

**VERMONT FEDERAL CREDIT UNION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee and Board of Directors
Vermont Federal Credit Union and Subsidiary
Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Vermont Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of March 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

(Continued)

Opinion

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

Crowe LLP

Crowe LLP

Boston, Massachusetts
June 15, 2021

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 78,215,924	\$ 40,368,632
Debt Securities – available-for-sale	116,667,762	57,209,544
Other investments	27,049,000	22,634,000
Loans held-for-sale	5,849,263	957,500
Loans, net of allowance for loan losses of \$2,384,387 in 2021 and \$2,032,409 in 2020	546,706,458	469,882,853
Accrued interest receivable	1,509,412	1,394,935
Foreclosed and repossessed assets	-	12,000
Premises and equipment, net	15,391,975	14,990,142
NCUSIF deposit	5,937,020	5,045,750
Other assets	<u>4,319,762</u>	<u>3,767,867</u>
Total Assets	<u>\$ 801,646,576</u>	<u>\$ 616,263,223</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share and savings accounts	\$ 726,300,485	\$ 551,052,314
Borrowed funds	1,709,250	1,709,250
Accrued expenses and other liabilities	<u>7,068,788</u>	<u>3,954,223</u>
Total liabilities	735,078,523	556,715,787
Members' Equity		
Regular reserves	4,417,109	4,417,109
Undivided earnings	61,414,931	53,810,400
Accumulated other comprehensive income	<u>736,013</u>	<u>1,319,927</u>
Total Members' Equity	<u>66,568,053</u>	<u>59,547,436</u>
Total Liabilities and Members' Equity	<u>\$ 801,646,576</u>	<u>\$ 616,263,223</u>

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the years ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest income		
Interest on loans	\$ 21,242,814	\$ 20,462,245
Interest on debt securities and other investments	<u>1,576,431</u>	<u>2,705,619</u>
Total interest income	22,819,245	23,167,864
Interest expense		
Members' share and savings accounts	4,027,694	5,603,573
Borrowed funds	<u>26</u>	<u>170,864</u>
Total interest expense	<u>4,027,720</u>	<u>5,774,437</u>
Net interest income	18,791,525	17,393,427
Provision for loan losses	<u>981,363</u>	<u>1,316,767</u>
Net interest income after provision for loan losses	17,810,162	16,076,660
Non-interest income		
Service charges and fees	1,987,982	2,694,165
Card fees	4,237,873	3,843,531
Net gains on sales of loans	2,857,695	1,199,656
Net gain on sales of foreclosed assets	9,320	38,105
Net gain on sales of debt securities	-	52,763
Other non-interest income	<u>2,048,358</u>	<u>2,013,032</u>
Total non-interest income	11,141,228	9,841,252
Non-interest expense		
Employee compensation and benefits	12,143,878	10,631,756
Occupancy	1,089,712	1,030,852
Operations	<u>8,113,269</u>	<u>8,539,847</u>
Total non-interest expense	<u>21,346,859</u>	<u>20,202,455</u>
Net income	<u>\$ 7,604,531</u>	<u>\$ 5,715,457</u>

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 7,604,531	\$ 5,715,457
Other Comprehensive (Loss) Income		
Debt Securities - available-for-sale		
Unrealized holding (loss) gain arising during the period	(583,914)	2,648,461
Reclassification for gains included in net income	<u>-</u>	<u>(52,763)</u>
Total Other Comprehensive (Loss) Income	<u>(583,914)</u>	<u>2,595,698</u>
Total Comprehensive Income	<u>\$ 7,020,617</u>	<u>\$ 8,311,155</u>

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended March 31, 2021 and 2020

	<u>Regular Reserves</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
Balance, March 31, 2019	\$ 4,417,109	\$ 48,094,943	\$ (1,275,771)	\$ 51,236,281
Net income	-	5,715,457	-	5,715,457
Other Comprehensive Income	<u>-</u>	<u>-</u>	<u>2,595,698</u>	<u>2,595,698</u>
Balance, March 31, 2020	4,417,109	53,810,400	1,319,927	59,547,436
Net income	-	7,604,531	-	7,604,531
Other Comprehensive Loss	<u>-</u>	<u>-</u>	<u>(583,914)</u>	<u>(583,914)</u>
Balance, March 31, 2021	<u>\$ 4,417,109</u>	<u>\$ 61,414,931</u>	<u>\$ 736,013</u>	<u>\$ 66,568,053</u>

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 7,604,531	\$ 5,715,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on debt securities, net	300,094	245,426
(Gain) on sale of debt securities	-	(52,763)
Net gain on sale of loans	(2,857,695)	(1,199,656)
(Gain) on sale of foreclosed assets	(9,320)	(38,105)
Amortization of mortgage servicing rights	520,652	338,987
Capitalization of mortgage servicing rights	(563,762)	(284,586)
Change in valuation allowance of mortgage servicing rights	2,449	60,852
Provision for loan losses	981,363	1,316,767
Loans originated for sale	(71,624,402)	(48,483,533)
Proceeds from sale of loans	69,649,636	49,515,247
Depreciation and amortization	1,264,342	1,196,631
Net change in:		
Accrued interest receivable	(114,477)	58,246
Other assets	(551,895)	(330,687)
Accrued expenses and other liabilities	<u>3,114,565</u>	<u>(2,996,784)</u>
Net cash provided by operating activities	7,716,081	5,061,499
Cash flows from investing activities		
Purchase of available-for-sale debt securities	(139,497,735)	(2,530,313)
Proceeds from maturities and paydowns of available-for-sale debt securities	79,155,508	22,232,843
Proceeds from sale of available-for-sale debt securities	-	22,145,201
Proceeds from the sale of assets	211,002	413,145
Net change in other investments	(4,415,000)	(693,000)
Net change in loans	(78,013,290)	(61,199,126)
Increase in the NCUSIF deposit	(891,270)	(371,791)
Purchase of property and equipment	<u>(1,666,175)</u>	<u>(540,211)</u>
Net cash used by investing activities	(145,116,960)	(20,543,252)
Cash flows from financing activities		
Net change in members' share and savings accounts	175,248,171	31,786,549
Repayments of borrowed funds	<u>-</u>	<u>(12,000,000)</u>
Net cash provided by financing activities	175,248,171	19,786,549
Increase (decrease) in cash and cash equivalents	37,847,292	4,304,796
Cash and cash equivalents - beginning of year	<u>40,368,632</u>	<u>36,063,836</u>
Cash and cash equivalents - end of year	<u>\$ 78,215,924</u>	<u>\$ 40,368,632</u>
Supplementary disclosures of noncash and cash flow information		
Dividends and interest paid on members' share and savings accounts and borrowed funds	\$ 4,027,727	\$ 5,802,301
Transfers of loans to foreclosed and repossessed assets	\$ 208,322	\$ 430,500

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Vermont Federal Credit Union is a federal-chartered cooperative association headquartered in Burlington, Vermont, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among, and creating a source of credit for its members.

Principles of Consolidation: The consolidated financial statements include the accounts of Vermont Federal Credit Union (the Credit Union) and its wholly owned subsidiary, Vermont Federal Financial Services, LLC (the CUSO), a credit union service organization that provides insurance services, to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Membership: Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of anyone who lives, works, worships, or attends school in the state of Vermont counties of Chittenden, Grand Isle, Franklin, Lamoille, Washington, or Addison. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members.

Uses of Estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments with Concentrations of Risk: Most of the Credit Union's business activity is with its members who reside in or are employed in the state of Vermont counties of Chittenden, Grand Isle, Franklin, Lamoille, Washington, and Addison. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside in Burlington, Vermont. However, the loan portfolio is well-diversified, and the Credit Union does not have any significant concentrations of credit risk.

Cash and Cash Equivalents: For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, Cash and Cash Equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits. No losses have been incurred.

Interest Bearing Deposits in Other Financial Institutions: Interest bearing deposits in other financial institutions include certificates of deposit with original maturities greater than ninety days. These are stated at cost. The certificates of deposit all mature within one year.

Securities: Debt securities available-for-sale are carried at fair value with unrealized gains and losses excluded from earnings and reported in Other Comprehensive Income (Loss). Realized gains and losses on debt securities available-for-sale are included in Non-Interest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of debt securities are based on the specific identification method for debt securities. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

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VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each reporting period, the Credit Union evaluates all securities that have a decline in fair value below the amortized cost of the investments to determine whether or not the impairment is deemed to be other-than-temporary ("OTTI"). Declines in the fair value of individual available-for-sale debt securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the debt security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Non-Interest Income.

The Credit Union did not record any other than temporary impairment during the years ended March 31, 2021 and 2020.

Other Investments: Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment. Other investments consist of permanent capital in corporate credit unions, Federal Home Loan Bank of Boston (FHLB) stock, and non-negotiable certificates of deposit in other financial institutions.

Loans Held-for-Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair value is determined based on outstanding commitments from investors. Net realized losses, if any, are recognized through a valuation allowance by charges to Non-Interest Income.

All sales are made without recourse, except for those loans sold to the FHLB under the Mortgage Partnership Finance Program, which are sold with limited recourse, consisting of maximum credit enhancement of 5% of the total loans that have been sold under the agreement.

Based upon favorable payment history, the Credit Union does not anticipate any losses on these residential loans and, accordingly, has not recorded a liability for the credit enhancement.

Loans, Net: The Credit Union grants residential real estate loans, commercial loans, and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership and the borrower's ability to pay. In addition, the Credit Union purchases commercial and residential real estate loan participations originated by other credit unions, including loans made to faith-based organizations. These loan participations were purchased without recourse and are secured by real property. The originating credit union performs all servicing functions on these loans.

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

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance consists of an allocated and general component, as further described below.

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings and watchlists, residential and commercial loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured 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 flow, the loan's estimated market value, or the estimated fair value of the underlying collateral if the loan is collateral dependent. An allowance is established when the discounted cash flow (or collateral value) of the impaired loan is lower than the carrying value of that loan.

Larger groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: consumer, residential real estate and commercial loans. Management uses a rolling average of historical losses based on a time frame (2 years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquency, impairment, and risk rating and credit score migration; trends in volume and terms; effects of changes in risk selections and underwriting standards, other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; local and national economic trends and conditions. The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are described below. For homogeneous portfolio segments, management utilizes delinquency reports and other loan reports to monitor credit quality of these loan segments.

The portfolio segments that are monitored based payment performance and their risk characteristics are described below:

Consumer – The Credit Union has identified auto loans, credit cards, student loans, and other unsecured loans in homogenous risk categories. Repayment is dependent on the credit quality of the individual borrower. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate – Generally these loans are smaller in size and are homogenous because they exhibit similar characteristics. The Credit Union has identified first mortgages, hybrid mortgages, and home equity loans in homogenous risk categories. Repayment is dependent on the credit quality of the borrower. These loans are secured by the underlying collateral. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

The portfolio segments that are risk rated and their risk characteristics are described below:

Commercial Real Estate – Commercial loans primarily consist of nonowner and owner-occupied real estate loans. Commercial loans generally have terms of 15 years or less. Repayment is expected from the cash flows of the business. Loans are secured by the underlying collateral. Substantially all commercial loans are secured and backed by the personal guarantees of the owners of the business.

Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Other – These are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass (1-3) - Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Acceptable (4) - Loans possess unconventional origination, weakened operating performance, or the occurrence of negative events which create a risk of default. A watch loan is a loan that is currently protected by the paying capacity of the borrower or the collateral, with apparent weaknesses that may result in added credit risks but is not yet in a lower loan grade. These loans are considered Pass loan for credit quality disclosures.

Special Mention (5) - Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification. These loans are considered Pass loans for credit quality disclosures.

Substandard (6) - Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (7) - Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss (8) - Loans classified as Loss are considered uncollectible and anticipated to be charged off.

Transfers of Financial Assets and Participating Interests: Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Off-Statement of Financial Condition Credit Related Financial Instruments: In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets: Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in Non-Interest Expense.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of the foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Servicing: Servicing assets are recognized separately when servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into Noninterest Income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment of increased obligation based upon the fair value at each reporting date.

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change and may have an adverse impact on the value of the servicing right and may result in reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with Noninterest Income on the consolidated statements of income.

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VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment, Net: Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the expected terms of the related leases or estimated useful life, whichever is less. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Impairment of Long-Lived Assets: The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell. No impairment losses were recognized for the years ended March 31, 2021 and 2020.

NCUSIF Deposit and NCUSIF Premium Assessments: The deposit in the National Credit Union Share Insurance Fund (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.

No NCUSIF premiums were assessed for the years ended March 31, 2021 and 2020 due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. The Credit Union received a partial reimbursement of \$0 and \$60,320 from the NCUSIF during the years ended March 31, 2021 and 2020.

Members' Share and Savings Accounts: Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity: The Credit Union is required by regulation to maintain a statutory (regular) reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Accumulated other comprehensive income (loss), also recognized as a separate component of members' equity, includes unrealized gains and losses for available-for-sale debt securities.

Income Taxes: The Credit Union is exempt, under Internal Revenue Code (IRC) 501(c)(14), from federal and state income taxes. The income from the CUSO, organized as an LLC, flows through to the Credit Union, and therefore is not subject to federal and state income taxes.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plans: The Credit Union provides a Safe Harbor 401(k) plan, which covers substantially all of the Credit Union's employees who are at least 18 years of age. The Credit Union's safe harbor match of 3% begins after six months of employment. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation, as of the first day of their employment. The Credit Union makes discretionary matching contributions as approved by the board of directors. The Credit Union's contributions to the plan approximated \$534,808 and \$475,600 for the years ended March 31, 2021 and 2020, respectively.

Deferred Compensation Plan [Section 457(b)]: The Credit Union has a nonqualified deferred compensation plan for members of management. The Credit Union does not make contributions to this plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's consolidated financial statements and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation arrangement was \$402,000 and \$301,000 as of March 31, 2021 and 2020, respectively.

Advertising Costs: Advertising and promotion costs which totaled approximately \$634,000 and \$662,000 for the years ending March 31, 2021 and 2020, respectively, are expensed as incurred.

Fair Value: Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

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

The fair value hierarchy is as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would be used in pricing an asset or liability.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value. Transfers between levels are recognized at the end of the reporting period.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification.

On April 1, 2020, the Credit Union adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of non-financial assets, such as Foreclosed and Repossessed assets. The majority of the Credit Union’s revenues come from the interest income and other sources, including loans and securities that are outside the scope of ASC 606. The Credit Union’s services that fall within the scope of ASC 606 are presented within Noninterest Income and are recognized as revenue when the Credit Union satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges and fees, interchange income, debit and ATM fee income (collectively “card fees”), investment fees and the sale of Foreclosed and Repossessed assets. The adoption of this guidance has not changed the recognition of our current revenue sources and did not have a material impact to the consolidated financial statements.

In 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2021, and interim periods within the fiscal year beginning after December 15, 2022. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU is effective for fiscal years beginning after December 15, 2022, and for interim periods within fiscal years beginning after December 15, 2022. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Credit Union is currently evaluating the impact this ASU will have on its financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall, (Subtopic 825-10)*. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to generally accepted accounting principles include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, the elimination of the requirement for non-public business entities to disclose the fair value of financial instruments measured at amortized cost and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Non-public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, except for the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost, which was adopted as of December 31, 2015 as permitted by the ASU and did not have an impact on the Credit Union's financial position or results of operations. On April 1, 2019 the Credit Union adopted the remaining provisions of ASU 2016-01. There was no material impact to the financial statements.

Reclassifications: Certain amounts from the 2020 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events: In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through June 15, 2021, the date the financial statements were available to be issued.

Risks and Uncertainties: A strain of the coronavirus spread around the world with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The Credit Union's operating area experienced periodic closures of business, restrictions on personal contact, and requests by government officials to stay in isolation. The operations and business results of the Credit Union could be materially adversely effected. Significant estimates as disclosed in Note 1, including the allowance for loan losses and valuation of securities may be materially adversely impacted by national and local events designed to contain the coronavirus.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 2 - SECURITIES AND OTHER INVESTMENTS

Available-for-Sale: The amortized cost and fair value of debt securities available-for-sale are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>March 31, 2021</u>				
U.S. Government and federal agency securities	\$ 16,007,186	\$ 1,753	\$ (59,259)	\$ 15,949,680
Federal agency mortgage-backed securities	37,708,220	392,928	(168,496)	37,932,652
Collateralized mortgage obligation securities - residential	28,655,211	462,461	(142,388)	28,975,284
Small business administration securities	9,288,969	390,135	(45,421)	9,633,683
U.S. Treasuries	21,552,269	-	(99,811)	21,452,458
Corporate bonds	<u>2,719,894</u>	<u>4,205</u>	<u>(94)</u>	<u>2,724,005</u>
Total	<u>\$ 115,931,749</u>	<u>\$ 1,251,482</u>	<u>\$ (515,469)</u>	<u>\$ 116,667,762</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>March 31, 2020</u>				
U.S. Government and federal agency securities	\$ 1,000,000	\$ 4,890	\$ -	\$ 1,004,890
Federal agency mortgage-backed securities	25,412,067	546,317	(126,610)	25,831,774
Collateralized mortgage obligation securities - residential	20,123,862	697,606	-	20,821,468
Small business administration securities	<u>9,353,688</u>	<u>197,724</u>	<u>-</u>	<u>9,551,412</u>
Total	<u>\$ 55,889,617</u>	<u>\$ 1,446,537</u>	<u>\$ (126,610)</u>	<u>\$ 57,209,544</u>

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

	<u>2021</u>	<u>2020</u>
Proceeds	\$ -	\$ 22,145,201
Gross Gains	-	144,843
Gross Losses	-	(92,080)

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 2 - SECURITIES AND OTHER INVESTMENTS (Continued)

The amortized cost and fair value of securities, at March 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and federal agency securities		
Less than one year	\$ -	\$ -
One to five years	16,007,186	15,949,680
Five to ten years	-	-
After ten years	-	-
	16,007,186	15,949,680
Federal agency mortgage-backed securities	37,708,220	37,932,652
Collateralized mortgage obligation securities-residential	28,655,211	28,975,284
Small business administration securities	9,288,969	9,633,683
U.S. Treasuries	21,552,269	21,452,458
Corporate bonds	2,719,894	2,724,005
Total	\$ 115,931,752	\$ 116,667,762

Temporarily Impaired Securities: Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>March 31, 2021</u>				
U.S. Government and federal agency securities	\$ (59,259)	\$ 12,948,900	\$ -	\$ -
Federal agency mortgage backed securities	(168,496)	22,868,175	-	-
Collateralized mortgage obligation securities-residential	(142,388)	8,759,671	-	-
Small business administration securities	(45,421)	8,759,671	-	-
U.S. Treasuries	(99,811)	21,452,460	-	-
Corporate bonds	(94)	500,235	-	-
Total available-for-sale	\$ (515,469)	\$ 66,529,441	\$ -	\$ -

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 2 - SECURITIES AND OTHER INVESTMENTS (Continued)

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>March 31, 2020</u>				
U.S. Government and federal agency securities	\$ -	\$ -	\$ -	\$ -
Federal agency mortgage-backed securities	(24,477)	2,584,345	(102,133)	6,289,796
Collateralized mortgage obligation securities-residential	-	-	-	-
Small business administration securities	-	-	-	-
	-	-	-	-
Total available-for-sale	\$ (24,477)	\$ 2,584,345	\$ (102,133)	\$ 6,289,796

At March 31, 2021, the 25 securities with unrealized losses have depreciated .77% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments: Other investments for the years ending March 31, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Perpetual contributed capital accounts	\$ 440,000	\$ 440,000
FHLB of Boston stock	680,000	680,000
Certificates of deposit in other financial institutions	25,929,000	21,514,000
Total	\$ 27,049,000	\$ 22,634,000

Perpetual Contributed Capital Accounts: The Credit Union maintains perpetual contributed capital accounts with two corporate credit unions, Tricorp Federal Credit Union and Alloya Corporate Federal Credit Union. These are uninsured and can only be paid back to the Credit Union at the discretion of the respective corporate credit union.

These uninsured deposits are part of the corporate credit union's regulatory capital and are subject to impairment.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 2 - SECURITIES AND OTHER INVESTMENTS (Continued)

FHLB Stock: The Credit Union has an investment in Federal Home Loan Bank of Boston (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

Certificates of Deposit in Other Financial Institutions: The Credit Union holds non-negotiable certificates of deposit in other financial institutions. These are stated at cost. The certificates of deposit all mature within five years.

The Credit Union did not record impairment related to any other investments during the years ended March 31, 2021 and 2020.

NOTE 3 - LOANS, NET

Loans consist of the following at March 31:

	<u>2021</u>	<u>2020</u>
Residential real estate		
Mortgage	\$ 224,452,412	\$ 179,252,315
Home equity	<u>88,710,569</u>	<u>86,397,726</u>
	313,162,981	265,650,041
Consumer		
Secured	100,042,084	101,803,023
Unsecured	<u>34,884,048</u>	<u>38,757,467</u>
	134,926,132	140,560,490
Commercial		
Real Estate	95,793,768	60,263,998
Other	<u>5,345,966</u>	<u>5,506,698</u>
	<u>101,139,734</u>	<u>65,770,696</u>
Total gross loans	549,228,847	471,981,227
Deferred net loan origination costs	(138,002)	(65,965)
Allowance for loan losses	<u>(2,384,387)</u>	<u>(2,032,409)</u>
Total	<u>\$ 546,706,458</u>	<u>\$ 469,882,853</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

The Credit Union has purchased loan participations originated by various other financial institutions, which are secured by real estate and commercial properties. These loan participations were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The total loan participations included in the commercial loans and residential mortgage real estate segments above totaled \$5,487,373 and \$5,960,363 at March 31, 2021 and 2020, respectively.

Included in residential real estate and commercial real estate loans are adjustable rate loans that total approximately \$13,281,000 and \$18,817,000 at March 31, 2021 and 2020, respectively.

Included in commercial loans are \$11,918,583 of loans made under the Payroll Protection Program (PPP), which are guaranteed by the Small Business Administration (SBA). The loans have a term of 24 months but are eligible for forgiveness by the SBA. The Company recognized \$292,056 of fee income during 2021 on the PPP loan originations.

The allowance for loan losses and recorded investment in loans is as follows:

	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
March 31, 2021				
Allowance for loan losses				
Balance at beginning of year	\$ 232,633	\$ 1,413,392	\$ 386,384	\$ 2,032,409
Provision for loan losses	188,409	344,487	448,467	981,363
Loans charged off	(71,608)	(761,119)	-	(832,727)
Recoveries of loans previously charged off	<u>35,180</u>	<u>167,394</u>	<u>768</u>	<u>203,342</u>
Balance at end of year	<u>\$ 384,614</u>	<u>\$ 1,164,154</u>	<u>\$ 835,619</u>	<u>\$ 2,384,387</u>
Ending balance, individually evaluated for impairment	<u>\$ 96,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,387</u>
Ending balance, collectively evaluated for impairment	<u>\$ 288,227</u>	<u>\$ 1,164,154</u>	<u>\$ 835,619</u>	<u>\$ 2,288,000</u>
Total allowance for loan losses	<u>\$ 384,614</u>	<u>\$ 1,164,154</u>	<u>\$ 835,619</u>	<u>\$ 2,384,387</u>
Loans:				
Ending Balance: Individually valuated for Impairment	<u>\$ 797,678</u>	<u>\$ -</u>	<u>\$ 355,369</u>	<u>\$ 1,153,047</u>
Ending Balance: Collectively valuated for Impairment	<u>\$ 312,365,303</u>	<u>\$ 134,926,132</u>	<u>\$ 100,784,365</u>	<u>\$ 548,075,800</u>
Total Loans	<u>\$ 313,162,981</u>	<u>\$ 134,926,132</u>	<u>\$ 101,139,734</u>	<u>\$ 549,228,847</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
<u>March 31, 2020</u>				
Allowance for loan losses				
Balance at beginning of year	\$ 233,623	\$ 1,463,054	\$ 323,446	\$ 2,020,123
Provision for loan losses	249,666	1,004,163	62,938	1,316,767
Loans charged off	(255,990)	(1,270,010)	-	(1,526,000)
Recoveries of loans previously charged off	<u>5,334</u>	<u>216,185</u>	<u>-</u>	<u>221,519</u>
Balance at end of year	<u>\$ 232,633</u>	<u>\$ 1,413,392</u>	<u>\$ 386,384</u>	<u>\$ 2,032,409</u>
Ending balance, individually evaluated for impairment	<u>\$ 60,409</u>	<u>\$ -</u>	<u>\$ 54,680</u>	<u>\$ 115,089</u>
Ending balance, collectively evaluated for impairment	<u>\$ 172,224</u>	<u>\$ 1,413,392</u>	<u>\$ 331,704</u>	<u>\$ 1,917,320</u>
Total allowance for loan losses	<u>\$ 232,633</u>	<u>\$ 1,413,392</u>	<u>\$ 386,384</u>	<u>\$ 2,032,409</u>
Loans:				
Ending Balance: Individually valuated for Impairment	<u>\$ 954,115</u>	<u>\$ -</u>	<u>\$ 54,680</u>	<u>\$ 1,008,795</u>
Ending Balance: Collectively valuated for Impairment	<u>\$ 264,695,926</u>	<u>\$ 140,560,490</u>	<u>\$ 65,716,016</u>	<u>\$ 470,972,432</u>
Total Loans	<u>\$ 265,650,041</u>	<u>\$ 140,560,490</u>	<u>\$ 65,770,696</u>	<u>\$ 471,981,227</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

The following tables show the commercial loan portfolio segments allocated by management's internal risk ratings:

	<u>Commercial Credit Risk Profile by Risk Rating</u>		
	<u>Commercial Real Estate</u>	<u>Commercial Other</u>	<u>Total</u>
<u>March 31, 2021</u>			
Risk Rating:			
Pass (1-3)	\$ 85,537,523	\$ 3,353,281	\$ 88,890,804
Acceptable (4)	7,456,551	770,818	8,227,369
Special Mention (5)	1,136,827	1,221,867	2,358,694
Substandard (6)	<u>1,662,867</u>	<u>-</u>	<u>1,662,867</u>
Total	<u>\$ 95,793,768</u>	<u>\$ 5,345,966</u>	<u>\$ 101,139,734</u>
<u>March 31, 2020</u>			
Risk Rating:			
Pass (1-3)	\$ 53,558,554	\$ 3,467,304	\$ 57,025,858
Acceptable (4)	5,813,040	2,039,394	7,852,434
Special Mention (5)	<u>892,404</u>	<u>-</u>	<u>892,404</u>
Total	<u>\$ 60,263,998</u>	<u>\$ 5,506,698</u>	<u>\$ 65,770,696</u>

Management has identified six sectors as the most susceptible to immediate increased credit risk from the impact of COVID-19: This includes Retail; Hospitality; Restaurants (including Breweries, Wineries, Distilleries); Entertainment and Recreation; CRE-Office Space; and CRE-Retail. The Credit Union's March 31, 2021 total loan balances in these higher risk sectors totaled \$23,007,082 (excluding PPP loans), which represents 4.2% of total loans and 22.8% of commercial loans.

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	<u>Consumer and Residential Real Estate Credit Risk Profile by Payment Activity</u>		
	<u>Performing</u>	<u>Non-Performing</u>	<u>Total</u>
<u>March 31, 2021</u>			
Residential Real Estate:			
Mortgage	\$ 224,398,622	\$ 53,790	\$ 224,452,412
Home Equity	88,474,755	235,814	88,710,569
Consumer:			
Secured	99,635,321	406,763	100,042,084
Unsecured	<u>34,782,620</u>	<u>101,428</u>	<u>34,884,048</u>
Total	<u>\$ 447,291,318</u>	<u>\$ 797,795</u>	<u>\$ 448,089,113</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

	Consumer and Residential Real Estate Credit Risk Profile by Payment Activity		
	Performing	Non-Performing	Total
<u>March 31, 2020</u>			
Residential Real Estate:			
Mortgage	\$ 178,962,545	\$ 289,770	\$ 179,252,315
Home Equity	86,281,130	116,596	86,397,726
Consumer:			
Secured	101,285,377	517,646	101,803,023
Unsecured	38,402,789	354,678	38,757,467
Total	<u>\$ 404,931,841</u>	<u>\$ 1,278,690</u>	<u>\$ 406,210,531</u>

The following tables show an aging analysis of the loan portfolio by time past due:

	Accruing Interest			Nonaccrual 90 Days or More Past Due	Total Loans
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due		
<u>March 31, 2021</u>					
Residential:					
Mortgage	\$ 223,908,323	\$ 464,010	\$ 26,289	\$ 53,790	\$ 224,452,412
Home Equity	88,454,445	20,310	-	235,814	88,710,569
Consumer:					
Secured	99,364,676	199,077	71,568	406,763	100,042,084
Unsecured	34,598,236	29,386	154,998	101,428	34,884,048
Commercial:					
Real Estate	95,707,995	84,057	1,716	-	95,793,768
Other	5,345,966	-	-	-	5,345,966
Total	<u>\$ 547,379,641</u>	<u>\$ 796,840</u>	<u>\$ 254,571</u>	<u>\$ 797,795</u>	<u>\$ 549,228,847</u>

	Accruing Interest			Nonaccrual 90 Days or More Past Due	Total Loans
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due		
<u>March 31, 2020</u>					
Residential:					
Mortgage	\$ 177,758,378	\$ 1,204,167	\$ -	\$ 289,770	\$ 179,252,315
Home Equity	85,988,544	271,105	21,481	116,596	86,397,726
Consumer:					
Secured	100,237,058	821,977	226,342	517,646	101,803,023
Unsecured	38,211,953	127,686	63,150	354,678	38,757,467
Commercial:					
Real Estate	60,209,318	-	-	54,680	60,263,998
Other	5,506,698	-	-	-	5,506,698
Total	<u>\$ 467,911,949</u>	<u>\$ 2,424,935</u>	<u>\$ 310,973</u>	<u>\$ 1,333,370</u>	<u>\$ 471,981,227</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

The following tables present information related to impaired loans:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
<u>March 31, 2021</u>				
With No Related Allowance:				
Residential:				
Mortgage	\$ 157,839	\$ 157,839	\$ -	\$ 223,804
Home Equity	179,703	179,703	-	220,753
Commercial:				
Other	355,369	355,369	-	177,685
With An Allowance Recorded:				
Residential:				
Mortgage	392,023	392,023	56,387	397,283
Home Equity	68,113	68,113	40,000	34,056
Commercial:				
Other	-	-	-	27,340
Total Impaired Loans:				
Residential:				
Mortgage	549,862	549,862	56,387	621,087
Home Equity	247,816	247,816	40,000	254,809
Commercial:				
Other	<u>355,369</u>	<u>355,369</u>	<u>-</u>	<u>205,025</u>
Total	<u>\$ 1,153,047</u>	<u>\$ 1,153,047</u>	<u>\$ 96,387</u>	<u>\$ 1,080,921</u>
 <u>March 31, 2020</u>				
With No Related Allowance:				
Residential:				
Mortgage	\$ 290,770	\$ 290,770	\$ -	\$ 329,593
Home Equity	260,802	260,802	-	247,633
With An Allowance Recorded:				
Residential:				
Mortgage	402,543	402,543	60,409	408,132
Home Equity	-	-	-	-
Commercial:				
Other	54,680	54,680	54,680	70,207
Total Impaired Loans:				
Residential:				
Mortgage	693,313	693,313	60,409	737,725
Home Equity	260,802	260,802	-	247,633
Commercial:				
Other	<u>54,680</u>	<u>54,680</u>	<u>54,680</u>	<u>70,207</u>
Total	<u>\$ 1,008,795</u>	<u>\$ 1,008,795</u>	<u>\$ 115,089</u>	<u>\$ 1,055,565</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 3 - LOANS, NET (Continued)

Interest income foregone on impaired loans was immaterial for the years ended March 31, 2021 and 2020.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

During both years ending March 31, 2021 and 2020, loans were modified for rate reductions, forgiveness of past due interest, capitalization of negative escrow and other costs, and extension of maturity dates. Management performs a discounted cash flow calculation to determine the amount of impairment reserve required on each of the trouble debt restructurings. Any reserve required is recorded through the provision for loan losses. Residential troubled debt restructurings as of March 31, 2021 and 2020 amounted to \$469,602 and \$490,602, respectively, and the reserves allocated were not material. There was one commercial troubled debt restructurings as of March 31, 2021 for \$355,369 and \$0 as of March 31, 2020. There were no mortgage or home equity troubled debt restructurings performed during the year ending March 31, 2021 and March 31, 2020.

The Credit Union is working with borrowers impacted by COVID-19 and providing modifications to include deferral of interest and/or principal payments for up to 6 months. Certain borrowers may have an extended deferral period. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of federal banking regulators.

The Credit Union provided 36 payment deferrals on commercial loans with a total principal balance of \$13,647,856, or 13.5% of total commercial loans. As of year-end 2021, \$12,347,856 of the deferrals have expired and the borrowers are making payments as agreed, \$0 of the deferrals have expired and the borrower is delinquent, and \$1,300,000 are in active deferral period. The Credit Union provided 1,143 payment deferrals on consumer loans with a total principal balance of \$13,636,916, or 10.1%, of total consumer loans. As of year-end 2021, \$10,430,550 of the deferrals have expired and the borrower is making payments as agreed, \$232,670 of the deferrals have expired and the borrower is delinquent, \$38,012 of the deferrals were charged off, \$2,935,684 of the deferrals have paid off in full and there were no loans in an active deferral period. The Credit Union also provided 153 payment deferrals on mortgage loans with a total principal balance of \$20,042,416, or 6.4%, of total mortgage loans. As of year-end 2021, \$19,205,931 of the deferrals have expired and the borrower is making payments as agreed and \$836,485 were in an active deferral period.

NOTE 4 - LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The Credit Union services loans for both the Federal Home Loan Bank of Boston and Fannie Mae. The unpaid principal balances of loans serviced for the Federal Home Loan Bank of Boston were \$83,694,788 and \$110,778,103 at March 31, 2021 and 2020, respectively. The unpaid principal balances of loans serviced for Fannie Mae were \$147,035,933 and \$124,421,458 at March 31, 2021 and 2020, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were \$1,281,454 and \$1,286,259 at March 31, 2021 and 2020, respectively. These balances are included in accrued expenses and other liabilities on the statement of financial condition.

The balance of capitalized servicing rights, net of valuation allowances, is included in other assets and totaled \$1,059,637 and \$1,018,976 at March 31, 2021 and 2020, respectively. The fair values of these rights were \$1,682,086 and \$1,573,483 at March 31, 2021 and 2020, respectively. The fair value of servicing rights was determined using discount rates ranging from 10.18% to 14.18% and prepayment speeds ranging from 182% to 267%, depending upon the stratification of the specific right and a weighted average delinquency rate of 1.5%.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 4 - LOAN SERVICING (Continued)

The following summarizes the activity pertaining to mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances as of March 31:

	<u>2021</u>	<u>2020</u>
Mortgage servicing rights:		
Balance at beginning of year	\$ 1,117,466	\$ 1,171,867
Additions	563,762	284,586
Amortization	(520,652)	(338,987)
Disposals	<u>-</u>	<u>-</u>
Balance at end of year	1,160,576	1,117,466
Valuation allowances:		
Balance at beginning of year	(98,490)	(37,638)
Additions	(180,361)	(62,773)
Disposals	<u>177,912</u>	<u>1,921</u>
Balance at end of year	(100,939)	(98,490)
Mortgage servicing assets, net	<u>\$ 1,059,637</u>	<u>\$ 1,018,976</u>

NOTE 5 - PREMISES AND EQUIPMENT, NET

The Credit Union's premises, and equipment is summarized as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 3,221,813	\$ 3,221,814
Buildings and Building Improvements	13,374,129	13,356,937
Data Processing Systems	6,009,217	5,773,011
Furniture and Equipment	2,878,439	2,274,367
Work-in-Progress	<u>1,053,012</u>	<u>244,306</u>
	26,536,610	24,870,435
Accumulated Depreciation	<u>(11,144,635)</u>	<u>(9,880,293)</u>
Total	<u>\$ 15,391,975</u>	<u>\$ 14,990,142</u>

Depreciation and amortization expense recognized related to premises and equipment during the years ended March 31, 2021 and 2020 was \$1,264,342 and \$1,196,631, respectively.

Lease Commitments: The Credit Union is obligated under noncancelable operating leases for office space. Some of the leases contain renewal options for periods from less than one year to three years, and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. Rental expense was \$146,632 and \$142,760 for the years ended March 31, 2021 and 2020, respectively.

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VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 5 - PREMISES AND EQUIPMENT, NET (Continues)

The required minimum rental payments under the terms of these noncancelable leases for the year ending March 31 at are as follows:

2022	\$ 76,054
2023	-
2024	-
2025	-
2026 and Thereafter	-
	<u>\$ 76,054</u>

Lessor Agreements: The Credit Union leases certain office facilities to various tenants under noncancelable operating leases expiring in various years. Rental income was \$437,816 and \$532,729 for the years ended March 31, 2021 and 2020, respectively. There are no future minimum lease payments.

NOTE 6 - MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts at March 31 are as follows:

	<u>2021</u>	<u>2020</u>
Regular Shares Accounts	\$ 181,573,384	\$ 113,893,655
Share Draft Accounts	250,617,969	183,329,689
Money Market Accounts	161,234,010	105,458,931
Individual Retirement Accounts	6,873,526	4,717,899
Individual Retirement Account Certificates	32,535,004	34,232,252
Certificates of Deposit	<u>93,466,592</u>	<u>109,419,888</u>
Total	<u>\$ 726,300,485</u>	<u>\$ 551,052,314</u>

The aggregate amounts of certificates of deposit in denominations of \$250,000 or more was approximately \$10,353,000 and \$13,993,000 at March 31, 2021 and 2020, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled \$60,907 and \$108,268 at March 31, 2021 and 2020, respectively.

As of March 31, scheduled maturities of member's share and savings accounts are as follows:

No Contractual Maturity	\$ 600,298,889
2022	79,136,182
2023	17,989,636
2024	15,637,434
2025	7,400,242
2026	<u>5,838,102</u>
Total	<u>\$ 726,300,485</u>

Member accounts are insured to at least \$250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2021 and 2020

NOTE 7 - BORROWED FUNDS

At March 31, 2021 and 2020, the Credit Union had an available line of credit of \$8,000,000 with Tricorp Federal Credit Union and \$1,500,000 with Alloya Federal Credit Union. The interest rates applied on any borrowing are determined on that borrowing date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit, except those pledged on other lines. There were no balances outstanding on this line at March 31, 2021 and 2020.

The Credit Union participates in the Jobs for New England (JNE) program offered by the FHLB. As a result of their participation, the Credit Union has the ability to take out advances offered at 0% for up to 10 years. The Credit Union has entered into an Advances, Pledge, and Security agreement with the Federal Home Loan Bank of Boston (FHLB) whereby a portion of the Credit Union's mortgage and home equity portfolio is pledged. The agreement provides for a maximum available borrowing account of approximately \$146,276,000 and \$119,084,000 as of March 31, 2021 and 2020, respectively, and is determined and reviewed for continuation by the lender and the Credit Union on a periodic basis. As of March 31, 2021, and 2020, there were fixed-rate advances outstanding totaling \$1,709,250 and \$1,709,250, respectively.

The Credit Union has access to an Ideal Way line of credit with the FHLB. Interest is charged at a rate determined by the lender on a daily basis. There were no balances outstanding on this agreement at March 31, 2021 and 2020, respectively.

The Credit Union has the ability to borrow through the Federal Reserve Discount Window. The interest rates applied on any borrowing are determined on that borrowing date. The line has no expiration date but is subject to review and change by the issuing institution. At March 31, 2021 and 2020, the Credit Union has not pledged securities as collateral to the Federal Reserve. Therefore, the line is not active and there is no available line of credit. There were no balances outstanding on this line at March 31, 2021 and 2020. At such time the Credit Union has a need to request an advance, securities will be pledged.

Borrowed funds at December 31 consisted of the following:

	<u>2021</u>	<u>2020</u>
FHLB 0% - 2/15/22 - 5 Year Term	\$ 232,000	\$ 232,000
FHLB 0% - 3/1/22 - 5 Year Term	60,000	60,000
FHLB 0% - 5/4/22 - 5 Year Term	152,750	152,750
FHLB 0% - 6/1/27 - 10 Year Term	550,000	550,000
FHLB 0% - 6/30/27 - 10 Year Term	189,500	189,500
FHLB 0% - 2/14/28 - 10 Year Term	<u>525,000</u>	<u>525,000</u>
Total	<u>\$ 1,709,250</u>	<u>\$ 1,709,250</u>

The maturities of borrowed funds for the year ending March 31 are as follows:

2022	\$ 292,000
2023	152,750
2024	-
2025	-
2026	-
Thereafter	<u>1,264,500</u>
Total	<u>\$ 1,709,250</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 7 - BORROWED FUNDS (Continued)

At March 31, 2021 and 2020, the Credit Union pledged home equity loans secured by 1-4 family properties with a carrying value of \$146,276,000 and \$119,084,000, respectively. There were no balances outstanding under this agreement at March 31, 2021 and 2020.

NOTE 8 - REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements.

Under capital adequacy 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-statement of financial condition items as calculated under U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications 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 ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 ratio as of March 31, 2021, the most recent quarterly regulatory filing date, was 6.16%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of March 31, 2021, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of March 31, 2021, the most recent call reporting period, the NCUA categorized the Credit Union initially 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 6.16% of assets. In addition, the Credit Union's net worth ratio must be in excess of the RBNWR requirement to maintain the "well capitalized" classification. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>March 31, 2021</u>						
Net worth	\$ 65,832,043	8.20%	\$ 48,114,582	6.00%	\$ 56,133,679	7.00%
Risk-based net worth requirement	\$ 49,381,429	6.16%	N/A	N/A	N/A	N/A
<u>March 31, 2020</u>						
Net worth	\$ 58,227,509	9.44%	\$ 36,975,793	6.00%	\$ 43,138,426	7.00%
Risk-based net worth requirement	\$ 39,194,341	6.36%	N/A	N/A	N/A	N/A

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 8 - REGULATORY NET WORTH REQUIREMENTS (Continued)

Because RBNWR at March 31, 2021, 6.16%, is less than the regulatory net worth ratio of 8.20%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance of total assets, as permitted by regulation.

NOTE 9 - RELATED PARTY TRANSACTIONS

Included in loans at March 31, 2021 and 2020, are loans to the Credit Union's board of directors, committee members, and senior executive management of \$1,654,998 and \$1,289,304, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits held by the Credit Union's board of directors, committee members, and senior executive management at March 31, 2021 and 2020 are \$900,705 and \$591,634, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities: 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 that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

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

The following financial instruments whose contract amounts represent credit risk were outstanding at March 31:

	<u>2021</u>	<u>2020</u>
Commitments to Grant Collateralized Loans		
Mortgage	\$ 17,177,000	\$ 16,077,000
Home Equity	4,941,000	1,398,200
Unfunded Unsecured Commitments Under		
Lines of Credit		
Home Equity	44,466,000	38,402,000
Commercial Real Estate	837,000	1,427,300
Commercial Other	4,548,400	3,394,100
Overdraft Protection	194,000	155,000
Lines of Credit	1,755,000	1,634,000
Student Loans	729,000	4,771,600
Credit Card Commitments	62,105,000	71,622,000
Other Unfunded Commitments	830,000	415,600
Commercial Other	<u>61,000</u>	<u>58,500</u>
Total	<u>\$ 137,643,400</u>	<u>\$ 139,355,300</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2021 and 2020

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (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 and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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

Loans sold to the FHLBB under the Mortgage Partnership Finance program are sold with recourse. Approximately \$36,668,000 of limited recourse loans have been sold for the program through March 31, 2021. Under the agreement, the Credit Union has a maximum credit enhancement of 5% of the total loans that have been sold under the agreement, or approximately \$1,833,400. Based upon a favorable payment history, the Credit Union does not anticipate recognizing any losses on these residential loans and, accordingly, has not recorded a liability for the credit enhancement.

Legal Contingencies: The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition of the Credit Union.

NOTE 11 - FAIR VALUE

Assets Measured at Fair Value on a Recurring Basis: The following tables present the balances of the assets measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>March 31, 2021</u>				
Assets				
Available-for-Sale Securities:				
U.S. Government and federal agency securities	\$ -	\$ 15,949,680	\$ -	\$ 15,949,680
Federal agency mortgage backed securities	-	37,932,652	-	37,932,652
Federal agency collateralized mortgage obligation securities	-	28,975,284	-	28,975,284
Small business administration securities	-	9,633,683	-	9,633,683
U.S. Treasuries	21,452,458	-	-	21,452,458
Corporate bonds	-	2,724,005	-	2,724,005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 21,452,458</u>	<u>\$ 95,215,304</u>	<u>\$ -</u>	<u>\$ 116,667,762</u>

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 11 - FAIR VALUE (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>March 31, 2020</u>				
Assets				
Available-for-Sale Securities:				
U.S. Government and federal agency securities	\$ -	\$ 1,004,890	\$ -	\$ 1,004,890
Federal agency mortgage backed securities	-	25,831,774	-	25,831,774
Federal agency collateralized mortgage obligation securities	-	20,821,468	-	20,821,468
Small business administration securities	-	9,551,412	-	9,551,412
Total assets	<u>\$ -</u>	<u>\$ 57,209,544</u>	<u>\$ -</u>	<u>\$ 57,209,544</u>

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures.

Debt Securities: When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis: The Credit Union may also be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower of cost or market accounting for write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of March 31, 2021 and 2020:

	<u>Fair Value at:</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Impairment Losses</u>
<u>March 30, 2021</u>				
Impaired Loans:				
Residential	\$ -	\$ -	\$ 335,636	\$ 56,387
Commercial	-	-	-	-
<u>March 30, 2020</u>				
Impaired Loans:				
Residential	\$ -	\$ -	\$ 342,134	\$ 60,409
Commercial	-	-	54,680	54,680

(Continued)

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE 11 - FAIR VALUE (Continued)

Certain residential and commercial impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component of determining the allowance for loan losses. Fair value was measured using appraised values of collateral adjusted as necessary by management based on observable inputs for specific properties. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Impaired loans were discounted 12% in 2021 and 12% in 2020 and resulted in a Level 3 classification of the inputs for determining fair value.