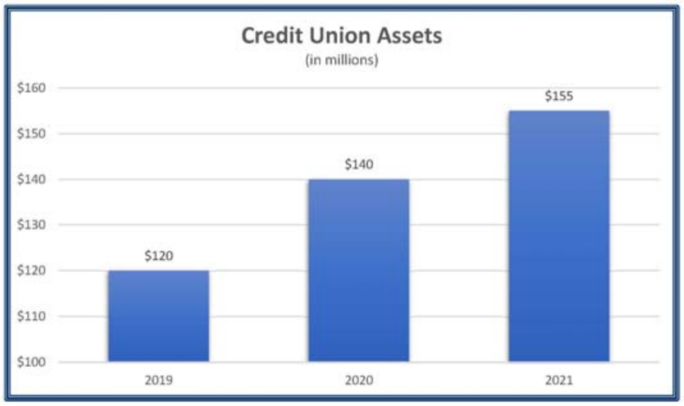
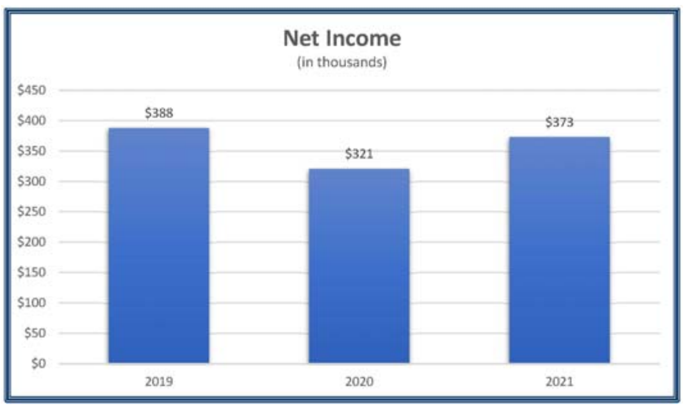
2021 Annual Report

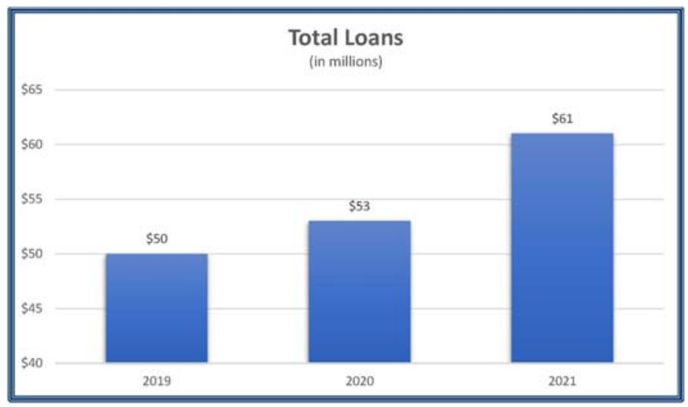
Celebrating 60 Years!

Hartford Federal
Credit Union

Financial Highlights







Our Mission

Hartford Federal Credit Union is the leading provider of high-quality financial products that delivers personalized service and value to strengthen the financial and general well-being of our members and value to the communities we serve.

2021 ANNUAL REPORT

Letter to our Members

Having celebrated our 60th anniversary in 2021, Hartford Federal Credit Union has reason to feel both proud and confident. We are proud of our heritage of excellent service, steady growth, and strong financial performance. Due to the solid foundation we have in place, we are especially confident in our ability to carry this tradition of success far into the future.

Despite a profoundly difficult operating environment, several milestones punctuated our Diamond Anniversary. The Credit Union achieved record levels of assets, loans, deposits, members' equity, and loan volume to name a few. This translated into the Credit Union helping more members than ever before, far and away our most important metric! Our accomplishments are detailed further in the reports that follow.

While strong financial results are vital, we remain committed to broadening our vision beyond the numbers and look to continually make a difference for our members and in the communities we serve. Some of our non-financial achievements included:

- **Thousand Champions Against Hunger Campaign** where over the past three years we have joined our members, business partners, and employees to fight hunger and food insecurity in our communities. Together we have funded over 75,000 individual meals, in addition to providing over a ton of food to local food banks and pantries.
- **Transformational Stafford Springs Office Renovation** provided additional parking, improved traffic flow, enhanced privacy, and captured the spirit of the Stafford Community with a wall mural depicting the Warren Woolen Company Mill. This is a down payment on what we will deliver to the Stafford Community.
- **Proudly celebrating 60 years** of serving our members! 60 years! What an achievement to share with our members. Thank you!
- **Receiving the Marketing Excellence Award** from Credit Union League of Connecticut for our Mortgage Refinance Program. This award-winning program enables members to refinance their higher-rate mortgages fast, easily, and at minimal cost.

With our record-setting growth, Hartford Federal hasn't lost sight of fiscal responsibility. We continue to be especially proud that *BauerFinancial, Inc.*, a prestigious and independent rating service, has designated us to be one of the safest credit unions in the nation for the 30th consecutive year. This puts your credit union in the 95th percentile of all credit unions nationally, and is clearly a source of tremendous pride for all stakeholders.

All in all, it's been a challenging and rewarding year, and one I wouldn't have wanted to miss. At all levels of Hartford Federal Credit Union - the Board, the management, and the staff - we are firmly committed to the success of our members and the communities we serve. *The best has yet to come!*

Sincerely,

Edward Danek, Jr.
President & CEO

REPORTS

From the Chairman

Visions. True or imagined, we all visualize the things we want or need in our life, where we want to be in our careers, what we expect from the companies we choose to do business with, or trust as our Financial Partner. Our philosophy of *"people helping people"* has remained strong and unwavering over the past 60 years, and Hartford Federal not only survived, but thrived, during the pandemic. However, these unprecedented times provided us new insight into the needs and expectations of our members which stemmed into a new, stronger Vision Statement for our credit union.

> **"To be a financially strong, dynamic, and digitally transformed financial institution. We will differentiate ourselves through the value and exemplary service provided to members, while satisfying the financial and professional aspirations of committed staff and being viewed as a model corporate citizen in our communities."**

The 2022 Strategic Planning Session provided us the opportunity to revisit key initiatives and add new ones based on the needs of our members. Using member surveys, in addition to our own internal findings as a guide, we identified four areas of focus for 2022 and beyond — People, Operational, Financial, and Members and Community. Within these four areas our strategic initiatives include:

- **Continued Employee Training** to ensure exceptional member experiences and prepare staff for advancement within the Credit Union.
- **Enhanced Card Fraud Protection** to remain vigilant and continually adapt to new threats.
- **Digital Transformation** to create significant operational efficiencies and member conveniences.
- **Continued Financial Strength** to fund new services and technology enhancements, provide loans to *Less Than Perfect Credit* borrowers, maintain a strong capital position, and insulate us against economic downturns as it has in the past.
- **Mergers and Acquisitions** to expand our market, create economies of scale, and provide additional members' equity.
- **Member Feedback Program** to identify member needs and design specific training initiatives to address service improvement opportunities.
- **Financial Education and Charitable Activities** to provide financial education, credit counseling, and aid to the communities we serve.

Looking ahead, we are confident that the combination of leadership, planning, execution, and financial strength have positioned Hartford Federal Credit Union for continued growth, implementation of new technologies, and for exceptional member experiences.

Our remarkable success over the past six decades was attributable to the hard work, vision, and commitment of our Board, management team, and professional staff. Their consistent execution has propelled the Credit Union to be ranked among the very best. I am deeply appreciative for their efforts and for the support of our loyal members who have made Hartford Federal the terrific organization and responsible corporate citizen that it is today.

We know you have options when choosing a financial partner, and we thank you for your ongoing trust and support.

Susan Glazier

Susan Glazier
Chairman of the Board

REPORTS

From the Treasurer

Hartford Federal continued to thrive, ending our 60th year with record levels of assets, loans, deposits, and members' equity. As the COVID-19 pandemic continued throughout 2021, we were able to persevere in these difficult and uncertain economic times. With the current interest rate margin compression and preparation for imminent Federal Reserve Bank rate increases, we remained focused on the restructuring of the Credit Union's balance sheet. We saw consumer spending accelerate due to both the influx of member stimulus money and the decrease in the state unemployment rate throughout the year.

During 2021, Hartford Federal Credit Union assets increased 10.7% year-over-year from $140 million to a record $155 million. Driven by the increase in members' shares which were invested short-term, this growth positions the Credit Union to continue to meet and exceed our goals. As interest rates remained historically low through 2021, we concentrated our attention on real estate lending, primarily in our Mortgage Refinance Program. This focus resulted in a 13.6% increase in total loan balances, growing our portfolio from $53.4 million in 2020 to $60.6 million at the end of 2021. Additionally, the Credit Union remained disciplined by maintaining an unusually high cash balance throughout the year, to capitalize on increased yield from rate increases.

The Credit Union ended 2021 with record members' equity of $14.3 million. Our capital ratio of 9.3% was 33.1% above federal regulator's definition of a well-capitalized credit union. This strong capital position serves not only as a buffer against unforeseen losses, but will also support our next 60 years of growth along with investments in new technologies that will increase our efficiency while enhancing the member experience.

Total revenues were $5,191,000 with dividends of $191,000 paid on shares. Operating expenses of $4,572,000 and a provision for loan losses of $55,000 charged to operations, resulted in net income of $373,000 for the year ended December 31, 2021. This resulted in a 16.4% increase vs. 2020 net income of $321,000. The increase in net income in 2021 was driven by reduced operating expenses and fewer loan losses, partially offset by lower net interest income.

We're pleased with the Credit Union's financial performance which has been remarkably consistent and is sustainable for the foreseeable future. Net income will continue to be reinvested to improve member experience, support growth, and fund further investment in technology.

Dante J. Roccasecca, Jr.
Treasurer

REPORTS

From the Supervisory Committee

The Supervisory Committee is responsible for ensuring the Credit Union's financial statements accurately reflect its financial condition and results of operations. The Committee meets regularly with management, independent auditors, and federal examiners to verify that policies, procedures, and systems of internal accounting, operational, and safeguard controls are functioning effectively. During 2021, the Supervisory Committee oversaw a series of examinations and agreed upon procedure reviews to confirm adherence to the highest standards of operational accuracy and compliance. Those included:

- National Credit Union Administration (NCUA), the regulator for all federally-chartered credit unions, conducted its regulatory examination for 18-month period ended June 30, 2021. Their report concluded that the Credit Union is fiscally strong and operating in a safe and sound fashion.
- Whittlesey PC conducted an examination of the Credit Union's financial statements in accordance with Generally Accepted Auditing Standards for year ended December 31, 2021. Their unmodified opinion is found on page 6 of this Annual Report.
- Whittlesey PC performed procedures related to the Credit Union's compliance with the Bank Secrecy Act (BSA) and Office of Foreign Asset Control (OFAC) regulations in accordance with the standards established by the American Institute of Certified Public Accountants.
- Computer Services Inc., a firm specializing in IT risk management, conducted a comprehensive IT External Penetration and Vulnerability Assessment in accordance with recognized industry standards. They concluded that the design, administration, and ongoing assessment of the Credit Union's information technology security environment puts the organization at low risk.
- To supplement the aforementioned examinations and procedures, the Supervisory Committee conducted its own review of various facets of the Credit Union's operations. No significant findings were noted during our reviews.

Based upon the opinions and findings reached during these independent examinations and reviews, together with the Committee's own procedures, observations, and analysis, we are pleased to report that Hartford Federal Credit Union is financially and operationally strong, and employs a sound system of internal accounting, operational, and safeguard controls.

I would like to extend my thanks and sincerest appreciation to the Board of Directors, Supervisory Committee, management, and professional staff for their service and unwavering commitment to our members and Hartford Federal Credit Union.

Gloria Myers

Gloria Myers
Supervisory Committee Chairperson

Alison Faye Johnson, Secretary
Wendell Avery

REPORTS

From the Loan Officer

Connecticut's economic gains were many during 2021, particularly in residential property sales where the ongoing pandemic helped fuel the market as a number of buyers left urban neighborhoods for suburban living. Connecticut home sales rose 2.4% percent to nearly 56,000 with an average sale price of $507,000, an increase of 13.1% over the prior year.

With a continued surge in the housing market and prevailing low interest rates, we continued to offer members our award-winning 15- and 20-year, first lien, home equity special as a mortgage refinancing alternative. In 2021, we were there to help 118 members refinance their mortgages for a total of $16 million — a staggering 66% increase over closed home equity loans in 2020. Recognized by the Credit Union League of Connecticut, we were presented with the Marketing Excellence Award for this innovative product which made mortgage refinancing fast, inexpensive, and hassle-free!

Even with a decline in auto loan balances due to low automobile inventories from chip shortages and other manufacturing supplies, our loan portfolio realized record loan growth in 2021. Up 13.6% vs. 2020, we are pleased to report we ended the year with record loans to members of $60.6 million — a perfect way to conclude our 60th anniversary year! The increase was propelled by record loan volume of $28 million exceeding our previous record by over 20%.

As the state unemployment rate dropped from 7.7% in 2020 to 5.1% in 2021, the credit quality of our portfolio improved. Our loan delinquency remained relatively flat for the year ended 2021 with a rate of 0.31%, up very modestly from 0.30% in 2020. Net charge offs decreased by over 50% from 0.27% in 2020 to a record-low 0.13% in 2021 — well below the state and national peer group averages.

During the year we implemented MeridanLink, our state-of-the-art loan origination system, enabling us to decrease loan turnaround times. This sophisticated technology eliminated a number of touchpoints, permitting staff to spend more time advising members and providing them one-on-one personalized service.

We will continue to capitalize on new technology that streamlines our lending process further as we strive to serve you, our members, and your families, in the best possible fashion for the next 60 years! As always, thank you for continuing to entrust Hartford Federal Credit Union with your lending needs. We know you have many choices, and we are proud to be your financial partner.

Mary-Elizabeth Mazza

Mary-Elizabeth Mazza
Vice President - Operations

Independent Auditors' Report

To the Supervisory Committee
Hartford Federal Credit Union
Hartford, Connecticut

Opinion

We have audited the accompanying financial statements of Hartford Federal Credit Union (the "Credit Union"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Credit Union's Annual Report

Management is responsible for the other information included in the Credit Union's Annual Report. The other information comprises communications from management and governance and industry information, and does include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Whittlesey PC

Hartford, Connecticut

March 28, 2022

Statements of Financial Condition
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 46,900,522	$ 31,559,826
Investments:		
Debt securities, available-for-sale (note 3)	1,399,219	1,462,032
Debt securities, held-to-maturity (note 4)	16,394,925	-
Interest bearing deposits (note 2)	24,041,000	48,974,018
Permanent capital deposit	296,850	296,850
Loans to members, net (notes 5 and 6)	60,158,546	52,912,077
Accrued interest receivable	177,416	254,530
Property and equipment, net (note 8)	3,041,086	2,243,761
Deposit in NCUSIF	1,344,776	1,184,799
Other assets	1,100,455	1,152,140
Total assets	$ 154,854,795	$ 140,040,033
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (note 7)	$ 139,560,054	$ 124,742,165
Accounts payable and accrued expenses	981,788	1,291,356
Total liabilities	140,541,842	126,033,521
Members' equity (note 13)	14,312,953	14,006,512
Total liabilities and members' equity	$ 154,854,795	$ 140,040,033

The accompanying footnotes are an integral part of the financial statements.

Statements of Income
For the Years Ended December 31, 2021 and 2020

	2021	2020
Interest income		
Interest on loans	$ 2,701,910	$ 2,835,697
Interest on investments	715,756	1,261,866
Total interest income	3,417,666	4,097,563
Interest expense		
Dividends	190,551	324,938
Net interest income	3,227,115	3,772,625
Provision for loan losses charged to operations	55,000	115,000
Net interest income after provision for loan losses	3,172,115	3,657,625
Non-interest income		
Fees, charges and other	1,772,805	1,568,243
Total income	4,944,920	5,225,868
Operating expenses		
Compensation and benefits	3,091,637	3,204,516
Travel and conferences	17,814	28,623
Office occupancy	590,659	609,163
Office operations	597,243	654,221
Educational and promotional	85,016	111,572
Loan servicing expense	64,017	129,388
Professional and outside services	67,530	88,992
Operating fees	27,223	32,907
Miscellaneous operating expense	30,454	45,804
Total operating expenses	4,571,593	4,905,186
Net income	$ 373,327	$ 320,682

The accompanying footnotes are an integral part of the financial statements.

Statements of Comprehensive Income
For the Years Ended December 31, 2021 and 2020

	2021	2020
Comprehensive income		
Net income	$ 373,327	$ 320,682
Other comprehensive income/(loss):		
Net change in securities available-for-sale	(66,886)	367
Total comprehensive income	$ 306,441	$ 321,049

Statements of Changes in Members' Equity
For the Years Ended December 31, 2021 and 2020

	Statutory Reserve	Undivided Earnings	Equity Acquired Through Merger	Accumulated Other Comprehensive Income/(loss)	Total
Balance, January 1, 2020	$ 972,131	$ 11,767,554	$ 942,020	$ 3,758	$ 13,685,463
Net income	-	320,682	-	-	320,682
Net change in securities available-for-sale	-	-	-	367	367
Balance, December 31, 2020	972,131	12,088,236	942,020	4,125	14,006,512
Net income	-	373,327	-	-	373,327
Net change in securities available-for-sale	-	-	-	(66,886)	(66,886)
Balance, December 31, 2021	$ 972,131	$ 12,461,563	$ 942,020	$ (62,761)	$ 14,312,953

The accompanying footnotes are an integral part of the financial statements.

Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 373,327	$ 320,682
Adjustments to reconcile net income to net change in cash and cash equivalents from operating activities:		
Provision for loan losses	55,000	115,000
Depreciation	296,693	239,870
Net amortization of discounts and premiums on securities, available-for-sale	(5,614)	36,831
Net amortization of discounts and premiums on securities, held-to-maturity	1,541	-
Change in operating assets and liabilities:		
Accrued interest receivable	77,114	(13,706)
Other assets	(229,001)	(117,366)
Accounts payable and accrued expenses	(28,882)	(101,674)
Net change from operating activities	540,178	479,637
Cash flows from investing activities		
Purchases of securities, held-to-maturity	(16,394,925)	-
Purchases of property and equipment	(1,094,018)	(412,814)
Net change in:		
Interest bearing deposits	24,933,018	6,466,000
Loans to members	(7,301,469)	(3,382,896)
NCUSIF deposit	(159,977)	(126,185)
Net change from investing activities	(17,371)	2,544,105
Cash flows from financing activities		
Net change in members' shares and savings accounts	14,817,889	19,502,805
Net change in cash and cash equivalents	15,340,696	22,526,547
Cash and cash equivalents at beginning of year	31,559,826	9,033,279
Cash and cash equivalents at end of year	$ 46,900,522	$ 31,559,826
Supplemental disclosures		
Dividends paid on members' shares	$ 190,551	$ 324,938

The accompanying footnotes are an integral part of the financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Hartford Federal Credit Union (the "Credit Union") is chartered under the Federal Credit Union Act and is administratively responsible to the National Credit Union Administration ("NCUA"). The Credit Union provides a variety of financial services, principally related to holding deposits and for making loans to its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Date of Management's Review and Subsequent Events – Management has monitored and evaluated subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended December 31, 2021 through March 28, 2022, the date on which financial statements were available to be issued.

Significant Accounting Policies – The Credit Union follows the accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB establishes generally accepted accounting principles ("GAAP") that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of income and expenses during the reporting period. Estimates that are particularly critical and are susceptible to change are assumptions for the allowance for loan losses. Actual results could differ from those estimates.

Concentration of Credit Risk – Most of the Credit Union's business activity is with its members who reside in or are employed in the Hartford County, Connecticut, area. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Hartford, Tolland, and Middlesex Counties of Connecticut. However, management of the Credit Union believes that the loan portfolio is well-diversified and is not exposed to any significant concentrations of credit risk. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its lien holder status and repossesses the collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Cash and Cash Equivalents – For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from financial institutions. Amounts due from Eastern Corporate Federal Credit Union ("EasCorp"), the Credit Union's primary financial institution will generally exceed federally insured limits. The NCUA share insurance coverage on deposits in corporate credit unions is limited to $250,000.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Permanent Capital Deposit – The Credit Union has deposited funds with EasCorp and Alloya in order to conduct certain business transactions. The deposit can only be redeemed by another credit union purchasing the deposit.

Investments – The Credit Union's investments are classified and accounted for as follows:

> Available-for-Sale: Debt securities which the Credit Union anticipates could be sold in response to rate changes, liquidity risks, availability of, and the yield on, alternative investments and other market and economic factors. These securities are reported at fair value.
>
> Held-to-Maturity: Investments which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the effective interest method over the period to maturity.
>
> Other: Investments in this category do not meet the definition of a debt or equity security under GAAP. These investments may include certain cash equivalents that Management has elected to classify as investments. These investments are reported at the lower of cost or impaired value.

The Credit Union does not maintain a trading portfolio.

Unrealized gains and losses on debt securities available-for-sale are recognized as direct increases or decreases in accumulated other comprehensive income. The cost of securities sold is recognized using the specific identification method. 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 available-for-sale debt securities below their cost, that are deemed to be other than temporary, are reflected in earnings as realized losses.

Debt securities are reviewed regularly for other-than-temporary impairment. An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an other-than-temporary impairment write-down is recorded in earnings, while the remaining portion of the impairment loss is recognized in other comprehensive income, provided the Credit Union does not intend to sell the underlying debt security and it is more likely than not that the Credit Union will not be required to sell the debt security prior to recovery. In determining whether a credit loss exists, and the period over which the fair value of the debt security is expected to recover, management considers the following factors: the length of time and the extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, any external credit ratings, the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities, the level of credit enhancement provided by the structure and the Credit Union's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans to Members – Loans to members are stated at unpaid principal balances, less an allowance for loan losses, net deferred loan origination fees and discounts, and net adjustments down to the estimated fair value on acquired loans. Interest on loans is recognized over the term of the loan and is calculated using the effective interest method on principal amounts outstanding.

Interest income is not recorded when full loan repayment is in doubt, typically when the loan is impaired, or payments are past due over 90 days. Past due status is based on the contractual terms of the loan. Loans can be placed on nonaccrual status at an earlier date if the collection of principal and interest is considered doubtful.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

All interest accrued but not received for loans that are placed on nonaccrual or charged off are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Generally, the Credit Union returns a loan to accrual status when all delinquent interest and principal becomes current under the terms of the loan agreement.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level determined by management to be the best estimate of losses incurred in the loan portfolio as of the date of the financial statements. The allowance is increased or decreased by a provision reflected in operations, which represents an estimate of losses that occurred during the period and a change in estimated losses recorded in prior periods. Loan losses are charged against the allowance when management believes the collectability of principal is unlikely. Recoveries of charged off loans are credited to the allowance.

The determination of the adequacy of the allowance for loan losses by management is based on an assessment of risk elements in the portfolio, identified factors affecting specific loans and available information about the current economic environment in which the Credit Union and its borrowers operate. Management reviews overall portfolio quality through an evaluation of individual performing and impaired loans, the risk characteristics of each component of the loan portfolio, an analysis of current levels and trends in charge offs, delinquency and non-accruing loan data, and the credit risk profile of each component of the portfolio, among other factors.

The allowance for loan losses consists of a variety of factors including historical loss experience and economic risk factors for various loan portfolio classifications and a valuation allowance for loans identified as impaired. An additional unallocated reserve may also be provided to reflect the complexity of the lending portfolio, and the degree of estimation involved in assessing the overall adequacy of the allowance for loan losses. The allowance is an estimate, and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

A loan is considered to be impaired when it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans, as defined, may be measured based on the present value of expected future cash flows, discounted at the loan's original effective interest rate or on the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent. When the measurement of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the allowance for loan losses.

Troubled Debt Restructurings – In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). Modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures impairment on the restructuring as previously noted for impaired loans.

Other Real Estate Owned – Properties acquired through or in lieu of loan foreclosure are initially recorded at lower of cost or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis, or fair value less the cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property and Equipment – Land is carried at cost. Building and improvements, land improvements, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and leasehold amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the respective leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

Members' Shares and Savings Accounts – Members' shares are the savings 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 set by the Credit Union's Board of Directors, based on an evaluation of current and future market conditions.

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, are reported as a separate component of the members' equity section of the statements of financial condition.

Fair Value – The Credit Union is required to account for certain assets at fair value. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the Credit Union in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

> Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
>
> Level 2 – Asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3 – Assets and liabilities whose value is calculated by the use of pricing models and/or discounted cash flow methodologies utilizing significant unobservable inputs, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

Valuation techniques based on unobservable inputs, such as those for impaired loans, are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Advertising – The Credit Union directly expenses costs associated with advertising as they are incurred.

Federal and State Income Taxes – The Credit Union is exempt, by statute, from federal and state income taxes.

National Credit Union Share Insurance Fund ("NCUSIF") Deposit and Insurance Premiums – The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to one percent of its insured members' shares, less any reportable impairment. 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. The Credit Union is also required to pay an annual insurance premium equal to one-twelfth of one percent of total insured members' shares, unless the payments are waived or reduced by the NCUA Board.

Recent Accounting Pronouncements – The following section includes changes in accounting principles and potential effects of new accounting pronouncements:

ASU No. 2016-02 – Leases (Topic 842). The amendments in this ASU require lessees to recognize assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for the Credit Union on January 1, 2022. The adoption will require a modified retrospective transition approach where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented or the cumulative adjustment method. Management does not expect the application of this guidance to have a material impact on the Credit Union's financial statements or regulatory capital.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and can result in the earlier recognition of credit losses. The amendments in this update will be effective for the Credit Union on January 1, 2023. Management is currently evaluating the impact of its pending adoption of this guidance on the Credit Union's financial statements.

NOTE 2 – INTEREST BEARING DEPOSITS

Interest bearing deposits consist of certificates of deposits held in financial institutions. Certificates are generally nonnegotiable and nontransferable and may incur penalties for withdrawal prior to maturity. The Credit Union intends, and has ability, to hold these deposits until maturity. The book values of interest bearing deposits, by maturity, are summarized as follows as of December 31, 2021:

Less than one year	$ 12,765,000
Between one and three years	8,082,000
Between three and five years	3,194,000
	$ 24,041,000

The aggregate amount of interest bearing deposits that meet or exceed $250,000 as of December 31, 2021 and 2020 were $4,289,000 and $7,004,000, respectively.

NOTE 3 – DEBT SECURITIES, AVAILABLE-FOR-SALE

The amortized cost, changes in fair value and estimated fair value (based on quoted market prices) of the Credit Union's debt securities, available-for-sale, are as follows:

U.S. Treasury Notes	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Level 2)
At December 31, 2021	$ 1,461,980	$ -	$ (62,761)	$ 1,399,219
At December 31, 2020	$ 1,457,907	$ 4,125	$ -	$ 1,462,032

The following table summarizes the 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, 2021:

	Less than 12 months		12 Months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Notes	$ 1,399,219	$ (62,761)	$ -	$ -

Investments classified as available-for-sale are expected to mature, by contractual maturity, during the year ending December 31, 2030.

Management evaluates these securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such an evaluation. Consideration is given to (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, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 4 – DEBT SECURITIES, HELD-TO-MATURITY

The amortized cost and estimated fair value of debt securities, held-to-maturity are as follows:

U.S. Treasury Notes	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Level 2)
At December 31, 2021	$ 16,394,925	$ 2,195	$ (115,870)	$ 16,281,250
At December 31, 2020	$ -	$ -	$ -	$ -

NOTE 4 – DEBT SECURITIES, HELD-TO-MATURITY *(CONTINUED)*

The amortized cost and estimated fair value of debt securities classified as held-to-maturity by contractual maturity are shown below.

	Amortized Cost	Fair Value (Level 2)
Due within one year	$ -	$ -
Due after one year through five years	8,965,019	8,855,195
Due after five years through ten years	7,429,906	7,426,055
	$ 16,394,925	$ 16,281,250

NOTE 5 – LOANS TO MEMBERS

The composition of loans to members is as follows as of December 31:

	2021	2020
Residential real estate loans:		
Fixed rate	$ 36,150,442	$ 23,715,416
Variable rate	30,354	40,944
Hybrid	3,420,935	5,195,581
Home equity lines of credit, variable rate	5,352,108	6,715,547
	44,953,839	35,667,488
Vehicle loans	9,768,350	11,002,055
Personal loans:		
Share secured	40,167	110,715
Credit card loans, unsecured	2,778,732	2,929,492
Other consumer loans, primarily unsecured	3,055,023	3,656,104
	5,873,922	6,696,311
	60,596,111	53,365,854
Allowance for loan losses	(437,565)	(453,777)
	$ 60,158,546	$ 52,912,077

Certain officers and directors of the Credit Union have incurred indebtedness in the form of loans as members. A summary of the changes in loans made to officers and directors is as follows for the years ended December 31:

	2021	2020
Balance, beginning of the year	$ 1,211,661	$ 715,073
Change in status	(320,512)	-
New loans	405,706	866,236
Repayments	(739,450)	(369,648)
Balance, end of the year	$ 557,405	$ 1,211,661

NOTE 6 – ALLOWANCE FOR LOAN LOSSES

To calculate the allowance for loan losses, management segregates the loan portfolio into portfolio segments which 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 is segregated into the following portfolio segments for allowance for loan loss calculation purposes:

> <u>Residential real estate</u> – Real Estate loans consist of first and second mortgages with fixed and variable rates, hybrid mortgages which have an initial fixed-rate period followed by an adjustable rate period and variable rate home equity lines of credit.
>
> <u>Vehicle loans</u> – Vehicle loans consist of new and used automobiles.
>
> <u>Personal loans</u> – Personal loans consist of unsecured and secured loans, credit cards and overdrawn share accounts.

Historical loss percentages and economic factors are applied to each portfolio sub segment to determine the allowance for loan losses. At December 31, 2021 and 2020, the historical percentages were based on historical charge offs over the last 36 months using a quarterly calculation. Additionally, the Credit Union increases the allowance for specific reserves on individually identified loans as determined by management. The Credit Union also applies underwriting practices and policy risk adjustments to each portfolio segment to determine the allowance for loan losses.

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

	2021			
	Real estate	Vehicles	Personal	Total
Allowance for loan loss:				
Beginning balance	$ 86,198	$ 152,474	$ 215,105	$ 453,777
Charge offs	-	-	(132,895)	(132,895)
Recoveries	2,150	1,050	58,483	61,683
Provision for loan losses	10,503	(18,542)	63,039	55,000
Ending balance	$ 98,851	$ 134,982	$ 203,732	$ 437,565
Loan balance evaluated:				
Collectively	$ 44,938,692	$ 9,618,057	$ 5,793,824	$ 60,350,573
Individually	15,147	150,293	80,098	245,538
Ending balance	$ 44,953,839	$ 9,768,350	$ 5,873,922	$ 60,596,111

	2020			
	Real estate	Vehicles	Personal	Total
Allowance for loan loss:				
Beginning balance	$ 95,960	$ 65,744	$ 268,366	$ 430,070
Charge offs	(33,676)	(9,336)	(192,463)	(235,475)
Recoveries	24,419	3,950	68,968	97,337
Reclassifications	33,676	3,101	10,068	46,845
Provision for loan losses	(34,181)	89,015	60,166	115,000
Ending balance	$ 86,198	$ 152,474	$ 215,105	$ 453,777
Loan balance evaluated:				
Collectively	$ 35,339,781	$ 10,803,122	$ 6,639,944	$ 52,782,847
Individually	327,707	198,933	56,367	583,007
Ending balance	$ 35,667,488	$ 11,002,055	$ 6,696,311	$ 53,365,854

NOTE 6 – ALLOWANCE FOR LOAN LOSSES *(CONTINUED)*

Reclassifications are adjustments to loans with deteriorated credit that were accounted for at fair value upon acquisition, and were subsequently charged-off or reversed through the reserves listed above.

In addition to the allowance for loan losses above, the Credit Union has $229,736 and $231,952 in credit impairments recorded on purchased loans as of December 31, 2021 and 2020, respectively.

Loan portfolio aging analysis – The Credit Union assesses credit quality based on the contractual aging status of loans and payment activity. The following tables set forth certain information with respect to loan portfolio delinquencies by loan class and amount at December 31:

	2021					
	0-29 days	30-59 days	60-179 days	180-359 days	Over 360 days	Total
Fixed rate mortgages	$ 35,992,513	$ 79,818	$ 57,618	$ -	$ 20,493	$ 36,150,442
Variable rate mortgage	30,354	-	-	-	-	30,354
Hybrid mortgages	2,736,408	684,527	-	-	-	3,420,935
Home equity lines of credit	5,352,108	-	-	-	-	5,352,108
Vehicle loans	9,588,539	127,255	34,572	17,984	-	9,768,350
Share secured	40,167	-	-	-	-	40,167
Credit cards	2,745,287	28,165	5,280	-	-	2,778,732
Other consumer loans	2,973,513	50,131	18,732	6,151	6,496	3,055,023
Total	$ 59,458,889	$ 969,896	$ 116,202	$ 24,135	$ 26,989	$ 60,596,111

	2020					
	0-29 days	30-59 days	60-179 days	180-359 days	Over 360 days	Total
Fixed rate mortgages	$ 23,546,089	$ 129,698	$ 15,534	$ 24,095	$ -	$ 23,715,416
Variable rate mortgage	40,944	-	-	-	-	40,944
Hybrid mortgages	4,810,071	385,510	-	-	-	5,195,581
Home equity lines of credit	6,715,547	-	-	-	-	6,715,547
Vehicle loans	10,781,147	183,772	28,702	8,434	-	11,002,055
Share secured	110,715	-	-	-	-	110,715
Credit cards	2,881,628	13,980	33,884	-	-	2,929,492
Other consumer loans	3,549,771	69,156	35,618	1,559	-	3,656,104
Total	$ 52,435,912	$ 782,116	$ 113,738	$ 34,088	$ -	$ 53,365,854

Impaired loans by portfolio segment are as follows as of December 31:

	2021			
	Carrying amount of impaired loans			
	Without an Allowance	With an Allowance	Total	Associated Allowance
Variable rate mortgage	$ -	$ 15,147	$ 15,147	$ 1,515
Vehicle loans	-	150,293	150,293	91,851
Credit cards	-	38,661	38,661	32,303
Other consumer loans	-	41,437	41,437	36,166
Total	$ -	$ 245,538	$ 245,538	$ 161,835

	2020			
	Carrying amount of impaired loans			
	Without an Allowance	With an Allowance	Total	Associated Allowance
Fixed rate mortgages	$ -	$ 327,707	$ 327,707	$ 32,771
Vehicle loans	-	198,933	198,933	93,717
Credit cards	-	16,727	16,727	16,727
Other consumer loans	-	39,640	39,640	19,937
Total	$ -	$ 583,007	$ 583,007	$ 163,152

NOTE 6 – ALLOWANCE FOR LOAN LOSSES *(CONTINUED)*

Loans on non-accrual status – The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into non-accrual status, if applicable. The following table represents the loans by class on non-accrual status as of December 31:

	2021		2020	
	Carrying Amount	Foregone Interest	Carrying Amount	Foregone Interest
Fixed rate mortgages	$ 78,112	$ 845	$ 24,388	$ 185
Home equity lines of credit	-	-	3,000	1
Vehicle loans	17,984	802	8,434	570
Other consumer loans	16,875	1,718	19,334	902
Total	$ 112,971	$ 3,365	$ 55,156	$ 1,658

NOTE 7 – MEMBERS' SHARES AND SAVINGS ACCOUNTS

A summary of member shares and savings accounts is as follows as of December 31:

	2021	2020
Shares	$ 74,078,933	$ 65,394,797
Money market accounts	24,895,867	21,000,706
Certificates	9,146,930	10,879,773
Share drafts	26,445,103	22,787,625
Individual retirement accounts certificates	3,523,023	3,304,475
Club accounts	1,470,198	1,374,789
	$ 139,560,054	$ 124,742,165

The certificates and individual retirement accounts certificates mature as follows:

For the years ending December 31, 2022	$ 9,570,447
2023	1,250,399
2024	1,685,584
2025	98,648
2026	64,875
	$ 12,669,953

Regular shares, club accounts, share draft accounts, money market accounts, and individual retirement account certificates have no contractual maturity.

As of December 31, 2021 and 2020 there were non-member certificates of $4,710,000 and $5,702,000, respectively.

The aggregate amount of time deposits which meet or exceed $250,000 as of December 31, 2021 and 2020 was $513,568 and $509,156, respectively.

Certain officers and directors of the Credit Union have deposits with the Credit Union. Deposits held by officers and directors totaled $522,736 and $516,332 at December 31, 2021 and 2020, respectively.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of December 31:

	2021	2020
Land	$ 745,690	$ 729,351
Building and improvements	3,490,213	2,576,286
Furniture and equipment	1,876,639	1,835,383
Leasehold improvements	466,542	669,130
	6,579,084	5,810,150
Accumulated depreciation	(3,537,998)	(3,566,389)
	$ 3,041,086	$ 2,243,761

NOTE 9 – LEASES

The Credit Union entered into lease agreements for branches at three locations, one of which expired during 2021. The leases contain provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Rental expense for the years ended December 31, 2021 and 2020, for all facilities leased under operating leases, totaled $131,486 and $150,981, respectively.

Minimum rental payments under operating leases with initial or remaining terms of one year or more are as follows:

For the years ending December 31, 2022	$ 106,766
2023	108,762
2024	97,293
2025	85,876
2026	88,023
Therafter	44,555
	$ 531,275

The Credit Union leases space to tenants. The operating leases contain provisions requiring the tenants to pay operating expenses over base period amounts. All income is dependent only upon the lapse of time. Minimum rental income under operating leases with initial or remaining terms of one year or more are as follows:

For the years ending December 31, 2022	$ 79,767
2023	81,636
2024	33,340
	$ 194,743

NOTE 10 – NONRECURRING FAIR VALUE MEASUREMENTS

The fair values of impaired loans are determined by using the fair market value of collateral method using the assumption that the loan will be repaid through the liquidation of collateral. The following table details the Credit Union's assets carried at fair value on a nonrecurring basis and indicates the hierarchy of the valuation techniques utilized by the Credit Union to determine fair value:

	Fair Value	Level 1	Level 2	Level 3
At December 31, 2021				
Impaired loans	$ 245,538	$ -	$ -	$ 245,538
At December 31, 2020				
Impaired loans	$ 583,007	$ -	$ -	$ 583,007

NOTE 11 – RETIREMENT PLANS

The Credit Union has a defined contribution pension plan for the benefit of its employees. The plan contains both Money Purchase and 401(k) plan components that are funded individually. Participation in the Money Purchase plan component is limited to all full-time employees who meet specific length of service and age limitations. Participation in the 401(k) plan component allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of the employees' wage reductions and makes additional contributions to the plan on the employees' behalf. Contribution expense, related to these plans, for the years ended December 31, 2021 and 2020, was $224,537 and $237,603, respectively.

The Credit Union has deferred compensation agreements with certain members of the executive management team which provide benefits payable to each individual employee if they remain employed by the Credit Union through certain contractual dates. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreement. The Credit Union expensed $90,183 and $80,001 for the years ended December 31, 2021 and 2020, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Credit Union is a 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 the amount recognized in the financial statements.

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

The following table is a summary of financial instruments whose approximate contract amounts represent credit risk at December 31:

	2021	2020
Secured home equity lines of credit	$ 10,717,099	$ 10,748,903
Credit card lines	8,939,222	8,154,897
Unsecured share draft lines of credit	808,315	822,494
Overdraft protection program commitments	4,083,928	4,034,159
	$ 24,548,564	$ 23,760,453

NOTE 12 – COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

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. 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 amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held generally consists of certificates of deposit, share accounts, automobiles, and real estate.

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

Line of Credit – The Credit Union maintains a line-of-credit with EasCorp. EasCorp committed $750,000 to the Credit Union as well as an additional uncommitted amount of $2,250,000. Both lines are collateralized by substantially all of the Credit Union's assets at a rate to be determined when the funds are borrowed. At December 31, 2021 and 2020, there were no borrowings.

Legal Contingencies – 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 13 – REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Credit Union meets all capital adequacy requirements, to which it is subject.

As of December 31, 2021, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Credit Union must maintain a minimum net worth of 7% of assets and meet any applicable RBNWR. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

NOTE 13 – REGULATORY CAPITAL *(CONTINUED)*

The Credit Union's actual capital amounts and ratios are also presented in the following table:

	Actual		To be adequately capitalized under the Prompt Corrective Action Provisions		To be well capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	December 31, 2021					
Net worth	$ 14,375,714	9.28%	$ 9,291,288	6%	$10,839,836	7%
	December 31, 2020					
Net worth	$ 14,002,387	9.99%	$ 8,402,402	6%	$ 9,802,802	7%

NOTE 14 – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic. COVID-19 has caused significant disruption in the national economy and there is uncertainty related to its duration. The Credit Union's operating activities, profitability, regulatory capital levels and cash flows may be affected by this global pandemic. The impact of COVID-19 on the national economy is expected to continue after December 31, 2021, as such, the Credit Union could experience decreasing credit quality, an increase in charge-offs and be required to add to the allowance for loan losses. COVID-19 has resulted in many of the Credit Union's members receiving stimulus payments from the federal government and depositing such amounts in the Credit Union. The increase in non-rate sensitive deposits could continue in the future resulting in the Credit Union's regulatory capital ratios moving lower after December 31, 2021.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to year-end, the Credit Union received $281,582 from the NCUA in relation to a claim certificate for proceeds that correspond to the payout during the liquidation of Constitution Corporate Federal Credit Union, and was recorded as non-interest income to the Credit Union’s financial statements in March 2022.

Board of Directors

Susan Glazier, *Chairman*
Keisha Palmer, *Vice Chairman*
Dante J. Roccasecca, Jr., *Treasurer*
Gloria Myers, *Secretary*
Steven LeFebvre
Galo Rodriguez
Edward Danek, Jr., *Ex-Officio*
Elizabeth Frechette
Barbara King
Stuart Rosenberg
Alison Faye Johnson, *Associate Board Member*

Supervisory Committee

Gloria Myers, *Chairman*
Alison Faye Johnson, *Secretary*
Wendell Avery

Management Team

Edward Danek, Jr., *President & CEO*
Kyle Dahn, *Senior Vice President & CFO*
Mary-Elizabeth Mazza, *Vice President - Operations*
Audra Wilder, *Vice President - Marketing & Business Development*
Matthew Hastava, *Assistant Vice President - Branch Operations*
Racquel Finello, *Lending Manager*
Stacey Marsh, *Accounting Manager*
Jacob Bohr, *IT Manager*
Shamim Bhatti, *Farmington Valley Branch Manager*
Taylor Carlson, *South Windsor Branch Manager*
Jacquelyn Olmstead, *Stafford Branch Manager*

Professional Staff

Jacob Arnone, Nora Blondet, Tania Bula, Myrna Felix, Tyrahn Franklin, Esther Gibbs, Ashley Hicks, Sandra Lallier, Michael Lane, Ashley Leak, Elaine Libert, Amy Mack, Zheyna Nazario, Aeisha Norman, Rosemarie Pelletier, Marisol Perez, Matthew Perez, Kim Richard, Vanessa Rodriguez, Allison Roy, Monique Scott , Kaci Stonier-Torres, Sarah Symenow, Ann Thiesing

Main Office

964 Asylum Avenue
Hartford, CT 06105-2401
860·527·6663 | Fax 860·527·2297

Farmington Valley Office

29 Albany Turnpike
West Simsbury, CT 06092-2903
860·651·1400 | Fax 860·651·4699

South Windsor Office

1665 Ellington Road
South Windsor, CT 06074-2705
860·644·0200 | Fax 860·644·0800

Stafford Office

70 West Stafford Road
Stafford Springs, CT 06076-1067
860·684·4484 | Fax 860·684·5018

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Credit Union

hartfordfcu.com