

IDB GLOBAL

FEDERAL CREDIT UNION

Financial Statements

December 31, 2019 and 2018
(With Independent Auditors' Report Thereon)

 **DoerenMayhew**
CPAs AND ADVISORS



**BECOMING IDB GLOBAL
FEDERAL CREDIT UNION**

IDB GLOBAL FEDERAL CREDIT UNION

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Independent Auditor's Report

April 17, 2020

To the Supervisory Committee and Board of Directors
of IDB Global Federal Credit Union

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Supervisory Committee and Board of Directors
of IDB Global Federal Credit Union
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDB Global Federal Credit Union, as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of December 31, 2018, were audited by other auditors, whose report dated April 8, 2019, expressed an unmodified opinion on those statements.

~~Group d|kz#~~

Doeren Mayhew
Miami, FL

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2019 AND 2018

| <u>Assets</u> | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$52,770,765 | \$43,585,783 |
| Interest bearing deposits | 23,467,000 | 50,000,000 |
| Available-for-sale investments | 52,942,306 | 60,737,847 |
| Loans to members, net of allowance for loan losses | 442,519,320 | 399,616,434 |
| Accrued interest receivable | 1,372,249 | 1,371,328 |
| Prepaid and other assets | 9,317,954 | 5,254,096 |
| Property and equipment, net | 185,156 | 275,503 |
| National Credit Union Share Insurance Fund (NCUSIF) deposit | 4,057,473 | 3,635,089 |
| Total assets | <u>\$586,632,223</u> | <u>\$564,476,080</u> |
| <u>Liabilities and Members' Equity</u> | | |
| Liabilities: | | |
| Members' shares and savings accounts | \$492,835,156 | \$463,503,616 |
| Borrowed funds | 11,956,024 | 26,277,045 |
| Accrued expenses and other liabilities | 2,295,758 | 2,246,597 |
| Total liabilities | <u>507,086,938</u> | <u>492,027,258</u> |
| Commitments and contingent liabilities | | |
| Members' equity: | | |
| Regular reserve | 4,300,000 | 4,300,000 |
| Undivided earnings | 74,870,639 | 69,058,498 |
| Accumulated other comprehensive income/(loss) | 374,646 | (909,676) |
| Total members' equity | <u>79,545,285</u> | <u>72,448,822</u> |
| Total liabilities and members' equity | <u>\$586,632,223</u> | <u>\$564,476,080</u> |

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------------|---------------------------|
| Interest income: | | |
| Loans to members | \$14,159,284 | \$13,164,449 |
| Investment securities | 3,172,439 | 2,740,072 |
| Total interest income | <u>17,331,723</u> | <u>15,904,521</u> |
| Interest expense: | | |
| Members' shares and savings accounts | 3,262,091 | 2,216,389 |
| Borrowed funds | 271,658 | 564,215 |
| Total interest expense | <u>3,533,749</u> | <u>2,780,604</u> |
| Net interest income | 13,797,974 | 13,123,917 |
| Provision for loan losses | 40,000 | 60,000 |
| Net interest income after provision for loan losses | <u>13,757,974</u> | <u>13,063,917</u> |
| Non-interest income: | | |
| Fees and charges | 1,361,070 | 1,293,083 |
| Interchange income | 162,752 | 139,424 |
| Other income | 733,725 | 231,229 |
| Total non-interest income | <u>2,257,547</u> | <u>1,663,736</u> |
| Non-interest expenses: | | |
| Compensation and benefits | 5,369,297 | 4,815,221 |
| Office operations | 2,705,684 | 2,874,897 |
| Professional and outside services | 871,721 | 986,014 |
| Office occupancy | 199,651 | 198,255 |
| Loan servicing | 190,472 | 202,376 |
| Other | 866,555 | 521,813 |
| Total non-interest expenses | <u>10,203,380</u> | <u>9,598,576</u> |
| Net income | <u><u>\$5,812,141</u></u> | <u><u>\$5,129,077</u></u> |

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|
| Net income | \$5,812,141 | \$5,129,077 |
| Other comprehensive income/(loss): | | |
| Available-for-sale investments: | | |
| Net unrealized holding gains/(losses) on available-for-sale investments | 1,284,322 | (195,848) |
| Other comprehensive income/(loss) | 1,284,322 | (195,848) |
| Comprehensive income | <u>\$7,096,463</u> | <u>\$4,933,229</u> |

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Regular Reserve | Undivided Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|-------------------------------|----------------------------|-------------------------------|--|---------------------|
| Balance, December 31, 2017 | \$4,300,000 | \$63,929,421 | (\$713,828) | \$67,515,593 |
| Net income | — | 5,129,077 | — | 5,129,077 |
| Other comprehensive loss | — | — | (195,848) | (195,848) |
| Balance, December 31, 2018 | 4,300,000 | 69,058,498 | (909,676) | 72,448,822 |
| Net income | — | 5,812,141 | — | 5,812,141 |
| Other comprehensive income | — | — | 1,284,322 | 1,284,322 |
| Balance, December 31, 2019 | <u>\$4,300,000</u> | <u>\$74,870,639</u> | <u>\$374,646</u> | <u>\$79,545,285</u> |

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Net income | \$5,812,141 | \$5,129,077 |
| Adjustments to net cash provided from operating activities: | | |
| Provision for loan losses | 40,000 | 60,000 |
| Depreciation and amortization | 157,084 | 147,280 |
| (Increase)/decrease in: | | |
| Prepaid and other assets | (4,063,858) | (693,670) |
| Accrued interest receivable | (921) | (109,061) |
| Increase/(decrease) in: | | |
| Accrued expenses and other liabilities | 49,161 | (476,193) |
| Total adjustments | <u>(3,818,534)</u> | <u>(1,071,644)</u> |
| Net cash provided from operating activities | <u>1,993,607</u> | <u>4,057,433</u> |

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

Cash Flows (Continued)

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Cash flows from investing activities: | | |
| Net change in loans to members | 1,025,233 | (16,232,350) |
| Purchase of loan participations | (43,968,119) | — |
| Proceeds from interest bearing deposits | 32,460,000 | 32,978,000 |
| Purchase of interest bearing deposits | (5,927,000) | (11,236,700) |
| Proceeds from the sale or maturity of available-for-sale investments | 31,984,057 | 17,630,344 |
| Purchase of available-for-sale investments | (22,904,194) | (19,647,553) |
| Net change in NCUSIF deposit | (422,384) | (102,410) |
| Purchases of property and equipment | (66,737) | (294,032) |
| Net cash (used in)/provided from investing activities | <u>(7,819,144)</u> | <u>3,095,299</u> |
| Cash flows from financing activities: | | |
| Net change in members' shares and savings accounts | 29,331,540 | 4,319,383 |
| Payments on borrowed funds | (14,321,021) | (13,296,022) |
| Net cash provided from/(used in) financing activities | <u>15,010,519</u> | <u>(8,976,639)</u> |
| Net change in cash and cash equivalents | 9,184,982 | (1,823,907) |
| Cash and cash equivalents - beginning | 43,585,783 | 45,409,690 |
| Cash and cash equivalents - ending | <u>\$52,770,765</u> | <u>\$43,585,783</u> |

Supplemental Information

| | | |
|---------------|--------------------|--------------------|
| Interest paid | <u>\$3,549,657</u> | <u>\$2,697,916</u> |
|---------------|--------------------|--------------------|

See accompanying notes to the financial statements.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 1 - Nature of Business and Significant Accounting Policies

Organization

IDB Global Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership including principally staff members, officers and retirees of Inter-American Development Bank (the Bank) and Inter-American Investment Corporation (IIC). The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

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

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work for or have retired from the Bank or IIC. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers work and reside.

Comprehensive Income

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing). Amounts due from banks may, at times, exceed federally insured limits.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured and no deposit to one individual institution exceeds \$250,000.

Available-for-Sale Investments:

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

Unrealized gains and losses on available-for-sale investments are recognized as direct increases or decreases 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 estimated fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The FHLB stock was approximately \$1,069,000 and \$1,646,000 as of December 31, 2019 and 2018, respectively, and is included in prepaid and other assets.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent. Interest income on non-accrual loans is recognized only to the extent cash payments are received. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management has an established methodology to determine the adequacy of the allowance that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: real estate and consumer. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. real estate loans are divided into three classes: first mortgage, home equity lines of credit (HELOC), first trust, and HELOC, second trust. Consumer loans are divided into four classes: auto participations, other consumer (primarily unsecured loans), vehicle, and credit card.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Allowance for Loan Losses (Continued)

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

Real Estate and Consumer Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors, credit quality of the assets comprising the portfolio and the ongoing evaluation process based on the risks present for each portfolio segment or class of loans. As of December 31, 2019 and 2018, the historical loss time frame for each class was the average loss rate of the previous three years.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the real estate and consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis.

Real estate and consumer loans are generally charged off when the loan is deemed to be uncollectible. Factors considered when assessing collectability include:

- aging of delinquent non-performing loans;
- estimated deficiency in the value of the underlying collateral for non-performing loans determined to be collateral dependent;
- additional collection efforts are expected to be non-productive;
- classification as loss as the result of the Credit Union's internal review process.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Property and Equipment

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

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Borrowed Funds

The Credit Union has borrowed funds outstanding from FHLB of Atlanta as of December 31, 2019 and 2018. The FHLB borrowings are secured by pledges of qualified collateral, as defined in the FHLB Statement of Credit Policy.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Regular Reserve

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

Fees and Charges

The Credit Union earns fee and commission income from a range of services it provides to its members. Deposit fee income and interchange fee income are earned on the execution of financial services performed. This includes fees arising from 1) Participating in transactions with members and third-party financial institutions, such as interchange fee income for debit card transaction handling and member use a third-party's ATM; 2) Certain services initiated or requested by the member, including paper statement delivery fees, overdrawn account charges, insufficient funds charges, and stop payment fees.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Federal Credit Union Act, Internal Revenue Code (IRC) and state tax laws. The Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under IRC sections 501(c)(14)(a) and 501(c)(1)(a)(I). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest or penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

Reclassification

Certain amounts reported in the 2018 financial statements have been reclassified to conform with the 2019 presentation. Members' equity and net income are unchanged due to these reclassifications.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Recent Accounting Pronouncements

Accounting for Financial Instruments – Credit Losses

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

The CECL model represents a significant change from existing GAAP and may result in material changes to the Credit Union's accounting for loans. The Credit Union has not determined the effect that ASU 2016-13 will have on its financial statements and its related disclosures. The ASU will be effective for credit unions on January 1, 2023. Early application is permitted for annual periods beginning January 1, 2019.

Subsequent Events

Management has evaluated subsequent events through April 17, 2020, the date the financial statements were available to be issued. Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses and the economy. While the situation is evolving rapidly, and the full impact is not yet known, the disruption caused by the Coronavirus is affecting business and consumer activities worldwide – including disruption to major financial markets, supply chains, interruption of production, limited personnel, facility and store closures, and decreased demand from both business customers and consumers.

On March 22, 2020, the federal and state financial institution regulators (collectively the Agencies) issued the *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus* (the Statement). The statement includes guidance on TDRs, accounting for loan modifications, past due reporting, non-accrual loans and charge-offs among other items.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

A significant aspect of the Statement is the concept that the Agencies will not automatically categorize all COVID-19 related loan modifications as TDRs. The Agencies have confirmed with staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered *current* are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. The Agencies' examiners will exercise judgment in reviewing loan modifications including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs.

With regard to the loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral.

The Credit Union will determine if loans to stressed borrowers should be reported as nonaccrual assets in regulatory reports. However, during the short-term arrangements discussed in this statement, these loans generally may not be reported as nonaccrual.

As of April 17, 2020, the Credit Union is assessing the impact on its operations, but currently the ultimate effects of COVID-19 are unknown.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2019:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------|---------------------|------------------------------|-------------------------------|---------------------|
| Available-for-sale: | | | | |
| Mortgage-backed securities | \$34,258,335 | \$425,408 | (\$58,792) | \$34,624,951 |
| Federal agency bonds | 7,610,066 | — | (11,990) | 7,598,076 |
| CMOs | 5,447,328 | 38,438 | (20,873) | 5,464,893 |
| State and Municipal securities | 2,789,871 | 6,932 | (6,761) | 2,790,042 |
| Corporate bonds | 1,999,419 | 11,418 | (1,448) | 2,009,389 |
| SBA securities | 462,641 | — | (7,686) | 454,955 |
| Total | <u>\$52,567,660</u> | <u>\$482,196</u> | <u>(\$107,550)</u> | <u>\$52,942,306</u> |

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2018:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------|---------------------|------------------------------|-------------------------------|---------------------|
| Available-for-sale: | | | | |
| Mortgage-backed securities | \$22,564,589 | \$60,223 | (\$237,934) | \$22,386,878 |
| Federal agency bonds | 33,522,725 | — | (616,047) | 32,906,678 |
| State and Municipal securities | 2,818,937 | — | (65,670) | 2,753,267 |
| Corporate bonds | 1,998,741 | — | (24,771) | 1,973,970 |
| SBA securities | 742,531 | — | (25,477) | 717,054 |
| Total | <u>\$61,647,523</u> | <u>\$60,223</u> | <u>(\$969,899)</u> | <u>\$60,737,847</u> |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of December 31, 2019, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | <i>Available-for-sale</i> | |
|----------------------------|---------------------------|---------------|
| | Amortized Cost | Fair Value |
| Within one year | \$2,700,381 | \$2,700,053 |
| 1 to 5 years | 9,698,975 | 9,697,454 |
| Mortgage-backed securities | 34,258,335 | 34,624,951 |
| CMOs | 5,447,328 | 5,464,893 |
| SBA securities | 462,641 | 454,955 |
| Total | \$52,567,660 | \$52,942,306 |

Information pertaining to investments with gross unrealized losses as of December 31, 2019, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

| | <u>Less than 12 Months</u> | | <u>12 Months or Longer</u> | | <u>Total</u> | |
|--------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|---------------|-------------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Available-for-sale: | | | | | | |
| Mortgage-backed securities | \$— | \$— | \$2,961,570 | (\$58,792) | \$2,961,570 | (\$58,792) |
| Federal agency bonds | 2,700,054 | (327) | 4,898,022 | (11,663) | 7,598,076 | (11,990) |
| CMOs | — | — | 2,380,542 | (20,873) | 2,380,542 | (20,873) |
| State and Municipal securities | — | — | 2,108,110 | (6,761) | 2,108,110 | (6,761) |
| Corporate bonds | — | — | 1,001,055 | (1,448) | 1,001,055 | (1,448) |
| SBA securities | — | — | 454,954 | (7,686) | 454,954 | (7,686) |
| Total | \$2,700,054 | (\$327) | \$13,804,253 | (\$107,223) | \$16,504,307 | (\$107,550) |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of December 31, 2018, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

| | <u>Less than 12 Months</u> | | <u>12 Months or Longer</u> | | <u>Total</u> | |
|--------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|---------------------|--------------------------------|
| | <u>Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> | <u>Gross Unrealized Losses</u> |
| Available-for-sale: | | | | | | |
| Mortgage-backed securities | \$3,697,699 | (\$8,836) | \$9,783,622 | (\$229,098) | \$13,481,321 | (\$237,934) |
| Federal agency bonds | — | — | 32,906,678 | (616,047) | 32,906,678 | (616,047) |
| State and Municipal securities | — | — | 2,753,267 | (65,670) | 2,753,267 | (65,670) |
| Corporate bonds | 1,973,970 | (24,771) | — | — | 1,973,970 | (24,771) |
| SBA securities | — | — | 717,054 | (25,477) | 717,054 | (25,477) |
| Total | \$5,671,669 | (\$33,607) | \$46,160,621 | (\$936,292) | \$51,832,290 | (\$969,899) |

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

Proceeds from the sales of investments classified as available-for-sale approximated \$16,345,000 during the year ended December 31, 2019. Gross losses of approximately \$160,000 were realized from these sales during the year ended December 31, 2019. There were no sales for the year ended December 31, 2018.

Other-Than-Temporary Impairment (OTTI)

The Credit Union conducts periodic reviews of investment securities to determine whether OTTI has occurred. While all securities are considered, the securities primarily impacted by OTTI testing are corporate bonds, and state and municipal securities. For each security, a review is conducted to determine if an OTTI has occurred. To determine if unrealized losses are other-than-temporary, the Credit Union considers underlying collateral and estimated net realizable value in order to determine the impact on cash flows. The Credit Union records the expected credit loss as a charge to earnings. During the years ended December 31, 2019 and 2018, the Credit Union did not record any OTTI.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|----------------------|----------------------|
| Real estate: | | |
| First mortgage | \$376,402,732 | \$369,764,852 |
| HELOC, first trust | 5,039,572 | 11,114,354 |
| HELOC, second trust | 5,783,315 | 2,317,144 |
| | <u>387,225,619</u> | <u>383,196,350</u> |
| Consumer: | | |
| Auto participations | 40,503,903 | — |
| Other consumer | 12,458,728 | 14,406,599 |
| Vehicle | 1,177,110 | 1,159,356 |
| Credit card | 1,817,563 | 1,572,632 |
| | <u>55,957,304</u> | <u>17,138,587</u> |
| | 443,182,923 | 400,334,937 |
| Less: Allowance for loan losses | (663,603) | (718,503) |
| Loans to members, net | <u>\$442,519,320</u> | <u>\$399,616,434</u> |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2019:

| | <u>Real Estate</u> | <u>Consumer</u> | <u>Total</u> |
|--|--------------------|------------------|------------------|
| Allowance for loan losses: | | | |
| Beginning balance | \$689,763 | \$28,740 | \$718,503 |
| Charge-offs | — | (98,942) | (98,942) |
| Recoveries | — | 4,042 | 4,042 |
| Provision for loan losses | (467,181) | 507,181 | 40,000 |
| Ending balance | <u>\$222,582</u> | <u>\$441,021</u> | <u>\$663,603</u> |
| Ending balance, individually evaluated for impairment | \$— | \$16,193 | \$16,193 |
| Ending balance, collectively evaluated for impairment | <u>222,582</u> | <u>424,828</u> | <u>647,410</u> |
| Ending allowance | <u>\$222,582</u> | <u>\$441,021</u> | <u>\$663,603</u> |

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2019:

| | <u>Real Estate</u> | <u>Consumer</u> | <u>Total</u> |
|--|----------------------|---------------------|----------------------|
| Loans: | | | |
| Ending balance, individually evaluated for impairment | \$603,971 | \$32,386 | \$636,357 |
| Ending balance, collectively evaluated for impairment | <u>386,621,648</u> | <u>55,924,918</u> | <u>442,546,566</u> |
| Total loans | <u>\$387,225,619</u> | <u>\$55,957,304</u> | <u>\$443,182,923</u> |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2018:

| | <u>Real Estate</u> | <u>Consumer</u> | <u>Total</u> |
|--|--------------------|-----------------|------------------|
| Allowance for loan losses: | | | |
| Beginning allowance | \$551,746 | \$122,428 | \$674,174 |
| Charge-offs | — | (27,394) | (27,394) |
| Recoveries | — | 11,723 | 11,723 |
| Provision for loan losses | 138,017 | (78,017) | 60,000 |
| Ending allowance | <u>\$689,763</u> | <u>\$28,740</u> | <u>\$718,503</u> |
| Ending balance, individually evaluated for impairment | \$— | \$— | \$— |
| Ending balance, collectively evaluated for impairment | <u>689,763</u> | <u>28,740</u> | <u>718,503</u> |
| Ending allowance | <u>\$689,763</u> | <u>\$28,740</u> | <u>\$718,503</u> |

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2018:

| | <u>Real Estate</u> | <u>Consumer</u> | <u>Total</u> |
|--|----------------------|---------------------|----------------------|
| Allowance for loan losses | | | |
| Ending balance, individually evaluated for impairment | \$— | \$— | \$— |
| Ending balance, collectively evaluated for impairment | <u>383,196,350</u> | <u>17,138,587</u> | <u>400,334,937</u> |
| Total loans | <u>\$383,196,350</u> | <u>\$17,138,587</u> | <u>\$400,334,937</u> |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2019. There were no loans considered impaired as of December 31 2018.

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|----------------|--------------------------------|---|------------------------------|--|
| Real Estate: | | | | |
| First Mortgage | \$603,971 | \$603,971 | \$— | \$301,986 |
| Consumer: | | | | |
| Vehicle | \$32,386 | \$32,386 | \$16,193 | \$16,193 |
| Totals: | | | | |
| Real Estate | \$603,971 | \$603,971 | \$— | \$301,986 |
| Consumer | 32,386 | 32,386 | 16,193 | 16,193 |
| Total | \$636,357 | \$636,357 | \$16,193 | \$318,179 |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2019:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Greater Past Due | Total Past Due | Current | Total Loans |
|---------------------|------------------------|------------------------|------------------------------------|--------------------|----------------------|----------------------|
| Real estate: | | | | | | |
| First mortgage | \$316,038 | \$184,513 | \$— | \$500,551 | \$375,902,181 | \$376,402,732 |
| HELOC, first trust | — | — | 603,971 | 603,971 | 4,435,601 | 5,039,572 |
| HELOC, second trust | — | — | — | — | 5,783,315 | 5,783,315 |
| | <u>316,038</u> | <u>184,513</u> | <u>603,971</u> | <u>1,104,522</u> | <u>386,121,097</u> | <u>387,225,619</u> |
| Consumer: | | | | | | |
| Auto participations | 184,906 | 19,827 | 32,386 | 237,119 | 40,266,784 | 40,503,903 |
| Other consumer | 91,978 | 12,272 | 5,486 | 109,736 | 12,348,992 | 12,458,728 |
| Vehicle | — | — | 18,552 | 18,552 | 1,158,558 | 1,177,110 |
| Credit card | 50,979 | 12,369 | 36 | 63,384 | 1,754,179 | 1,817,563 |
| | <u>327,863</u> | <u>44,468</u> | <u>56,460</u> | <u>428,791</u> | <u>55,528,513</u> | <u>55,957,304</u> |
| Total | <u>\$643,901</u> | <u>\$228,981</u> | <u>\$660,431</u> | <u>\$1,533,313</u> | <u>\$441,649,610</u> | <u>\$443,182,923</u> |

Loans on which the accrual of interest has been discontinued or reduced approximated \$56,000 as of December 31, 2019. There were no loans 90 days or more past due and still accruing interest as of December 31, 2019.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2018:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Greater Past Due | Total Past Due | Current | Total Loans |
|---------------------|------------------------|------------------------|------------------------------------|-------------------|----------------------|----------------------|
| Real estate: | | | | | | |
| First mortgage | \$412,401 | \$492,964 | \$— | \$905,365 | \$368,859,487 | \$369,764,852 |
| HELOC, first trust | — | — | — | — | \$11,114,354 | 11,114,354 |
| HELOC, second trust | — | — | — | — | 2,317,144 | 2,317,144 |
| | <u>412,401</u> | <u>492,964</u> | <u>—</u> | <u>905,365</u> | <u>382,290,985</u> | <u>383,196,350</u> |
| Consumer: | | | | | | |
| Auto participations | — | — | — | — | — | — |
| Other consumer | — | 7,765 | — | 7,765 | 14,398,834 | 14,406,599 |
| Vehicle | — | — | — | — | 1,159,356 | 1,159,356 |
| Credit card | 66,686 | 16,203 | — | 82,889 | 1,489,743 | 1,572,632 |
| | <u>66,686</u> | <u>23,968</u> | <u>—</u> | <u>90,654</u> | <u>17,047,933</u> | <u>17,138,587</u> |
| Total | <u>\$479,087</u> | <u>\$516,932</u> | <u>\$—</u> | <u>\$996,019</u> | <u>\$399,338,918</u> | <u>\$400,334,937</u> |

There were no loans on which the accrual of interest has been discontinued or reduced as of December 31, 2018.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Real Estate and Consumer Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a nonperforming status for purposes of credit quality evaluation.

The following tables present the recorded investment based on performance indication as of December 31, 2019 and 2018:

| | As of December 31, 2019 | | As of December 31, 2018 | |
|---------------------|-------------------------|------------------------|-------------------------|------------------------|
| | Performing Loans | Nonperforming Loans | Performing Loans | Nonperforming Loans |
| Real estate: | | | | |
| First mortgage | \$376,402,732 | \$— | \$369,764,852 | \$— |
| HELOC, first trust | 4,435,601 | 603,971 | 11,114,354 | — |
| HELOC, second trust | 5,783,315 | — | 2,317,144 | — |
| | 386,621,648 | 603,971 | 383,196,350 | — |
| Consumer: | | | | |
| Auto participations | 40,471,517 | 32,386 | — | — |
| Other consumer | 12,453,242 | 5,486 | 14,406,599 | — |
| Vehicle | 1,158,558 | 18,552 | 1,159,356 | — |
| Credit card | 1,817,527 | 36 | 1,572,632 | — |
| | 55,900,844 | 56,460 | 17,138,587 | — |
| Total | \$442,522,492 | \$660,431 | \$400,334,937 | \$— |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2019 and 2018 by major classification as follows:

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|
| Furniture and equipment | \$1,896,290 | \$1,846,040 |
| Leasehold improvements | 423,097 | 406,610 |
| | <u>2,319,387</u> | <u>2,252,650</u> |
| Less accumulated depreciation and amortization | <u>(2,134,231)</u> | <u>(1,977,147)</u> |
| | <u>\$185,156</u> | <u>\$275,503</u> |

Depreciation and amortization charged to operations was approximately \$157,000 and \$147,000 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|----------------------|----------------------|----------------------|
| Share draft accounts | \$99,550,421 | \$89,313,729 |
| Share accounts | 288,423,838 | 290,931,297 |
| Share certificates | 104,860,897 | 83,258,590 |
| | <u>\$492,835,156</u> | <u>\$463,503,616</u> |

As of December 31, 2019, scheduled maturities of share certificates are as follows:

| | <u>2019</u> |
|-----------------|----------------------|
| Within one year | \$73,195,606 |
| 1 to 2 years | 9,760,063 |
| 2 to 3 years | 5,998,686 |
| 3 to 4 years | 5,184,167 |
| 4 to 5 years | 3,814,790 |
| over 5 years | 6,907,585 |
| | <u>\$104,860,897</u> |

The aggregate amount of members' time deposit accounts in denominations of \$250,000 or more was approximately \$39,422,000 as of December 31, 2019.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary contributions as approved by the Board of Directors. The Credit Union's contributions to the plan were approximately \$453,000 and \$418,000 during the years ended December 31, 2019 and 2018, respectively.

Note 7 - Borrowed Funds

Federal Home Loan Bank of Atlanta (FHLB)

As of December 31, 2019 and 2018, the Credit Union had access to a pre-approved secured line of credit from the FHLB, secured by eligible one-to-four family first trust mortgage loans, as defined in the FHLB Statement of Credit Policy. The carrying value of pledged first trust mortgage loans was approximately \$312,636,000 and \$290,370,000 as of December 31, 2019 and 2018, respectively. The unused line of credit under this agreement was approximately \$131,021,000 and \$114,485,000 as of December 31, 2019 and 2018, respectively.

The Credit Union's outstanding borrowed funds are as follows. Borrowings with final maturity dates beyond December 31, 2019 with zero balances were paid-off by the Credit Union during the year ended December 31, 2019.

| Lender | Interest Type | Interest Rate | Final Maturity Date | Payment Type | 2019 | 2018 |
|--------|---------------|---------------|---------------------|--------------|------|-----------|
| FHLB | Fixed | 1.18% | January 29, 2019 | Amortizing | \$— | \$50,000 |
| FHLB | Fixed | 1.12% | February 4, 2019 | Amortizing | — | 35,714 |
| FHLB | Fixed | 1.17% | February 7, 2019 | Amortizing | — | 50,000 |
| FHLB | Fixed | 1.54% | February 28, 2019 | Balloon | — | 1,500,000 |
| FHLB | Fixed | 1.23% | May 3, 2019 | Amortizing | — | 71,429 |
| FHLB | Fixed | 1.19% | May 14, 2019 | Amortizing | — | 71,429 |
| FHLB | Fixed | 1.23% | May 14, 2019 | Amortizing | — | 100,000 |
| FHLB | Fixed | 1.13% | June 3, 2019 | Amortizing | — | 71,429 |
| FHLB | Fixed | 1.03% | July 12, 2019 | Amortizing | — | 107,143 |
| FHLB | Fixed | 3.65% | August 19, 2019 | Amortizing | — | 150,000 |
| FHLB | Fixed | 1.09% | August 26, 2019 | Amortizing | — | 107,143 |
| FHLB | Fixed | 1.02% | August 29, 2019 | Amortizing | — | 107,143 |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 7 - Borrowed Funds (Continued)

Federal Home Loan Bank of Atlanta (FHLB) (Continued)

| Lender | Interest Type | Interest Rate | Final Maturity Date | Payment Type | 2019 | 2018 |
|--------|---------------|---------------|---------------------|--------------|---------|-----------|
| FHLB | Fixed | 1.58% | August 29, 2019 | Balloon | — | 1,000,000 |
| FHLB | Fixed | 1.01% | September 6, 2019 | Amortizing | — | 107,143 |
| FHLB | Fixed | 0.96% | September 26, 2019 | Amortizing | — | 214,286 |
| FHLB | Fixed | 0.92% | October 3, 2019 | Amortizing | — | 192,857 |
| FHLB | Fixed | 1.45% | October 7, 2019 | Amortizing | — | 200,000 |
| FHLB | Fixed | 1.13% | October 15, 2019 | Amortizing | — | 200,000 |
| FHLB | Fixed | 0.94% | November 20, 2019 | Amortizing | — | 142,857 |
| FHLB | Fixed | 1.36% | January 7, 2020 | Amortizing | 50,000 | 250,000 |
| FHLB | Fixed | 1.03% | April 6, 2020 | Amortizing | 71,429 | 214,286 |
| FHLB | Fixed | 1.25% | April 22, 2020 | Amortizing | 100,000 | 300,000 |
| FHLB | Fixed | 0.97% | May 4, 2020 | Amortizing | 142,857 | 428,571 |
| FHLB | Fixed | 3.18% | May 7, 2020 | Amortizing | — | 150,000 |
| FHLB | Fixed | 1.40% | August 12, 2020 | Amortizing | 150,000 | 350,000 |
| FHLB | Fixed | 2.33% | September 1, 2020 | Amortizing | — | 175,000 |
| FHLB | Fixed | 2.29% | September 22, 2020 | Amortizing | — | 175,000 |
| FHLB | Fixed | 1.32% | September 23, 2020 | Amortizing | 150,000 | 350,000 |
| FHLB | Fixed | 1.65% | October 22, 2020 | Amortizing | 142,857 | 285,714 |
| FHLB | Fixed | 1.32% | January 21, 2021 | Amortizing | 250,000 | 450,000 |
| FHLB | Fixed | 1.75% | January 29, 2021 | Amortizing | 178,571 | 321,429 |
| FHLB | Fixed | 1.75% | February 8, 2021 | Amortizing | 178,571 | 321,429 |
| FHLB | Fixed | 1.72% | May 14, 2021 | Amortizing | 214,286 | 357,143 |
| FHLB | Fixed | 6.38% | July 19, 2021 | Amortizing | — | 137,500 |
| FHLB | Fixed | 1.76% | August 16, 2021 | Amortizing | 250,000 | 392,857 |
| FHLB | Fixed | 1.88% | October 7, 2021 | Amortizing | 285,714 | 428,570 |
| FHLB | Fixed | 1.52% | October 15, 2021 | Amortizing | 285,714 | 428,570 |
| FHLB | Fixed | 6.31% | December 20, 2021 | Amortizing | — | 150,000 |
| FHLB | Fixed | 1.89% | December 21, 2021 | Amortizing | 200,000 | 300,000 |
| FHLB | Fixed | 6.19% | January 10, 2022 | Amortizing | — | 162,500 |
| FHLB | Fixed | 5.96% | January 11, 2022 | Amortizing | — | 162,500 |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 7 - Borrowed Funds (Continued)

Federal Home Loan Bank of Atlanta (FHLB) (Continued)

| Lender | Interest Type | Interest Rate | Final Maturity Date | Payment Type | 2019 | 2018 |
|--------|---------------|---------------|---------------------|--------------|--------------|--------------|
| FHLB | Fixed | 5.77% | January 18, 2022 | Amortizing | — | 162,500 |
| FHLB | Fixed | 1.66% | February 2, 2022 | Amortizing | 225,000 | 325,000 |
| FHLB | Fixed | 1.75% | February 28, 2022 | Amortizing | 225,000 | 325,000 |
| FHLB | Fixed | 1.62% | March 23, 2022 | Amortizing | 321,429 | 464,286 |
| FHLB | Fixed | 1.77% | May 3, 2022 | Amortizing | 250,000 | 350,000 |
| FHLB | Fixed | 1.68% | May 16, 2022 | Amortizing | 250,000 | 350,000 |
| FHLB | Fixed | 1.57% | June 1, 2022 | Amortizing | 250,000 | 350,000 |
| FHLB | Fixed | 5.71% | June 27, 2022 | Amortizing | — | 175,000 |
| FHLB | Fixed | 1.49% | July 12, 2022 | Amortizing | 275,000 | 375,000 |
| FHLB | Fixed | 1.82% | August 8, 2022 | Amortizing | 391,738 | 534,188 |
| FHLB | Fixed | 1.58% | August 24, 2022 | Amortizing | 275,000 | 375,000 |
| FHLB | Fixed | 1.49% | August 29, 2022 | Amortizing | 275,000 | 375,000 |
| FHLB | Fixed | 1.43% | September 26, 2022 | Amortizing | 550,000 | 750,000 |
| FHLB | Fixed | 1.49% | October 31, 2022 | Amortizing | 450,000 | 600,000 |
| FHLB | Fixed | 1.39% | November 21, 2022 | Amortizing | 300,000 | 400,000 |
| FHLB | Fixed | 1.36% | December 5, 2022 | Amortizing | 300,000 | 400,000 |
| FHLB | Fixed | 1.79% | January 13, 2023 | Amortizing | 464,286 | 607,143 |
| FHLB | Fixed | 1.60% | January 23, 2023 | Amortizing | 464,286 | 607,143 |
| FHLB | Fixed | 1.45% | February 27, 2023 | Amortizing | 464,286 | 607,143 |
| FHLB | Fixed | 2.05% | March 20, 2023 | Amortizing | 525,000 | 525,000 |
| FHLB | Fixed | 1.59% | April 3, 2023 | Amortizing | 350,000 | 450,000 |
| FHLB | Fixed | 1.52% | April 5, 2023 | Amortizing | 350,000 | 450,000 |
| FHLB | Fixed | 1.47% | May 2, 2023 | Amortizing | 700,000 | 900,000 |
| FHLB | Fixed | 2.00% | October 15, 2024 | Amortizing | 500,000 | 600,000 |
| FHLB | Fixed | 2.09% | January 7, 2025 | Amortizing | 525,000 | 625,000 |
| FHLB | Fixed | 2.05% | March 20, 2025 | Amortizing | — | 625,000 |
| FHLB | Fixed | 1.59% | May 13, 2025 | Convertible | — | 2,000,000 |
| FHLB | Fixed | 1.52% | October 6, 2025 | Convertible | — | 1,000,000 |
| FHLB | Fixed | 1.82% | February 25, 2026 | Amortizing | 625,000 | 725,000 |
| | | | | | \$11,956,024 | \$26,277,047 |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 7 - Borrowed Funds (Continued)

Federal Home Loan Bank of Atlanta (FHLB) (Continued)

As of December 31, 2019, the approximate outstanding balances by maturity dates are as follows:

| | <u>2019</u> |
|---------------|---------------------|
| Within 1 year | \$807,000 |
| 1 to 2 years | 1,843,000 |
| 2 to 3 years | 4,338,000 |
| 3 to 4 years | 2,793,000 |
| 4 to 5 years | 500,000 |
| Over 5 years | 1,675,000 |
| | <u>\$11,956,000</u> |

Note 8 - Contingent Liabilities

Off Balance-Sheet Risk

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

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2019 and 2018, the total unfunded commitments under such lines of credit was approximately \$28,708,000 and \$26,885,000, respectively. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 9 - Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2019 and 2018 was 7.26% and 7.34%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2019 and 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the regulatory framework for prompt corrective action. To be categorized as "*well capitalized*" the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

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

| | <u>As of December 31, 2019</u> | | <u>As of December 31, 2018</u> | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | <u>Amount</u> | <u>Ratio/ Requirement</u> | <u>Amount</u> | <u>Ratio/ Requirement</u> |
| Actual net worth | \$79,170,639 | 13.50% | \$73,358,498 | 12.99% |
| Amount needed to be classified as "adequately capitalized" | \$35,197,933 | 6.00% | \$33,868,565 | 6.00% |
| Amount needed to be classified as "well capitalized" | \$41,064,256 | 7.00% | \$39,513,326 | 7.00% |
| Amount needed to meet the minimum RBNW requirement | \$42,589,499 | 7.26% | \$41,432,544 | 7.34% |

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 9 - Regulatory Capital (Continued)

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

Note 10 - Fair Values Measurements

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

Basis of Fair Value Measurements

- Level 1** - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3** - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

IDB GLOBAL FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 10 - Fair Values Measurements (Continued)

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

| | Assets at Fair Value as of December 31, 2019 | | | |
|--------------------------------|--|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale: | | | | |
| Mortgage-backed securities | \$— | \$34,624,951 | \$— | \$34,624,951 |
| Federal agency bonds | — | 7,598,076 | — | 7,598,076 |
| CMOs | — | 5,464,893 | — | 5,464,893 |
| State and Municipal securities | — | 2,790,042 | — | 2,790,042 |
| Corporate Bonds | — | 2,009,389 | — | 2,009,389 |
| SBA securities | — | 454,955 | — | 454,955 |
| | \$— | \$52,942,306 | \$— | \$52,942,306 |

| | Assets at Fair Value as of December 31, 2018 | | | |
|--------------------------------|--|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale: | | | | |
| Mortgage-backed securities | \$— | \$22,386,878 | \$— | \$22,386,878 |
| Federal agency bonds | — | 32,906,678 | — | 32,906,678 |
| State and Municipal securities | — | 2,753,267 | — | 2,753,267 |
| Corporate bonds | — | 1,973,970 | — | 1,973,970 |
| Small business administration | — | 717,054 | — | 717,054 |
| | \$— | \$60,737,847 | \$— | \$60,737,847 |

Note 12 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately \$4,636,000 and \$4,480,000 as of December 31, 2019 and 2018, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately \$3,214,000 and \$3,076,000 as of December 31, 2019 and 2018, respectively.

* * * End of Notes * * *