CHEVRON FEDERAL CREDIT UNION
Oakland, California

FINANCIAL STATEMENTS
December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Chevron Federal Credit Union
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of Chevron Federal Credit Union, which comprise the statements of financial condition as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chevron Federal Credit Union as of December 31, 2019 and 2018, 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.

Crowe LLP

Crowe LLP

Los Angeles, California
March 17, 2020

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2019 and 2018
(Dollar amounts in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 229,603	$ 230,357
Investments		
Available-for-sale	269,190	217,396
Restricted stock	16,153	16,153
Loans to members, net	3,005,807	2,804,643
Accrued interest receivable	7,429	6,869
Property and equipment, net	3,101	3,540
National Credit Union Share Insurance Fund (NCUSIF) deposit	25,747	24,321
Derivative assets	5,010	20,222
Goodwill and Other Intangible Assets	1,956	1,968
Other assets	11,305	9,990
	$ 3,575,301	$ 3,335,459
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,151,873	$ 2,925,331
Derivative liabilities	9,772	2,232
Accrued expenses and other liabilities	16,643	15,719
Total liabilities	3,178,288	2,943,282
Commitments and contingent liabilities		
Members' equity		
Retained earnings	394,567	390,378
Accumulated other comprehensive income	2,446	1,799
Total members' equity	397,013	392,177
	$ 3,575,301	$ 3,335,459

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF INCOME
For the years ended December 31, 2019 and 2018
(Dollar amounts in thousands)

	2019	2018
Interest income		
Interest on loans to members	$ 113,991	$ 101,660
Interest on investments and cash equivalents	13,694	12,027
	127,685	113,687
Interest expense		
Dividends on members' shares	50,757	36,520
Derivative interest expense	95	2,247
	50,852	38,767
Net interest income	76,833	74,920
Provision for loan losses	2,759	3,719
Net interest income after provision for loan losses	74,074	71,201
Non-interest income		
Card interchange income	3,803	3,746
Service charges and other fees	3,533	3,426
Change in fair value of derivatives	(20,777)	4,609
Other non-interest income	3,958	4,728
	(9,483)	16,509
Non-interest expenses		
Salaries and benefits	35,135	32,162
Operations	22,165	20,463
Occupancy	3,102	2,905
	60,402	55,530
Net income	$ 4,189	$ 32,180

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2019 and 2018
(Dollar amounts in thousands)

	2019	2018
Net income	$ 4,189	$ 32,180
Other comprehensive income		
Unrealized holding gain (loss) on investments classified as available-for-sale arising during the year	647	(854)
Comprehensive income	$ 4,836	$ 31,326

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
For the years ended December 31, 2019 and 2018
(Dollar amounts in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, January 1, 2018	$ 358,198	2,653	360,851
Net income	32,180	-	32,180
Net change in unrealized gain (loss) on available-for-sale investments	-	(854)	(854)
Balance, December 31, 2018	390,378	1,799	392,177
Net income	4,189	-	4,189
Net change in unrealized gain (loss) on available-for-sale investments	-	647	647
Balance, December 31, 2019	$ 394,567	$ 2,446	$ 397,013

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(Dollar amounts in thousands)

	2019	2018
Cash flows from operating activities		
Net income	$ 4,189	$ 32,180
Adjustment to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	(5)	62
Amortization of derivative premium, net	4,053	4,562
Amortization of other intangibles	12	28
Provision for loan losses	2,759	3,719
Depreciation and amortization	1,875	1,757
Change in fair value of derivatives	20,777	(4,609)
Net change in:		
Accrued interest receivable	(560)	(794)
Other assets	(1,516)	(611)
Accrued expenses and other liabilities	924	(24)
Net cash provided by operating activities	32,508	36,270
Cash flows from investing activities		
Purchases of available-for-sale investments	(149,888)	(75,000)
Proceeds from maturities of available-for-sale investments	98,947	135,091
Purchase of derivative instruments	(2,078)	(5,811)
Net funding of loans to members	(203,923)	(181,142)
Increase in the National Credit Union Share Insurance Fund deposit	(1,426)	(1,189)
Purchases of property and equipment	(1,436)	(1,054)
Net cash used in investing activities	(259,804)	(129,105)
Cash flows from financing activities		
Net increase in members' shares	226,542	138,545
Net cash provided by financing activities	226,542	138,545
Increase (decrease) in cash and cash equivalents	(754)	45,710
Cash and cash equivalents at beginning of year	230,357	184,647
Cash and cash equivalents at end of year	$ 229,603	$ 230,357
Supplemental cash flow information		
Dividends paid on members' shares	$ 50,757	$ 36,520

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Chevron Federal Credit Union (Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, including employees and retirees of Chevron Corporation, its wholly owned subsidiaries, selected affiliated companies of Chevron Corporation, and selected contractors of Chevron Corporation; non-manual employees of Bechtel Corporation, its wholly owned subsidiaries and affiliated companies; employees of other select companies; members of several non-profit associations; persons who live, work, worship or attend school in select areas of San Francisco, CA and Frederick County, MD; and family of Credit Union members. The field of membership is defined in the Credit Union's Charter and Bylaws.

Subsequent Events: The Credit Union has evaluated subsequent events for recognition and disclosure through March 17, 2020, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions, and treasury securities with maturities of less than 90 days. Net cash flows are reported for member loan and share transactions.

Investments: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or accretion of discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or if it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans to Members: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the principal balance outstanding less deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method based on contract terms.

Interest income accrual on loans is discontinued at the time the loan is 90 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not received, for loans placed on nonaccrual is reversed against interest income. Interest received on such 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.

Concentration of Credit Risk: Most of the Credit Union's business activity is with its members who are or were employed by Chevron Corporation, Bechtel Corporation, or affiliated companies, and thus their business could be impacted by a sustained decrease in oil and gas prices. The majority of the Credit Union's loan portfolio is comprised of mortgage loans.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, current loan to value, current credit score, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions, and other factors.

Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception including the probability of re-default. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of collateral. For troubled debt restructurings that subsequently default, the Credit Union determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union over the most recent 12 months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: current loan to value, current credit score, 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. The following portfolio segments have been identified: mortgage loans, vehicle loans, and consumer loans. The Credit Union reviews the credit risk exposure of all its portfolio segments by internally assessing risk factors. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, and reduced credit availability.

Restricted Stock: The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB Stock is carried at cost, classified as restricted stock, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

NCUSIF Deposit: The National Credit Union Share Insurance Fund (NCUSIF) deposit is in accordance with National Credit Union Administration (NCUA) regulations and requires the maintenance of a deposit by each insured credit union in an amount equal to 1% 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. Generally, the NCUSIF deposit is non-interest bearing. However, a special dividend may be paid on the NCUSIF deposit if the NCUSIF maintains a predetermined amount of reserves.

NCUSIF Insurance Premiums: A credit union is required to pay an annual insurance premium equal to one-twelfth of 1% of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

Special assessments will be determined by the NCUA Board and will be expensed at the date they are assessed by the NCUA Board. No such premiums were assessed or paid during 2019 or 2018.

Property and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives of approximately 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to seven years.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred (or equity received in a mutual ownership merger), over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposit intangible assets arising from credit union mergers and are amortized on an accelerated method over their estimated useful lives.

Derivatives: At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union's intentions and belief as to its likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) an instrument with no hedging designation (stand-alone derivative). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, is recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting or that have no hedging designation are reported in current earnings as non-interest expense.

Net cash settlements on interest rate cap and swap derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements and amortization of premium on interest rate cap and swap derivatives that do not qualify for hedge accounting are reported in interest expense. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged. Periodic market value adjustments are reported in non-interest expense.

The Credit Union enters into economic derivative hedges that mitigate interest rate risk but do not qualify as fair value or cash flow hedges. Changes in the fair value of these instruments are recognized in earnings.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are recognized as separate components of members' equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there are any such matters that will have a material effect on the financial statements.

(Continued)

(Dollar amounts in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-9, "Revenue from Contracts with Customers (ASU 2014-9)", which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-9 is to recognize revenues when promised goods or services are transferred to members in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-9 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The FASB also subsequently issued ASUs Nos. 2016-8, 2016-10, 2016-12, 2016-20 and 2017-5 to augment, amend and clarify the original pronouncement. The Company evaluated all of its revenue streams and determined that the majority of its revenue is derived from financial instruments that are scoped out. In addition, non-interest revenue streams were evaluated, including deposit and service charges and interchange fees. The Company adopted ASU 2014-9 on January 1, 2019 and it did not change the recognition of our current revenue sources. Accordingly, no cumulative effect adjustment was recorded under the modified retrospective transition method.

NOTE 2 – INVESTMENTS

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at December 31, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
2019				
Available-for-sale				
U.S. Treasury and federal agency	$ 200,000	$ 390	$ (8)	$ 200,382
Adjustable rate mortgage-backed securities: residential	66,700	2,105	-	68,805
Fixed rate mortgage-backed securities: residential	2	-	-	2
Total available-for-sale	$ 266,702	$ 2,495	$ (8)	$ 269,189
2018				
Available-for-sale				
U.S. Treasury and federal agency	$ 124,993	$ 137	$ (349)	$ 124,781
Adjustable rate mortgage-backed securities: residential	90,601	2,176	(165)	92,612
Fixed rate mortgage-backed securities: residential	3	-	-	3
Total available-for-sale	$ 215,597	$ 2,313	$ (514)	$ 217,396

All U.S. Treasury and federal agency securities mature in one to five years. All adjustable and fixed rate mortgage-backed securities are not due at a single date. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalty.

(Continued)

NOTE 2 – INVESTMENTS (Continued)

There were no security sales during the years ending December 31, 2019 and 2018.

There were no securities pledged as collateral at December 31, 2019 and 2018.

At December 31, 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of members' equity.

At December 31, 2019 there was one Ginnie Mae mortgage-backed security in a continuous unrealized loss position of $0.2 for a period greater than 12 months with a fair value of $39. All other impaired securities were in an unrealized loss position for a period less than 12 months.

At December 31, 2018 there were two Ginnie Mae mortgage-backed securities in a continuous unrealized loss position of $165 for a period greater than 12 months with a fair value of $16,657, and two federal agency securities in a continuous unrealized loss position of $273 for a period greater than 12 months with a fair value of $49,721. All other impaired securities were in an unrealized loss position for a period less than 12 months.

At December 31, 2019 and 2018, all of the securities held by the Credit Union were issued by Ginnie Mae and U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac, and FHLB, which the government has affirmed its commitment to support. The Credit Union does not have the intent to sell and it is more likely than not that the Credit Union will not have to sell any securities in a loss position before recovery.

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS

Loans at year end were as follows:

	2019	2018
Mortgage loans		
First mortgage	$ 2,519,853	$ 2,402,455
Equity loans	95,154	100,065
Participations	19	26
	2,615,026	2,502,546
Vehicle loans	177,949	176,718
Other Consumer loans	237,376	143,126
	3,030,351	2,822,390
Less: Net deferred loan fees	(15,001)	(8,853)
Allowance for loan losses	(9,543)	(8,894)
Loans, net	$ 3,005,807	$ 2,804,643

Activity in the allowance for loan losses by portfolio segment is summarized as follows for the years ended December 31:

	Mortgage	Vehicle	Consumer	Total
Balance at January 1, 2018	$ 4,084	$ 833	$ 2,082	$ 6,999
Provision for loan losses	805	733	2,181	3,719
Loans charged off	-	(579)	(1,440)	(2,019)
Recoveries	1	91	103	195
Balance at December 31, 2018	4,890	1,078	2,926	8,894
Provision for loan losses	(503)	272	2,990	2,759
Loans charged off	-	(409)	(1,946)	(2,355)
Recoveries	-	60	185	245
Balance at December 31, 2019	$ 4,387	$ 1,001	$ 4,155	$ 9,543

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS (Continued)

The following table presents gross loans individually and collectively evaluated for impairment by portfolio segment as of December 31, 2019 and 2018:

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
2019			
Allowance for loan losses attributable to:			
Mortgage loans			
First mortgage loans	$ 336	$ 3,897	$ 4,233
Equity loans	-	144	144
Loan participations	-	10	10
Total mortgage loans	336	4,051	4,387
Vehicle loans	-	1,001	1,001
Other consumer loans	-	4,155	4,155
Total allowance for loan losses	$ 336	$ 9,207	$ 9,543
Loans:			
Mortgage loans			
First mortgage loans	$ 8,684	$ 2,511,169	$ 2,519,853
Equity loans	3,278	91,876	95,154
Loan participations	-	19	19
Total mortgage loans	11,962	2,603,064	2,615,026
Vehicle loans	-	177,949	177,949
Other consumer loans	-	237,376	237,376
Total loans	$ 11,962	$ 3,018,389	$ 3,030,351
2018			
Allowance for loan losses attributable to:			
Mortgage loans			
First mortgage loans	$ 440	$ 4,271	$ 4,711
Equity loans	-	179	179
Total mortgage loans	440	4,450	4,890
Vehicle loans	-	1,078	1,078
Other consumer loans	-	2,926	2,926
Total allowance for loan losses	$ 440	$ 8,454	$ 8,894
Loans:			
Mortgage loans			
First mortgage loans	$ 6,545	$ 2,395,910	$ 2,403,455
Equity loans	101	99,964	100,065
Loan participations	-	26	26
Total mortgage loans	6,646	2,495,900	2,502,546
Vehicle loans	-	176,718	176,718
Other consumer loans	-	143,126	143,126
Total loans	$ 6,646	$ 2,815,744	$ 2,822,390

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS (Continued)

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely for the collateral. For loans where no loss is expected based on this analysis, no allowance is allocated.

The following table presents information related to impaired loans by class of loans as of the year ended December 31, 2019 and 2018:

	Monthly Average Impaired Loans	Interest Income Recognized	Cash-basis Interest Income	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
2019						
With no related allowance recorded:						
Mortgage loans						
First mortgage loans	$ 5,256	$ 412	$ 53	$ 7,072	$ 7,052	$ -
Equity loans	633	51	6	3,278	3,324	-
Subtotal	5,889	463	59	10,350	10,376	-
With an allowance recorded:						
Mortgage loans						
First mortgage loans	1,688	87	-	1,612	1,608	285
Equity loans	-	-	-	-	-	-
Subtotal	1,757	92	-	2,254	2,259	336
Total	$ 7,577	$ 550	$ 59	$ 11,962	$ 11,984	$ 336
2018						
With no related allowance recorded:						
Mortgage loans						
First mortgage loans	$ 4,040	$ 334	$ 149	$ 3,731	$ 3,720	$ -
Equity loans	245	94	3	101	102	-
Subtotal	4,285	428	152	3,832	3,822	-
With an allowance recorded:						
Mortgage loans						
First mortgage loans	2,087	56	-	2,814	2,806	440
Equity loans	-	-	-	-	-	-
Subtotal	2,087	56	-	2,814	2,806	440
Total	$ 6,372	$ 484	$ 152	$ 6,646	$ 6,628	$ 440

Recorded investment in loans is the unpaid principal balance less net deferred fees and expenses.

(Dollar amounts in thousands)

NOTE 3 – LOANS (Continued)

The following table presents the recorded investment of nonaccrual loans as of December 31, 2019 and 2018:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2019	2018	2019	2018
Mortgage loans				
First mortgage	$ 2,599	$ 3,005	$ -	$ -
Equity	106	162	-	-
Participation	-	1	-	-
Vehicle loans				
New	47	38	-	-
Used	105	193	-	-
Consumer				
Secured	957	411	-	-
Unsecured	490	480	-	-
Total	$ 4,304	$ 4,290	$ -	$ -

The Credit Union has allocated $190 and $440 of specific reserves to members whose loan terms have been modified in troubled debt restructurings (TDR's) as of December 31, 2019 and 2018 respectively. Loans considered as TDR's at December 31, 2019 and 2018 totaled $1.3 million and $2.8 million, respectively. The Credit Union has not committed to lend additional amounts to members with outstanding loans that are classified as troubled debt restructurings.

The following table represents the aging of the recorded investment in past due loans as of December 31, 2019 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Mortgage loans						
First mortgage	$ 14,056	$ 2,613	$ 2,599	$ 19,268	$ 2,493,727	$ 2,512,995
Equity loans	530	238	106	874	96,472	97,346
Participations	-	-	-	-	19	19
Vehicle loans						
New	606	132	47	785	122,733	123,518
Used	448	117	105	670	54,044	54,714
Consumer loans						
Secured	2,036	480	957	3,473	168,428	171,901
Unsecured	707	337	490	1,534	53,323	54,857
	$ 18,383	$ 3,917	$ 4,304	$ 26,604	$ 2,988,746	$ 3,015,351

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS (Continued)

The following table represents the aging of the recorded investment in past due loans as of December 31, 2018 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Mortgage loans						
First Mortgage	$ 12,600	$ 894	$ 3,005	$ 16,499	$ 2,379,195	$ 2,395,694
Equity Loans	541	100	162	803	101,324	102,127
Participations	-	-	1	1	25	26
Vehicle loans						
New	541	205	38	784	120,672	121,456
Used	691	228	193	1,112	54,362	55,474
Consumer loans						
Secured	735	474	411	1,620	89,717	91,337
Unsecured	634	248	480	1,362	45,768	47,130
	$ 15,742	$ 2,149	$ 4,290	$ 22,181	$ 2,791,063	$ 2,813,244

Credit Quality Indicators: The Credit Union categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, loan-to-value, and current economic trends, among other factors. The Credit Union analyzes loans collectively by classifying the loans as to credit risk. This analysis is performed on a monthly basis.

The Credit Union considers the performance of the mortgage loan portfolio and its impact on the allowance for loan losses. While FICO scores are evaluated for all loans at origination, No Score represents loan balances for which no FICO score was available at our most recent update. The following table presents the recorded investment in residential loans based on FICO scores as of December 31, 2019 and 2018:

FICO Score	Less Than 680	Greater Than 680	No Score	Total
2019				
Mortgage loans:				
First Mortgage	$ 143,860	$ 2,368,843	$ 292	$ 2,512,995
Equity Loans	9,800	87,546	-	97,346
Participation Loans	-	-	19	19
	$ 153,660	$ 2,456,389	$ 311	$ 2,610,360
2018				
Mortgage loans:				
First Mortgage	$ 144,944	$ 2,248,864	$ 1,886	$ 2,395,694
Equity Loans	9,269	92,376	482	102,127
Participation Loans	-	-	-	-
	$ 154,213	$ 2,341,240	$ 2,368	$ 2,497,821

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS (Continued)

The Credit Union considers the performance of the consumer loan portfolio and its impact on the allowance for loan losses. For consumer loan classes, the Credit Union evaluates credit quality for members based on borrower activity. The following table presents the recorded investment in consumer loans based on payment activity as of December 31, 2019 and 2018:

	Not Classified	Extensions	Workout	Bankruptcy	>90 Days Past Due	Total
2019						
Vehicle loans						
New	$ 121,038	$ 2,260	$ -	$ 173	$ 47	$ 123,518
Used	53,087	1,406	-	116	105	54,714
Consumer loans						
Secured	169,716	1,084	6	138	957	171,901
Unsecured	53,937	788	51	81	490	54,857
	$ 397,288	$ 5,538	$ 57	$ 508	$ 1,599	$ 404,990
2018						
Vehicle loans						
New	$ 118,836	$ 2,409	$ -	$ 173	$ 38	$ 121,456
Used	53,491	1,631	-	159	193	55,474
Consumer loans						
Secured	89,903	925	-	98	411	91,337
Unsecured	45,669	760	89	132	480	47,130
	$ 307,899	$ 5,725	$ 89	$ 562	$ 1,122	$ 315,397

NOTE 4 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as 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.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

(Dollar amounts in thousands)

NOTE 4 – FAIR VALUE (Continued)

The Credit Union uses the following methods and significant assumptions to estimate fair value:

Investments - The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Derivatives - The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans - The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent mortgage loan appraisals. These appraisals primarily utilize the comparable sales approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly. These fair values are obtained from external sources and are not generally adjusted by management except for costs to sell of 6 - 8%, and unobservable fair value inputs are not available to management.

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Credit Union has elected the fair value option, are summarized below:

		Fair Value Measurements at December 31 Using		
2019	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Investment securities available-for-sale				
U.S. Treasury and federal agency	$ 200,382	$ -	$ 200,382	$ -
Adjustable rate mortgage-backed securities: residential	68,805	-	68,805	-
Fixed rate mortgage-backed securities: residential	2	-	2	-
Total investment securities available-for-sale	$ 269,189	$ -	$ 269,189	$ -
Derivative assets				
Caps	$ 4,082	$ -	$ 4,082	$ -
Swaps	928	-	928	-
Derivative liabilities				
Swaps	$ (9,772)	$ -	$ (9,772)	$ -

(Continued)

(Dollar amounts in thousands)

NOTE 4 – FAIR VALUE (Continued)

		Fair Value Measurements at December 31 Using		
2018	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Investment securities available-for-sale				
U.S. Treasury and federal agency	$ 124,781	$ -	$ 124,781	$ -
Adjustable rate mortgage-backed securities: residential	92,612	-	92,612	-
Fixed rate mortgage-backed securities: residential	3	-	3	-
Total investment securities available-for-sale	$ 217,396	$ -	$ 217,396	$ -
Derivative assets				
Caps	$ 12,193	$ -	$ 12,193	$ -
Swaps	8,029	-	8,029	
Derivative liabilities				
Swaps	$ (2,232)	$ -	$ (2,232)	$ -

There were no transfers between Level 1 and Level 2 during 2019 and 2018.

There were no impaired loans measured for impairment using fair value of collateral at December 31, 2019 and 2018.

NOTE 5 – PROPERTY AND EQUIPMENT

Year-end property and equipment were as follows:

	2019	2018
Buildings	$ 871	$ 871
Leasehold improvements	1,476	1,528
Furniture and equipment	13,975	14,055
	16,322	16,455
Less accumulated depreciation	(13,221)	(12,915)
	$ 3,101	$ 3,540

Depreciation expense was $1,875 and $1,757 for 2019 and 2018, respectively.

(Continued)

(Dollar amounts in thousands)

NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Operating Leases: The Credit Union leases certain office and branch properties and equipment under operating leases. Rent expense was $2,249 and $2,142 for 2019 and 2018 respectively. Rent commitments, before considering renewal options that generally are present, were as follows:

2020	$ 1,944
2021	1,831
2022	1,082
2023	566
2024	344
Thereafter	113
	$ 5,880

NOTE 6 – MEMBERS' SHARES

Members' shares are summarized as follows:

	2019	2018
Regular shares	$ 355,431	$ 382,042
Share draft accounts	325,263	324,955
Money market accounts	1,525,485	1,422,068
Individual retirement accounts	23,225	23,575
Share certificates	859,747	714,690
Individual retirement certificates	62,722	58,001
	$ 3,151,873	$ 2,925,331

Share certificates of $250 thousand or more are $332,089 and $258,016 at December 31, 2019 and 2018, respectively.

Scheduled maturities of share certificates and individual retirement certificates for the next five years are as follows:

2020	$ 776,639
2021	87,495
2022	32,439
2023	10,486
2024	15,410
	$ 922,469

(Continued)

(Dollar amounts in thousands)

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill: The change in goodwill during the year is as follows:

Balance at January 1, 2018	$ 1,933
Acquired goodwill	-
Impairment	-
Balance at December 31, 2018	1,933
Acquired goodwill	-
Impairment	-
Balance at December 31, 2019	$ 1,933

Impairment exists when the carrying value of goodwill exceeds its fair value. A qualitative analysis of whether it is more likely than not that goodwill is impaired will be performed annually. If the qualitative analysis indicates that it is more likely than not that goodwill is impaired, a second step to the impairment test is required to be performed.

Acquired Intangible Assets: Acquired intangible assets were as follows at year end:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 399	$ 376	$ 399	$ 364

Aggregate amortization expense was $12 for 2019 and $28 for 2018.

Estimated amortization expense for each of the next five years:

2020	$ 12
2021	10
2022	1
Thereafter	-
	$ 23

NOTE 8 – EMPLOYEE BENEFIT PLANS

The Credit Union has a 401(k) benefit plan which allows employee contributions. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Contributions for 2019 and 2018 were $1,863 and $1,734, respectively.

(Continued)

(Dollar amounts in thousands)

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union originates and portfolios fixed rate mortgage loans with terms of 30, 20, 15, and 10 years along with hybrid adjustable rate mortgages that first reprice in as long as ten years. These are funded by deposits with short duration. The duration mismatch poses earnings exposure in rising interest rate environments. To mitigate the negative effects of rising interest rates, the Credit Union enters into interest rate caps and swaps to limit the impact of interest rate increases on its variable rate sources of funds. Counterparties have investment grade credit ratings. The Credit Union enters into swap contracts to pay a fixed rate and receive a variable rate under terms as disclosed within the table below. There are collateral arrangements in place that serve to minimize counterparty risk. These derivative instruments do not meet hedge accounting requirements. The undersigned derivative instruments are recognized on the statement of financial condition at fair value, with changes in fair value recorded in earnings. Net cash settlements and amortization of premium on these derivatives are reported in interest expense.

The outstanding balances of derivatives cap and swap instruments as of December 31, 2019 and 2018 which did not qualify as cash flow hedging instruments are as follows:

Interest Rate Derivatives	Notional Amount	Fair Value	Weighted Average Rate	Weighted Average Years Remaining
2019				
Derivative Assets:				
Caps	$ 425,000	$ 4,082	3-month LIBOR strike rates from 1.17% to 2.83% for a weighted average rate of 1.99%	3.77
Swaps	100,000	928	Pay fixed rate range from 1.15% to 1.77% for a weighted average rate of 1.45%. Receive variable rate range from 1.89% to 1.96% for a weighted average rate of 1.93% based on 3-month LIBOR.	4.60
Total	$ 525,000	$ 5,010		3.93
Derivative Liabilities:				
Swaps	$ 300,000	$ (9,772)	Pay fixed rate range from 1.77% to 3.10% for a weighted average rate of 2.34%. Receive variable rate range from 1.89% to 2.00% for a weighted average rate of 1.92% based on 3-month LIBOR.	4.44
Total	$ 300,000	$ (9,772)		4.44

(Continued)

(Dollar amounts in thousands)

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Notional Interest Rate Derivatives	Amount	Fair Value	Weighted Average Rate	Weighted Average Years Remaining
2018				
Derivative Assets:				
Caps	$480,000	$ 12,193	3-month LIBOR strike rates from 1.17% to 2.83% for a weighted average rate of 1.82%	3.09
Swaps	275,000	8,029	Pay fixed rate range from 1.15% to 2.20% for a weighted average rate of 1.84%. Receive variable rate range from 2.49% to 2.80% for a weighted average rate of 2.73% based on 3-month LIBOR.	4.50
Total	$ 755,000	$ 20,222		3.60
Derivative Liabilities:				
Swaps	$ 75,000	$ (2,232)	Pay fixed rate range from 2.94% to 3.10% for a weighted average rate of 3.03%. Receive variable rate range from 2.44% to 2.82% for a weighted average rate of 2.58% based on 3-month LIBOR.	7.04
Total	$ 75,000	$ (2,232)		7.04

The fair value of the interest rate caps and swaps at December 31, 2019 and 2018 is reflected as a separate line item in the asset and liability sections of the statement of financial condition. The change in fair value resulted in $20,777 and $4,609 of income for 2019 and 2018 respectively, and is included in non-interest income. The amortization of the interest rate cap premium totaled $4,053 and $4,562 for 2019 and 2018 respectively, and is included as a component of interest expense.

The Credit Union and its counterparty maintain a cash collateral account to secure their derivative positions, which is settled daily. At December 31, 2019 the credit union had cash on deposit with its counterparty of $5,600. At December 31, 2018 the Credit Union held cash from its counterparty as collateral totaling $20,360, respectively.

(Continued)

NOTE 10 – MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration. 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 accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). In performing its calculation of total assets, the Credit Union used the quarter-end balance. Credit unions are also required to calculate a risk-based net worth requirement (RBNWR). The Credit Union's RBNWR ratios as of December 31, 2019 and 2018 were 8.4% and 8.4%, respectively. Management believes, as of December 31, 2019 that the Credit Union meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent call reporting period, and December 31, 2018, 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 7.0% of assets and exceed its RBNWR, if applicable. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Actual and required capital amounts (in thousands) and ratios are presented below at year end.

	Actual		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio
2019				
Net worth to total assets	$ 394,653	11.03%	$ 250,271	7.0%
Risk-based net worth	394,653	11.03%	298,538	8.4%
2018				
Net worth to total assets	$ 390,464	11.70%	$ 233,482	7.0%
Risk-based net worth	390,464	11.70%	280,846	8.4%

NOTE 11 – RELATED-PARTY TRANSACTIONS

The Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2019 and 2018 are $1,668 and $1,358, respectively. Shares from related parties at December 31, 2019 and 2018 amounted to $7,036 and $6,521, respectively.

(Continued)

NOTE 12 – OFF-BALANCE SHEET ACTIVITIES

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements

Unfunded loan commitments under lines of credit are summarized as follows:

	2019	2018
Home equity	$ 77,453	$ 76,993
Other consumer	102,628	99,672
	$ 180,081	$ 176,665

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. Because 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 credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future fundings to existing members. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.