CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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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, 2022 and 2021, 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, 2022 and 2021, and the results of their operations and their cash flows for the years then ended, in accordance 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.

Responsibilities 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 Responsibilities 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 13, 2023

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 501,685	$ 488,767
Restricted cash	893	893
Investments:		
Debt securities available for sale, at fair value	1,276,683	1,525,304
Debt securities held to maturity	101	124
Equity securities	16,608	19,616
Other	16,700	16,700
Loans held for sale	470	20,175
Loans receivable, net	2,500,109	1,931,792
Accrued interest receivable	14,120	11,914
Property and equipment, net	118,791	118,943
Note receivable	8,537	5,349
National Credit Union Share Insurance Fund (NCUSIF) deposit	34,550	31,627
Goodwill	23,115	23,115
Other assets	49,378	96,570
Total assets	$ 4,561,740	$ 4,290,889
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 3,928,228	$ 3,792,955
Borrowed funds	300,000	-
Accrued expenses and other liabilities	68,333	73,486
Total liabilities	4,296,561	3,866,441
Members' equity:		
Regular reserve	16,459	16,459
Undivided earnings	279,341	255,919
Equity acquired in merger	167,986	167,986
Accumulated other comprehensive loss	(198,607)	(15,916)
Total members' equity	265,179	424,448
Total liabilities and members' equity	$ 4,561,740	$ 4,290,889

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, 2022 and 2021

	2022	2021
	(in thousands)	
INTEREST INCOME		
Cash balances	$ 4,803	$ 1,040
Loans receivable	79,655	76,303
Investments	22,203	12,368
Total interest income	106,661	89,711
INTEREST EXPENSE		
Members’ share accounts	9,195	8,989
Borrowed funds	1,436	628
Total interest expense	10,631	9,617
NET INTEREST INCOME	96,030	80,094
PROVISION (CREDIT) FOR LOAN LOSSES	1,030	(8,551)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	95,000	88,645
NON-INTEREST INCOME		
Deposit service charges and related fee income	13,334	11,678
Interchange income	9,979	9,816
Service income and other	13,895	19,295
Net gain on sale of loans	1,161	8,942
Net gain on sale of property and equipment	5,260	-
Net gain on sale of Visa Class B common stock	-	11,496
Net real estate rental income	2,418	2,161
Total non-interest income	46,047	63,388
NON-INTEREST EXPENSE		
Compensation and benefits	64,044	59,188
Office occupancy	14,593	13,353
Other	38,988	39,330
Total non-interest expense	117,625	111,871
NET INCOME	$ 23,422	$ 40,162

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, 2022 and 2021

	2022	2021
	(in thousands)	
NET INCOME	$ 23,422	$ 40,162
OTHER COMPREHENSIVE LOSS		
Unrealized loss on debt securities available for sale:		
Unrealized holding loss arising during the year	(182,691)	(20,937)
Total other comprehensive loss	(182,691)	(20,937)
COMPREHENSIVE INCOME (LOSS)	$ (159,269)	$ 19,225

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, 2022 AND 2021

	Regular Reserve	Undivided Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)		
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
Comprehensive loss:					
Net income	-	23,422	-	-	23,422
Other comprehensive loss	-	-	-	(182,691)	(182,691)
Total comprehensive loss					(159,269)
Balance, December 31, 2022	$ 16,459	$ 279,341	$ 167,986	$ (198,607)	$ 265,179

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, 2022 AND 2021

	2022	2021
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 23,422	$ 40,162
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	1,030	(8,551)
Gain on sale of loans	(1,161)	(8,942)
Loss on sale of investments	457	-
Gain on sale of property and equipment	(5,260)	-
(Gain) loss on equity securities	2,351	(2,057)
Accretion of fair value adjustment of acquired loans	(645)	(953)
Amortization (accretion) of deferred loan costs, net	494	(1,828)
Amortization of debt securities, net	8,599	4,614
Depreciation and amortization	8,063	8,503
Capitalization of mortgage servicing rights	(461)	(2,886)
Amortization of mortgage servicing rights	1,683	2,732
Amortization of core deposit intangible	649	1,848
Net change in operating assets and liabilities:		
Loans held for sale	19,705	18,935
Accrued interest receivable	(2,206)	(1,604)
NCUSIF deposit	(2,923)	(4,481)
Other assets	61,997	(75,775)
Accrued expenses and other liabilities	(21,829)	23,426
Net cash provided by (used in) operating activities	93,965	(6,857)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of debt securities available for sale	(141,165)	(1,234,433)
Proceeds from sales, maturities and prepayments of debt securities available for sale	198,103	97,412
Proceeds from maturities and prepayments of debt securities held to maturity	20	89
Net (increase) decrease in equity securities	596	(2,425)
Net increase in other investments	-	(45)
Net increase in loans receivable	(624,555)	(86,189)
Net decrease in note receivable	532	513
Proceeds from sale of loans	56,520	306,675
Proceeds from sale property and equipment	2,075	-
Purchases of property and equipment	(8,446)	(4,562)
Net cash used in investing activities	(516,320)	(922,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	135,273	512,808
Proceeds from (repayments of) borrowed funds	300,000	(80,000)
Net cash provided by financing activities	435,273	432,808

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

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$ 12,918	$ (497,014)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	489,660	986,674
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 502,578	$ 489,660
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid on members' share accounts and borrowed funds	$ 11,643	$ 9,556
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES		
Operating right-of-use (ROU) assets recorded upon adoption of Accounting Standards Update (ASU) 2016-02	$ 16,676	$ -
Operating lease liabilities recorded upon adoption of ASU 2016-02	16,676	-
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Note receivable issued in connection with sale of Rosenell property	$ 3,720	$ -

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 (MSRs), 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

	2022	2021
	(in thousands)	
Cash and cash equivalents	$ 501,685	$ 488,767
Restricted cash	893	893
	$ 502,578	$ 489,660

Restricted cash represents line-of-credit facilities established solely for the purpose of backing issuance of certain standby letters of credit 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans held for sale are generally sold with the MSRs 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.

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.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 asset 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, 2022 and 2021.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 debt securities available for sale 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 (IRC) 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, 2022 and 2021.

Advertising Costs: Advertising costs are expensed as incurred.

New Accounting Pronouncement Adopted: On January 1, 2022, the credit union adopted Accounting Standards Update (ASU) 2016-02—*Leases (Topic 842)* and all subsequent amendments thereto, which require the credit union to recognize most leases on the consolidated statements of financial condition. The standard was adopted under the alternative transition method as of the date of adoption, and the credit union elected to apply the package of practical expedients for leases, including (1) carryover of historical lease determination; (2) carryover of lease classification conclusions; and (3) carryover of historical initial direct cost balances for existing leases. The credit union has also elected the practical expedient to not separate lease and non-lease components, consistently across all leases. Adoption of the lease standard resulted in the recognition of operating right-of-use (ROU) assets and lease liabilities of $16,676,000 as of January 1, 2022. This amount was determined based on the present value of remaining minimum lease payments, discounted using the risk free interest rates at the date of adoption, and are included in other assets and other liabilities. There was no material impact to the timing of the expense recognition on the credit union's consolidated statements of income.

Recent Accounting Pronouncements: ASU 2016-13—*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, replaces 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. The credit union adopted the guidance as a cumulative-effect adjustment to retained earnings beginning January 1, 2023, which increased the allowance for credit losses.

ASU 2020-04—*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, was issued to provide optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Topic 848 provided temporary relief during the transition period based on expectations that the London Interbank Offered Rate (LIBOR) would cease being published. As a result, the sunset provision was originally set for December 31, 2022. Meanwhile, the UK Financial Conduct Authority announced that the intended secession date for the overnight 1-, 3- and 12-month tenors of USD LIBOR would be extended to June 30, 2023. The FASB issued ASU 2022-06—*Reference Rate Reform (Topic 848)*: *Deferral of Sunset Date of Topic 848*, which defers the sunset date from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASU 2020-08—*Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs,* was 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 January 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.

ASU 2022-02—*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, an update to ASU 2016-13, eliminates the TDR recognition and measurement guidance in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, and instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendment enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables (i.e., loan refinances and restructurings) made to borrowers experiencing financial difficulty. For entities that have not yet adopted ASU 2016-13*,* the effective date for this update is the same as in ASU 2016-13, for periods beginning after December 31, 2022. The credit union adopted this guidance beginning January 1, 2023.

Subsequent Events: Subsequent events have been evaluated through April 13, 2023, 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	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
2022		(in thousands)		
Federal agency securities	$ 268,154	$ 360	$ (30,001)	$ 238,513
Mortgage-backed securities	948,983	4	(143,330)	805,657
Collateralized mortgage obligations	130,095	25	(18,870)	111,250
U.S. Treasury notes	109,569	-	(4,062)	105,507
Corporate bonds	12,051	-	(1,510)	10,541
Exchange traded debt securities	6,438	-	(1,223)	5,215
	$ 1,475,290	$ 389	$ (198,996)	$ 1,276,683

NOTE 2 – INVESTMENTS (CONTINUED)

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(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

The weighted average yield on debt securities available for sale was 1.95% and 1.37% as of December 31, 2022 and 2021, 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
2022		(in thousands)		
Mortgage-backed securities	$ 101	$ -	$ (5)	$ 96
2021				
Mortgage-backed securities	$ 124	$ 1	$ (3)	$ 122

The weighted average yield on debt securities held to maturity was 1.37% and 1.52% as of December 31, 2022 and 2021, 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	
2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Debt securities available for sale:						
Federal agency securities	$ 11,682	$ (977)	$ 190,796	$ (29,024)	$ 202,478	$ (30,001)
Mortgage-backed securities	31,866	(1,398)	772,833	(141,932)	804,699	(143,330)
Collateralized mortgage obligations	29,350	(4,523)	77,574	(14,347)	106,924	(18,870)
U.S. Treasury notes	91,768	(2,388)	13,739	(1,674)	105,507	(4,062)
Corporate bonds	2,845	(476)	7,599	(1,034)	10,444	(1,510)
Exchange traded debt securities	3,296	(654)	1,919	(569)	5,215	(1,223)
	$ 170,807	$ (10,416)	$ 1,064,460	$ (188,580)	$ 1,235,267	$ (198,996)
Debt securities held to maturity:						
Mortgage-backed securities	$ 54	$ (2)	$ 42	$ (3)	$ 96	$ (5)

NOTE 2 – INVESTMENTS (CONTINUED)

2021	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Debt securities available for sale:						
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)

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, 2022, a total of 10 federal agency securities, 37 mortgage-backed securities, 18 collateralized mortgage obligations, 4 U.S. Treasury notes, 66 corporate bonds and 37 exchange traded debt securities have been in a continuous unrealized loss position for less than 12 months; 24 federal agency securities, 75 mortgage-backed securities, 10 collateralized mortgage obligations, 2 U.S. Treasury notes, 168 corporate bonds and 25 exchange traded debt securities 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:

	2022	2021
	(in thousands)	
Mutual funds	$ 15,352	$ 17,244
Co-Op restrictive stock	1,256	1,270
Common stock	-	1,102
	$ 16,608	$ 19,616

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

NOTE 2 – INVESTMENTS (CONTINUED)

Other investments consist of the following:

	2022	2021
	(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	15,000
	$ 16,700	$ 16,700

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, 2022 and 2021, respectively. The weighted average yield on perpetual contributed capital was 1.46% and 0.61% as of December 31, 2022 and 2021, respectively.

The amortized cost and fair value of investments by contractual maturity as of December 31, 2022 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	144	139	-	-	200
Due in one to five years	127,381	122,395	-	-	-
Due in five to ten years	16,728	14,773	-	-	-
Due in more than ten years	251,959	222,469	-	-	-
	396,212	359,776	-	-	16,700
Mortgage-backed securities	948,983	805,657	101	96	-
Collateralized mortgage obligations	130,095	111,250	-	-	-
	$ 1,475,290	$ 1,276,683	$ 101	$ 96	$ 16,700

NOTE 3 – LOANS RECEIVABLE, NET

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

	2022	2021
	(in thousands)	
Commercial:		
Commercial real estate	$ 329,400	$ 373,974
Other commercial	8,607	14,914
	338,007	388,888
U.S. government guaranteed	138,838	117,716
Residential real estate:		
First mortgage	1,139,010	774,223
HELOC and other mortgage	257,035	223,387
	1,396,045	997,610
Consumer:		
Automobile	545,518	356,839
Credit card	41,544	38,248
Other consumer	48,647	42,021
	635,709	437,108
Total loans	2,508,599	1,941,322
Interest rate discount	(3,123)	(3,768)
Credit risk discount	(1,943)	(1,943)
Allowance for loan losses	(3,424)	(3,819)
Total loans, net	$ 2,500,109	$ 1,931,792

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.

	Loans Receivable	Nonaccretable Balance Outstanding	Accretable Yield Outstanding	Carrying Amount of Loans Receivable
2022	(in thousands)			
Commercial real estate	$ 33,612	$ 394	$ 1	$ 33,217
First mortgage	53,288	1,401	3,122	48,765
HELOC and other mortgage	18,456	56	-	18,400
Automobile	970	91	-	879
Other consumer	1,875	1	-	1,874
	$ 108,201	$ 1,943	$ 3,123	$ 103,135
2021				
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

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

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

2022	Commercial	U.S. Government Guaranteed	Residential Real Estate	Consumer	Total
			(in thousands)		
Allowance for loan losses:					
Beginning balance	$ 938	$ -	$ 1,563	$ 1,318	$ 3,819
Charge-offs	(85)	-	(17)	(2,799)	(2,901)
Provision (credit) for loan losses	(28)	-	(1,730)	2,788	1,030
Recoveries	22	-	447	1,007	1,476
Ending balance	$ 847	$ -	$ 263	$ 2,314	$ 3,424
Individually evaluated for impairment	$ 840	$ -	$ 150	$ -	$ 990
Collectively evaluated for impairment	7	-	113	2,314	2,434
Ending balance	$ 847	$ -	$ 263	$ 2,314	$ 3,424
Recorded investment in loans:					
Individually evaluated for impairment	$ 42,659	$ 7,201	$ -	$ -	$ 49,860
Collectively evaluated for impairment	295,345	131,637	1,382,398	634,634	2,444,014
Loans acquired with deteriorated credit quality	3	-	13,647	1,075	14,725
Ending balance	$ 338,007	$ 138,838	$ 1,396,045	$ 635,709	$ 2,508,599
2021					
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	$ -	$ 17,240	$ -	$ 62,385
Collectively evaluated for impairment	343,739	117,716	962,622	433,864	1,857,941
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)

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
2022		(in thousands)		
Beginning balance	$ 395	$ 1,458	$ 90	$ 1,943
Additions	-	-	-	-
Charge-offs	-	-	-	-
Accretion	-	-	-	-
Recoveries	-	-	-	-
	$ 395	$ 1,458	$ 90	$ 1,943
2021				
Beginning balance	$ 395	$ 1,458	$ 103	$ 1,956
Additions	-	-	-	-
Charge-offs	-	-	(13)	(13)
Accretion	-	-	-	-
Recoveries	-	-	-	-
	$ 395	$ 1,458	$ 90	$ 1,943

Changes in Accounting Methodology: The credit union did not change its allowance for loan losses methodology during the years ended December 31, 2022 and 2021.

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.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

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

Internal Grade	2022	2021
	(in thousands)	
Pass/Excellent	$ -	$ 19
Pass/Strong	120,076	111,738
Pass/Satisfactory	166,962	199,256
Pass/Watch	33,470	40,351
Special Mention	2,537	5,731
Substandard	6,355	12,885
Doubtful	-	3,994
	$ 329,400	$ 373,974

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.

The FICO score distribution is as follows:

	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
2022			(in thousands)			
800 and above	$ 499,365	$ 96,877	$ 154,823	$ 5,482	$ 8,113	$ 764,660
750 to 799	389,267	79,032	151,292	10,798	12,832	643,221
650 to 749	218,022	68,932	190,162	20,051	22,004	519,171
600 to 649	16,441	5,387	29,814	3,128	3,181	57,951
599 and below	8,297	6,140	18,685	1,869	1,372	36,363
Unknown	7,618	667	742	216	1,145	10,388
	$ 1,139,010	$ 257,035	$ 545,518	$ 41,544	$ 48,647	$ 2,031,754
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

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

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	Total
			(in thousands)		
2022					
First mortgage	$ 890,288	$ 156,480	$ 75,393	$ 16,849	$ 1,139,010
HELOC and other mortgage	227,810	11,233	7,677	10,315	257,035
	$ 1,118,098	$ 167,713	$ 83,070	$ 27,164	$ 1,396,045
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

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, 2022 and 2021.

2022	Current	30–59 Days Past Due	60–89 Days Past Due	90–179 Days Past Due	180–359 Days Past Due	360 Days or More Past Due	Total	Loans on Nonaccrual Status
				(in thousands)				
Commercial real estate	$ 328,862	$ -	$ 538	$ -	$ -	$ -	$ 329,400	$ -
Other commercial	8,456	-	151	-	-	-	8,607	-
U.S. government guaranteed	138,838	-	-	-	-	-	138,838	-
First mortgage	1,132,951	3,407	1,919	733	-	-	1,139,010	733
HELOC and other mortgage	253,894	1,302	1,248	591	-	-	257,035	591
Automobile	541,755	2,948	491	324	-	-	545,518	324
Credit card	40,893	323	201	127	-	-	41,544	127
Other consumer	47,966	430	179	72	-	-	48,647	72
	$ 2,493,615	$ 8,410	$ 4,727	$ 1,847	$ -	$ -	$ 2,508,599	$ 1,847
2021								
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	1,155	1,766	1,923	959	774,223	4,648
HELOC and other mortgage	218,982	1,367	245	977	1,562	254	223,387	2,793
Automobile	355,423	1,172	144	100	-	-	356,839	100
Credit card	37,863	145	158	82	-	-	38,248	82
Other consumer	41,791	138	38	54	-	-	42,021	54
	$ 1,920,316	$ 11,404	$ 1,740	$ 3,034	$ 3,615	$ 1,213	$ 1,941,322	$ 7,862

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.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2022			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 39,051	$ 38,851	$ -	$ 36,235	$ 2,242
First mortgage	4,956	4,938	-	5,690	201
HELOC and other mortgage	553	552	-	581	19
	44,560	44,341	-	42,506	2,462
With an allowance recorded:					
Commercial real estate	3,910	3,808	840	3,887	74
First mortgage	321	318	22	324	5
HELOC and other mortgage	1,396	1,393	128	1,465	56
	5,627	5,519	990	5,676	135
Total:					
Commercial real estate	42,961	42,659	840	40,122	2,316
First mortgage	5,277	5,256	22	6,014	206
HELOC and other mortgage	1,949	1,945	128	2,046	75
	$ 50,187	$ 49,860	$ 990	$ 48,182	$ 2,597
2021					
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	1,556	1,551	60	1,574	57
HELOC and other mortgage	2,244	2,243	204	2,326	69
	7,896	7,788	1,196	7,924	180
Total:					
Commercial real estate	45,448	45,145	932	45,963	2,724
First mortgage	13,277	12,208	60	13,321	393
HELOC and other mortgage	5,105	5,032	204	5,154	133
	$ 63,830	$ 62,385	$ 1,196	$ 64,438	$ 3,250

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

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

2021	Type of Concession: Interest Rate	Type of Concession: Maturity Date	Total
		(in thousands)	
Commercial real estate	$ 552	$ 3,679	$ 4,231

There were no loans modified as TDRs during the year ended December 31, 2022. There were no loans modified as TDRS during the years ended December 31, 2022 and 2021 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:

	2022	2021
	(in thousands)	
Land	$ 37,604	$ 37,783
Buildings	87,361	85,083
Leasehold improvements	29,899	27,419
Furniture and equipment	53,193	52,872
	208,057	203,157
Accumulated depreciation and amortization	(92,824)	(85,289)
	115,233	117,868
Construction in progress	3,558	1,075
	$ 118,791	$ 118,943

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 amounted to approximately $8,063,000 and $8,503,000, respectively.

During the year ended December 31, 2022, the credit union sold the Rosenell property for a net amount of $5.8 million and recognized a gain on sale of $5.3 million. The credit union financed a portion of the proceeds from the buyer (see Note 11 for details of note receivable). The credit union also leased the property back for a period of two years. The lease is included as an ROU asset and lease liability in the consolidated financial statements.

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)
2023	$ 5,582
2024	5,720
2025	5,132
2026	4,151
2027	3,466
Thereafter	5,820
	$ 29,871

NOTE 5 – MEMBERS' SHARE ACCOUNTS

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

	2022 Weighted Average Cost	2022	2021
		(in thousands)	
Regular shares	0.09%	$ 1,182,073	$ 1,191,230
Checking	0.04%	1,370,928	1,353,122
Money market	0.32%	743,657	719,508
IRA shares	0.12%	33,343	34,989
		3,330,001	3,298,849
Share certificates	1.64%	412,044	442,693
IRA certificates	1.43%	45,655	51,413
Brokered certificates	4.45%	140,528	-
		598,227	494,106
		$ 3,928,228	$ 3,792,955

The aggregate amount of share and IRA certificates in denominations that met or exceeded the NCUSIF insurance limit was approximately $64 million and $70 million as of December 31, 2022 and 2021, respectively.

A summary of share and IRA certificates by maturity as of December 31, 2022 is as follows:

Years Ending December 31,	(in thousands)
2023	$ 438,144
2024	108,125
2025	32,030
2026	12,174
2027	7,754
	$ 598,227

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

	2022	2021
	(in thousands)	
Regular shares	$ 1,088	$ 1,264
Checking	824	644
Money market	2,034	1,712
IRA shares	43	45
Share certificates	3,800	4,720
IRA certificates	476	604
Brokered certificates	930	-
	$ 9,195	$ 8,989

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, 2022 and 2021, the credit union had borrowed $300,000,000 and $0, respectively, against this line. The borrowings of $300,000,000 mature at various dates from January 2023 through December 2025 and carry interest at rates ranging from 4.28% to 4.99%. The credit union has pledged real estate loans with outstanding balances of $1,560,670,000 and $1,177,195,000 as of December 31, 2022 and 2021, respectively. Additionally, the credit union pledged investment securities with a fair market value of $683,000,000 and $20,000,000 as of December 31, 2022 and 2021, respectively. The total remaining borrowing capacity under the agreement, determined as a percentage of available loan collateral, was approximately $1,147 million and $767 million as of December 31, 2022 and 2021, 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 $22.8 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 $26 million and $39 million as of December 31, 2022 and 2021, 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, 2022 and 2021, there were no borrowings under the open-end loan promissory notes.

The credit union pledged loans to the Federal Reserve Bank under the borrower-in-custody (BIC) collateral arrangement. Under the terms of BIC, the credit union has the ability to borrow from 50% to 95% of the market value of its pledged eligible loans. The collateral value as of December 31, 2022 was approximately $360,000,000. There was no outstanding balance as of December 31, 2022.

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, 2022.

Lease Commitments: On January 1, 2022, the credit union adopted ASU 2016-02. The credit union leases certain office facilities under non-cancelable operating leases expiring in various years through 2034. The credit union's lease terms may include options to extend the leases. The credit union's measurement of the operating lease liability and ROU asset does not include payments associated with the options to extend the lease, since it is not reasonably certain that the credit union will exercise these options.

The ROU asset and lease liabilities of $13,462,000 and $13,654,000 as of December 31, 2022 are recognized based on the present value of minimum lease payments over the lease term and are included in other assets and accrued expenses and other liabilities, respectively. As most of the credit union's leases do not provide an implicit rate, the credit union used the risk free interest rate available at the later of the adoption date or lease commencement date to determine the present value of future payments. The amortization of the operating lease assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in net occupancy expense under non-interest expense. The fixed lease expense is recognized on a straight-line basis over the remaining life of the lease.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

As of December 31, 2022, the weighted average remaining lease term was 5.75 years and the weighted average discount rate was 1.44%. Operating lease cost totaled approximately $5,685,000 for the year ended December 31, 2022.

The following table presents the future lease payments of the lease liabilities as of December 31, 2022:

Years Ending December 31,	(in thousands)
2023	$ 3,525
2024	3,030
2025	2,708
2026	2,241
2027	1,781
Thereafter	2,446
Total minimum lease payments	15,731
Less imputed interest	2,077
Total lease liabilities	$ 13,654

Prior to the adoption of ASC 842, the credit union's operating leases were not recognized on the consolidated statements of financial condition. The following table presents the undiscounted future minimum payments under operating leases as of December 31, 2021:

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

Rent expense totaled $5 million for the year ended December 31, 2021.

Loan Commitments: The credit union had outstanding commercial and real estate loan commitments of $11 million and $12 million as of December 31, 2022 and 2021, respectively. The credit union also had unused lines of credit not reflected in the accompanying consolidated financial statements as follows:

	2022	2021
	(in thousands)	
Credit card	$ 234,856	$ 235,891
HELOC	357,659	318,413
Business	24,380	19,860
Overdraft protection	102,536	103,621
Other	23,454	23,595
	$ 742,885	$ 701,380

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 on the consolidated statements 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, 2022 are the commitments to extend credit of $743 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 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.

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, 2022 and 2021, 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 2022 and 2021.

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.

NOTE 9 – FAIR VALUE (CONTINUED)

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)
2022	(in thousands)			
Debt securities available for sale	$ 1,276,683	$ 121,263	$ 1,155,420	$ -
Mutual funds	15,352	15,352	-	-
	$ 1,292,035	$ 136,615	$ 1,155,420	$ -
2021				
Debt securities available for sale	$ 1,525,304	$ 34,088	$ 1,491,216	$ -
Common stock	1,102	1,102	-	-
Mutual funds	17,244	17,244	-	-
	$ 1,543,650	$ 52,434	$ 1,491,216	$ -

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)
2022	(in thousands)			
Impaired loans	$ 162	$ -	$ -	$ 162
2021				
Impaired loans	$ 7,354	$ -	$ -	$ 7,354

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 MSRs is summarized as follows:

	2022	2021
	(in thousands)	
Residential loans	$ 700,493	$ 615,971
Commercial loans	185,012	210,881
	$ 885,505	$ 826,852

NOTE 10 – LOAN SERVICING (CONTINUED)

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:

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Residential loans	$ 3,404	$ 9,548	$ 4,113	$ 7,048
Commercial loans	1,089	2,752	1,602	2,926
	$ 4,493	$ 12,300	$ 5,715	$ 9,974

The fair value of servicing rights was determined using a discount rate of 11.25% for residential loans and all commercial loans as of December 31, 2022. Current delinquency experience has been assumed to continue for all stratifications. The average prepayment speed (CPR) for residential loans was 7.10% and 11.09% as of December 31, 2022 and 2021, respectively. The average CPR for commercial loans was 8.96% and 8.25% as of December 31, 2022 and 2021, 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:

	2022	2021
	(in thousands)	
MSRs, beginning of year	$ 5,715	$ 5,561
Capitalized from loan originations	461	2,886
Amortization	(1,683)	(2,732)
MSRs, end of year	$ 4,493	$ 5,715
Loan servicing income	$ 2,688	$ 2,803
Escrow accounts	3,649	3,784

NOTE 11 – NOTE RECEIVABLE

In July 2014, the credit union sold the West L.A. property to an unrelated third party. The sale 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, 2022 and 2021, the note receivable balance was $4.8 million and $5.3 million, respectively.

In March 2022, the credit union sold the Rosenell property, which was partially financed by the purchaser via a promissory note from the credit union. The note receivable was for $3.7 million, payable for a period of 10 years and maturing in 2032. The credit union will make interest-only payments at a variable interest rate for a period of five years, at which time the loan will convert to principal and interest payments for the remainder of the term. As of December 31, 2022, the note receivable balance was $3.7 million.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of December 31, 2022 and 2021, the credit union had cash balances totaling $7,815,000 and $3,770,000, 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 $3.6 million and $3.2 million as of December 31, 2022 and 2021, respectively. Deposits from related parties held by the credit union as of December 31, 2022 and 2021 amounted to $3.8 million and $3.8 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, 2022 and 2021, 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 $7.4 million and $7.7 million as of December 31, 2022 and 2021, respectively. There was no change in the market value of designated plan assets and benefit expense for the years ended December 31, 2022 and 2021. The liability for the deferred compensation is included in accrued liabilities and totaled $1.2 million and $1.4 million as of December 31, 2022 and 2021, respectively.

The credit union has another nonqualified deferred compensation plan for a key management employee under 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 $12.3 million and $14.6 million and are included in equity securities as of December 31, 2022 and 2021, 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, 2022 and 2021 in the consolidated financial statements. Deferred compensation investments and liabilities totaled $1,167,000 and $1,558,000 as of December 31, 2022 and 2021, 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 $12,215,000 and $12,669,000 are included in other assets in the consolidated statements of financial condition as of December 31, 2022 and 2021, respectively.

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, 2022 and 2021:

	2022	2021
Deposit service charges and related fee income	$ 13,334	$ 11,678
Interchange income	9,979	9,816
Insurance commission income	6,627	5,611
	$ 29,940	$ 27,105

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, 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 the contract is executed.

NOTE 16 – REGULATORY CAPITAL

The credit union is subject to various regulatory capital requirements administered by the NCUA and the Department of Financial Protection and Innovation. 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 guidelines and the risk-based capital framework, the credit union must meet specific risk-based capital guidelines that involve quantitative measures of the credit union's assets and liabilities as calculated under U.S. GAAP. The credit union's capital amounts and risk based capital classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

NOTE 16 – REGULATORY CAPITAL (CONTINUED)

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). Effective January 1, 2022, the credit union is required to calculate a risk-based capital (RBC) ratio under the new RBC regulatory framework. The credit union's RBC ratio as of December 31, 2022 was 18.82%. Prior to January 1, 2022, the credit union was required to calculate a risk-based net worth (RBNW) ratio under the previous regulatory capital framework, which was 7.17% as of December 31, 2021. Management believes, as of December 31, 2022, that the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the RBC 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 maintain a minimum RBC ratio of 10% of total risk weighted assets. There are no conditions or events since that notification which management believes have changed the credit union's category.

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

	Actual		Adequately Capitalized Requirement		Well Capitalized Requirement	
2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
RBC ratio numerator	$ 409,910	18.82%	$ 174,234	8.00%	$ 217,793	10.00%
Total risk weighted assets	2,177,929	N/A				

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 439,972	9.64%	$ 273,704	6.00%	$ 319,322	7.00%
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

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

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