The Power Of Teams

FARMERS INSURANCE
FEDERAL
CREDIT UNION

2021 Annual Report

2021 Highlights

Total Net Loans

2021 — $1,014,386,528

2020 — $950,199,833

2019 — $843,165,649

Membership Shares

2021 — $1,055,358,867

2020 — $988,681,647

2019 — $819,547,852

Retained Earnings

2021 — $132,127,265

2020 — $122,148,676

2019 — $117,838,575

Total Assets

2021 — $1,293,726,254

2020 — $1,225,524,648

2019 — $1,004,416,958

Net Income

$9,978,589

2020 $4,310,101

2019 $7,461,399

Total Members

60,270

2020 57,534

2019 55,018

NPS Score

83.27%

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(With Independent Auditor's Report Thereon)

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

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Independent Auditor's Report

May 31, 2022

To the Supervisory Committee and Board of Directors
of Farmers Insurance Group Federal Credit Union

Report on the Audits of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Farmers Insurance Group Federal Credit Union as of December 31, 2021 and 2020, and the results of its operations and its 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 Audits of the Financial Statements section of our report. We are required to be independent of Farmers Insurance Group Federal 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 from material misstatement, whether due to fraud or error.

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

Report on the Audits of the Financial Statements

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from 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 financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Farmers Insurance Group Federal 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Farmers Insurance Group Federal 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Doeren Mayhew

Doeren Mayhew
Miami, FL

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2021 AND 2020

	2021	2020
Assets		
Cash and cash equivalents	$120,295,674	$191,798,736
Interest bearing deposits	43,967,997	37,392,993
Investments:		
Equity securities (Note 2)	69,724,599	—
Available-for-sale (Note 2)	393,731	1,467,900
Credit Union Service Organizations	15,343,171	15,935,720
Federal Home Loan Bank (FHLB) stock	2,983,900	2,983,900
Loans to members, net of allowance for loan losses (Note 3)	1,014,386,528	950,199,833
Accrued interest receivable	4,801,669	5,636,035
Prepaid and other assets	7,716,224	5,923,003
Property and equipment (Note 4)	4,304,705	4,616,081
National Credit Union Share Insurance Fund (NCUSIF) deposit	9,808,056	9,570,447
Total assets	$1,293,726,254	$1,225,524,648
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (Note 5)	$1,055,358,867	$988,681,647
Borrowed funds (Note 6)	94,948,195	105,128,986
Accrued expenses and other liabilities	11,279,899	9,551,819
Total liabilities	1,161,586,961	1,103,362,452
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	16,966,743	16,966,743
Undivided earnings	115,160,522	105,181,933
Accumulated other comprehensive income	12,028	13,520
Total members' equity	132,139,293	122,162,196
Total liabilities and members' equity	$1,293,726,254	$1,225,524,648

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Interest income:		
Loans to members	$57,193,050	$54,986,496
Investments	787,197	2,177,365
Total interest income	57,980,247	57,163,861
Interest expense:		
Members' shares and savings accounts	7,446,282	11,473,451
Borrowed funds	1,966,729	1,936,504
Total interest expense	9,413,011	13,409,955
Net interest income	48,567,236	43,753,906
Provision for loan losses	1,487,214	7,525,121
Net interest income after provision for loan losses	47,080,022	36,228,785
Non-interest income:		
Overdraft and share draft fees	2,547,317	2,359,643
Interchange income	3,895,464	3,015,637
Service charges and other fees	1,022,673	866,309
Other income	323,034	279,215
Total non-interest income	7,788,488	6,520,804
Non-interest expenses:		
Compensation and benefits	25,278,644	22,127,789
Office operating costs	9,007,389	8,224,164
Educational and promotional	2,146,085	796,226
Professional and outside services	1,999,386	1,692,251
Office occupancy	1,931,432	2,020,402
Other expenses	2,726,441	2,413,634
Loan servicing	1,800,544	1,165,022
Total non-interest expenses	44,889,921	38,439,488
Net income	$9,978,589	$4,310,101

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Net income	$9,978,589	$4,310,101
Other comprehensive loss:		
Available-for-sale investments:		
Net unrealized holding losses on available-for-sale investments	(1,492)	(7,894)
Reclassification adjustment for investment (gains)/losses included in net income	—	—
Other comprehensive loss	(1,492)	(7,894)
Comprehensive income	$9,977,097	$4,302,207

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2019	$16,966,743	$100,871,832	$21,414	$117,859,989
Net income	—	4,310,101	—	4,310,101
Other comprehensive loss	—	—	(7,894)	(7,894)
Balance, December 31, 2020	16,966,743	105,181,933	13,520	122,162,196
Net income	—	9,978,589	—	9,978,589
Other comprehensive loss	—	—	(1,492)	(1,492)
Balance, December 31, 2021	$16,966,743	$115,160,522	$12,028	$132,139,293

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Net income	$9,978,589	$4,310,101
Adjustments to net cash provided from operating activities:		
Provision for loan losses	1,487,214	7,525,121
Depreciation and amortization	1,640,352	1,739,824
Loss attributable to investments in Credit Union Service Organizations	592,549	1,021,747
Net loss on equity securities	522,497	—
(Increase)/decrease in:		
Accrued interest receivable	834,366	(1,512,539)
Prepaid and other assets	(1,793,221)	(876,280)
Increase/(decrease) in:		
Accrued expenses and other liabilities	1,728,080	668,063
Total adjustments	5,011,837	8,565,936
Net cash provided from operating activities	14,990,426	12,876,037

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Cash Flows (Continued)

	2021	2020
Cash flows from investing activities:		
Proceeds from interest bearing deposits	—	143,966,998
Purchase of interest bearing deposits	(6,575,004)	(82,165,991)
Proceeds from equity securities	69,752,904	—
Purchase of equity securities	(140,000,000)	—
Proceeds from maturities and repayments of available-for-sale investments	1,072,677	2,089,947
Investment in Credit Union Service Organizations	—	(3,500,000)
Proceeds from the sale of Credit Union Service Organizations	—	949,144
Increase in loans to Credit Union Service Organizations	—	(750,000)
Purchase of FHLB stock	—	(852,200)
Net change in loans to members	(65,673,909)	(114,559,305)
Expenditures for property and equipment	(1,328,976)	(2,807,658)
Increase in NCUSIF deposit	(237,609)	(1,836,415)
Net cash used in investing activities	(142,989,917)	(59,465,480)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	66,677,220	169,133,795
Proceeds from borrowed funds	—	47,600,000
Repayment of borrowed funds	(10,180,791)	(596,375)
Net cash provided from financing activities	56,496,429	216,137,420
Net change in cash and cash equivalents	(71,503,062)	169,547,977
Cash and cash equivalents - beginning	191,798,736	22,250,759
Cash and cash equivalents - ending	$120,295,674	$191,798,736

Supplemental Information

Interest paid	$9,413,011	$13,409,955

See accompanying notes to the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Farmers Insurance Group Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who are employees or former employees of Farmers Insurance Group, Inc. The Credit Union also may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the state of California. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

Comprehensive Income/(Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in the statements of income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and corporate credit unions (including cash items in the process of clearing) and interest-bearing deposits in banks and corporate credit unions with an original maturity of 90 days or less, including overnight deposits. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions. Time deposits with banks and corporate credit unions may, at times, exceed federally insured limits.

Investments

The Credit Union's investments in securities are classified and accounted for as follows:

Equity: Marketable equity securities have readily determinable fair values. Equity securities are recorded at fair value with unrealized gains and losses, due to changes in fair value, reflected in earnings. Unrealized and realized gains and losses are recognized in net gains/(losses) from equity securities in the statements of income. Dividend income from marketable equity securities is recognized in interest income.

Available-for-Sale Debt: Debt securities are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value in the statements of financial conditions.

Unrealized gains and losses on available-for-sale debt securities are recognized as direct increases or decreases in other comprehensive income/(loss). Premiums and discounts are recognized in interest income over the terms of the securities. Declines in the estimated fair value of available-for-sale debt securities below their cost that are other than temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) that the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will not be required to sell before 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Union Service Organizations

The Credit Union has investments in several credit union service organizations (CUSOs). These CUSOs have no readily determinable market, and therefore, are accounted for at cost, less impairment, or accounted for using the equity method depending upon the Credit Union's level of ownership and decision-making control.

As of December 31, 2021 and 2020, the Credit Union owned 50% of Community Mortgage Funding, LLC (CMF). CMF provides residential mortgage origination, processing, underwriting, closing, funding, and servicing for the benefit of credit unions. The Credit Union accounts for the investment using the equity method, and the Credit Union's investment in CMF approximated \$3,691,000 and \$3,415,000 as of December 31, 2021 and 2020, respectively. As of December 31, 2021, CMF's assets and liabilities approximated \$21,641,000 and \$14,308,000, respectively. As of December 31, 2020, CMF's assets and liabilities approximated \$21,213,000 and \$14,497,000, respectively. CMF reported net income of approximately \$617,000 and \$1,126,000 during the years ended December 31, 2021 and 2020, respectively. Additionally, the Credit Union has provided CMF a \$7,000,000 line of credit to facilitate CMF's operations during the years ended December 31, 2021 and 2020, respectively. The line of credit is secured by CMF's cash, receivables and intangible assets. The line of credit is variable rate and matures on June 17, 2023. As of December 31, 2021 and 2020, the outstanding balance of the line of credit was approximately \$7,000,000.

As of December 31, 2021 and 2020, the Credit Union also owned 12.25% and 12.84% of Constellation Digital Partners, LLC (CDP), respectively. CDP provides a cloud-based marketplace that enables credit unions and developers to provide digital financial services to credit union members. The Credit Union accounts for the investment using the equity method, and the Credit Union's investment in CDP approximated \$2,456,000 and \$3,886,000 as of December 31, 2021 and 2020, respectively. As of December 31, 2021, CDP's assets and liabilities approximated \$19,621,000 and \$1,566,000, respectively. As of December 31, 2020, CDP's assets and liabilities approximated \$30,060,000 and \$1,795,000, respectively. CDP reported net losses of approximately (\$12,211,000) and (\$11,170,000) during the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the Credit Union also owned 2.67% of CU Railz, LLC (CU Railz) and exercises no significant influence over the Company. CU Railz offers an enhancement to the Credit Union's electronic bill pay platform and allows members to easily make payments to/from other financial institutions. The investment in CU Railz is accounted for under the cost method based on the Credit Union's percentage of ownership and/or level of influence exercised over the company. Under the cost method, the investment is recorded at its historical cost unless there is evidence of impairment. The Credit Union's investment in CU Railz approximated \$1,641,000 and \$1,500,000 as of December 31, 2021 and 2020, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Union Service Organizations (Continued)

During the year ended December 31, 2021, the Credit Union invested $500,000 in Curql Fund I, LLLP (Curql) for a total investment of 9.10%. Curql was formed on October 20, 2020 by Curql Collective, LLC (the "Lead General Partner") and Next Level Ventures GP III LLC (the "Co-General Partner"). Curql's aim is to invest in fintech startups that provide technologies to improve credit union and credit union affiliate operations. Curql was established on March 29, 2021 as a cooperative CUSO.

The Lead General Partner supports collaboration between credit unions and fintech companies to establish a fintech ecosystem that benefits both parties. The Co-General Partner manages Curql's activities. A limited partnership agreement defines Curql's structure and activities (the "LPA"). The LPA gives the Lead General Partner and Co-General Partners joint authority and responsibility for managing the Fund. Curql's limited partners are credit unions, credit union affiliates, and CUSOs. The investment in Curql is accounted for under the equity method based on the Credit Union's percentage of ownership and/or level of influence exercised over the companies.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value.

Loans to Members

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 to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual 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 qualifying 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income on loans over the estimated life of the loans.

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability 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, 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.

For the purpose of determining the allowance disclosures, the Credit Union has segmented loans in the portfolio by product type. Loans are divided into the following segments: Consumer, Residential Real Estate, and Commercial. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into three classes: Unsecured, Automobile, and Other secured. Residential real estate loans are divided into three classes: First mortgage, Second mortgage, and Home equity line of credit (HELOC). Commercial loans are divided into three classes: Agency secured, Agency unsecured, and Real estate.

Agency secured loans are secured by the value of agencies owned by a Farmers Insurance Agent or a Farmers Insurance District Manager. Agency unsecured loans are comprised of unsecured loans used for agency acquisitions by Farmers Insurance Agents and other agency business purposes. Each class of loans requires significant judgment to determined estimation method that fits the credit risk characteristics of its portfolio segment. The Credit Union uses both internally developed and vendor supplied models in the process. The vendor model is supplied by P360, Inc. The P360, Inc. model provides meaningful insights into the portfolio's risk composition, as dictated by the intrinsic value and other relevant market data. The model is specifically designed to calculate the risk of the loan portfolio on an individual loan level basis to provide optimal loss coverage analysis over the next 12 months.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component covers impaired loans and specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Consumer Segment Allowance Methodology

For consumer loans, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. The Credit Union identifies consumer loans that underwent a troubled debt restructuring (TDR) and evaluates these loans on an individual basis. In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. The historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. The consumer allowance model primarily uses historical delinquency and default experience. Information on forecasted delinquency analysis, member credit score trends, unemployment trends, industry trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment may also be considered. Loans collateralized by a certificate or share account are considered fully secured unless otherwise notified.

Residential Real Estate Segment Allowance Methodology

For residential real estate loans not identified as impaired, the Credit Union determines the allowance on a collective basis, utilizing various economic and financial simulations in order to determine the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Residential Real Estate Segment Allowance Methodology (Continued)

In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. The historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. Information on member credit score trends, combined loan to value ratios, home price trends, unemployment trends, industry trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the residential real estate segment may also be considered. The residential real estate allowance also includes an amount for the estimated losses on individually evaluated impaired loans.

Additionally, a mortgage sample analysis is performed periodically to assess the potential loss exposure within the residential real estate loan portfolio. The Credit Union obtains updated property values on all existing real estate loans in its portfolio. Using a sample of loans, the Credit Union performs individual reviews to assess the potential loss exposure based on various risk factors including combined loan to value, member credit score, delinquency, loan vintage, and type of collateral. Results of the sample analysis are extrapolated to the total population to assess the adequacy of the allowance.

Commercial Segment Allowance Methodology

For commercial loans not identified as impaired, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. The historical factors used in the analysis date back to 2001.

Loss estimates for the commercial loan portfolio segment may be adjusted as appropriate based on credit risk assessment and management's analysis of leading predictors of losses, as well as additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends. The commercial allowance may also include an additional allowance for individually evaluated high risk loans and an amount for the estimated losses on individually evaluated impaired loans. The Credit Union’s commercial loan portfolio also includes loans collateralized by agency value. These are considered fully secured unless notified otherwise, as these loans, when written within the guidelines established by Farmers, are secured and will be paid in full by Farmers upon member termination if the Credit Union’s collection efforts were to ultimately fail.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings (TDRs)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a TDR if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Credit Quality Indicators

The Credit Union uses the P360, Inc. model to monitor credit quality for the consumer, residential real estate, and commercial loan portfolios. The P360, Inc. model analyzes each loan’s risk. When analyzing each loan, the model identifies a set of numbers, or vectors, which represent the borrower’s probability of default and the loss severity of the loan over a set of different economic scenarios. These vectors are used to calculate the loan risk grade and run risk adjusted cash flows which result in the value-at-risk, pricing, and loan valuation.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Credit Quality Indicators (Continued)

The model incorporates over 150 data points covering more than credit score and collateral value. These loan level factors include institution and borrower specific data points as well as economic measures that feed into the risk analysis. They provide value reconciliation when refreshing property values and add updated values for the new and used auto portfolios. They continue to enhance the risk model by incorporating new technologies and applying all loan data available. In addition to credit score, the model incorporates numerous other factors based upon the borrower, collateral, loan performance, environment, institution, and economy as follows:

Macro-economic - This segment's data points are used to depict the overall health of the national economy such as: national unemployment, GDP growth, Treasury rate curves and forecasts, industry delinquencies and charge-offs, national credit scores, borrower bankruptcy rates, etc.

Institution - This segment focuses on the Credit Union and is used to model the borrower's profile, stability, and fine tune the risk adjustments to the specific institution. Examples of data points include delinquency rates and trends, charge-offs, and bankruptcies per 1,000 members.

Regional geography - This segment focuses on local economic factors such as unemployment, growth, and real estate values.

Loan - Additional data points added to this analysis are payment trend, auto pay, updated senior balances, last payment amounts, and use of proceeds.

Borrower - Examples of data points in this segment are disposable income, updated cash reserves, employment status, and direct deposit.

Asset - In addition to using different automated valuation model products for the residential portfolio, the model includes new data to improve vehicle valuations for the new and used auto portfolios.

The model assigns a risk grade to all loans. Category ratings are reviewed quarterly, at which time management analyzes the resulting grades, as well as other external statistics and factors, to track loan performance. The risk ratings from Extensia Financial, LLC are taken into consideration when the P360, Inc. risk grades are applied to the individual commercial real estate loan participations.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Credit Quality Indicators (Continued)

The P360, Inc. risk grades are as follows:

V1 - Minimal risk - These loans generally show the ability to cover expenses with a minimal chance of default. The typical characteristics for these loans are long-term Credit Union members with excellent credit history, strong cash flow, quality money management, excellent access to alternative sources of financing, and well collateralized. These loans typically have very low potential loss, no greater than one percent of the loan balance in most cases when factoring the default probability and loss severity.

V2 - Low risk - These loans generally reflect good payment history, a healthy loan to value ratio and are adequately collateralized. The borrowing entity has very good to excellent credit, steady cash flow, quality money management, and good access to alternative sources of financing. As a result, the risk category is highly unlikely to experience a loss. If a loss does occur, it is likely to be minimal.

V3 - Acceptable risk - These loans are better than average loans with a low chance of a loss. The potential loss should be no greater than five percent of the loan balance when factoring default probability and loss severity. Most of the risk attributes for these loans are in line with a low risk profile but are on the fringe of adding risk. Borrower has some access to alternative sources of financing, good money management, and shows control of expenses.

V4 - Moderate risk - These loans have potential weaknesses or may show a propensity to deteriorate further. These loans are the start of the tipping point of the mid-range risk grades (V4 - V6) that tend to move either to a worsening position or a healthier position and is measured by a 10 percent value at risk. This risk grade may include borrowers with only medium to fair credit ratings and a few recent problems. Cash flow is steady and generally adequate to service debt but may be subject to cyclical conditions. The borrower may have limited access to alternative financing.

V5 - Special mention - These loans can prove to be in the most critical stage. Most loans tend to either move up or down from the mid-range risk grades (V4 - V6). Both credit and collateral are substandard, with external economic factors bearing down. The outstanding loan balance may not be entirely protected by equity in the underlying asset with up to a 15 percent potential loss produced by probability and severity. There may be one or more specific weaknesses jeopardizing the loan, and the Credit Union will most likely sustain a loss if the deficiencies are not corrected.

V6 - Increased risk - These loans generally have multiple vulnerable and weak risk factors that could be attributed to local economic factors. On the basis of currently known facts, the combination of weak attributes make collection or liquidation in full highly questionable and improbable. The risk grade is defined by potential losses of up to 20 percent of the loan balance.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Credit Quality Indicators (Continued)

V7 - Elevated risk - There is a strong probability that the Credit Union may not be able to recover on these loans. The Credit Union and the member must look at all options, including modification. Liquidation needs to be considered because most of the underlying assets for this risk grade have passed the tipping point. A loss is nearly impossible to avoid on repayment, refinancing, or liquidation for these loans. The value at risk could be upwards of 30 percent of the current loan balance.

V8 - Doubtful - These borrowers are most likely in a loss situation and can be measured by potential value at risk between 30 and 40 percent of the outstanding loan balance. In most cases, assets in this region do not recover and the members and properties are being worked with directly. The most current information on the member and asset has been acquired and the Credit Union has a firm estimate of the loss when the time arrives.

V9 - Inherent loss - Assets in this risk area have an inherent value at risk, north of 40 percent. Modification is impossible without major concessions or write down. Residential and commercial properties have a high probability of becoming other real estate owned. In some cases, the Credit Union may find a glimmer of success in short sale opportunities. Other real estate owned, having extended liquidation times and expenses are most likely in less than optimal locations. Conditions prove challenging to draw respectable tenants and rent.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge off on a timely basis. Loans are generally charged off when the loan has been delinquent for 180 days. Management will monitor loans and if a loan is deemed uncollectable, where additional collection efforts are non-productive regardless of the number of days delinquent, the loan could be charged off at that time.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Catalyst Corporate Federal Credit Union (CCFCU) of $600,000. The PCC is not subject to share insurance coverage. The PCC is not releasable due solely to a merger, charter conversion or liquidation and is callable at the option of CCFCU. The PCC has a perpetual maturity and a non-cumulative dividend. The PCC is included within prepaid and other assets in the statements of financial condition.

National Credit Union Share Insurance Fund (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 one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Members’ Shares and Savings Accounts

Members’ shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members’ shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members’ shares and savings 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 Board of Directors, based on an evaluation of current and future market conditions.

Borrowed Funds

The Credit Union has outstanding borrowings from the FHLB of San Francisco. FHLB borrowings are secured by qualified collateral, as defined in the FHLB Statement of Credit Policy.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Overdraft and Share Draft Fees, Interchange Income and Service Charges and Other Fees

The Credit Union earns fee and commission income from a range of services it provides to its members. Deposit fee income and interchange fee income are earned on the execution of financial services performed. This includes fees arising from 1) services initiated or requested by the member, including overdrawn account charges, insufficient funds charges, and stop payment fees; 2) participating in transactions with members and third-party financial institutions, such as interchange fee income for authorizing and settling member debit and credit card point-of-sale or ATM transactions. Deposit fees and interchange revenue are presented as non-interest income in the consolidated statements of income, with related expense streams such as processor costs and reward point costs, presented separately in non-interest expenses.

Advertising Costs

Advertising costs are expensed as incurred and are reported as Educational and Promotional expenses in the statements of income.

Income Taxes

The Credit Union is exempt, by the Internal Revenue Code Section 501(c)(1)(a)(I), from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2020 financial statement presentation to correspond to the current year's format. Total members' equity and net loss are unchanged due to these reclassifications.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Accounting for Financial Instruments - Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2023. Early application is permitted.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective January 1, 2022. Based on preliminary evaluations, the right-of-use asset and corresponding lease obligation liability are expected to be approximately $8,616,000 at adoption resulting in no change in the GAAP net worth ratio.

Subsequent Events

Management has evaluated subsequent events through May 31, 2022, the date the financial statements were available to be issued.

Note 2 - Investments

The estimated fair values of equity securities are as follows:

	As of December 31, 2021	As of December 31, 2020
Mutual fund	$69,724,599	$—

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$381,627	$12,104	$—	$393,731

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$524,227	$17,281	($2)	$541,506
Collateralized mortgage obligations	930,153	—	(3,759)	926,394
	$1,454,380	$17,281	($3,761)	$1,467,900

Note 2 - Investments (Continued)

As of December 31, 2021, the Credit Union's investment portfolio consisted entirely of mortgage-backed securities and collateralized mortgage obligations. These securities return principal based on payments received on the underlying mortgages or assets. These securities have expected weighted average lives ranging from one to ten years. However, return of principal may differ from expectation based on fluctuations in market interest rates, delinquency, foreclosures and the underlying collateral values. Additionally, borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to investments with gross unrealized losses as of December 31, 2020, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$1,818	($2)	$—	$—	$1,818	($2)
Collateralized mortgage obligations	—	—	926,394	(3,759)	926,394	(3,759)
	$1,818	($2)	$926,394	($3,759)	$3,690,742	($3,761)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2021 and 2020 is as follows:

	2021	2020
Consumer:		
Unsecured	$104,228,472	$90,806,657
Automobile	96,625,652	82,456,368
Other secured	1,819,688	2,214,639
	202,673,812	175,477,664
Residential Real Estate:		
First mortgage	201,123,650	160,188,399
Second mortgage	29,278,342	27,304,275
HELOC	27,242,121	23,300,223
	257,644,113	210,792,897
Commercial:		
Agency secured	214,394,280	230,559,158
Agency unsecured	162,455,303	158,370,420
Real estate	180,437,730	182,699,265
	557,287,313	571,628,843
Total loans	1,017,605,238	957,899,404
Deferred loan origination fees/costs, net	3,685,958	1,348,209
	1,021,291,196	959,247,613
Less: Allowance for loan losses	(6,904,668)	(9,047,780)
Loans to members, net	$1,014,386,528	$950,199,833

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2021:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$3,526,050	$2,237,844	$3,283,886	$9,047,780
Charge-offs	(2,907,590)	-	(2,012,333)	(4,919,923)
Recoveries	1,171,306	988	117,303	1,289,597
Provision for loan losses	1,356,682	(1,221,485)	1,352,017	1,487,214
Ending allowance	$3,146,448	$1,017,347	$2,740,873	$6,904,668
Ending balance individually evaluated for impairment	$13,168	$584,351	$—	$597,519
Ending balance collectively evaluated for impairment	3,133,280	432,996	2,740,873	6,307,149
Ending allowance	$3,146,448	$1,017,347	$2,740,873	$6,904,668

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2021:

	Consumer	Residential Real Estate	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$315,575	$5,347,982	$79,892	$5,743,449
Ending balance collectively evaluated for impairment	202,683,007	254,738,789	558,125,951	1,015,547,747
Total loans	$202,998,582	$260,086,771	$558,205,843	$1,021,291,196

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2020:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$3,465,891	$946,191	$1,729,682	$6,141,764
Charge-offs	(4,037,489)	(19,736)	(1,716,872)	(5,774,097)
Recoveries	972,780	85,387	96,825	1,154,992
Provision for loan losses	3,124,868	1,226,002	3,174,251	7,525,121
Ending allowance	$3,526,050	$2,237,844	$3,283,886	$9,047,780
Ending balance individually evaluated for impairment	$17,674	$1,233,012	$119,000	$1,369,686
Ending balance collectively evaluated for impairment	3,508,376	1,004,832	3,164,886	7,678,094
Ending allowance	$3,526,050	$2,237,844	$3,283,886	$9,047,780

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2020:

	Consumer	Residential Real Estate	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$286,316	$5,723,108	$1,532,766	$7,542,190
Ending balance collectively evaluated for impairment	175,493,577	207,269,058	568,942,788	951,705,423
Total loans	$175,779,893	$212,992,166	$570,475,554	$959,247,613

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial:	$79,892	$79,891	$—	$—	$—
Residential Real Estate:					
Second mortgage	$91,905	$91,905	$—	$—	$—
With an allowance recorded:					
Consumer:					
Unsecured	$219,080	$219,080	$9,278	$245,655	$24,664
Automobile	$96,495	$96,495	$3,890	$55,291	$1,825
Residential Real Estate:					
First mortgage	$5,256,077	$5,193,553	$584,351	$5,286,659	$197,192
Totals by loan segment:					
Consumer	$315,575	$315,575	$13,168	$300,946	$26,489
Residential Real Estate	5,347,982	5,285,458	584,351	5,286,659	197,192
Commercial	79,892	79,891	—	—	—
Total	$5,743,449	$5,680,924	$597,519	$5,587,605	$223,681

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Consumer:					
Unsecured	$272,229	$272,229	$16,836	$258,632	$25,087
Automobile	$14,087	$14,087	$838	$20,225	$821
Residential Real Estate:					
First mortgage	$5,317,241	$5,292,300	$878,021	$5,703,106	$261,773
Second mortgage	$146,655	$146,654	$135,265	$226,333	$15,956
HELOC	$259,212	$259,275	$219,726	$192,460	$10,624
Commercial:					
Real estate	$1,532,766	$1,554,053	$119,000	$766,383	$36,403
Totals by loan segment:					
Consumer	$286,316	$286,316	$17,674	$278,857	$25,908
Residential Real Estate	5,723,108	5,698,229	1,233,012	6,121,899	288,353
Commercial	1,532,766	1,554,053	119,000	766,383	36,403
Total	$7,542,190	$7,538,598	$1,369,686	$7,167,139	$350,664

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total loans
Consumer:						
Unsecured	$788,210	$456,493	$884,706	$2,129,409	$102,423,833	$104,553,242
Automobile	304,741	116,151	156,026	576,918	96,048,734	96,625,652
Other secured	36,030	—	—	36,030	1,783,658	1,819,688
Total	1,128,981	572,644	1,040,732	2,742,357	200,256,225	202,998,582
Residential Real Estate:						
First mortgage	3,596,712	839,471	3,427,812	7,863,995	195,706,845	203,570,840
Second mortgage	325,301	58,974	32,930	417,205	28,861,137	29,278,342
HELOC	370,412	—	—	370,412	26,867,177	27,237,589
Total	4,292,425	898,445	3,460,742	8,651,612	251,435,159	260,086,771
Commercial:						
Agency secured	444,179	264,154	406,666	1,114,999	213,254,213	214,369,212
Agency unsecured	954,902	520,741	1,143,338	2,618,981	159,399,682	162,018,663
Real estate	118,933	—	1,556,552	1,675,485	180,142,483	181,817,968
Total	1,518,014	784,895	3,106,556	5,409,465	552,796,378	558,205,843
Grand Total	$6,939,420	$2,255,984	$7,608,030	$16,803,434	$1,004,487,762	$1,021,291,196

Loans on which the accrual of interest has been discontinued or reduced approximated $7,608,000 as of December 31, 2021. There were no loans 90 days or more past due and still accruing interest as of December 31, 2021.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Unsecured	$653,139	$289,327	$695,257	$1,637,723	$89,471,163	$91,108,886
Automobile	218,941	146,895	381,873	747,709	81,708,659	82,456,368
Other secured	40,257	—	—	40,257	2,174,382	2,214,639
Total	912,337	436,222	1,077,130	2,425,689	173,354,204	175,779,893
Residential Real Estate:						
First mortgage	—	—	—	—	162,394,339	162,394,339
Second mortgage	171,986	19,760	126,895	318,641	26,985,634	27,304,275
HELOC	—	—	—	—	23,293,552	23,293,552
Total	171,986	19,760	126,895	318,641	212,673,525	212,992,166
Commercial:						
Agency secured	71,461	101,993	474,651	648,105	229,860,893	230,508,998
Agency unsecured	260,982	78,349	520,158	859,489	156,748,415	157,607,904
Real estate	1,716,744	—	1,532,766	3,249,510	179,109,142	182,358,652
Total	2,049,187	180,342	2,527,575	4,757,104	565,718,450	570,475,554
Grand Total	$3,133,510	$636,324	$3,731,600	$7,501,434	$951,746,179	$959,247,613

Loans on which the accrual of interest has been discontinued or reduced approximated $3,732,000 as of December 31, 2020. There were no loans 90 days or more past due and still accruing interest as of December 31, 2020.

Note 3 - Loans to Members (Continued)

Consumer Credit Quality

The Credit Union considers the performance of the consumer loan portfolio and its impact on the allowance for loan losses. Consumer loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the loan balance based on credit quality as of December 31, 2021 and 2020:

	2021			
Risk Grade	**Other Secured**	**Unsecured**	**Automobile**	**Total**
V1	$1,819,688	$55,825,636	$94,975,729	$152,621,053
V2	—	35,100,419	910,517	36,010,936
V3	—	5,389,687	208,424	5,598,111
V4	—	4,773,597	163,498	4,937,095
V5	—	824,724	79,700	904,424
V6	—	470,151	12,847	482,998
V7	—	295,892	86,664	382,556
V8	—	323,147	45,105	368,252
V9	—	1,225,944	143,168	1,369,112
No risk grade		324,045	—	324,045
	$1,819,688	$104,553,242	$96,625,652	$202,998,582

	2020			
Risk Grade	**Other Secured**	**Unsecured**	**Automobile**	**Total**
V1	$—	$49,332,406	$80,392,405	$129,724,811
V2	—	14,721,891	982,422	15,704,313
V3	—	17,039,607	229,763	17,269,370
V4	—	5,085,570	206,211	5,291,781
V5	—	1,256,432	60,298	1,316,730
V6	—	539,050	114,040	653,090
V7	—	508,562	64,265	572,827
V8	—	183,197	97,289	280,486
V9	—	1,198,533	309,675	1,508,208
No risk grade	2,214,639	1,243,638	—	3,458,277
	$2,214,639	$91,108,886	$82,456,368	$175,779,893

Note 3 - Loans to Members (Continued)

Real Estate Credit Quality

The Credit Union considers the performance of the real estate loan portfolio and its impact on the allowance for loan losses. Real estate loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the loan balance based on credit quality as of December 31, 2021 and 2020:

	2021			
Risk Grade	**First Mortgage**	**Second Mortgage**	**HELOC**	**Total**
V1	$196,689,958	$29,020,758	$27,134,412	$252,845,128
V2	789,349	113,688	47,921	950,958
V3	3,051,355	25,041	19,224	3,095,620
V4	624,362	58,974	—	683,336
V5	1,313,519	16,720	—	1,330,239
V6	196,454	43,161	—	239,615
V7	—	—	—	—
V8	144,587	—	—	144,587
V9	—	—	—	—
No risk grade	761,256	—	36,032	797,288
	$203,570,840	$29,278,342	$27,237,589	$260,086,771

	2020			
Risk Grade	**First Mortgage**	**Second Mortgage**	**HELOC**	**Total**
V1	$136,120,756	$24,815,185	$21,408,754	$182,344,695
V2	3,146,907	1,344,155	1,040,055	5,531,117
V3	1,517,640	648,602	200,378	2,366,620
V4	1,544,260	102,692	295,843	1,942,795
V5	1,260,952	122,555	42,412	1,425,919
V6	664,355	53,652	46,898	764,905
V7	—	70,779	—	70,779
V8	37,866	—	—	37,866
V9	—	146,655	259,212	405,867
No risk grade	18,101,603	—	—	18,101,603
	$162,394,339	$27,304,275	$23,293,552	$212,992,166

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the commercial loan portfolio and its impact on the allowance for loan losses. Commercial loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the loan balance for commercial loans based on risk rating as of December 31, 2021 and 2020:

	2021			
Risk Grade	**Agency Secured**	**Agency Unsecured**	**Real Estate**	**Total**
V1	$214,361,427	$131,149,149	$94,795,720	$440,306,296
V2	5,801	24,383,622	36,478,904	60,868,327
V3	1,984	3,706,709	24,918,010	28,626,703
V4	—	563,824	21,222,896	21,786,720
V5	—	850,225	2,726,953	3,577,178
V6	—	32,059	118,933	150,992
V7	—	4,990	—	4,990
V8	—	222,869	—	222,869
V9	—	1,105,216	1,556,552	2,661,768
No risk grade	—	—	—	—
	$214,369,212	$162,018,663	$181,817,968	$558,205,843

	2020			
Risk Grade	**Agency Secured**	**Agency Unsecured**	**Real Estate**	**Total**
V1	$—	$129,404,883	$83,975,645	$213,380,528
V2	—	14,888,092	37,324,294	52,212,386
V3	—	10,434,792	29,613,473	40,048,265
V4	—	1,914,193	25,352,161	27,266,354
V5	—	229,126	1,116,486	1,345,612
V6	—	62,649	—	62,649
V7	—	75,661	—	75,661
V8	—	65,290	—	65,290
V9	—	533,218	1,532,766	2,065,984
No risk grade	230,508,998	—	3,443,827	233,952,825
	$230,508,998	$157,607,904	$182,358,652	$570,475,554

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2021 and 2020 by major classification as follows:

	2021	2020
Furniture and equipment	$12,626,839	$15,617,908
Leasehold improvements	3,648,497	4,474,644
	16,275,336	20,092,552
Less accumulated depreciation and amortization	(11,970,631)	(15,476,471)
	$4,304,705	$4,616,081

Depreciation and amortization charged to office operating costs was approximately $1,640,000 and $1,740,000 for the years ended December 31, 2021 and 2020, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2021 and 2020:

	2021	2020
Share accounts	$279,844,234	$235,392,456
Share draft accounts	229,189,919	207,487,345
Money market accounts	218,306,482	191,753,614
Individual retirement accounts (IRAs)	23,125,718	24,018,457
Share and IRA certificates	304,892,514	330,029,775
	$1,055,358,867	$988,681,647

As of December 31, 2021, scheduled maturities of share and IRA certificates are as follows:

	2021
Within one year	$96,734,427
1 to 2 years	44,690,368
2 to 3 years	77,785,000
3 to 4 years	22,313,373
4 to 5 years	63,369,346
	$304,892,514

Note 5 - Members' Shares and Savings Accounts (Continued)

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $126,415,000 as of December 31, 2021.

Included in share and IRA certificates above are non-member time deposits of approximately $205,706,000 and $215,715,000 as of December 31, 2021 and 2020, respectively.

Note 6 - Borrowed Funds

Lines of Credit

As of December 31, 2021 and 2020, the Credit Union maintained an unused line of credit with CCFCU. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. The total unused line of credit under this agreement approximated $18,000,000 as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the Credit Union maintained an unused line of credit with Corporate One Federal Credit Union. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. The total unused line of credit under this agreement approximated $50,000,000 and $50,000,000 as of December 31, 2021 and 2020, respectively.

The Credit Union maintains a credit availability agreement with the Federal Reserve Bank of San Francisco to comply with NCUA regulations Part 741.12: Maintaining Access to Emergency Liquidity. This credit availability agreement allows the Credit Union to borrow against its vehicle loan portfolio. The Credit Union is able to borrow according to the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. The carrying amount of the pledged collateral was approximately $70,754,000 and $63,202,000 as of December 31, 2021 and 2020, respectively. Based on the collateral pledged, the maximum unused line of credit as of December 31, 2021 and 2020 was approximately $54,459,000 and $50,388,000, respectively.

As a member of the FHLB, the Credit Union has access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its eligible collateral, as defined in the FHLB Statement of Credit Policy. The agreement requires the pledging of eligible collateral for borrowing capacity. The carrying amount of the pledged collateral was approximately $280,058,000 and $221,061,000 as of December 31, 2021 and 2020, respectively. Based on the collateral pledged, the maximum available line of credit as of December 31, 2021 and 2020 was approximately $166,459,000 and $116,258,000, respectively, of which approximately $71,510,000 and $11,129,000, respectively, was available.

Note 6 - Borrowed Funds (Continued)

The advances outstanding are as follows as of December 31, 2021 and 2020:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2021	2020
FHLB	Fixed	1.45%	August 11, 2021	Amortizing	$—	$4,768,741
FHLB	Fixed	2.20%	March 29, 2022	Amortizing	11,648,195	12,060,245
FHLB	Fixed	1.99%	August 18, 2022	Interest Only	3,150,000	3,150,000
FHLB	Fixed	2.14%	September 29, 2022	Interest Only	5,500,000	5,500,000
FHLB	Fixed	2.45%	September 30, 2024	Interest Only	3,600,000	3,600,000
FHLB	Fixed	2.83%	September 29, 2027	Interest Only	2,100,000	2,100,000
FHLB	Fixed	3.40%	July 17, 2028	Interest Only	1,250,000	1,250,000
FHLB	Fixed	3.40%	September 6, 2023	Interest Only	5,000,000	5,000,000
FHLB	Fixed	2.99%	September 14, 2028	Interest Only	1,500,000	1,500,000
FHLB	Fixed	3.48%	September 24, 2025	Interest Only	2,100,000	2,100,000
FHLB	Fixed	3.41%	September 25, 2023	Interest Only	5,400,000	5,400,000
FHLB	Fixed	3.20%	September 25, 2023	Interest Only	2,200,000	2,200,000
FHLB	Fixed	3.23%	November 30, 2023	Interest Only	1,200,000	1,200,000
FHLB	Fixed	3.14%	March 28, 2029	Interest Only	3,100,000	3,100,000
FHLB	Fixed	2.88%	April 10, 2024	Interest Only	4,600,000	4,600,000
FHLB	Fixed	2.48%	January 6, 2025	Interest Only	7,100,000	7,100,000
FHLB	Fixed	1.80%	January 6, 2027	Interest Only	2,000,000	2,000,000
FHLB	Fixed	2.05%	January 22, 2025	Interest Only	2,500,000	2,500,000
FHLB	Fixed	1.75%	January 31, 2025	Interest Only	6,000,000	6,000,000
FHLB	Fixed	1.55%	March 31, 2025	Interest Only	15,000,000	15,000,000
FHLB	Fixed	0.91%	April 7, 2025	Interest Only	10,000,000	10,000,000
FHLB	Fixed	0.95%	May 19, 2021	Interest Only	—	5,000,000
					$94,948,195	$105,128,986

The outstanding balances by maturity as of December 31, 2021 are as follows:

	2021
Within one year	$20,298,195
1 to 2 years	13,800,000
2 to 3 years	8,200,000
3 to 4 years	42,700,000
4 to 5 years	—
Thereafter	9,950,000
	$94,948,195

Note 7 - Employee Benefits

Retirement Plans

Credit Union management and staff are employed by the Credit Union's sponsor, Farmers, and leased back to the Credit Union. As such, Credit Union employees participate in Farmers' retirement plans and the Credit Union reimburses Farmers for the retirement plan expenses associated with the leased employees. As of January 1, 2019, the Credit Union implemented a matching 401(k) plan with an additional 4% base company contribution. The 401(k) matching plan through Farmers allows employees to defer a portion of their salary into the 401(k) plan up to certain limits established by the Internal Revenue Service. The Credit Union makes discretionary matching contributions each payroll period, with quarterly adjustments as needed. Participants are always 100% vested in all their voluntary contributions. The Credit Union's matching contributions and the 4% base company contributions become fully vested at the completion of three years of service.

Retirement plan costs are accrued and funded on a current basis. Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2021 and 2020 were approximately $1,391,000 and $1,404,000, respectively.

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases office space and several branch locations. The minimum non-cancellable lease obligations approximate the following as of December 31, 2021:

Year ending December 31,	Amount
2022	$1,332,000
2023	1,285,000
2024	1,223,000
2025	1,228,000
2026	1,263,000
Thereafter	3,883,000
	$10,214,000

Net rent expense under operating leases, included in office occupancy expenses, was approximately $1,633,000 and $1,718,000 for the years ended December 31, 2021 and 2020, respectively.

Note 8 - Commitments and Contingent Liabilities (Continued)

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2021, the total unfunded commitments under such lines of credit was approximately $268,327,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - 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 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 generally accepted accounting practices. 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 table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2021 and 2020 was 6.30% and 5.87%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2021 and 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 9 - Regulatory Capital (Continued)

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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2021		As of December 31, 2020	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$132,127,265	10.21%	$122,148,676	9.97%
Amount needed to meet the minimum RBNWR	$81,504,754	6.30%	N/A	N/A
Amount needed to be classified as "well capitalized"	$90,560,838	7.00%	$85,786,725	7.00%
Amount needed to be classified as "adequately capitalized"	$77,623,575	6.00%	$73,531,479	6.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Note 10 - Fair Value Measurement

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

<u>Basis of Fair Value Measurements</u>

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Note 10 - Fair Value Measurement (Continued)

Basis of Fair Value Measurements (Continued)

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities:				
ETFs	$69,724,599	$—	$—	$69,724,599
Available-for-sale debt securities:				
Mortgage-backed securities	—	393,731	—	393,731
Total	$69,724,599	$393,731	$—	$70,118,330

	Assets at Fair Value as of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$541,506	$—	$541,506
Collateralized mortgage obligations	—	926,394	—	926,394
	$—	$1,467,900	$—	$1,467,900

Note 10 - Fair Value Measurement (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the recorded investment less the valuation allowance and/or charge-offs.

Assets measured at fair value on a non-recurring basis:

	Assets at Fair Value as of December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$4,974,133	$4,974,133

	Assets at Fair Value as of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$6,172,504	$6,172,504

Note 11 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately $419,000 and $972,000 as of December 31, 2021 and 2020, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately $1,981,000 and $3,531,000 as of December 31, 2021 and 2020, respectively.

* * * End of Notes * * *