December 31, 2021 and 2020.

Credit Quality Indicators for Commercial Segment: The credit union assesses the credit quality of its commercial real estate loans with an eight-grade risk rating system whereby a higher grade represents a higher level of credit risk. The eight-grade risk rating system can generally be classified into the following categories: pass or watch, special mention, substandard, doubtful and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass or watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention is considered a transitory grade, and generally, the credit union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

The following table presents the credit quality of commercial real estate loans graded internally based on the commonly used internal classification system:

Internal Grade	2021	2020
	(in thousands)	
Pass/Excellent	$ 19	$ 280
Pass/Strong	111,738	85,338
Pass/Satisfactory	199,256	192,246
Pass/Watch	40,351	42,326
Special Mention	5,731	4,867
Substandard	12,885	16,492
Doubtful	3,994	194
	$ 373,974	$ 341,743

Credit Quality Indicators for U.S. Government-Guaranteed Segment: The credit union purchased small business loans that are fully backed by the U.S. government and full repayment is expected; therefore, no allowance was provided for this segment.

Credit Quality Indicators for Residential Real Estate and Consumer Segment: The credit union assesses the credit quality of its residential real estate and consumer loans by recent FICO score and loan-to-value (LTV) ratio.

FICO Scores: The credit union obtains FICO scores at loan origination, and the scores are updated at least quarterly. Loans that trend toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The FICO score distribution is as follows:

	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
			(in thousands)			
2021						
800 and above	$ 364,704	$ 85,306	$ 92,745	$ 4,869	$ 7,187	$ 554,811
750 to 799	234,601	63,941	94,674	9,948	12,154	415,318
650 to 749	152,697	59,377	134,787	18,571	18,533	383,965
600 to 649	10,625	7,686	22,135	3,138	2,268	45,852
599 and below	7,645	6,037	11,999	1,465	893	28,039
Unknown	3,951	1,040	499	257	986	6,733
	$ 774,223	$ 223,387	$ 356,839	$ 38,248	$ 42,021	$ 1,434,718
2020						
800 and above	$ 490,857	$ 106,709	$ 114,371	$ 4,098	$ 13,062	$ 729,097
750 to 799	268,876	56,784	92,509	9,993	11,821	439,983
650 to 749	143,669	47,989	123,264	21,345	17,572	353,839
600 to 649	3,933	2,641	18,383	3,367	1,991	30,315
599 and below	2,146	5,383	11,932	1,932	1,519	22,912
Unknown	69,695	53,831	268	307	1,516	125,617
	$ 979,176	$ 273,337	$ 360,727	$ 41,042	$ 47,481	$ 1,701,763

LTV and Combined LTV (CLTV) Ratios: Residential real estate loans are assessed for credit quality by LTV or CLTV, the ratio of the loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the credit union is in a junior lien position, only the excess collateral value over the amounts necessary to retire any senior lien positions is considered. LTVs are updated quarterly using a cascade approach that first uses values provided by an automated valuation model (AVM) for a property. If an AVM is not available, the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used.

Although residential real estate markets experienced significant declines in property values several years ago, recent analysis, as shown in the table below, highlights improvement in all mortgage categories. These trends are considered in the way the credit union monitors credit risk and establishes the residential real estate allowance for loan losses. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value. In the event of default, any loss to the credit union should be approximately limited to the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral.

The LTV distribution of first mortgage and HELOC and other mortgage loans is as follows:

	Less Than 80%	80%–89%	90%–99%	100% or Greater	Unknown	Total
			(in thousands)			
2021						
First mortgage	$ 624,026	$ 122,451	$ 27,746	$ -	$ -	$ 774,223
HELOC and other mortgage	206,421	14,242	2,367	357	-	223,387
	$ 830,447	$ 136,693	$ 30,113	$ 357	$ -	$ 997,610
2020						
First mortgage	$ 829,243	$ 123,208	$ 17,612	$ 508	$ 8,605	$ 979,176
HELOC and other mortgage	254,800	15,166	2,465	48	858	273,337
	$ 1,084,043	$ 138,374	$ 20,077	$ 556	$ 9,463	$ 1,252,513

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Nonaccrual and Past Due Loans: Information relating to the age and nonaccrual status of the loans by class is shown below. There were no loans 90 days or more past due and still accruing interest as of December 31, 2021 and 2020.

2021	Current	30–59 Days Past Due	60–179 Days Past Due	180–359 Days Past Due	360 Days or More Past Due	Total	Loans on Nonaccrual Status
				(in thousands)			
Commercial real estate	$ 373,290	$ 505	$ 49	$ 130	$ -	$ 373,974	$ 179
Other commercial	14,850	58	6	-	-	14,914	6
U.S. government guaranteed	117,716	-	-	-	-	117,716	-
First mortgage	760,401	8,019	2,921	1,923	959	774,223	4,648
HELOC and other mortgage	218,982	1,367	1,222	1,562	254	223,387	2,793
Automobile	355,423	1,172	244	-	-	356,839	100
Credit card	37,863	145	240	-	-	38,248	82
Other consumer	41,791	138	92	-	-	42,021	54
	$ 1,920,316	$ 11,404	$ 4,774	$ 3,615	$ 1,213	$ 1,941,322	$ 7,862
2020							
Commercial real estate	$ 330,004	$ 2,547	$ 8,361	$ 831	$ -	$ 341,743	$ 8,276
Other commercial	40,759	-	-	-	-	40,759	-
U.S. government guaranteed	65,786	-	-	-	-	65,786	-
First mortgage	967,544	7,171	2,862	97	1,502	979,176	2,328
HELOC and other mortgage	265,858	1,863	4,049	1,040	527	273,337	4,136
Automobile	358,639	1,512	576	-	-	360,727	201
Credit card	40,219	417	406	-	-	41,042	240
Other consumer	47,040	277	164	-	-	47,481	96
	$ 2,115,849	$ 13,787	$ 16,418	$ 1,968	$ 2,029	$ 2,150,051	$ 15,277

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Impaired Loans: Impaired loans individually evaluated for impairment are summarized below. The average balances are calculated based on the month-end balances of the loans for the period reported, and the interest income on impaired loans is recognized on a cash basis when received.

2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 41,352	$ 41,151	$ -	$ 41,938	$ 2,669
First mortgage	11,721	10,657	-	11,747	336
HELOC and other mortgage	2,861	2,789	-	2,828	64
	55,934	54,597	-	56,513	3,069
With an allowance recorded:					
Commercial real estate	4,096	3,994	932	4,024	54
First mortgage	409	408	60	412	14
HELOC and other mortgage	1,873	1,873	204	1,919	43
	6,378	6,275	1,196	6,356	111
Total:					
Commercial real estate	45,448	45,145	932	45,963	2,724
First mortgage	12,130	11,065	60	12,159	350
HELOC and other mortgage	4,734	4,662	204	4,747	107
	$ 62,313	$ 60,872	$ 1,196	$ 62,869	$ 3,181
2020					
With no related allowance recorded:					
Commercial real estate	$ 11,896	$ 11,864	$ -	$ 12,274	$ 779
First mortgage	7,477	7,443	-	9,242	312
HELOC and other mortgage	889	886	-	1,230	27
	20,262	20,193	-	22,746	1,118
With an allowance recorded:					
Commercial real estate	34,965	34,887	180	35,112	2,612
First mortgage	2,873	2,863	154	1,746	69
HELOC and other mortgage	3,333	3,324	616	3,090	58
	41,171	41,074	950	39,948	2,739
Total:					
Commercial real estate	46,861	46,751	180	47,386	3,391
First mortgage	10,350	10,306	154	10,988	381
HELOC and other mortgage	4,222	4,210	616	4,320	85
	$ 61,433	$ 61,267	$ 950	$ 62,694	$ 3,857

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

COVID-19 Forbearance Loans: In an effort to assist members who have experienced hardship resulting from the COVID-19 pandemic, the credit union offered loan payment forbearance plans that allowed for loan payment deferrals for 90 days. In accordance with the CARES Act or Interagency Statement, the credit union has elected not to apply TDR classification to any eligible COVID-19 related loan forbearance or loan deferments for loans. Active COVID-19 forbearance loans as of December 31, 2021 and 2020, presented by class, are as follows:

	2021	2020
	(in thousands)	
Commercial real estate	$ 4,031	$ 5,771
First mortgage	299	33,454
HELOC and other mortgage	-	4,962
	$ 4,330	$ 44,187

TDRs: Loans modified as TDRs during the years ended December 31, 2021 and 2020 and the type of concession granted, presented by class, are as follows:

	Type of Concession		
	Interest Rate	Maturity Date	Total
2021		(in thousands)	
Commercial real estate	$ 552	$ 3,679	$ 4,231
2020			
Commercial real estate	$ 5,908	$ -	$ 5,908
HELOC and other mortgage	-	151	151
	$ 5,908	$ 151	$ 6,059

There were no loans modified as TDRs during the years ended December 31, 2021 and 2020 for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

The composition of property and equipment is summarized as follows:

	2021	2020
	(in thousands)	
Land	$ 37,783	$ 37,783
Buildings	85,083	84,044
Leasehold improvements	27,419	24,003
Furniture and equipment	52,872	51,303
	203,157	197,133
Accumulated depreciation and amortization	(85,289)	(77,634)
	117,868	119,499
Construction in progress	1,075	3,385
	$ 118,943	$ 122,884

NOTE 4 – PROPERTY AND EQUIPMENT, NET (CONTINUED)

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 amounted to approximately $8,503,000 and $8,515,000, respectively.

The credit union leases space in its buildings to various tenants. The following is a schedule of minimum future gross rental income on noncancelable operating leases:

Years Ending December 31,	(in thousands)
2022	$ 3,978
2023	3,490
2024	2,904
2025	2,238
2026	1,074
Thereafter	618
	$ 14,302

NOTE 5 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2021 Weighted Average Cost	2021 (in thousands)	2020 (in thousands)
Regular shares	0.04%	$ 1,191,230	$ 1,941,319
Checking	0.07%	1,352,435	245,602
Money market	0.28%	720,195	572,870
IRA shares	0.12%	34,989	36,921
		3,298,849	2,796,712
Share certificates	0.90%	442,693	433,290
IRA certificates	1.03%	51,413	50,145
		494,106	483,435
		$ 3,792,955	$ 3,280,147

As allowed by the Federal Reserve Bank, the linked savings sub-account portions of checking accounts ($0 and $937 million as of December 31, 2021 and 2020, respectively) are classified as regular shares in these consolidated financial statements in order to accurately reflect the deposit structure and reserve requirements of these balances.

The aggregate amount of share and IRA certificates in denominations that met or exceeded the NCUSIF insurance limit was approximately $70 million and $63 million as of December 31, 2021 and 2020, respectively.

A summary of share and IRA certificates by maturity as of December 31, 2021 is as follows:

Years Ending December 31,	(in thousands)
2022	$ 339,261
2023	83,820
2024	32,273
2025	22,542
2026	16,205
2027	5
	$ 494,106

NOTE 5 – MEMBERS' SHARE ACCOUNTS (CONTINUED)

Interest expense on members' share accounts is summarized as follows:

	2021	2020
	(in thousands)	
Regular shares	$ 1,264	$ 1,152
Checking	644	472
Money market	1,712	1,427
IRA shares	45	39
Share certificates	4,720	8,083
IRA certificates	604	784
	$ 8,989	$ 11,957

NOTE 6 – BORROWED FUNDS AND LINES OF CREDIT

The credit union has a senior line of credit with the FHLB of San Francisco. Collateral under the agreement consists of a priority interest in most one-to-four-unit residential real estate loans owned by the credit union plus its capital stock and all deposits as well as pledged securities. As of December 31, 2021 and 2020, the credit union had borrowed $0 and $80 million, respectively, against this line. The credit union has pledged real estate loans with outstanding balances of $1,177,195,000 and $1,408,029,000 as of December 31, 2021 and 2020, respectively. Additionally, the credit union pledged investment securities with a fair market value of $20 million as of December 31, 2021. The total remaining borrowing capacity under the agreement, determined as a percentage of available loan collateral, was approximately $767 million and $574 million as of December 31, 2021 and 2020, respectively.

The credit union also has letters of credit with the FHLB worth $15 million used as collateral for public deposits.

In addition, the credit union has two open-end loan promissory notes consisting of settlement and term lines of credit with a corporate credit union. Maximum available borrowings on the settlement line were $34.3 million, subject to provision of adequate collateral. The limit on the term line of credit was $1, subject to provision of adequate collateral for credit requests. Collateral under the settlement line of credit can include share certificates, securities in safekeeping and all the assets of the credit union. The credit union pledged securities in the amount of $39 million and $58 million as of December 31, 2021 and 2020, respectively. Collateral under the term line of credit can include designated loans, corporate credit union share certificates and securities held in safekeeping. Interest is variable or fixed as determined at the time of the credit request. This arrangement is annually reviewed for continuation by the lender and the credit union. As of December 31, 2021 and 2020, there were no borrowings under the open-end loan promissory notes.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings: The credit union is periodically a defendant in various legal proceedings involving matters generally incidental to its business. Although it is difficult to predict the outcome of these proceedings, management believes, based on discussions with counsel, that there are no estimable or probable material losses as of December 31, 2021.

Lease Commitments: As of December 31, 2021, the credit union was obligated under noncancelable operating leases for office space. Certain leases contain escalation clauses providing for increased rent based primarily on increases in real estate taxes or the average consumer price index. Rent expense totaled $5 million and $5 million for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The required future minimum annual rent payments under the terms of the leases are as follows:

Years Ending December 31,	(in thousands)
2022	$ 2,721
2023	2,602
2024	2,257
2025	2,166
2026	1,786
Thereafter	3,745
	$ 15,277

Loan Commitments: The credit union had outstanding commercial and real estate loan commitments of $12 million and $44 million as of December 31, 2021 and 2020, respectively. The credit union also had unused lines of credit not reflected in the accompanying consolidated financial statements as follows:

	2021	2020
	(in thousands)	
Credit card	$ 235,891	$ 207,657
HELOC	318,413	312,036
Business	19,860	20,502
Overdraft protection	103,621	104,384
Other	23,595	23,243
	$ 701,380	$ 667,822

Financial Instruments with Off-Balance-Sheet Risk: The credit union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. The financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statement of financial condition. The contractual or notional amounts of these instruments reflect the extent of involvement the credit union has in particular classes of financial instruments. The credit union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The credit union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk as of December 31, 2021 are the commitments to extend credit of $701 million in contractual or notional amount per the above table. Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the credit union upon extension of credit, is based on management's credit evaluation of the member. Collateral held varies but may include real estate, vehicles and shares.

NOTE 8 – INCOME TAXES

The credit union is a state-chartered credit union as described in Internal Revenue Code (IRC) Section 501(c)(14) and, as such, is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions. Tax exemption from California income tax is similar.

NOTE 8 – INCOME TAXES (CONTINUED)

FASB ASC 740-10-65, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the credit union's tax returns to determine whether the tax positions are "more likely than not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions deemed to not meet the more-likely-than-not threshold should be recorded as a tax expense and liability in the current year. For the years ended December 31, 2021 and 2020, management has determined that the credit union has no material uncertain tax positions, and accordingly, the credit union has not recorded a liability for the payment of interest or penalties. The credit union is subject to and pays all state and city taxes on goods and services purchased by the credit union. There was no income tax provision for the subsidiaries in 2021 and 2020.

NOTE 9 – FAIR VALUE

Fair values of securities are usually based on quoted market prices. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities or on discounted cash flow models using the expected payment characteristics of the underlying mortgage instruments.

Fair values of assets measured on a recurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021		(in thousands)		
Debt securities available for sale	$ 1,525,304	$ 34,088	$ 1,491,216	$ -
Common stock	1,102	1,102	-	-
Mutual funds	17,243	17,243	-	-
	$ 1,543,649	$ 52,433	$ 1,491,216	$ -
2020				
Debt securities available for sale	$ 413,831	$ -	$ 413,831	$ -
Mutual funds	13,863	13,863	-	-
	$ 427,694	$ 13,863	$ 413,831	$ -

Fair values of assets measured on a nonrecurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021		(in thousands)		
Impaired loans	$ 7,354	$ -	$ -	$ 7,354
2020				
Impaired loans	$ 7,364	$ -	$ -	$ 7,364

Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans.

NOTE 10 – LOAN SERVICING

The credit union's servicing portfolio with capitalized mortgage servicing rights (MSRs) is summarized as follows:

	2021	2020
	(in thousands)	
Residential loans	$ 615,971	$ 534,289
Commercial loans	210,881	244,161
	$ 826,852	$ 778,450

MSRs as recorded in the consolidated financial statements at amortized cost compared to fair value as determined by an independent third-party valuation company are summarized as follows:

	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Residential loans	$ 4,113	$ 7,048	$ 3,753	$ 5,276
Commercial loans	1,602	2,926	1,808	3,531
	$ 5,715	$ 9,974	$ 5,561	$ 8,807

The fair value of servicing rights was determined using discount rates ranging from 8.00% for residential loans, and 8.75% for all commercial loans as of December 31, 2021. Current delinquency experience has been assumed to continue for all stratifications. The average prepayment speed for residential loans was 11.09% and 17.19% as of December 31, 2021 and 2020, respectively. The average prepayment speed for commercial loans was 8.25% and 8.09% as of December 31, 2021 and 2020, respectively.

MSRs are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSRs by risk stratification for loan age and interest rate. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent reversals.

The following summarizes MSR activity, loan servicing income and escrow accounts for collections, taxes and insurance held in a fiduciary capacity and not as assets of the credit union:

	2021	2020
	(in thousands)	
MSRs, beginning of year	$ 5,561	$ 6,101
Capitalized from loan originations	2,886	2,574
Amortization	(2,732)	(3,114)
MSRs, end of year	$ 5,715	$ 5,561
Loan servicing income	$ 2,803	$ 2,763
Escrow accounts	$ 3,784	$ 2,652

NOTE 11 – NOTE RECEIVABLE

The purchase of the West L.A. property was partially financed by the purchaser via a promissory note from the credit union. The note receivable was for $8.7 million, payable monthly for a period of 192 months at an interest rate of 3.75%. As of December 31, 2021 and 2020, the note receivable balance was $5.3 million and $5.9 million, respectively.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of December 31, 2021 and 2020, the credit union had cash balances totaling $3,770,000 and $4,419,000, respectively, at financial institutions, which exceeded federally insured limits.

NOTE 13 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the credit union has granted loans to principal officers and directors amounting to $3.2 million and $3.2 million as of December 31, 2021 and 2020, respectively. Deposits from related parties held by the credit union as of December 31, 2021 and 2020 amounted to $3.8 million and $3.3 million, respectively. Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances.

NOTE 14 – EMPLOYEE BENEFIT PLANS

401(k) Plan: The credit union has a salary deferral 401(k) plan. Employees who have completed three months of service are eligible to participate in the plan. For any calendar year, employee contributions may not exceed a specific dollar amount as determined by the IRS. The credit union will contribute a fixed amount of safe harbor matching contributions of 100% on the first 6% of compensation deferred into the plan. For the years ended December 31, 2021 and 2020, the credit union contributed $2.3 million and $2.3 million, respectively.

457(f) Plan: The credit union has a nonqualified deferred compensation plan for certain executives under IRC Section 457(f). To support the deferred compensation plan, the credit union has elected to purchase credit union-owned variable life insurance and variable annuities. The surrender value of these investments, included in other assets, was $7.7 million and $6.4 million as of December 31, 2021 and 2020, respectively. There was no change in the market value of designated plan assets and benefit expense for the years ended December 31, 2021 and 2020. The liability for the deferred compensation is included in accrued liabilities and totaled $1,437,000 and $1,448,000 as of December 31, 2021 and 2020, respectively.

The credit union has another nonqualified deferred compensation plan for a key management employee under Internal Revenue Code (IRC) Section 457(f). The credit union invested in certain mutual funds to partially defray the cost of this agreement. The assets under this arrangement are maintained at fair value of $14.6 million and $12.5 million and are included in equity securities as of December 31, 2021 and 2020, respectively. Changes in fair value of these mutual funds are recorded through earnings.

457(b) Plan: The credit union has an unfunded nonqualified deferred compensation plan for members of management. The plan allows for employees to defer a portion of their compensation. The deferred compensation investments are shown as both assets and liabilities on the credit union's consolidated financial statements and are available to creditors in the event of the credit union's liquidation. The funds were invested into certain mutual funds and are included in equity securities as of December 31, 2021 and 2020 in the consolidated financial statements. Deferred compensation investments and liabilities totaled $1,558,000 and $1,336,000 as of December 31, 2021 and 2020, respectively.

Split-dollar Life Insurance: Included in other assets was a loan to an executive under a split-dollar life insurance arrangement between the credit union and the executive. The loan is recorded based on the collateral assignment method whereby the executive owns the life insurance policy and assigns the policy collateral back to the credit union along with an executed promissory note. The note receivable and accrued interest of approximately $12,669,000 are included in other assets in the consolidated statements of financial condition as of December 31, 2021.

NOTE 14 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Deferred Compensation Plan: The credit union has entered into a deferred compensation agreement with a member of the senior management team. The agreement provides benefits to the employee if they remain employed by the credit union for a certain number of years. If the employee becomes fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits of the arrangement are in the agreement, accrued benefits are immediately payable. The benefits of the arrangement are subject to forfeiture if employment is terminated for cause as defined in the agreement. The liability for the deferred compensation is included in accrued liabilities and totaled $0 and $2,833,000 as of December 31, 2021 and 2020, respectively. The plan was terminated in October 2021 and replaced with the split-dollar life insurance arrangement previously disclosed.

Defined Benefit Pension Plan: The credit union sponsors a defined benefit pension plan that covers all regular employees hired before January 1, 2007 who meet certain requirements. The plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service with the credit union and compensation rates. The credit union's funding policy has been to annually contribute an amount in excess of the minimum required by federal regulations. Contributions to the plan reflect benefits attributed to employees' service to date, as well as estimated future benefits.

The plan was terminated in January 2020. Part of the plan assets was distributed to the eligible participants who had requested for the lump sum distribution in 2019. In December 2020, the credit union purchased an annuity contract from United of Omaha Life Insurance Company (United of Omaha), for all remaining plan participants for approximately $32,375,000. The remaining plan assets were fully liquidated and transferred to United of Omaha and all liability obligations were settled on December 17, 2020.

The following sets forth information regarding the plan as of December 31, 2020:

	(dollars in thousands)	
Benefit obligation	$	-
Fair value of plan assets		192
Funded status	$	192
Other asset (liability) for pension benefits (included in other assets/liabilities)	$	192
Net prior service cost and net actuarial loss (recognized in accumulated other comprehensive loss)	$	-
Accumulated benefit obligation	$	-
Assumptions used to determine benefit obligation:		
Assumptions used to determine benefit obligation:		
Discount rate	2.47%	
Rate of compensation increase	3.00%	
Employer contributions	$	1,200
Benefits paid	$	1,733

NOTE 14 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The components of the net periodic pension cost as of December 31, 2020 are shown below. The service cost component is included in compensation and benefits expense, and the components of net periodic pension cost other than the service cost component are included in other expense in the consolidated statements of income.

	(dollars in thousands)
Net periodic pension cost:	
Service cost	$ -
Interest cost	2,930
Expected return on plan assets	(5,342)
Amortization of prior service cost	-
Recognized loss	1,620
	(792)
Additional charges due to:	
Curtailment	2,553
Settlement	14,242
	16,795
	$ 16,003
Assumptions used to determine net pension cost:	
Discount rate	3.22%
Expected return on plan assets	7.00%
Rate of compensation increase	3.00%

Expected long-term return on plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The fair values of the credit union's pension plan assets as of December 31, 2020 are mostly priced at Level 1, quoted prices in active markets for identical assets.

Asset Category	(in thousands)
Other alternatives	$ 45
Cash and cash equivalents	147
	$ 192

NOTE 15 – REVENUE FROM CONTRACTS WITH MEMBERS

The credit union's services that fall within the scope of ASC 606, *Revenue from Contracts with Customers*, are presented in non-interest income and are recognized as revenue as the credit union satisfies its obligations to the members.

The following table presents revenue from contracts with members within the scope of ASC 606 for the years ended December 31, 2021 and 2020:

	2021	2020
Deposit service charges and related fee income	$ 11,678	$ 10,798
Interchange income	9,816	8,027
Insurance commission income	5,611	4,393
	$ 27,105	$ 23,218

NOTE 15 – REVENUE FROM CONTRACTS WITH MEMBERS (CONTINUED)

Deposit Service Charges and Related Fee Income: The credit union earns fees from its members for transaction-based account maintenance and overdraft services. The deposit account services include ongoing account maintenance, as well as certain services such as wire transfer services, non-sufficient funds (NSF) fees and other deposit related fees. Transaction-based fees such as NSF fees, ACH fees and other deposit related fees are recognized at the time the transaction is executed, as that is the point in time the credit union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the credit union satisfies the performance obligation. Payments for these service charges are received immediately through a direct charge to members' accounts.

Interchange Income: The credit union earns interchange fees from automated teller machine (ATM), debit and credit cardholder transactions conducted through the Visa and Mastercard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Revenue is recognized when the net profit is determined by the payment networks at the end of each day. Certain expenses directly related to the debit and credit cards are recorded on a net basis with interchange income.

Insurance Commission Income: The credit union earns insurance commission income from guaranteed asset protection insurance, credit protection insurance, mechanical breakdown insurance, and other products sold to members. The insurance commission income is based on contractual agreements between the credit union and third-party insurance carriers and earned at the point in time when the contract is executed.

NOTE 16 – REGULATORY CAPITAL

The credit union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the credit union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP. The credit union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to assets (as defined). The credit union is also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2021 and 2020 was 7.17% and 5.12%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that, as of December 31, 2021, the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which management believes have changed the credit union's category.

NOTE 16 – REGULATORY CAPITAL (CONTINUED)

The credit union's actual capital amounts and ratios are as follows:

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
2021						
Net worth	$ 416,550	9.71%	$ 307,657	7.17%	$ 307,657	7.17%
RBNW requirement	$ 307,657	7.17%	N/A	N/A	N/A	N/A
2020						
Net worth	$ 376,388	9.86%	$ 228,926	6.00%	$ 267,080	7.00%

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

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