TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(With Independent Auditor's Report Thereon)

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee and Board of Directors
of **Tinker Federal Credit Union and Subsidiary**

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tinker Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Tinker Federal Credit Union and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Report on the Audits of the Consolidated Financial Statements (Continued)

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the 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 Tinker Federal Credit Union and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tinker Federal Credit Union and Subsidiary'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

Troy, Michigan
March 24, 2023

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2022 AND 2021
(In Thousands)

Assets	2022	2021
Cash and cash equivalents	$ 444,043	$ 389,833
Investments (note 2):		
Equity	3,969	5,873
Available-for-sale debt securities	1,559,747	1,853,093
Time deposits with other institutions	1,853	101
Other, at cost	17,636	4,222
Loans to members, net of allowance for loan losses of $16,171 and $18,196 at December 31, 2022 and 2021, respectively (note 3)	3,804,486	3,465,104
Interest receivable	16,753	14,346
Property and equipment, net (note 5)	84,202	85,390
National Credit Union Share Insurance Fund (NCUSIF) deposit	46,266	44,391
Other assets	53,149	54,597
Total assets	$ 6,032,104	$ 5,916,950
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (note 6)	$ 5,140,799	$ 5,263,009
Borrowed funds (note 8)	300,000	-
Accrued expenses and other liabilities	37,876	33,487
Total liabilities	5,478,675	5,296,496
Commitments and contingent liabilities		
Members' equity:		
Total retained earnings	700,086	626,887
Accumulated other comprehensive loss	(146,657)	(6,433)
Total members' equity	553,429	620,454
Total liabilities and members' equity	$ 6,032,104	$ 5,916,950

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
Interest income:		
Interest on loans to members	$ 174,678	$ 158,057
Interest on investments and cash equivalents	30,096	14,899
Total interest income	204,774	172,956
Interest expense:		
Dividends on members' shares	32,641	35,508
Interest on borrowed funds	1,512	9
Total interest expense	34,153	35,517
Net interest income	170,621	137,439
Provision for loan losses (note 3)	13,275	6,180
Net interest income after provision for loan losses	157,346	131,259
Non-interest income (expense):		
Net loss on sales of foreclosed assets	-	(69)
Net (loss)/gain on disposal of property and equipment	(4)	81
Net (loss)/gain on sales of available-for-sale investments	(11,107)	480
Net gain on sales of mortgage loans	238	2,806
Loan servicing fees	621	632
Interchange income	33,276	32,453
Service charges and other fees	30,649	27,723
Other noninterest income	5,311	7,002
Total non-interest income	58,984	71,108
Income before general and administrative expenses	216,330	202,367
General and administrative expenses:		
Salaries and benefits	72,675	66,985
Office operations	63,723	58,070
Occupancy	6,733	6,290
Total general and administrative expenses	143,131	131,345
Net income	$ 73,199	$ 71,022

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
Net income	$ 73,199	$ 71,022
Other comprehensive loss:		
Unrealized (losses) on available-for-sale investments	(151,316)	(28,916)
Reclassification adjustment for realized (gains) / loss included in income	11,107	(480)
Change in defined benefit plan (losses) and gains and prior service costs	(15)	14
Other comprehensive loss	(140,224)	(29,382)
Comprehensive (loss) income	$ (67,025)	$ 41,640

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	Regular Reserve	Undivided Earnings	Total Retained Earnings	Accumulated Other Comprehensive Income/(Loss)
Balance, January 1, 2021	$ 36,343	$ 519,522	$ 555,865	$ 22,949
Net income	-	71,022	71,022	-
Other comprehensive loss	-	-	-	(29,382)
Balance, December 31, 2021	36,343	590,544	626,887	(6,433)
Net income	-	73,199	73,199	-
Other comprehensive loss	-	-	-	(140,224)
Balance, December 31, 2022	$ 36,343	$ 663,743	$ 700,086	$ (146,657)

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
Cash flows from operating activities:		
Net income	$ 73,199	$ 71,022
Items not requiring (providing) cash:		
Provision for loan losses	13,275	6,180
Depreciation and amortization	6,788	7,077
Net amortization of premiums/discounts on investments	15,706	21,691
Net loss/(gain) in fair value of equities	438	(281)
Net loss (gain) on sales of available-for-sale investments	11,107	(480)
Net loss on sales of foreclosed assets	-	69
Net loss/(gain) on disposal of property and equipment	4	(81)
Net gain on sales of mortgage loans	(238)	(2,806)
Changes in assets and liabilities:		
(Increase)/decrease in:		
Interest receivable	(2,407)	(134)
Other assets	1,463	59,167
Increase in:		
Accrued expenses and other liabilities	4,389	1,813
Net cash provided by operating activities	123,724	163,237

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
Cash flows from investing activities:		
Purchase of available-for-sale investments	$ (352,554)	$ (957,363)
Proceeds from maturities of available-for-sale investments	22,495	91,265
Proceeds from paydowns of available-for-sale investments	187,492	255,701
Proceeds from calls/sales of available-for-sale investments	268,891	156,787
Change in time deposits with other institutions	(1,752)	868
Transfer of trading securities	1,466	-
Change in other investments	(13,414)	305
Net change in loans to members	(352,550)	(207,246)
Investment in NCUSIF deposit	(1,875)	(3,886)
Purchase of property and equipment	(5,503)	(6,301)
Proceeds from sale of foreclosed assets	-	5,107
Net cash used in investing activities	(247,304)	(664,763)
Cash flows from financing activities:		
Increase in members' shares	(122,210)	537,139
Proceeds received from borrowed funds	300,000	-
Repayment of borrowed funds	-	(3,000)
Net cash provided by financing activities	177,790	534,139
Increase in cash and cash equivalents	54,210	32,613
Cash and cash equivalents, beginning of year	389,833	357,220
Cash and cash equivalents, end of year	$ 444,043	$ 389,833
Supplemental Cash Flows Information		
Interest and dividends paid	$ 34,153	$ 35,921
Assets acquired in settlement of debt	$ 4,075	$ 5,176
Purchase of cash and cash alternatives in equities	$ 284	$ 2,765
Principal reductions from available-for-sale investments not yet received	$ 616	$ 789

See accompanying notes to consolidated financial statements

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Operations

Tinker Federal Credit Union (the 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 who qualify for membership. The field of membership is defined in the Credit Union's charter and bylaws.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Tinker Financial Services, LLC. The subsidiary is engaged primarily in insurance and financial service activities. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting and Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP/USA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses (ALL) and fair values of financial instruments.

Recent Accounting Standards Adopted

Accounting for Financial Instruments - Credit Losses

In June 2016, the FASB issued 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 debt 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 generally accepted accounting principles, 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 for annual periods beginning January 1, 2019.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and non-term share deposits in a corporate credit union. The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents. For purposes of reporting cash flows, loans to members, equity and other investments and members' shares are reported net.

At December 31, 2022, the Credit Union's cash accounts exceeded federally insured limits by approximately $46,000. For purposes of evaluating credit risk, the stability of the financial institutions conducting business with the Credit Union is periodically reviewed.

Restriction on Cash and Cash Equivalents

The Credit Union may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. No reserve was required by the Federal Reserve Bank at December 31, 2022 or 2021.

Investments

Management determines the appropriate classification of investments at the time of purchase. Investments the Credit Union intends to buy and sell for the purpose of taking advantage of market conditions are classified as equities and are carried at fair value. Gains and losses on investments classified as equities have been accounted for within the accompanying consolidated statements of income. Investments the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale investments are determined using the specific-identification method. Investments the Credit Union has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost.

Purchase discounts and purchase premiums for debt securities without a call feature are recognized in interest income using the interest method over the terms of the securities. Purchase premiums on debt securities with a call feature are amortized and recognized in interest income to the earliest call date. The Credit Union held 7 and 11 debt securities with a call feature as of December 31, 2022 and 2021, respectively.

Declines in the fair value of individual available-for-sale and held-to-maturity investments below their costs that are other-than-temporary result in write-downs of the individual investments to their fair value. Factors affecting the determination of whether an other-than-temporary impairment (OTTI) has occurred include: (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.

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

Investments (Continued)

If the Credit Union decides to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Credit Union recognizes an impairment loss when the impairment is deemed other-than-temporary, even if a decision to sell has not been made.

Time deposits with other institutions are carried at cost.

Other investments are classified separately and are stated at cost. Investments in membership shares of Federal Home Loan Bank of Topeka (FHLB) stock, Payment Systems for Credit Unions (PSCU) stock, Credit Union Service Centers, Inc. (CUSC) stock, Catalyst Corporate Federal Credit Union membership capital account and Credit Union House, LLC (CU House) stock are required to execute transactions with these organizations and are carried at cost.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB system, is required to maintain an investment in capital stock of FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from FHLB. No ready market exists for the FHLB stock and it has no quoted market value. The required investment in the common stock is carried at cost and evaluated for impairment.

Loans to Members

Loans are stated at the amount of unpaid principal, reduced by an ALL and increased by deferred net loan origination costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income over the expected life of the loan.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

Accrual of interest on loans is discontinued when management believes after considering economics, business conditions and collection efforts, the borrower’s financial condition is such that collection of interest is doubtful. The Credit Union’s policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management’s judgment, the borrower’s ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

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

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, which was $1,648 and $2,215 at December 31, 2022 and 2021, respectively. All sales are made without recourse. Gains and losses from sales of mortgage loans are recognized upon delivery to the investor. Loans held for sale are included in loans to members in the accompanying consolidated statements of financial condition.

Allowance for Loan Losses

The ALL is increased by a provision for loan losses charged to expense and decreased by charge- offs (net of recoveries). Loans are charged against the ALL when management believes collectability of the principal is unlikely. Management's periodic evaluation of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions.

The Credit Union does not assign risk ratings or grades to individual loans. The Credit Union evaluates its ALL methodology on an ongoing basis. No changes were made to its ALL methodology during 2022 or 2021.

The ALL is a material estimate that is particularly susceptible to significant changes. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions. The Credit Union is subject to periodic examinations by regulatory authorities. As an integral part of those examinations, the regulatory authorities review the Credit Union's ALL. Such agencies may require the Credit Union to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

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

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable 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 for construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance, homogenous loans are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual real estate, consumer, student and credit card loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to work out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Additionally, as a result of a borrower filing for bankruptcy or other legal actions, the Credit Union may be forced to restructure the contractual terms of certain loans. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants, or must legally provide, a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include a modification of the interest rate of the loan, a modification of the number of payments or a combination of the two.

It is the Credit Union's policy for such restructured loans to accrue interest commensurate with the restructured terms of the loan, provided the restructured loan is performing in accordance with its terms.

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

Mortgage Servicing Rights

The Credit Union records servicing rights for mortgage loans serviced for others. These servicing rights are included in other assets in the accompanying consolidated statements of financial condition. The servicing rights are initially recorded at fair value as assets and are subsequently amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage servicing rights is assessed annually based on the estimated fair value of those servicing rights. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is a component of office operations expense on the consolidated statements of income. Residential mortgage loans serviced for others are subject to credit, prepayment and interest rate risks.

Property and Equipment

Land is carried at cost. Buildings, leasehold improvements and furniture and equipment are carried at cost less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of 39 years for buildings and 3 to 10 years for furniture and equipment. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

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

Members' Shares

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. 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. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Members' shares are classified as liabilities as required by GAAP/USA. However, the Federal Credit Union Act states that member deposit accounts represent ownership of a credit union, and should therefore, be classified as equity. Management concurs with the equity classification but has chosen to classify such member deposit accounts as liabilities since failure to do so would result in a departure from GAAP/USA.

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Credit Union - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participation interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial assets, (2) from the date of transfer, all cash flows received, except any cash flows allocated as compensation or servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Interchange Income, Fees and Charges

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; and 3) commission income related to insurance brokerage services to Credit Union members. Deposit fees and interchange revenue are presented as non-interest income in the consolidated statements of earnings, with related expense streams such as processor costs and reward point costs, presented in non-interest expenses. These transactions are recognized at the point in time the transaction occurs as the performance obligation has been satisfied.

Reclassification

Certain amounts reported in the 2021 consolidated financial statements have been reclassified to conform with the 2022 presentation. There has been no change in total assets, liabilities, members' equity or net income.

Income Taxes

The Credit Union is exempt, by statute Internal Revenue Code Section 501(c)(14), from federal and state income taxes.

(In Thousands)

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

Defined Contribution Plan

The Credit Union has a qualified, noncontributory defined contribution target benefit plan covering substantially all of its employees. The Credit Union's policy is to fund the minimum amount required under the *Employee Retirement Income Security Act of 1974*.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Accounting principles generally require recognized revenues, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as other comprehensive income (loss), which is a separate component of the members' equity section of the accompanying consolidated statements of financial condition. Other comprehensive income (loss) includes unrealized losses on available-for-sale investments, reclassification adjustment of realized (gains) losses included in income and change in defined benefit plan gains and losses and prior service costs.

Subsequent Events

Subsequent events have been evaluated through March 24, 2023, which is the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Equities were $3,969 and $5,873 at December 31, 2022 and 2021, respectively, and money market, mutual funds, equity securities and debt securities.

Realized (losses)/gains on equity investments were ($438) and $281 during 2022 and 2021, respectively. These gains are included in other noninterest income in the accompanying consolidated statements of income.

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of investments classified as available-for-sale, consist of the following:

	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 420,183	$ 59	$ (43,928)	$ 376,314
Mortgage-backed securities	1,088,311	-	(87,675)	1,000,636
Corporate bonds	25,079	-	(845)	24,234
Obligations of state and political subdivisions	172,714	-	(14,151)	158,563
	$ 1,706,287	$ 59	$ (146,599)	$ 1,559,747

(In Thousands)

Note 2 - Investments (Continued)

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 491,065	$ 66	$ (4,537)	$ 486,594
Mortgage-backed securities	1,199,572	7,177	(10,667)	1,196,082
Corporate bonds	12,771	237	-	13,008
Obligations of state and political subdivisions	156,016	2,670	(1,277)	157,409
	$ 1,859,424	$ 10,150	$ (16,481)	$ 1,853,093

Available-for-sale mortgage-backed securities as of December 31, 2022 and 2021, consisted of residential securities issued by government-sponsored enterprises.

	Continuous Unrealized Losses Existing for					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
Available-for-sale:						
U.S. government obligations and federal agencies securities	$ -	$ -	$ 371,276	$ 43,928	$ 371,276	$ 43,928
Mortgage-backed securities	406,971	18,515	593,665	69,160	1,000,636	87,675
Obligations of state and political subdivisions	103,223	5,875	55,340	8,276	158,563	14,151
Corporate bonds	24,235	845	-	-	24,235	845
Total temporarily impaired investments	$ 534,429	$ 25,235	$ 1,020,281	$ 121,364	$ 1,554,710	$ 146,599

	Continuous Unrealized Losses Existing for					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
Available-for-sale:						
U.S. government obligations and federal agencies securities	$ 429,604	$ 4,537	$ -	$ -	$ 429,604	$ 4,537
Mortgage-backed securities	494,407	6,571	230,934	4,096	725,341	10,667
Obligations of state and political subdivisions	51,807	953	10,877	324	62,684	1,277
Total temporarily impaired investments	$ 975,818	$ 12,061	$ 241,811	$ 4,420	$ 1,217,629	$ 16,481

There are a total of 352 and 184 investments with unrealized losses as of December 31, 2022 and 2021, respectively. Total fair value of these investments at December 31, 2022 and 2021, was $1,554,710 and $1,217,629, respectively, which is 99.7% and 42.5%, respectively, of the Credit Union's available-for-sale investments. The Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

(In Thousands)

Note 2 - Investments (Continued)

Proceeds from the sale of investments classified as available-for-sale were $268,891 during the year ended December 31, 2022. Gross gains of $5,809 resulting from sales of available-for-sale investments were realized during 2022. Gross losses of $16,917 resulting from sales of available-for-sale investments were realized during 2022. Proceeds from the sale of investments classified as available-for-sale were $156,787 during the year ended December 31, 2021. Gross gains of $607 resulting from sales of available-for-sale investments were realized during 2021. Gross losses of $127 resulting from sales of available-for-sale investments were realized during 2021.

The carrying value of investments pledged as collateral to secure advances was $1,561,585 and $1,857,271 at December 31, 2022 and 2021, respectively. Refer to Note 8 for additional information.

Time deposits with other institutions are generally nonnegotiable and nontransferable and may incur substantial penalties for withdrawal prior to maturity.

Other investments, at cost, consisted of the following:

	2022	2021
Member capital account in a corporate credit union	$ 751	$ 751
Investment in FHLB stock	14,075	651
Investment in PSCU stock	1,928	1,938
Investment in CUSC stock	300	300
Investment in CU House stock	582	582
	$ 17,636	$ 4,222

Member capital account is an uninsured equity capital account that may only be redeemed with the approval of the NCUA.

Investments by maturity as of December 31, 2022, are summarized as follows:

	Available-for-Sale		
	Amortized Cost	Fair Value	Other, at Cost
No contractual maturity	$ -	$ -	$ 17,636
Less than 1-year maturity	26,083	25,870	-
1–5 years maturity	485,181	440,263	-
5–10 years maturity	106,712	92,978	-
Mortgage-backed securities	1,088,311	1,000,636	-
	$ 1,706,287	$ 1,559,747	$ 17,636

(In Thousands)

Note 2 - Investments (Continued)

Expected maturities of mortgage-backed and other asset-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. The member capital account and investments in FHLB stock, PSCU stock, CUSC stock and CU House stock have been classified with no contractual maturities.

The Credit Union invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such change could materially affect the amounts reported in the accompanying consolidated statements of financial condition.

Note 3 - Loans to Members

Loans to members at December 31 consisted of the following:

	2022	2021
Real estate loans	$ 337,122	$ 261,688
Commercial loans	175,659	120,887
Consumer loans:		
Direct vehicle loans	842,271	830,974
Indirect loans	1,847,844	1,713,033
Home equity loans	111,758	90,176
Other consumer loans, primarily unsecured	297,592	283,432
Government-guaranteed student loans	14,729	17,224
Loan participations	12,879	-
Credit card loans, unsecured	170,613	155,687
Gross loans	3,810,467	3,473,101
Deferred net loan origination costs	10,190	10,199
Allowance for loan losses	(16,171)	(18,196)
	$ 3,804,486	$ 3,465,104

Note 3 - Loans to Members (Continued)

The recorded balance of real estate and home equity loans pledged as collateral to secure the Credit Union's line of credit with FHLB was $344,381 and $300,496 at December 31, 2022 and 2021, respectively. Refer to Note 8 for additional information. The risk characteristics of each loan portfolio segment are as follows:

Real Estate

The real estate segment of the Credit Union's loan portfolio consists of conventional and Veterans Affairs (VA) mortgages secured by 1-4 family residences located in the state of Oklahoma, which are typically owner-occupied. Generally, all conventional and VA mortgage applications are processed as if they will be sold and are underwritten in accordance with Fannie Mae guidelines. Mortgage insurance is required on loans in which the loan-to-value exceeds 80%. Risk is mitigated by the Credit Union's underwriting guidelines and mortgage insurance requirements. Oklahoma's real estate property values have not experienced significant swings and historically, values have remained stable even during periods of economic decline. Management anticipates this will hold true considering Oklahoma's current economic challenges resulting from the significant decline in oil and gas prices.

Consumer

The short-term mortgage segment of the portfolio is comprised of closed-end equity mortgage loans and home equity lines of credit secured by a first or second lien on 1-4 family residences, which are typically owner-occupied. Vehicle loans are secured by assets, such as vehicles, motorcycles, recreational vehicles, and watercraft funded through a direct branch. Indirect loans are secured by assets, such as vehicles, motorcycles, recreational vehicles, and watercraft funded through an indirect dealer, which contain recourse provisions in accordance with the Credit Union's Motor Vehicle Retail Finance Agreement. The other secured segment contains some loans secured by chattel collateral, deposits, and unsecured loans. Payday loans and courtesy pay loans are unsecured. Repayment is dependent on personal income of the borrower(s), which can be impacted by economic conditions. Risk is mitigated by the Credit Union's underwriting guidelines, the collateral pledged as security and the fact that the unsecured loans are typically smaller loan amounts.

Commercial

The commercial loan segment of the Credit Union's portfolio primarily consists of commercial real estate loans, commercial real estate and 1-4 family RE secured construction loans, 1-4 family investment loans and commercial and industrial loans. Other loan types such as commercial equipment & capital asset loans, commercial working capital lines of credits, loan secured by farmland and development loans make up the remaining portfolio. There are minimal PPP loans left in the portfolio with forgiveness applications still being submitted. Repayment methods vary and are dependent on the type of loan and business. Risk is mitigated by the commercial underwriting guidelines, the assessment of all guarantors, Cash-flow analysis, risk ratings and in some cases guarantees from USDA/SBA.

(In Thousands)

Note 3 - Loans to Members (Continued)

Credit Card

The credit card segment of the portfolio is generally unsecured credit lines. A relatively small portion of the segment is credit lines secured by deposits.

Repayment is dependent on personal income of the borrower(s), which can be impacted by economic conditions. Risk is mitigated by the Credit Union's underwriting guidelines.

Government-Guaranteed Student Loans

The student loan segment of the portfolio is comprised of Federal Stafford and Federal Plus loans funded under the Federal Family Education Loan Program (FFELP) and are federally guaranteed. The Credit Union has not participated in the FFELP since 2009; thus, no additional loans are being funded in this segment.

Non-Accrual Loans

The following table presents the Credit Union's non-accrual loans:

	2022	2021
Real estate loans	$ 523	$ 208
Commercial loans	-	-
Consumer loans:		
Direct vehicle loans	1,623	1,238
Indirect loans	5,171	3,342
Home equity loans	-	-
Other consumer loans, primarily unsecured	1,954	1,142
Credit card loans, unsecured	1,749	1,069
	$ 11,020	$ 6,999

(In Thousands)

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following presents by loan portfolio segment the activity in the ALL for the years ended December 31:

	Real Estate Loans	Commercial Loans	Consumer Loans	Credit Card Loans	Unallocated	Total
2022						
Balance, beginning of year	$ 59	$ -	$ 10,505	$ 3,906	$ 3,726	$ 18,196
Provision charged to expense	90	-	10,266	3,302	(383)	13,275
Losses charged off	(56)	-	(22,336)	(4,538)	-	(26,930)
Recoveries	-	-	10,293	1,337	-	11,630
Balance, end of year	$ 93	$ -	$ 8,728	$ 4,007	$ 3,343	$ 16,171

	Real Estate Loans	Commercial Loans	Consumer Loans	Credit Card Loans	Unallocated	Total
2021						
Balance, beginning of year	$ 60	$ 4	$ 16,190	$ 4,099	$ 1,491	$ 21,844
Provision charged to expense	102	-	740	3,103	2,235	6,180
Losses charged off	(103)	-	(16,946)	(4,476)	-	(21,525)
Recoveries	-	(4)	10,521	1,180	-	11,697
Balance, end of year	$ 59	$ -	$ 10,505	$ 3,906	$ 3,726	$ 18,196

All loans were collectively evaluated for impairment. There were no individual loans evaluated for impairment at December 31, 2022 or 2021.

The unallocated component of the ALL reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Under GAAP/USA, the unallocated portion of the ALL should be recaptured through income; however, the Credit Union believes that the unallocated portion is necessary to account for any margin of error resulting from the ALL calculation.

The following table presents the Credit Union's loan portfolio aging analysis as of December 31:

	15–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans >90 Days and Accruing
2022							
Real estate loans	$ 176	$ 6	$ 523	$ 705	$ 336,417	$ 337,122	$ -
Consumer loans	63,842	6,519	8,748	79,109	3,020,356	3,099,465	-
Commercial loans	24	-	-	24	175,635	175,659	-
Government-guaranteed student loans	-	393	1,744	2,137	12,592	14,729	1,744
Loan participations	-	-	-	-	12,879	12,879	-
Credit card loans	-	903	1,749	2,652	167,961	170,613	-
Total	$ 64,042	$ 7,821	$ 12,764	$ 84,627	$ 3,725,840	$ 3,810,467	$ 1,744

(In Thousands)

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses Loans (Continued)

	15–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans >90 Days and Accruing
2021							
Real estate loans	$ 966	$ 167	$ 208	$ 1,341	$ 260,347	$ 261,688	$ -
Consumer loans	50,087	4,614	5,721	60,422	2,857,193	2,917,615	-
Commercial loans	8	-	-	8	120,879	120,887	-
Government-guaranteed student loans	1,001	477	1,039	2,517	14,707	17,224	1,039
Credit card loans	934	497	1,069	2,500	153,187	155,687	-
Total	$ 52,996	$ 5,755	$ 8,037	$ 66,788	$ 3,406,313	$ 3,473,101	$ 1,039

Government-guaranteed student loans greater than 90 days past due continue to accrue interest in accordance with contractual terms of the loan agreement and are not considered to be impaired and are not classified as non-accrual loans.

Troubled Debt Restructuring (TDR)

Restructured loans are considered to be impaired loans. A TDR occurs when a creditor grants a modification of terms to the debtor and the debtor is having financial difficulties. The modification of terms of such loans includes one or a combination of the following: an extension of maturity, a reduction of the stated interest rate, or a permanent reduction of the recorded investment in the loan.

The following table presents the recorded balances of TDRs by class of loans as of December 31:

	2022	2021
Real estate loans	$ 10	$ 14
Consumer loans:		
Direct vehicle loans	396	491
Indirect loans	366	515
Home equity loans	-	-
Other consumer loans, primarily unsecured	43	79
Total	$ 815	$ 1,099

(In Thousands)

Note 3 - Loans to Members (Continued)

Troubled Debt Restructuring (TDR) (Continued)

The following tables present the activity for TDRs occurring during the years ended December 31, 2022 and 2021:

	Number of Loans	Pre-Modification Balance	Post-Modification Balance
2022			
Interest rate modifications:			
Consumer loans:			
Direct vehicle loans	4	$ 81,173	$ 81,173
Indirect loans	1	19,042	19,042
Other consumer loans, primarily unsecured	-	-	-
Balance reductions:			
Consumer loans:			
Direct vehicle loans	-	-	-
Indirect loans	-	-	-
Interest rate modifications and balance reductions			
Consumer loans:			
Direct vehicle loans	-	-	-
Indirect loans	1	30,368	25,515
Interest rate modifications and term extensions:			
Consumer loans:			
Direct vehicle loans	8	96,342	96,342
Indirect loans	3	49,199	49,199
Other consumer loans, primarily unsecured	1	14,593	14,593
Total restructured loans	18	$ 290,717	$ 285,864

(In Thousands)

Note 3 - Loans to Members (Continued)

Troubled Debt Restructuring (TDR) (Continued)

	Number of Loans	Pre-Modification Balance	Post-Modification Balance
2021			
Interest rate modifications:			
Consumer loans:			
Direct vehicle loans	1	$ 23	$ 23
Indirect loans	2	68	68
Other consumer loans, primarily unsecured	1	17	17
Balance reductions:			
Consumer loans:			
Direct vehicle loans	2	14	12
Indirect loans	6	143	108
Interest rate modifications and balance reductions			
Consumer loans:			
Direct vehicle loans	2	59	38
Indirect loans	4	114	84
Interest rate modifications and term extensions:			
Consumer loans:			
Direct vehicle loans	1	6	6
Indirect loans	4	70	70
Other consumer loans, primarily unsecured	-	-	-
Total restructured loans	23	$ 514	$ 426

Of the loans modified in 2022, approximately 1 became delinquent subsequent to modification and none were foreclosed on. Of the loans modified in 2021, approximately 4 became delinquent subsequent to modification and none were foreclosed on.

Individual loans are not evaluated for impairment. The effect of these modifications was not material to the estimate of the ALL.

(In Thousands)

Note 3 - Loans to Members (Continued)

Troubled Debt Restructuring (TDR) (Continued)

Available credit on home equity and unsecured lines of credit at December 31 are summarized as follows:

	2022	2021
Home equity	$ 35,756	$ 34,046
Credit card	695,403	617,348
Other consumer loans, primarily unsecured	138,190	150,824
	$ 869,349	$ 802,218

Commitments for home equity and other secured and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. The other consumer commitments represent outstanding mail offers that expire within 90 days from the offer. These commitments are not reflected in the accompanying consolidated financial statements.

Note 4 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others at December 31, 2022 and 2021 were approximately $256,045 and $288,000, respectively.

The following summarizes the activity pertaining to mortgage servicing rights measured using the amortization method:

	2022	2021
Carrying amount, beginning of year	$ 2,132	$ 1,874
Additions	116	762
Amortization	(511)	(504)
Carrying amount, end of year	$ 1,737	$ 2,132

At December 31, 2022 and 2021, no allowance for impairment of the Credit Union's mortgage servicing rights was necessary as carrying value approximated fair value. Mortgage servicing rights are included in other assets in the accompanying consolidated statements of financial condition.

Fees earned for servicing mortgage loans for others were $622 and $632 for the years ended December 31, 2022 and 2021, respectively. Additions to mortgage servicing rights are included in net gain on sales of mortgage loans in the accompanying consolidated statements of income.

(In Thousands)

Note 5 - Property and Equipment

Property and equipment at December 31 are summarized as follows:

	2022	2021
Land	$ 15,820	$ 15,820
Buildings	92,216	87,108
Leasehold improvements	4,049	4,257
Furniture and equipment	65,322	80,510
	177,407	187,695
Accumulated depreciation and amortization	(93,205)	(102,305)
Net book value	$ 84,202	$ 85,390

Depreciation expense on property and equipment was $6,788 and $7,077 during the years ended December 31, 2022 and 2021, respectively.

Note 6 - Members' Shares

Members' shares at December 31 are summarized as follows:

	2022	2021
Regular shares	$ 1,087,518	$ 1,894,036
Share draft accounts	1,091,094	236,452
Money market accounts	1,971,265	2,065,684
Individual retirement accounts	66,647	68,418
Share certificates	924,275	998,419
Total	$ 5,140,799	$ 5,263,009

Share certificates by maturity as of December 31, 2022 are summarized as follows:

0–1 year	$ 442,629
1–2 years	400,499
2–3 years	53,861
3–4 years	22,369
4–5 years	4,917
Total	$ 924,275

(In Thousands)

Note 6 - Members' Shares (Continued)

Regular shares, share draft accounts, money market accounts and individual retirement accounts have no contractual maturity. Share certificates have maturities of four years or less. The aggregate amount of certificates in denominations of $250 or more at December 31, 2022 and 2021, was $128,872 and $139,002, respectively.

At December 31, 2022 and 2021, overdraft demand shares reclassified to loans were $2,194 and $1,904, respectively.

Note 7 - Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in members' equity, are as follows:

	2022	2021
Net unrealized loss on available-for-sale securities	$ (146,540)	$ (6,331)
Net defined benefit pension plan deferred amounts	(117)	(102)
	$ (146,657)	$ (6,433)

Note 8 - Borrowings

The Credit Union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all investments as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of $61.8 million with interest charged at a rate determined by the lender on a periodic basis. There are no outstanding borrowings under this agreement at December 31, 2022 and 2021. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also has a line of credit available with FHLB with the capacity to borrow up to a certain percentage of its eligible mortgage loans, as defined in the FHLB Statement of Credit Policy. At December 31, 2022 and 2021, the Credit Union pledged approximately $300 million, for both years in mortgage loans with the FHLB. The Credit Union's borrowing capacity was $344 million and $234 million at December 31, 2022 and 2021, respectively. As of December 31, 2022, there was $300 million borrowings outstanding under this agreement. As of December 31, 2021, there were no borrowings under this agreement.

(In Thousands)

Note 9 - Members' Equity

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 (PCA), 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.

Effective January 1, 2022, federally insured, natural-person credit unions defined as "complex" must comply with the NCUA's risk-based capital (RBC) final rule which amends NCUA's PCA regulations, part 702, or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as "complex" if the credit union's quarter-end total assets exceed $500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA's current regulations to establish an RBC ratio measure that is the percentage of a credit union's capital divided by the credit union's defined risk weighted asset base. This RBC rule more closely aligns NCUA's risk weights with those assigned by other banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for "well capitalized" credit unions, and an 8 percent RBC ratio level for "adequately capitalized" credit unions.

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule are required to have a minimum 9 percent leverage ratio. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA's PCA regulations, part 702. Management has selected CCULR for calculating its RBC as of December 31, 2022.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. 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 and risk-based capital amounts and ratios as of December 31, 2022 are as follows:

	2022					
	Actual		To be Classified as "Adequately Capitalized"		To be Classified as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 700,086	11.61%	$ 361,926	6.00%	$ 422,247	7.00%

In performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

(In Thousands)

Note 9 - Members' Equity (Continued)

Previously quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios of net worth to total assets. Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not a credit union will be considered complex under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2021 was 6.36%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. The Credit Union is not considered complex under the regulatory framework.

As of December 31, 2021, 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.

The Credit Union's actual and required net worth amounts and ratios as of December 31, 2021 are as follows:

	As of December 31, 2021	
	Amount	Ratio/ Requirement
Actual net worth	$ 626,887	10.59%
Amount needed to be classified as "adequately capitalized"	$ 355,017	6.00%
Amount needed to be classified as "well capitalized"	$ 414,817	7.00%

In performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Management believes, as December 31, 2022 and 2021, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 10 - Employee Benefits

401(k) Plan

The Credit Union and its subsidiary allow their employees to participate in a contributory 401(k) retirement plan (the 401(k) Plan). All employees who have completed 30 days of service and agree to make contributions are eligible for the 401(k) Plan. The Credit Union matches employee contributions up to 5% of employees' annual salaries after one year of service. The Credit Union's contributions were $1,786 and $1,646 during 2022 and 2021, respectively, and are included in salaries and benefits in the accompanying consolidated statements of income.

Note 10 - Employee Benefits (Continued)

Target Benefit Plan

The Credit Union has a target benefit plan (the Target Plan) for all eligible employees. Under the Target Plan, the Credit Union will contribute an amount on behalf of each employee, such that the accumulated contribution and related earnings will approximate a target percentage of the employee's annual salary at retirement. Annual contributions of $1,155 and $1,077 were accrued at December 31, 2022 and 2021, respectively, and are included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition.

Collateral Assigned Split Dollar Plan

The Credit Union has entered into collateral assignment split dollar life insurance arrangements with certain credit union executives as part of an executive benefit program. Loan benefits were established and the proceeds were used to fund premium payments for the purchase of the executives' life insurance policies. The Credit Union has made loans of approximately $3,900 related to the arrangements. The notes receivable require repayment to the Credit Union upon the death of the executives (and/or spouse) as specified in the policy. In accordance with Internal Revenue Service regulations, interest on the notes receivable is fixed and charged at the long-term applicable federal rate commencing on the date of execution.

The notes receivable proceeds are maintained in premium deposit accounts at the insurance carrier. These accounts are owned by the executives and have been assigned to the Credit Union as collateral for the notes receivable. Premiums are swept from the premium deposit accounts on an annual basis. The Credit Union records the lower of the outstanding loan balances or the policy surrender value and premium deposit accounts as of the reporting date. The balance of the policy surrender value and the premium deposit accounts was $3,922 and $3,937 as of December 31, 2022 and 2021, respectively, and is included in other assets in the accompanying consolidated statements of financial condition.

Deferred Compensation Plan

The Credit Union has entered into deferred compensation agreements with certain current members of the executive management team that accrue benefits payable to these employees during the time of employment by the Credit Union. The benefits are subject to forfeiture if the employee willfully leaves employment or employment is terminated for cause, as defined in the agreement. Benefits are payable upon retirement or at the end of certain vesting requirements. The estimated liability under the agreements is being accrued based on the earnings of established annuities. The accrued liability at December 31, 2022 and 2021, was $938 and $964, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition.

Note 11 - Concentrations of Credit Risk

Credit Union Membership

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. Approximately one-third of the Credit Union's members are affiliated with Tinker Air Force Base. Included in the field of membership are employees of other military organizations and a large number of Select Employee Groups. A significant concentration of members resides in the Oklahoma City area. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the military organizations or the overall geographic region in which borrowers reside.

Note 12 - Related-Party Transactions

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2022 and 2021, were $828 and $764, respectively. Deposits from related parties at December 31, 2022 and 2021, were $3,445 and $3,275, respectively.

Note 13 - Fair Value Measurements

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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 assets.

Level 3 - Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

(In Thousands)

Note 13 - Fair Value Measurements (Continued)

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2022				
Equities:				
Mutual funds	$ 3,969	$ 3,969	$ -	$ -
Available-for-sale investments:				
U.S. government obligations and federal agencies securities	$ 376,314	$ -	$ 376,314	$ -
Mortgage-backed securities	$ 1,000,636	$ -	$ 1,000,636	$ -
Corporate bonds	$ 24,234	$ -	$ 24,234	$ -
Obligations of state and political subdivisions	$ 158,563	$ -	$ 158,563	$ -

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Equities:				
Mutual funds	$ 5,873	$ 5,873	$ -	$ -
Available-for-sale investments:				
U.S. government obligations and federal agencies securities	$ 486,594	$ -	$ 486,594	$ -
Mortgage-backed securities	$ 1,196,082		$ 1,196,082	
Corporate bonds	$ 13,008	$ -	$ 13,008	$ -
Obligations of state and political subdivisions	$ 157,409	$ -	$ 157,409	$ -

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

There have been no significant changes in valuation techniques during 2022 or 2021.

Note 13 - Fair Value Measurements (Continued)

Recurring Measurements (Continued)

Equities

Where quoted market prices are available in an active market, equities are classified within Level 1 of the valuation hierarchy. Level 1 equities include mutual funds, equity securities and debt securities.

Available-for-Sale Investments

Fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 available-for-sale investments include U.S. government obligations and federal agencies securities, mortgage-backed securities, corporate securities and obligations of state and political subdivisions. The values of these securities are determined through third-party vendors who compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities. Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark-quoted investment securities.

*** * * End of Notes * * ***