LOS ANGELES
Federal Credit Union

2022 ANNUAL REPORT

Together We Succeed

Denise McGee
CHAIRPERSON

BOARD CHAIRPERSON'S REPORT

LAFCU maintained a strong financial performance and continued to position itself as one of the highest-rated, service-oriented financial institutions in the Greater Los Angeles, California area. At the conclusion of 2022, we remained well-capitalized, with plenty of money to lend. We have over $1.2 billion in assets and serve 75,000 members through seven physical branches and one digital branch. The credit union leadership, working with staff and members, continue to demonstrate year after year that "together we succeed."

Our dynamic, mobile-first financial products and services continue to grow and meet the needs of an ever-changing, financially savvy membership. With products like Free Checking, Connect transaction account, My Offers pre-approved loans and offers (inside online banking & our mobile app), Relationship Rewards loyalty program with cash back and discounts, and Zelle mobile app, we are staying at the forefront of financial technology and convenience in an effort to stay competitive and relevant.

Thank you for your support of our existing programs through our vendor partners, such as our vehicle buying, investment services, insurance policies, Love My CURewards program, and more.

We continued to support our Southern California community by contributing financial resources to important charities in 2022, including:

- American Red Cross of Greater Los Angeles
- Autism Speaks
- Children's Miracle Network (Children's Hospital LA)
- City of Hope Research Hospital
- Glendale Police Officer's Association
- Habitat for Humanity
- Los Angeles Regional Food Bank
- Midnight Mission
- Operation Gratitude for Veterans
- Toys for Tots.

On behalf of the LAFCU Board of Directors, Supervisory and Credit Committee members, and credit union leadership and staff, thank you for your business and ongoing support. I welcome your feedback.

Denise McGee
CHAIRPERSON

Roslyn Carter-Phillips
VICE CHAIRPERSON

Joe Quan
TREASURER

Terry Manocchio
SECRETARY

Rito Cisneros
DIRECTOR

Stan Horwitz
DIRECTOR

Sheldon Miller
DIRECTOR

Abe Rasheed
DIRECTOR

Jeffery Whitmore
DIRECTOR

BOARD OF DIRECTORS

The credit union continued to explore and launch productive and member-centered products and services to meet your financial needs. Here are some of the programs and services we introduced in 2022:

- Connect ("Bank On") transaction account
- Continued to have special charity fundraisers
- Courtesy Pay expanded
- Digital Branch & Digital Administration departments were formed
- Donated generously to various charities
- Mobile & Online banking updated
- My Offers perpetual loan pre-approvals & applications
- New "Your Money" blog debuted
- Special high-rate Share Certificates
- Texting communication including KeyWords
- Zelle Person-To-Person (P2P) payment program.

PRESIDENT/CEO'S REPORT

Richard Lie
PRESIDENT/CEO

The year 2022 was good for Los Angeles Federal Credit Union (LAFCU). We had our challenges, but together we succeeded in overcoming them with a steady hand. Although the COVID-19 pandemic is mostly behind us, we are still navigating the residual challenges that remain by continuing to offer physical safety to our members in our branches as well as economic and financial security.

We continue to offer a range of financial products and services to assist members. In 2022, we debuted "My Offers," a convenient way for members to access preapproved, streamlined perpetual loans and applications from a link inside online banking. We also launched Zelle® (a Person-to-Person payment service), enhanced mobile and online banking, expanded our Courtesy Pay program, and offered keyword texting to get quick and easy answers any time.

In 2023, we have more to look forward to as we remain one of the highest-rated institutions statewide. We continue to be well-capitalized which means we have money to lend, with competitive rates to grow your deposits. As we begin our 87th year serving members, remember you can always rely on LAFCU for your borrowing and saving needs. Thank you for your membership.

Joe Quan
TREASURER

TREASURER'S REPORT

Los Angeles Federal Credit Union remains financially strong and secure with money to lend. As of December 31, 2022, members' shares (deposits) totaled $1.130 billion, a $1.1 million increase compared to 2021. Our assets are $1.246 billion, a decrease of $24 million over 2021.

In 2022, we processed 31,654 consumer loan applications resulting in:

- $123.7 million approved vehicle loans.
- $111.4 million approved real estate loans & refinances.
- $ 91.1 million approved personal unsecured loans & other loans.

Our total membership grew to 74,782 in 2022 compared to 71,521 in 2021, an increase of 3,261.

Of equal importance to our financial success are the following:

- Net Income totaled $7.9 million, a $3.1 million increase over 2021.
- Net Worth (retained earnings & equity acquired in merger) increased $8 million, from $134 million to $142 million.

We remain well-capitalized thanks to you, the Board, and Credit Union management and staff, and we continue to use conservative and sound business practices to help protect your money from the unpredictability of the economy, the waning pandemic, and the stock market.

Thank you for your ongoing membership, loyalty, and support through the years. It has been my pleasure to serve as the Treasurer of Los Angeles Federal Credit Union.

Lonney Ferguson
CHAIRPERSON

Charles Li
VICE CHAIRPERSON

Aijaz Dagga
MEMBER

CREDIT COMMITTEE CHAIRPERSON'S REPORT

The Credit Committee's primary purpose is to ensure all LAFCU members have equal access and opportunity for receiving loan approval, regardless of race, religion, ethnicity or gender background, in accordance with the Fair Housing Act and Equal Credit Opportunity Act.

On a regular basis, committee members meet to review and act upon loan applications and lines of credit based on prudent lending criteria designed to fulfill members' needs while limiting the risk of financial loss to the credit union. During their meetings, all committee members assigned to evaluate loans must be present for the discussion and signing off of loans.

In preparation, the committee reads and reviews various publications from credit union and banking trade associations in an effort to remain knowledgeable and current on all rules and regulations. In addition, committee members provide input and recommendations to the credit union's Board of Directors concerning existing loan policies and programs.

SUPERVISORY COMMITTEE CHAIRPERSON'S REPORT

LAFCU's Supervisory Committee is the independent body that monitors LAFCU's Board of Directors and management as they implement and maintain control procedures to ensure strict adherence to Generally Accepted Accounting Principles (GAAP), the National Credit Union Administration (NCUA) regulations, and LAFCU's longstanding bylaws. Accordingly, the Committee carries out the following primary responsibilities:

- Examines the actions of the Board of Directors and other officials to ensure they are acting within their authority, and that they are carrying out their fiduciary duties and responsibilities in good faith and with care.
- Ensures that financial statements are accurate, that management practices protect the credit union's assets, and that those assets are safeguarded from errors, conflict of interest, self-dealing and fraud.
- Verifies members' accounts periodically and ensures that LAFCU files regulatory reports accurately and in a timely manner.
- Selects independent auditing firms to perform annual audits of financial statements and other audits.
- Reviews and ensures results of NCUA examinations are addressed and implemented properly.
- Oversees elections of the Board of Directors.
- Audits and monitors educational, travel and conference expenses for volunteer officials, management and staff.

The Supervisory Committee meets regularly with external auditors who are Certified Public Accountants and/or specialty audit firms to review results of audits and examinations completed throughout the year. The results are monitored to ensure the Board of Directors and management implement corrective actions properly and within a timely manner. Based on the many audits conducted throughout 2022 and the National Credit Union Administration (NCUA) examination, LAFCU remains extremely safe and sound.

Submitted herein are the Consolidated Financial Statements for the year 2022. A complete copy of the 2022 Annual Report, containing the audited consolidated financial statements, is available at *www.LAFCU.org*. To obtain a condensed version of the annual report, please request a hard copy at any LAFCU branch.

Clifford Eng
CHAIRPERSON

Dora L. Sanchez
SECRETARY

David Asem
MEMBER

David Ly
MEMBER

Mark O'Brien
MEMBER

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,302,347	$ 131,831,208
Investments		
Available-for-sale	341,841,747	395,289,762
Held-to-maturity	13,804,529	20,206,838
Other	1,859,580	1,855,858
Loans, net	831,104,788	678,682,079
Accrued interest receivable	2,847,177	2,417,728
Premises and equipment, net	5,196,413	5,800,299
National Credit Union Share Insurance Fund (NCUSIF) deposit	10,871,283	10,486,484
Other assets	32,800,698	24,530,021
Total assets	$ 1,246,628,562	$ 1,271,100,277
LIABILITIES & MEMBERS' EQUITY		
LIABILITIES		
Members' shares*	$ 1,130,841,573	$ 1,129,663,367
Borrowings	5,821,412	-
Accrued expenses and other liabilities	25,199,792	13,619,458
Total liabilities	1,161,862,777	1,143,282,825
MEMBERS' EQUITY		
Retained earnings**	141,881,399	133,931,498
Equity acquired in merger**	443,555	443,555
Accumulated other comprehensive (loss) income	(57,559,169)	(6,557,601)
Total members' equity	84,765,785	127,817,452
Total liabilities and members' equity	$ 1,246,628,562	$ 1,271,100,277

** Also known as "deposits"*
*** "Retained earnings" plus "Equity acquired in merger" equals net worth.*
Net worth in 2022 = $142.3 million vs 2021 at $134.3 million.

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF INCOME

	December 31, 2022	December 31, 2021
INTEREST INCOME		
Loans	$ 29,928,999	$ 28,657,939
Investments and cash equivalents	6,447,414	4,666,229
Total interest income	36,376,413	33,324,168
INTEREST EXPENSE		
Members' shares	2,185,363	2,625,392
Borrowings	227,020	7
Total interest expense	2,412,383	2,625,399
Net interest income	33,964,030	30,698,769
PROVISION FOR LOAN LOSSES	1,700,000	1,300,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,264,030	29,398,769
NONINTEREST INCOME		
Service charges and other fees	8,055,124	7,476,939
Net (loss) gain on sales of securities	(143,351)	99,438
Other noninterest income	4,039,735	1,374,106
Total noninterest income	11,951,508	8,950,483
NONINTEREST EXPENSE		
Salaries and benefits	17,480,416	16,097,094
Occupancy	2,647,213	2,648,451
Professional and outside services	7,908,413	7,113,915
Operations	8,229,595	7,675,041
Total noninterest expense	36,265,637	33,534,501
NET INCOME	$ 7,949,901	$ 4,814,751

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	December 31, 2022	December 31, 2021
NET INCOME	$ 7,949,901	$ 4,814,751
OTHER COMPREHENSIVE INCOME		
Unrealized holding (losses) on investments classified as available-for-sale, net of reclassification adjustments for (losses) gains included in net income	(51,155,249)	(9,082,924)
Adjustment to post-retirement benefit plan	153,681	145,358
Other comprehensive loss	(51,001,568)	(8,937,566)
Comprehensive loss	$ (43,051,667)	$ (4,122,815)

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	Retained Earnings			Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total		
BALANCE, December 31, 2020	$ 30,000,000	$ 99,116,747	$129,116,747	$ 443,555	$ 2,379,965
Net income	-	4,814,751	4,814,751	-	-
Other comprehensive loss	-	-	-	-	(8,937,566)
BALANCE, December 31, 2021	30,000,000	103,931,498	133,931,498	443,555	(6,557,601)
Net income	-	7,949,901	7,949,901	-	-
Other comprehensive loss	-	-	-	-	(51,001,568)
BALANCE, December 31, 2022	$ 30,000,000	$111,881,399	$141,881,399	$ 443,555	$ (57,559,169)

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2022	December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,949,901	$ 4,814,751
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium on securities, net	262,042	1,270,667
Provision for loan losses	1,700,000	1,300,000
Depreciation and amortization of premises and equipment	994,480	1,053,641
Proceeds from sale of loans	1	-
Loss (gain) on sales of securities	143,351	(99,438)
Net change in		
Accrued interest receivable	(429,449)	(52,706)
Other assets	(8,270,677)	(1,186,330)
Accrued expenses and other liabilities	11,734,015	(818,503)
Net cash provided by operating activities	14,083,664	6,282,082
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(50,142,806)	(243,835,906)
Proceeds from maturities and sales of available-for-sale investments	52,092,678	138,466,836
Proceeds from maturities of held-to-maturity investments	6,339,809	15,058,470
Net (increase) in other investments	(3,722)	(9,574)
Net (increase) decrease in loans	(154,122,709)	(8,231,397)
Increase in the NCUSIF deposit	(384,799)	(1,386,036)
Purchase of premises and equipment	(390,594)	(1,139,049)
Net cash used in investing activities	(146,612,143)	(101,076,656)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	1,178,206	109,187,350
Net increase in borrowings	5,821,412	-
Net cash provided by financing activities	6,999,618	109,187,350
Net change in cash and cash equivalents	(125,528,861)	14,392,776
CASH AND CASH EQUIVALENTS, beginning of year	131,831,208	117,438,432
CASH AND CASH EQUIVALENTS, end of year	$ 6,302,347	$ 131,831,208

(CONTINUED ON PAGE 11)

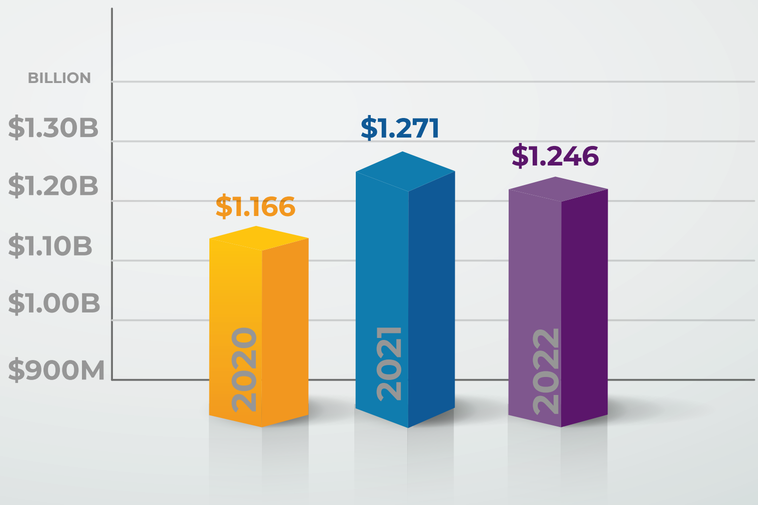
See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

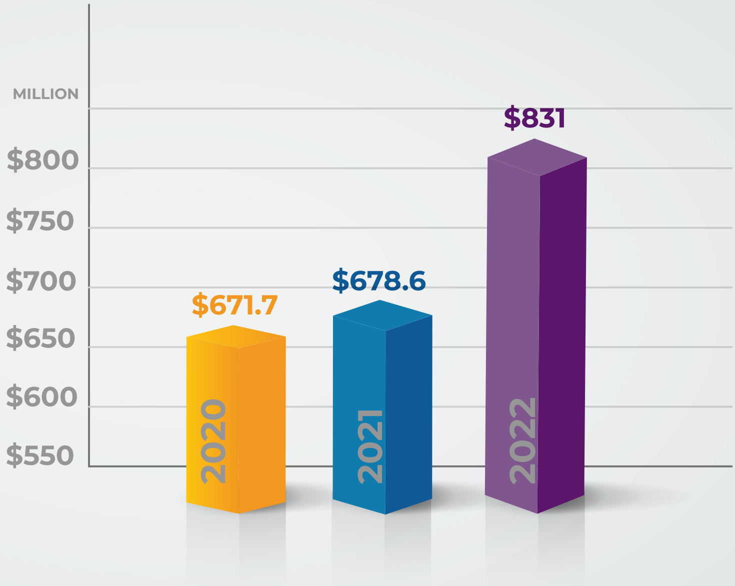
	December 31, 2022	December 31, 2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Dividends and interest paid	$ 2,412,383	$ 2,625,392
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Lease liabilities arising from obtaining right-of-use assets	$ 1,898,724	$ -
Loans receivable transferred to foreclosed assets	(44,186)	(18,321)

For complete financials, including "Notes to Consolidated Financial Statements," see the 2022 Annual Report at www.LAFCU.org or in a LAFCU branch.

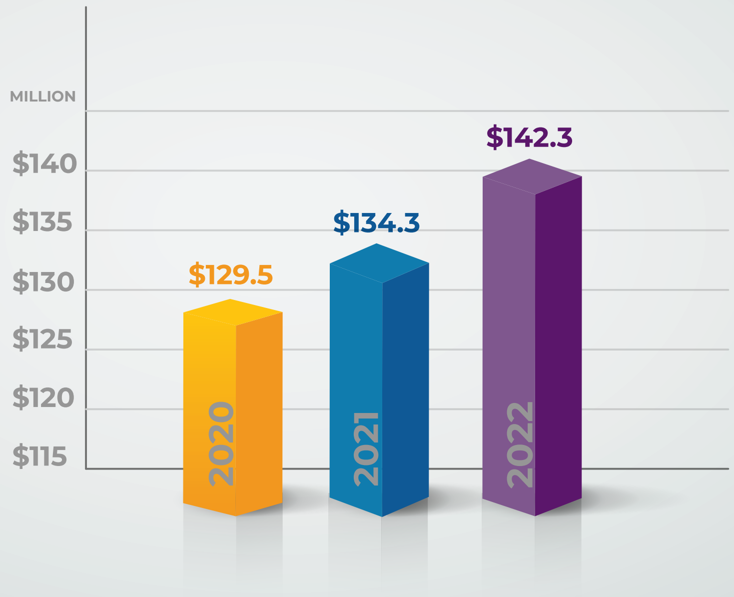
TOTAL ASSETS



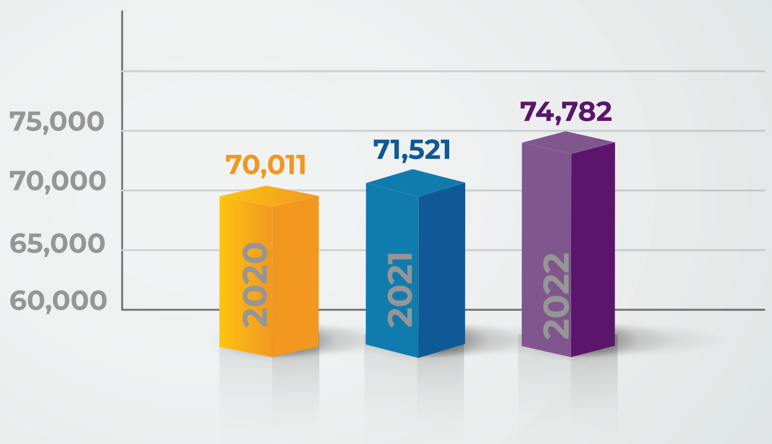
NET LOANS



MEMBERS' EQUITY / NET WORTH



TOTAL MEMBERS



Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of operations – Los Angeles Federal Credit Union and Subsidiary (the “Credit Union”) is a cooperative association holding a charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, which is defined in the Credit Union’s Charter and Bylaws.

A Summary of the Credit Union’s Significant Accounting Policies is as Follows:

Significant accounting policies – The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (U.S. GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to U.S. GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification, commonly referred to as the Codification or ASC.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, COLA Insurance Services Corporation (COLA). All significant intercompany balances and transactions have been eliminated in consolidation.

COLA is a wholly owned subsidiary of the Credit Union. A substantial amount of COLA’s business is derived from the Credit Union. COLA receives commissions from the referral of members of the Credit Union to various insurance agencies under an agreement with an insurance services firm.

Use of estimates – The preparation of consolidated financial statements 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 and other postretirement benefit liabilities.

Subsequent events – Management of the Credit Union has evaluated subsequent events through March 6, 2023, the date on which the consolidated financial statements were available to be issued.

Concentrations of credit risk – Most of the Credit Union’s business activity is with its members, who primarily are current and former employees of the City of Los Angeles and their families and reside in Southern California. The loan portfolio is diversified as a result of the Credit Union’s membership; however, the Credit Union’s loan portfolio has significant balances that are collateralized by residential and commercial real estate and may be exposed to credit risk resulting from these geographic or employment concentrations. In addition, the Credit Union’s loan portfolio includes certain nontraditional loans (as described in Note 3), as well as unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union’s policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Fair value – The ASC defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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 reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 12.

Cash and cash equivalents – For the purpose of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Cash flows from loans originated by the Credit Union and members' shares are reported net. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments – Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale securities below their cost that are deemed to be other than temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses), or (2) noncredit losses (which are recorded in other comprehensive income).

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

In determining whether other-than-temporary impairment exists, management considers many factors, including: (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) the current liquidity and volatility of the market for each of the individual security categories; (4) the projected cash flows from the specific security type; (5) the financial guarantee and financial rating of the issuer; and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other investments consist primarily of permanent capital in a corporate credit union and investments in credit union service organizations and are classified separately and stated at cost.

Loans, net – The Credit Union grants mortgage and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area. In addition, the Credit Union purchases participations in loans originated by various other credit unions to commercial and faith-based organizations. All of these participations were purchased without recourse and are secured by real property. The originating credit union performs all servicing functions on these loans.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are stated at their outstanding unpaid principal balances, net of direct loan origination fees and costs, less an allowance for loan losses. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

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

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

Certain loan fees and direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union’s historical prepayment experience.

Troubled debt restructurings – A loan is classified as a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Credit Union grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date, and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as a TDR in the calendar year subsequent to the restructuring if it is in compliance with the modified terms. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under U.S. GAAP related to TDRs for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the "Pandemic"). As a result, the Credit Union has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired, or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest-only periods. The Credit Union accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. Accrued interest balances are assessed for collectability on a periodic basis.

Allowance for loan losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

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

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience and the levels of nonperforming loans. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Specific allowances for loan losses are established for impaired loans, including TDRs, on an individual basis as required.

The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and other relevant data.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

In addition, the Credit Union segregates the loan portfolio into segments for purposes of evaluating the allowance for loan losses. A portfolio segment is defined as the level at which the Credit Union develops and documents a systematic method for determining its allowance for loan losses. The Credit Union's loan portfolio consists of the following segments: residential real estate, commercial real estate, and consumer. The Credit Union further disaggregates segments into the following portfolio classes:

First mortgage loans – This portfolio class consists of wholly owned loans for which the Credit Union possesses a senior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectability of these loans, along with the condition of the collateral if foreclosed.

Second mortgage loans – This portfolio class consists of wholly owned loans for which the Credit Union possesses a junior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectability of these loans, along with the condition of the collateral if foreclosed.

Commercial real estate loans – This portfolio class consists of participation commercial real estate loans and faith-based participation loans. Loans are secured by the underlying collateral, which typically consists of commercial properties. Changes in commercial property values and the financial stability status of borrowers are key risk factors that may impact the collectability of these loans, along with the condition of the collateral if foreclosed.

Secured loans – This portfolio class consists of loans secured by the underlying collateral, which is primarily vehicles. The financial stability status of borrowers is a key risk factor that may impact the collectability of these loans, along with the nature, value, and condition of the collateral if foreclosed.

Unsecured loans – This portfolio class consists of unsecured loans, primarily credit card loans. The financial stability status of borrowers is a key risk factor that may impact the collectability of these loans due to the absence of collateral.

These portfolio classes, as more fully disclosed in Note 3, are based on loan types and the underlying risk factors present in each loan type and are periodically reviewed by management and revised as deemed appropriate.

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; (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. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of "participating interest" in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership of an entire financial asset.

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- From the date of transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership.

- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.

- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Premises and equipment, net – Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings are depreciated using the straight-line method over the estimated useful lives ranging from 5–40 years. Furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 3–5 years. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Leases – On January 1, 2022, the Credit Union adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis.

The Credit Union adopted the standard using the modified retrospective transition approach. The new standard provides for a number of practical expedients in transition. The Credit Union elected the package of practical expedients, which permits the Credit Union to not reassess under the new standard prior conclusions about lease identification, lease classification, and initial direct costs. The Credit Union also elected the use-of-hindsight and elected the practical expedient to not separate lease and non-lease components on real estate leases where the Credit Union is the lessee. The Credit Union did not elect the practical expedient pertaining to land easement as it is not applicable.

The Credit Union has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized. The adoption of this ASU on January 1, 2022, created ROU assets and lease liabilities of $1,899,000. The Credit Union has made an accounting policy election to use a risk-free rate as the discount rate for operating leases. Refer to Note 4 – Leases for further discussion.

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National Credit Union Share Insurance Fund deposit and insurance premium – The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which in prior years required the maintenance of a deposit by each federally insured credit union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

Foreclosed assets – The Credit Union has foreclosed assets consisting primarily of real estate. Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, as well as changes on any valuation allowance on the properties, are included in noninterest expenses. Included in other assets are repossessed vehicles and other real estate owned of approximately $29,000 and $73,000 at December 31, 2022 and 2021, respectively.

Other assets – Other assets consist primarily of prepaid expenses, foreclosed assets, insurance policies, and other receivables.

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 amount 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 approved by the Credit Union's Board of Directors.

Advertising costs – Advertising costs are expensed as incurred and are immaterial.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's wholly owned subsidiary, however, is subject to federal and state income taxes. Operations of the subsidiary resulted in immaterial income taxes paid for the years ended December 31, 2022 and 2021.

FASB ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed, and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax expense and liability in the current year. For the years ended December 31, 2022 and 2021, management determined that the Credit Union and its subsidiary have taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Retirement plans – Pension expense is the net of service and interest cost, return on plan assets, and amortization of gains and losses not immediately recognized. Deferred compensation plan expense allocates the benefits over the years of service. Employee 401(k) matching and profit-sharing plan contributions are expensed as earned.

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Comprehensive income – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and the post-retirement benefit plan, are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2022 and 2021, other comprehensive income (loss) includes reclassification adjustments related to unrealized gains (losses) on sales of available-for-sale securities and postretirement benefit plan.

Accumulated other comprehensive gain (loss) consisted of the following as of December 31:

	2022	2021
Net, unrealized gain (loss) on available-for-sale securities	$ (56,891,820)	$ (5,736,571)
Postretirement benefit plan adjustment	(667,349)	(821,030)
	$ (57,559,169)	$ (6,557,601)

Reclassifications – Certain account reclassifications have been made to the prior year's financial statements in order to conform to classifications used in the current year, with no impact to previously reported members' equity or net income.

Note 2 – Investments

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2022 and 2021, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss).

Investments classified as available-for-sale consisted of the following at December 31:

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal agencies debt securities	$171,335,512	$ -	$ (16,998,613)	$ 154,336,899
Agency mortgage-backed securities, residential	100,997,596	-	(18,995,920)	82,001,676
Agency collateralized mortgage obligations, residential	126,400,459	79	(20,897,366)	105,503,173
	$ 398,733,567	$ 79	$ (56,891,899)	$ 341,841,747

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	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal agencies debt securities	$141,051,625	$ 6,626	$ (1,837,984)	$ 139,220,267
Agency mortgage-backed securities, residential	113,641,279	182,163	(2,138,570)	111,684,872
Agency collateralized mortgage obligations, residential	146,333,429	289,428	(2,238,234)	144,384,623
	$ 401,026,333	$ 478,217	$ (6,214,788)	$ 395,289,762

Investments classified as held-to-maturity consisted of the following at December 31:

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency mortgage-backed securities, residential	$ 6,215,215	$ -	$ (424,071)	$ 5,791,144
Agency collateralized mortgage obligations, residential	7,589,314	-	(514,596)	7,074,718
	$ 13,804,529	$ -	$ (938,667)	$ 12,865,862

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency mortgage-backed securities, residential	$ 8,435,877	$ 231,517	$ -	$ 8,667,394
Agency collateralized mortgage obligations, residential	11,770,961	123,858	(9,010)	11,885,809
	$ 20,206,838	$ 355,375	$ (9,010)	$ 20,553,203

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

	Available-for-Sale		Held-to-Maturity		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
No maturity	$ -	$ -	$ -	$ -	$ 1,859,580
Less than one year maturity	-	-	-	-	-
One to five years maturity	152,221,093	138,353,218	-	-	-
Five to 10 years maturity	18,114,720	15,175,271	-	-	-
Over 10 years maturity	999,699	808,410	-	-	-
Agency mortgage-backed securities, residential	100,997,596	82,001,676	6,215,215	5,791,144	-
Agency collateralized mortgage obligations, residential	126,400,459	105,503,172	7,589,314	7,074,718	-
Certificates of deposit	-	-	-	-	-
	$ 398,733,567	$ 341,841,747	$ 13,804,529	$ 12,865,862	$ 1,859,580

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Expected maturities of residential mortgage-backed securities and collateralized mortgage obligations 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. Permanent capital in a corporate credit union and investments in credit union service organizations have been classified as having no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31 are as follows:

	2022				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
Available-for-sale	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Federal agencies debt securities	$ 34,527,573	$119,809,325	$ (2,027,354)	$ (14,971,259)	$ (16,998,613)
Agency mortgage-backed securities, residential	10,399,394	75,318,144	(1,251,602)	(17,744,318)	(18,995,920)
Agency collateralized mortgage obligation, residential	27,386,058	74,393,228	(2,918,268)	(17,979,098)	(20,897,366)
	$ 72,313,025	$269,520,697	$ (6,197,224)	$ (50,694,675)	$ (56,891,899)

	2021				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
Available-for-sale	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Federal agencies debt securities	$117,645,229	$ 15,236,695	$ (1,437,288)	$ (400,696)	$ (1,837,984)
Agency mortgage-backed securities, residential	95,391,256	6,349,366	(1,878,538)	(260,032)	(2,138,570)
Agency collateralized mortgage obligation, residential	106,111,043	3,660,335	(2,072,669)	(165,565)	(2,238,234)
	$319,147,528	$ 25,246,396	$ (5,388,495)	$ (826,293)	$ (6,214,788)

Gross unrealized losses and fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position at December 31 are as follows:

	2022				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
Held-to-maturity	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Agency mortgage-backed securities, residential	$ 5,791,144	$ -	$ (424,071)	$ -	$ (424,071)
Agency collateralized mortgage obligation, residential	5,962,803	993,937	(378,142)	(136,453)	(514,596)
	$ 11,753,947	$ 993,937	$ (802,213)	$ (136,453)	$ (938,667)

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	2021				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		
Held-to-maturity	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Total Unrealized Losses
Agency mortgage-backed securities, residential	$ -	$ -	$ -	$ -	$ -
Agency collateralized mortgage obligation, residential	1,348,431	132,962	(5,556)	(3,454)	(9,010)
	$ 1,348,431	$ 132,962	$ (5,556)	$ (3,454)	$ (9,010)

At December 31, 2022 and 2021, the investment portfolio included 252 and 21 securities with unrealized losses, respectively, that had existed for longer than one year. In addition, the investment portfolio included 294 and 233 securities with unrealized losses that have existed for less than one year at December 31, 2022 and 2021, respectively.

Gross proceeds on the sale of securities was $7,564,024 and $18,472,207 for the years ended December 31, 2022 and 2021, respectively. There were $0 of realized gross gains and $143,351 of realized gross losses on sales of securities for the year ended December 31, 2022. There were $99,438 of realized gross gains and $0 of realized gross losses on sales of securities for the year ended December 31, 2021.

Securities pledged at year-end 2022 and 2021 had a carrying amount of $9,800,000.

Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information, and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Other investments consisted of the following at December 31:

	2022	2021
Permanent capital in a corporate credit union	$ 602,876	$ 602,876
Credit union service organizations	1,256,704	1,252,982
	$ 1,859,580	$ 1,855,858

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Note 3 – Loans, Net

Loans, net consisted of the following at December 31:

	2022	2021
Residential real estate loans		
First trust deeds		
Fixed rate	$ 156,807,476	$ 160,211,933
Variable rate	5,479	11,211
Balloon/hybrid	116,299,242	88,264,454
Participation loans secured by real estate property	1,947,327	2,537,750
Home equity line of credit, variable rate	54,130,539	37,369,878
Second trust deeds	5,883,419	4,688,706
Total residential real estate loans	335,073,482	293,083,932
Commercial loans		
Loans secured by commercial property	23,877,082	24,684,614
Consumer loans		
Vehicle loans	212,094,450	168,403,238
Credit card loans, unsecured	35,899,489	31,956,691
Consumer loans, primarily unsecured	183,200,277	103,737,092
Participation loans, primarily unsecured	34,709,510	45,987,822
Participation loans secured by vehicles	9,800,739	15,318,190
Total consumer loans	475,704,465	365,403,033
Total loans receivable	834,655,029	683,171,579
Premiums on purchased vehicle loan participations	356,020	382,855
Net deferred loan origination costs	2,068,117	1,464,302
Allowance for loan losses	(5,974,778)	(6,336,657)
Total loans, net	$ 831,104,388	$ 678,682,079

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The following presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended December 31:

	2022			
	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses				
Beginning balance	$ 1,997,385	$ 1,814,579	$ 2,524,693	$ 6,336,657
Provision for loan losses	335,932	25,665	1,338,403	1,700,000
Charge-offs	-	-	(2,871,713)	(2,871,713)
Recoveries	-	-	809,834	809,834
Ending balance	$ 2,333,317	$ 1,840,244	$ 1,801,217	$ 5,974,778
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	2,333,317	1,840,244	1,801,217	5,974,778
	$ 2,333,317	$ 1,840,244	$ 1,801,217	$ 5,974,778
Total loans				
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	335,073,482	23,877,082	475,704,865	834,655,429
	$ 335,073,482	$ 23,877,082	$ 475,704,865	$ 834,655,429

	2021			
	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses				
Beginning balance	$ 1,630,318	$ 1,778,733	$ 2,631,400	$ 6,040,451
Provision for loan losses	285,817	35,846	978,337	1,300,000
Charge-offs	(3,521)	-	(2,519,610)	(2,523,131)
Recoveries	84,771	-	1,434,566	1,519,337
Ending balance	$ 1,997,385	$ 1,814,579	$ 2,524,693	$ 6,336,657
Ending balance: individually evaluated for impairment	$ -	$ 260,684	$ -	$ 260,684
Ending balance: collectively evaluated for impairment	1,997,385	1,553,895	2,524,693	6,075,973
	$ 1,997,385	$ 1,814,579	$ 2,524,693	$ 6,336,657
Total loans				
Ending balance: individually evaluated for impairment	$ -	$ 905,490	$ -	$ 905,490
Ending balance: collectively evaluated for impairment	293,083,932	23,779,124	365,403,033	682,266,089
	$ 293,083,932	$ 24,684,614	$ 365,403,033	$ 683,171,579

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The allowance for loan losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio. However, no assurance can be given that the Credit Union, in any particular period, will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio, and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

The following presents the recorded investment and unpaid principal balance for impaired loans, with the associated allowance amount, if applicable, as of December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
Impaired loans without an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
Total impaired loans					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

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	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	905,490	905,490	260,684	914,401	37,648
Consumer	-	-	-	-	-
	$ 905,490	$ 905,490	$ 260,684	$ 914,401	$ 37,648
Impaired loans without an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
Total impaired loans					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	905,490	905,490	260,684	914,401	37,648
Consumer	-	-	-	-	-
	$ 905,490	$ 905,490	$ 260,684	$ 914,401	$ 37,648

As of December 31, 2022 and 2021, there were no troubled debt restructings.

As of December 31, 2022 and 2021, there were no loans that were more than 90 days past due and still accruing interest. As of December 31, 2022 and 2021, nonaccrual loans were approximately $1,129,657 and $677,276, respectively.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the “Coronavirus Relief Act”) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under U.S. GAAP. This relief applies to loan modifications executed between March 1, 2020, and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Credit Union elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2022, 0 loans totaling $0 were modified as CARES Act deferrals and not subject to TDR accounting and reporting. During 2021, 1,650 loans totaling $18,351,000 had been in a CARES Act deferment at some point during 2021 but were not in such deferment as of December 31, 2021.

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Management regularly reviews and risk grades commercial real estate loans in the Credit Union's portfolio. The risk grading system allows management to classify assets by credit quality in accordance with the Credit Union policy. The Credit Union's internal risk grading system definition is as follows:

Pass – Loans that are protected by the current net worth and paying capacity of the obligor(s) or by the value of the underlying collateral.

Watch – "Pass" loans with temporary conditions that may lead to downgrades if not rectified by borrower action.

Special mention – Loans with potential weaknesses that require close attention. If left uncorrected, the weaknesses may result in deterioration of the repayment prospects for the asset, or in the future loan credit position.

Substandard – Loans that are inadequately protected by the current sound worth and paying capacity of the obligor(s) or the collateral pledged, if any.

Doubtful – Loans with all the weaknesses inherent in one classified under the "substandard" category, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – Loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following presents, by credit quality indicator, the commercial loans portfolio as of December 31:

	2022	2021
Pass	$ 23,877,082	$ 23,779,124
Watch	-	-
Special mention	-	-
Substandard	-	905,490
Doubtful	-	-
Loss	-	-
	$ 23,877,082	$ 24,684,614

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The following presents, by credit quality indicator, the residential real estate and consumer loan portfolio as of December 31:

	2022			2021		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Residential real estate						
First mortgage	$274,942,476	$ 117,047	$275,059,523	$251,025,348	$ -	$251,025,348
Second mortgage	59,905,998	107,960	60,013,958	42,058,584	-	42,058,584
Consumer						
Secured	220,273,455	1,622,134	221,895,589	183,162,737	558,691	183,721,428
Unsecured	253,479,394	329,882	253,809,276	181,194,830	486,775	181,681,605
	$808,601,323	$ 2,177,023	$810,778,346	$657,441,499	$ 1,045,466	$658,486,965

Management reviews on a regular basis the performance of the residential real estate and consumer loan portfolio. Residential real estate and consumer loans are evaluated on the basis of performing and nonperforming assets. Nonperforming assets are defined as assets past due 60 days.

The following is an aging analysis of the recorded investment of past due loans as of December 31:

	2022					
	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Residential real estate						
First mortgage	$ -	$ 117,047	$ 117,047	$274,942,476	$275,059,523	$ -
Second mortgage	107,960	-	107,960	59,905,998	60,013,958	-
Commercial real estate	-	-	-	23,877,083	23,877,083	-
Consumer						
Secured	769,122	853,012	1,622,134	220,273,455	221,895,589	-
Unsecured	170,284	159,598	329,882	253,479,394	253,809,276	-
	$ 1,047,366	$ 1,129,657	$ 2,177,023	$ 832,478,406	$ 834,655,429	$ -

	2021					
	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Residential real estate						
First mortgage	$ -	$ -	$ -	$251,025,348	$251,025,348	$ -
Second mortgage	-	-	-	42,058,584	42,058,584	-
Commercial real estate	-	-	-	24,684,614	24,684,614	-
Consumer						
Secured	219,809	338,882	558,691	183,162,737	183,721,428	-
Unsecured	148,381	338,394	486,775	181,194,830	181,681,605	-
	$ 368,190	$ 677,276	$ 1,045,466	$ 682,126,113	$ 683,171,579	$ -

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Notes to Consolidated Financial Statements

Note 4 – Premises and Equipment, Net

Premises and equipment, net are summarized as follows at December 31:

	2022	2021
Land	$ 1,120,600	$ 1,120,600
Building	9,320,445	9,320,445
Furniture and equipment	8,980,820	8,590,225
Leasehold improvements	2,491,525	2,491,526
	21,913,389	21,522,796
Accumulated depreciation and amortization	(16,716,977)	(15,722,497)
	$ 5,196,412	$ 5,800,299

The Credit Union has operating leases for its six offices. The ROU assets obtained in exchange for operating lease obligations totaled $1,899,000 at January 1, 2022. The maturities of these leases stagger through 2025. The Credit Union's leases generally include extension clauses for five years at a time.

Right-of-use assets and lease liabilities and the associated balance sheet classifications, are as follows at December 31:

	Balance Sheet Classification	2022
Right-of-use assets		
Operating leases	Other assets	$ 1,260,925
Lease liability		
Operating leases	Accrued expenses and other liabilities	$ 1,278,486

The components of lease cost (included in occupancy and equipment expense on the Consolidated Statements of Income) are as follows for the year ended December 31:

	2022
Lease cost	
Minimum rent payments	$ 653,420
Other operating costs	220,960
	$ 874,380

The following table provides supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31:

	2022
Operating cash flows used in operating leases	$ 635,859
Weighted average remaining lease term	2.41 Years
Weighted average discount rate	1.0%

Los Angeles Federal Credit Union and Subsidiary
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The Credit Union's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Credit Union uses the incremental borrowing rate commensurate with the lease term.

The following table presents minimum lease payments under the terms of the leases at December 31, 2022:

2023	$ 545,885
2024	501,373
2025	246,923
Total lease payments	1,294,180
Less present value discount	(15,694)
Total	$ 1,278,486

Rental expense for the years ended December 31, 2022 and 2021, for all facilities leased under operating leases, totaled approximately $874,000 and $980,000, respectively, which is included in noninterest expense on the consolidated statements of income.

Note 5 – Members' Shares

Members' shares are summarized as follows at December 31:

	2022	2021
Regular shares	$ 565,440,392	$ 553,597,518
Share drafts	266,306,347	270,998,276
Money market accounts	131,619,154	141,096,425
Individual retirement accounts	58,650	58,445
Individual retirement accounts certificates	25,449,887	27,151,546
Certificates	141,967,143	136,761,157
	$1,130,841,573	$1,129,663,367

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

No contractual maturity	$ 970,097,725
Zero to one year maturity	100,519,197
One to two years' maturity	37,474,775
Two to three years' maturity	13,632,654
Three to four years' maturity	2,985,568
Four to five years' maturity	6,131,654
	$1,130,841,573

Regular shares, share drafts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

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Notes to Consolidated Financial Statements

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts up to the maximum federal deposit insurance level of $250,000. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. Individual retirement account and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of $250,000 or more at December 31, 2022 and 2021, is approximately $48,488,000 and $39,864,000, respectively.

Note 6 – Borrowed Funds

The Credit Union has a master loan agreement with a corporate credit union that provides lines of credit totaling $80 million as of December 31, 2022. These credit lines include a $30 million variable-rate secured settlement line of credit (5.65% at December 31, 2022), and a $50 million variable- or fixed-rate secured term line of credit at December 31, 2022. Collateral for the settlement line consists of securities held at the corporate credit union and all other assets of the Credit Union. Collateral for the term line of credit can consist of securities held at the corporate credit union and loans owned by the Credit Union not otherwise pledged. At December 31, 2022 and 2021, borrowings outstanding was $5,821,412 and $0 outstanding with weighted-average interest rates of 5.39% and 0%, respectively. These agreements are reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also utilizes a secured loan agreement with the Federal Reserve Bank. The terms of this agreement call for the pledging of securities held in safekeeping as collateral for any and all obligations taken by the Credit Union under this agreement. The agreement provides interest charged at a rate determined by the lender on a periodic basis. At December 31, 2022 and 2021, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

Note 7 – 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, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated 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 consolidated financial statements.

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 creditworthiness 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.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. 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.

Outstanding loan commitments at December 31, 2022 and 2021, total approximately $29,341,000 and $32,513,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows at December 31:

	2022	2021
Credit card	$ 159,427,274	$ 92,726,915
Home equity	78,777,153	100,006,578
Unsecured share draft	15,942,666	16,044,800
Overdraft protection program	4,560,903	4,712,973
	$ 258,707,996	$ 213,491,266

Note 8 – Commitments and Contingent Liabilities

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

Note 9 – Employee Benefits

401(k) salary deferral – Employees are eligible upon hire to participate in the employee deferral portion of the plan and eligible to participate in the employer matching portion of the plan after completing six months of service. Employees may contribute 1 percent to 20 percent of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The plan requires the Credit Union to match 100 percent of the first 4 percent and 80 percent of the next 2 percent of employee contributions. The Credit Union's matching contributions for the years ended December 31, 2022 and 2021, were approximately $640,000 and $625,000, respectively, which is included in noninterest expense on the consolidated statements of income.

Profit sharing – Employees are eligible to participate after completing one year of service. The annual contribution is discretionary as determined by the Board of Directors. Plan forfeitures are used to reduce the Credit Union's annual contribution. The Credit Union contributed approximately $350,000 and $106,000 to the plan for the years ended December 31, 2022 and 2021, respectively, which is included in noninterest expense on the consolidated statements of income.

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Notes to Consolidated Financial Statements

457(f) plan – The Credit Union has a nonqualified deferred compensation plan with fixed benefits and a supplemental term life benefit for certain executives under Internal Revenue Code Section 457(f). The Credit Union purchased credit union-owned variable annuities with term life insurance as designated assets for the plan. The variable annuity policies are invested in equity and fixed-income portfolios at CUNA Mutual Insurance. The value of the policies is included in other assets and was approximately $0 at December 31, 2022 and 2021. The Credit Union expensed approximately $130,000 and $240,000 during the years ended December 31, 2022 and 2021, respectively. The liability for the deferred compensation, which is included in accrued liabilities, was approximately $370,000 and $240,000 at December 31, 2022 and 2021, respectively.

Post-retirement benefit plan – The Credit Union provides a postretirement health benefits plan to certain current and former employees. The plan was closed to new participants as of January 1, 2009. The Codification requires the Credit Union to recognize the funding status of its other post-retirement benefit plan in its consolidated statements of financial condition, with a corresponding adjustment to accumulated other comprehensive income. Net unrecognized actuarial losses and unrecognized prior service costs are recognized as net periodic pension plan cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic pension cost in the same period will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension plan cost on the same basis as the amounts recognized in accumulated other comprehensive income.

The following table sets forth information regarding the post retirement benefit plan as of and for the years ended December 31:

	2022	2021
Benefit obligation	$ 2,417,117	$ 2,634,576
Fair value of plan assets	-	-
Unfunded status	$ 2,417,117	$ 2,634,576
Liability for postretirement benefits (included in accrued expenses and other liabilities on the consolidated statements of financial condition)	$ 2,417,117	$ 2,634,576
Total amount recognized	$ 2,417,117	$ 2,634,576
Net amount recognized in accumulated other comprehensive income		
Net loss	$ 667,349	$ 821,030
Total amount recognized	$ 667,349	$ 821,030
Accumulated benefit obligation	$ 2,417,117	$ 2,634,576

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

	2022	2021
Net periodic benefit cost	$ 98,101	$ 97,679
Total recognized in other comprehensive income	(153,681)	(145,358)
Total recognized in net periodic benefit cost and other comprehensive income	$ (55,580)	$ (47,679)

	2022	2021
Assumptions for net periodic benefit cost		
Discount rate	4.85%	2.35%
Medical trend rate	6.2% in 2023 grading to 3.7%	4.8% in 2022 grading to 3.8%
Effect of a 1% increase in healthcare cost trend on		
Service cost plus interest cost	0.40%	0.40%
Accumulated postretirement benefits obligation	0.40%	0.40%
Effect of a 1% decrease in healthcare cost trend on		
Service cost plus interest cost	(0.40%)	(0.40%)
Accumulated postretirement benefits obligation	(0.40%)	(0.40%)
Employer contributions	$ 161,879	$ 157,279
Benefits paid	$ 161,879	$ 157,279

The expected amortization of net loss for 2023 is $0.

The following benefit payments are expected to be paid:

Years Ending December 31,	
2023	$ 184,859
2024	223,034
2025	240,908
2026	212,027
2027	209,089
2028–2031	935,583
Total	$ 2,005,500

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Note 10 – 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under U.S. GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Effective January 1, 2022, all federally insured credit unions defined as complex are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as complex and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed $500 million, as reflected in its most recent call report. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio, or for a qualifying complex credit union, opting into the CCULR framework.

As of December 31, 2022, the Credit Union followed the CCULR rule. The Credit Union's net worth ratio ratio as of December 31, 2022, was 11.52 (based on net worth of $142.3 million and total assets of $1.26 billion). The minimum net worth requirement as of December 31, 2022, was 9%, or $111.2 million.

As of December 31, 2021, credit unions over $10,000,000 in assets were required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union would be considered complex under the regulatory framework. The Credit Union's net worth ratio ratio as of December 31, 2021, was 10.57 (based on net worth of $134.4 million and total assets of $1.27 billion). The Credit Union's RBNW requirement was 6.59% as of December 31, 2021. The minimum requirement to be considered complex under the regulatory framework was 6.00% as of December 31, 2021. Management believes, as of December 31, 2022 and 2021, the Credit Union meets all capital adequacy requirements to which it is subject.

Note 11 – 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, are approximately $5,178,414 and $5,590,235, respectively. Members' shares from related parties at December 31, 2022 and 2021, amounted to approximately $2,461,925 and $3,776,688, respectively.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Note 12 – Fair Value

Fair value on a recurring basis – Assets measured at fair value on a recurring basis include available-for-sale investments as described in Notes 1 and 2. The inputs for the determination of the fair value of available-for-sale investments are classified within Level 2 of the valuation hierarchy.

	Carrying Value at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
U.S. government-sponsored entities and agencies	175,051,375	-	175,051,375	-
Mortgage-backed securities	100,997,596	-	100,997,596	-
Collateralized mortgage obligations	122,684,596	-	122,684,596	-

	Carrying Value at December 31, 2021			
	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
U.S. government-sponsored entities and agencies	145,566,445	-	145,566,445	-
Mortgage-backed securities	113,641,279	-	113,641,279	-
Collateralized mortgage obligations	141,818,609	-	141,818,609	-

Fair value on a nonrecurring basis – Certain financial and nonfinancial assets are measured at fair value on a nonrecurring basis—that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets carried on the consolidated statements of financial condition, by caption and by level within the valuation hierarchy (as described above), for which a nonrecurring change in fair value has been recorded:

	Carrying Value at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	28,631	-	-	28,631

	Carrying Value at December 31, 2021			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	72,817	-	-	72,817

Loans include certain impaired loans where an allowance for loan losses has been calculated based upon the fair value of the loans. The losses on the impaired loans, including TDR loans, are generally based on the value of the collateral securing such loans and are classified within Level 3 of the fair value hierarchy.

Foreclosed assets consist primarily of repossessed vehicles and other real estate owned. Note 1 describes the accounting policy applied to such assets.

VISION STATEMENT

To be our members' first choice for financial services.

MISSION STATEMENT

To provide the best financial services as defined by our members, to maintain a high level of financial stability, and to foster employee growth and achievement.

BRANCHES

Cerritos
11306 South St.

Culver City
3850 Culver Center

El Monte
9204 Flair Dr., Suite A

Gardena
1352 W. Artesia Blvd.

Glendale
300 S. Glendale Ave.

LA Mall (Downtown Los Angeles)
201 N. Los Angeles St., Space 201

Van Nuys
8008 Van Nuys Blvd.

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