

American Airlines Federal Credit Union

Financial Report
December 31, 2021

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RSM US LLP

Independent Auditor's Report

Supervisory Committee
American Airlines Federal Credit Union

Opinion

We have audited the financial statements of American Airlines Federal Credit Union (the Credit Union), which comprise the statements of financial condition as of December 31, 2021 and 2020, the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

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

RSM US LLP

Dallas, Texas
March 28, 2022

American Airlines Federal Credit Union

Statements of Financial Condition

December 31, 2021 and 2020

(In Thousands)

	2021	2020
Assets		
Cash and cash equivalents	\$ 613,417	\$ 302,307
Investments:		
Available for sale	3,734,480	3,596,092
Other	66,138	4,078
Loans, net	4,601,978	4,743,859
Accrued interest receivable	15,778	17,153
Share insurance fund deposit	71,145	67,170
Property and equipment, net	69,130	73,960
Other real estate owned (OREO), net	-	227
Other assets	30,920	29,760
	<u>9,202,986</u>	<u>8,834,606</u>
Total assets	\$ 9,202,986	\$ 8,834,606
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 8,340,922	\$ 7,995,762
Dividends payable	3,390	4,825
Accrued expenses and other liabilities	35,680	37,495
Total liabilities	<u>8,379,992</u>	<u>8,038,082</u>
Commitments and contingencies (Notes 5 and 8)		
Members' equity:		
Retained earnings	842,956	788,853
Accumulated other comprehensive income (loss)	(19,962)	7,671
Total members' equity	<u>822,994</u>	<u>796,524</u>
Total liabilities and members' equity	\$ 9,202,986	\$ 8,834,606

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Income
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Interest income:		
Loans	\$ 163,992	\$ 185,304
Investments and cash equivalents	17,371	30,583
	<u>181,363</u>	<u>215,887</u>
Interest expense:		
Members' shares	52,474	75,270
Net interest income	<u>128,889</u>	<u>140,617</u>
Provision for loan losses	1,862	21,672
Net interest income after provision for loan losses	<u>127,027</u>	<u>118,945</u>
Noninterest income:		
Fee income	37,674	32,882
Other operating income	8,781	7,237
Gain on sale of investments	5	18
Other income	90	228
	<u>46,550</u>	<u>40,365</u>
Income before noninterest expenses	<u>173,577</u>	<u>159,310</u>
Noninterest expenses:		
Compensation and benefits	59,594	58,062
Facility occupancy	10,340	10,746
Office operations	32,702	30,125
Education and promotional	6,412	5,707
Loan servicing	1,486	1,491
Professional and outside services	3,984	3,689
Travel and conferences	142	254
Loss on sale of OREO	13	28
Miscellaneous operating	4,787	3,267
Other (gains) losses	14	(423)
	<u>119,474</u>	<u>112,946</u>
Net income	<u>\$ 54,103</u>	<u>\$ 46,364</u>

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Net income	<u>\$ 54,103</u>	<u>\$ 46,364</u>
Other comprehensive income (loss):		
Net unrealized (losses) gains on investments available for sale	(27,628)	6,998
Reclassification adjustment for gains realized in net income	<u>(5)</u>	<u>(18)</u>
Other comprehensive income (loss)	<u>(27,633)</u>	<u>6,980</u>
Comprehensive income	<u>\$ 26,470</u>	<u>\$ 53,344</u>

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Members' Equity
Years Ended December 31, 2021 and 2020
(In Thousands)

	Retained Earnings		Accumulated	Total
	Regular Reserve	Undivided Earnings	Other Comprehensive Income (Loss)	
Balance, December 31, 2019	\$ 61,769	\$ 680,720	\$ 691	\$ 743,180
Net income	-	46,364	-	46,364
Other comprehensive income	-	-	6,980	6,980
Balance, December 31, 2020	61,769	727,084	7,671	796,524
Net income	-	54,103	-	54,103
Other comprehensive loss	-	-	(27,633)	(27,633)
Balance, December 31, 2021	\$ 61,769	\$ 781,187	\$ (19,962)	\$ 822,994

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Cash Flows Years Ended December 31, 2021 and 2020 (In Thousands)

	2021	2020
Cash flows from operating activities:		
Net income	\$ 54,103	\$ 46,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount of investment securities, net	(4,279)	(737)
Provision for loan losses	1,862	21,672
Depreciation and amortization	6,367	6,509
Gain on sale of investments	(5)	(18)
Loss on sale of OREO	13	28
Other (gain) losses	14	(423)
Net change in:		
Accrued interest receivable	1,375	2,064
Other assets	(1,160)	883
Accrued expenses, dividends payable and other liabilities	(3,250)	(1,180)
Net cash provided by operating activities	55,040	75,162
Cash flows from investing activities:		
Purchases of available-for-sale investments	(2,448,428)	(3,065,018)
Proceeds from maturities of available-for-sale investments	1,015,727	1,108,426
Proceeds from sales and calls of available-for-sale investments	1,270,964	812,247
Net change in other investments	(62,060)	(105)
Net change in loans	140,089	28,714
Increase in share insurance fund deposits	(3,975)	(7,888)
Proceeds from sale of OREO	144	109
Proceeds from sale of assets held for sale	-	9,381
Purchases of property and equipment	(1,551)	(17,383)
Net cash used in investing activities	(89,090)	(1,131,517)
Cash flows from financing activities:		
Net increase in members' shares	345,160	1,124,800
Net cash provided by financing activities	345,160	1,124,800
Increase in cash and cash equivalents	311,110	68,445
Cash and cash equivalents:		
Beginning of year	302,307	233,862
End of year	\$ 613,417	\$ 302,307
Supplemental disclosures of cash flow information:		
Dividends paid on members' shares	\$ 53,909	\$ 79,105
Loans transferred to other real estate owned	\$ -	\$ 39

See notes to financial statements.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: American Airlines Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The Credit Union provides a variety of financial services to its members. Primary deposit products are share and certificate accounts. The Credit Union's primary lending products are real estate and consumer loans. The Credit Union is subject to competition from other financial institutions and non-credit financial service companies. The Credit Union is subject to the regulation of certain federal agencies and undergoes periodic examination by the National Credit Union Administration (NCUA).

Significant accounting policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP). References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (ASC), commonly referred to as the Codification or ASC.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the fair value of investment securities available for sale.

Risks and uncertainties: The situation surrounding the Coronavirus (COVID-19) global health pandemic remains uncertain. The pandemic resulted in a severe decline in demand for air travel in 2020 which adversely impacted the Air Transportation Industry and American Airlines Group, Inc.'s (AAG) business. In 2021 The Credit Union continued to adapt to the changing dynamics of COVID-19's impact on its members and employees. Lifting of government restrictions, government-imposed measures to reduce the spread of the virus, and increased availability of vaccinations contributed to a partial recovery for air travel in 2021. The Credit Union is continuing to monitor the pandemic, its economic impact, and related risks, however, new variants and renewed governmental action to slow the spread of COVID-19 cannot be estimated.

Concentrations of credit risk: Membership in the Credit Union is open to those working in the Air Transportation Industry, their families, and household members. Most of the Credit Union's business activity is with its members who are current or former employees of AAG. The Credit Union may be exposed to credit risk from a regional economic standpoint as a significant concentration of its borrowers reside in Texas. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the air transportation industry or the overall geographic region in which they reside.

Fair value: The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the fair value hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the hierarchy. A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 11 to these financial statements.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Cash flows: For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and non-term savings deposits in various financial institutions. Amounts may exceed the federally insured limits, but the Credit Union has not experienced any losses. Cash flows are reported net for loans and share accounts, other investments, accretion of discount or amortization of premium of investment securities, and changes in accrued interest receivable, other assets and accrued expenses, dividends payable and other liabilities.

Investments: Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Losses, if any, associated with credit impairments are recorded through operations.

Gains and losses on the sale of available-for-sale investments are determined using the specific-identification method. Interest and dividends on investments are included in income when earned. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or until sold. Certain premiums on callable debt securities are amortized to the earliest call date. Declines in the fair value of individual available-for-sale investments below their costs that are other than temporary would result in write-downs of the individual investments to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the investment by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management would not have the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments are classified separately and are stated at cost.

Loans: The Credit Union grants real estate, consumer and business loans to members. The ability of members to honor their contracts may be impacted by the real estate and/or general economic conditions of their particular area of residence.

Loans are stated at the amount of unpaid principal balances and net deferred fees and costs, reduced by an allowance for loan losses. Purchased loans are stated net of unamortized premiums and unaccreted discounts. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding.

Accrual of interest income is discontinued when loans become 90 days delinquent. Income is subsequently recognized on a cash basis until the loan's delinquency status is less than 90 days.

Loan fees and origination costs are deferred, with the net fee or cost recognized as an adjustment to interest income using the interest method over the expected life of the related loan or until the loan is modified or paid in full.

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 collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes to economic conditions.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. General allowances are established for loans that can be grouped into pools based on similar characteristics in compliance with GAAP and regulatory guidelines. In this process, general allowance factors are based on an analysis of historical net charge-off experience and expected losses given default ratios derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowance are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data. Specific allowances are maintained for loans with characteristics that distinguish them from the pools of loans with similar, but nonspecific characteristics (such as delinquencies of 60 days or more, bankruptcies, troubled debt restructures, impaired loans, etc.).

A troubled debt restructuring (TDR) loan is a loan on which the Credit Union, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Credit Union would not otherwise consider. Loan terms that may be modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity, renewal of the loan at an interest rate below current market, reduction in the accrued interest, or deferral of interest payments. The majority of the Credit Union's modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance will be removed from TDR status in situations where the modified terms were market-based at the time of modification.

The CARES Act, signed into law on March 27, 2020, along with a joint agency statement issued by banking agencies, permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019, or the applicable loan was not more than 30 days past due at the time of modification per the joint agency statement issued by banking agencies. The Credit Union is applying this guidance to qualifying loan modifications, including real estate and consumer loans primarily in the year ended December 31, 2020 with a significant reduction in CARES Act modifications during the year ended December 31, 2021. The types of loan modifications granted to borrowers include extensions of loan maturity dates and loan payment deferrals.

Property and equipment: Building, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. Building, furniture and equipment are depreciated using the straight-line method over the estimated useful life of the asset. Estimated useful lives are approximately three to 10 years for furniture and equipment, with building life extending to 30 years.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Leasehold improvements are generally amortized using the straight-line method over the lesser of five years or the term of the related lease.

Other real estate owned and foreclosed assets: Other real estate owned (OREO) is recorded at fair value less the estimated costs to sell the property at the date of transfer to other real estate owned, establishing a new cost basis. At the time a loan is transferred to OREO, any carrying amount in excess of the fair value less estimated costs to sell the property is charged off to the allowance for loan losses. Subsequently, should the fair value of an asset, less the estimated costs to sell, decline to less than the carrying amount of the asset, the deficiency is recognized in the statement of income in the period in which it becomes known. Maintenance costs of properties are included in noninterest expense. Gain or loss realized from sales of OREO is recorded in gain (loss) on sale of OREO.

Revenue recognition: ASC Topic 606, *Revenue from Contracts with Customers (ASC 606)*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of the Credit Union's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans and investment securities. No changes to the Credit Union's existing methods for recognizing revenue were made as a result of the update.

Other revenue recognition: Revenue from service charges and fees on member deposits is recognized as the services are provided.

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

Members' shares: Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles members to vote in the annual election of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote. Dividends on members' shares, excluding share certificates, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are approved by the Credit Union's Board of Directors.

Income taxes: By statute, the Credit Union is exempt from federal and state income taxes.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available for sale investments.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale (AFS) debt securities will also be recognized through an allowance, however the allowance for an individual AFS debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense.

Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The ASU is effective for fiscal years beginning after December 15, 2022. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

Subsequent events: The Credit Union has evaluated subsequent events for potential recognition and disclosure through March 28, 2022, the date on which the financial statements were available to be issued.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 2. Restrictions on Cash and Due From Banks

Effective March 26, 2020, the Board of Governors of the Federal Reserve System reduced the reserve requirement ratio to 0%.

Note 3. Investments

Investments classified as available-for-sale consist of the following (in thousands):

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
December 31, 2021:				
Government agencies	\$ 1,998,913	\$ 908	\$ (21,270)	\$ 1,978,551
Negotiable certificates	750,000	76	(609)	749,467
Mortgage-backed securities	1,005,529	2,998	(2,065)	1,006,462
	<u>\$ 3,754,442</u>	<u>\$ 3,982</u>	<u>\$ (23,944)</u>	<u>\$ 3,734,480</u>
December 31, 2020:				
Government agencies	\$ 2,449,317	\$ 5,101	\$ (486)	\$ 2,453,932
Negotiable certificates	491,118	359	(1)	491,476
Mortgage-backed securities	647,987	3,672	(975)	650,684
	<u>\$ 3,588,422</u>	<u>\$ 9,132</u>	<u>\$ (1,462)</u>	<u>\$ 3,596,092</u>

Residential and commercial mortgage-backed securities held by the Credit Union are issued by U.S. government-sponsored enterprises.

Gross realized gains on sales of investments available for sale were \$5,000 in 2021 and \$18,000 in 2020, respectively. There were no gross realized losses on sales of investments available for sale in 2021 or 2020.

Investments by maturity as of December 31, 2021, are summarized as follows (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Less than one year maturity	\$ 614,833	\$ 615,058
One to five years maturity	2,134,080	2,112,959
Mortgage-backed securities	1,005,529	1,006,463
	<u>\$ 3,754,442</u>	<u>\$ 3,734,480</u>

As of December 31, 2021 and 2020, there were no securities pledged.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 3. Investments (Continued)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020, are as follows (in thousands):

Description of Securities	Fair Value	Continuous Unrealized Losses Existing For		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
2021:				
Government agencies	\$ 1,431,734	\$ 16,847	\$ 4,423	\$ 21,270
Negotiable certificates	524,392	609	-	609
Mortgage-backed securities	501,550	1,047	1,018	2,065
	<u>\$ 2,457,676</u>	<u>\$ 18,503</u>	<u>\$ 5,441</u>	<u>\$ 23,944</u>
2020:				
Government agencies	\$ 316,389	\$ 467	\$ 19	\$ 486
Negotiable certificates	14,000	1	-	1
Mortgage-backed securities	161,363	905	70	975
	<u>\$ 491,752</u>	<u>\$ 1,373</u>	<u>\$ 89</u>	<u>\$ 1,462</u>

As of December 31, 2021, the investment portfolio included 219 securities, 68 of which had unrealized losses that existed for longer than one year, and 18 of which had unrealized losses that existed for less than one year. As of December 31, 2020, the investment portfolio included 197 securities, 10 of which had unrealized losses that existed for longer than one year, and 20 of which had unrealized losses that existed for less than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary and driven by an increase in market interest rates. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for recovery and it is more likely than not that the Credit Union will not be required to sell the securities before anticipated recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified. The Credit Union has not recognized any other-than-temporary impairment on any securities for the years ended December 31, 2021 or 2020.

Other investments consist of the following (in thousands):

	2021	2020
Share certificate in other credit union	\$ 250	\$ 250
Member capital account in corporate credit union	750	750
Federal Home Loan Bank (FHLB) stock	65,138	3,078
	<u>\$ 66,138</u>	<u>\$ 4,078</u>

American Airlines Federal Credit Union

Notes to Financial Statements

Note 3. Investments (Continued)

As of December 31, 2021, FHLB stock of \$65,138,000 and Catalyst Corporate Federal Credit Union Perpetual Contributed Capital of \$750,000 are classified with no contractual maturity. A \$250,000 certificate in a natural person credit union is classified with less than one year maturity.

FHLB of Dallas stock: Although the stock is an equity interest in the FHLB, it does not have a readily determinable fair value as ownership is restricted and a market does not exist. The stock can be sold back to the FHLB or another member institution at its par value, subject to approval by the FHLB.

Management periodically evaluates the carrying amount of the stock for impairment and has determined that no impairment occurred during the years ended December 31, 2021 and 2020.

Note 4. Loans and Allowance for Loan Losses

Loans consist of the following at December 31 (in thousands):

	2021	2020
Real estate loans:		
Mortgage loans	\$ 2,171,133	\$ 2,180,998
Home equity loans	128,563	134,673
Total real estate loans	<u>2,299,696</u>	<u>2,315,671</u>
Consumer and business loans:		
Vehicle loans	801,415	790,701
Other consumer loans	1,536,196	1,679,004
Total consumer and business loans	<u>2,337,611</u>	<u>2,469,705</u>
Total loans receivable	4,637,307	4,785,376
Deferred net loan origination fees	(4,639)	(3,276)
Allowance for loan losses	(30,690)	(38,241)
	<u>\$ 4,601,978</u>	<u>\$ 4,743,859</u>

The Credit Union originates real estate, consumer and business loans to its members. The loan balances, interest rates, loan terms and collateral requirements vary according to the type of loan offered and creditworthiness of the borrowing member.

Real estate: The Credit Union grants long-term mortgage loans secured by real property belonging to members. Home equity fixed-rate loans with maturities up to 20 years and home equity lines of credit with maturities up to 25 years may also be offered. Acceptable property types include: single-family detached or attached housing, single condominium units, single units in a planned-unit-development, and one to four family residences. The Credit Union generally requires an analysis of collateral value and creditworthiness to determine the capacity of the borrower to repay the obligation.

Consumer: The Credit Union grants consumer loans which consist of vehicle, share secured, and unsecured products. The Credit Union generally requires an analysis of creditworthiness to determine the capacity of the borrower to repay the obligation.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

Business: The Credit Union grants loans to business members which consist of one to four family dwellings that are not a member's primary residence, commercial real estate, term loans (secured), revolving lines of credit (secured and unsecured), and unsecured credit cards. The Credit Union requires an analysis that includes collateral valuation (where applicable) and projected income and cash flow that allows for adequate coverage of required payments and obligations. As of December 31, 2021 and 2020, total business loans amounted to \$5,741,000 and \$5,516,000, respectively. These loans are included in mortgage and other consumer loans above.

Workout: The Credit Union grants workout loans to members who may be experiencing a change in financial condition and who have demonstrated a willingness and ability to repay their debts. Depending on the specific circumstance, workout options include loan refinance, loan modification or troubled debt restructuring for consumer loans, and repayment plan/forbearance agreement, loan modification, loan refinance, or troubled debt restructuring for real estate loans. As of December 31, 2021 and 2020, total workout loans amounted to \$19,735,000 and \$22,354,000, respectively. These loans are spread among real estate and consumer loans above.

Impairment: 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 and interest when due according to the contractual terms of the loan agreement. Real estate loans considered a troubled debt restructuring are also evaluated for impairment. Impairment is the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher). Consumer loan troubled debt restructures are included in the allowance when the outstanding balance of the loan exceeds the total remaining bankruptcy court ordered loan repayments. Consumer loan extensions are reserved at the non-delinquent reserve rate. The troubled debt restructures are considered in default when the borrower becomes three or more months past due under the new contract terms.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The schedule below presents impaired loans and nonperforming loans by class at December 31 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2021:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	9,823	9,823	572	9,203	175
Home equity loans	797	797	78	894	3
Total real estate loans	10,620	10,620	650	10,097	178
Consumer and business loans:					
Vehicle loans	8,522	8,522	1,259	10,709	412
Other consumer loans	8,116	8,116	3,385	9,872	357
Total consumer and business loans	16,638	16,638	4,644	20,581	769
Impaired loans with an allowance recorded	27,258	27,258	5,294	30,678	947
Total impaired loans	\$ 27,258	\$ 27,258	\$ 5,294	\$ 30,678	\$ 947
2020:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	8,583	8,583	246	8,758	173
Home equity loans	991	991	79	983	9
Total real estate loans	9,574	9,574	325	9,741	182
Consumer and business loans:					
Vehicle loans	12,896	12,896	1,742	7,778	276
Other consumer loans	11,628	11,628	5,465	11,001	262
Total consumer and business loans	24,524	24,524	7,207	18,779	538
Impaired loans with an allowance recorded	34,098	34,098	7,532	28,520	720
Total impaired loans	\$ 34,098	\$ 34,098	\$ 7,532	\$ 28,520	\$ 720

A summary of impaired loans also classified as TDRs at December 31 is as follows (in thousands):

	2021	2020
Real estate	\$ 5,329	\$ 3,460
Consumer	8,524	13,127
	\$ 13,853	\$ 16,587

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The schedule below presents the recorded investment in nonaccrual loans by loan category as of December 31 (in thousands):

	2021	2020
Mortgage loans	\$ 2,337	\$ 3,936
Home equity loans	366	627
Vehicle loans	698	1,125
Other consumer loans, excluding credit cards and purchased loans	1,571	2,350
	<u>\$ 4,972</u>	<u>\$ 8,038</u>

The Credit Union charges-off loans that have been past due for over 180 days. Loans are classified by delinquency status.

The following table presents the aging of the recorded investment in past due loans as of December 31 by class of loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total	Loans Not Past Due	Total Loans
2021:						
Real estate loans:						
Mortgage loans	\$ 6,171	\$ 3,033	\$ 2,337	\$ 11,541	\$ 2,159,593	\$ 2,171,134
Home equity loans	683	94	366	1,143	127,420	128,563
Total real estate loans	<u>6,854</u>	<u>3,127</u>	<u>2,703</u>	<u>12,684</u>	<u>2,287,013</u>	<u>2,299,697</u>
Consumer and business loans:						
Vehicle	2,918	629	698	4,245	797,170	801,415
Other consumer loans	4,299	1,568	4,681	10,548	1,525,647	1,536,195
Total consumer and business loans	<u>7,217</u>	<u>2,197</u>	<u>5,379</u>	<u>14,793</u>	<u>2,322,817</u>	<u>2,337,610</u>
	<u>\$ 14,071</u>	<u>\$ 5,324</u>	<u>\$ 8,082</u>	<u>\$ 27,477</u>	<u>\$ 4,609,830</u>	<u>\$ 4,637,307</u>
2020:						
Real estate loans:						
Mortgage loans	\$ 5,862	\$ 1,950	\$ 3,936	\$ 11,748	\$ 2,169,250	\$ 2,180,998
Home equity loans	617	105	627	1,349	133,324	134,673
Total real estate loans	<u>6,479</u>	<u>2,055</u>	<u>4,563</u>	<u>13,097</u>	<u>2,302,574</u>	<u>2,315,671</u>
Consumer and business loans:						
Vehicle	3,628	856	1,125	5,609	785,092	790,701
Other consumer loans	6,733	2,812	6,113	15,658	1,663,346	1,679,004
Total consumer and business loans	<u>10,361</u>	<u>3,668</u>	<u>7,238</u>	<u>21,267</u>	<u>2,448,438</u>	<u>2,469,705</u>
	<u>\$ 16,840</u>	<u>\$ 5,723</u>	<u>\$ 11,801</u>	<u>\$ 34,364</u>	<u>\$ 4,751,012</u>	<u>\$ 4,785,376</u>

During the periods ended December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. The modification of such loans was a reduction of the stated interest rate or extension of the loan term.

The Credit Union is applying the CARES Act loan modification guidance to qualifying loan modifications. As of December 31, 2021, the Credit Union has outstanding modifications meeting the CARES Act conditions on loans with payment deferrals totaling \$10,019,000.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The following is a summary of troubled debt restructurings during the 12 months ended December 31, 2021 and 2020, and loans that had been restructured during the previous 12 months ended December 31, 2020 and 2019, that subsequently defaulted during the 12 months ended December 31 2021 and 2020 (in thousands):

	Troubled Debt Restructurings During the 12 Months Ended December 31			Troubled Debt Restructurings During the Previous 12 Months That Subsequently Defaulted During the 12 Months Ended December 31	
	Number of Contracts	Pre- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Number of Contracts	Recorded Investment
2021:					
Real estate loans:					
Mortgage loans	16	\$ 4,114	\$ 3,882	-	\$ -
Home equity loans	-	-	-	-	-
Consumer and business loans:					
Vehicle	8	130	100	17	247
Other consumer loans	6	56	51	4	61
	<u>30</u>	<u>\$ 4,300</u>	<u>\$ 4,033</u>	<u>21</u>	<u>\$ 308</u>
2020:					
Real estate loans:					
Mortgage loans	5	\$ 1,035	\$ 1,029	4	\$ 579
Home equity loans	-	-	-	-	-
Consumer and business loans:					
Vehicle	110	2,670	2,324	7	58
Other consumer loans	67	686	590	-	-
	<u>182</u>	<u>\$ 4,391</u>	<u>\$ 3,943</u>	<u>11</u>	<u>\$ 637</u>

Allowance for loan losses: Management categorizes loans into risk categories based on class of loans (e.g., real estate, vehicle, and other consumer). Loan risk categories are reserved based on historical loss ratios, delinquency status, and legal status of the loan (bankruptcy).

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The table below presents the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of and for the years ended December 31 (in thousands):

	Real Estate		Consumer and Business		Total
	Mortgage	Home Equity	Vehicle	Other	
2021:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 7,155	\$ 511	\$ 6,197	\$ 24,378	\$ 38,241
Provision for loan losses	(1,106)	(148)	258	2,858	1,862
Loans charged to allowance	(244)	(43)	(1,739)	(10,449)	(12,475)
Recoveries of loans previously charged off	139	80	370	2,473	3,062
Balance, end of the year	\$ 5,944	\$ 400	\$ 5,086	\$ 19,260	\$ 30,690
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 572	\$ 78	\$ 1,259	\$ 3,386	\$ 5,295
Collectively evaluated for impairment	5,372	322	3,827	15,874	25,395
Ending balance	\$ 5,944	\$ 400	\$ 5,086	\$ 19,260	\$ 30,690
Loans:					
Individually evaluated for impairment	\$ 9,823	\$ 797	\$ 8,522	\$ 8,116	\$ 27,258
Collectively evaluated for impairment	2,161,309	127,767	792,893	1,528,080	4,610,049
Total ending loan balance	\$ 2,171,132	\$ 128,564	\$ 801,415	\$ 1,536,196	\$ 4,637,307
2020:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 1,845	\$ 151	\$ 4,647	\$ 23,121	\$ 29,764
Provision for loan losses	5,215	444	3,219	12,794	21,672
Loans charged to allowance	(44)	(102)	(2,096)	(13,873)	(16,115)
Recoveries of loans previously charged off	139	17	426	2,338	2,920
Balance, end of the year	\$ 7,155	\$ 510	\$ 6,196	\$ 24,380	\$ 38,241
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 246	\$ 79	\$ 1,742	\$ 5,465	\$ 7,532
Collectively evaluated for impairment	6,909	431	4,454	18,915	30,709
Ending balance	\$ 7,155	\$ 510	\$ 6,196	\$ 24,380	\$ 38,241
Loans:					
Individually evaluated for impairment	\$ 8,583	\$ 991	\$ 12,896	\$ 11,628	\$ 34,098
Collectively evaluated for impairment	2,172,370	133,727	777,805	1,667,376	4,751,278
Total ending loan balance	\$ 2,180,953	\$ 134,718	\$ 790,701	\$ 1,679,004	\$ 4,785,376

American Airlines Federal Credit Union

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment as of December 31 are summarized as follows (in thousands):

	2021	2020
Building	\$ 60,016	\$ 59,984
Furniture and equipment	37,694	36,561
Leasehold improvements	12,839	12,850
Construction in process	76	250
	<u>110,625</u>	<u>109,645</u>
Accumulated depreciation and amortization	(41,495)	(35,685)
	<u>\$ 69,130</u>	<u>\$ 73,960</u>

During the periods ended December 31, 2021 and 2020, \$571,000 and \$1,651,000, respectively, of property and equipment were retired, with incurred losses of \$14,000 and \$60,000, respectively, recorded in other (gains) losses on the statements of income.

The Credit Union leases multiple offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2021, are as follows (in thousands):

Years ending December 31:	
2022	\$ 1,371
2023	720
2024	627
2025	608
2026	344
Subsequent years	1,606
	<u>\$ 5,276</u>

Rental expense for the years ended December 31, 2021 and 2020, for all facilities leased under operating leases totaled \$1,772,000 and \$1,792,000, respectively.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 6. Members' Shares

Members' shares as of December 31 are summarized as follows (in thousands):

	2021	2020
Regular shares	\$ 5,198,623	\$ 4,661,229
Share draft accounts	707,748	648,938
401(k) shares	1,331,161	1,462,701
Individual retirement account shares	173,315	168,088
Certificates	930,075	1,054,806
	<u>\$ 8,340,922</u>	<u>\$ 7,995,762</u>

Shares by maturity as of December 31, 2021 are summarized as follows (in thousands):

No contractual maturity	\$ 7,410,847
Zero to one year maturity	331,274
Greater than one year to two years maturity	185,471
Greater than two years to three years maturity	234,623
Greater than three years to four years maturity	105,422
Greater than four years to five years maturity	73,285
	<u>\$ 8,340,922</u>

Regular, share draft, 401(k) and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

NCUSIF insures members' share accounts up to a maximum federal deposit insurance level of \$250,000 per ownership category. The most common types of ownership categories are individual accounts, joint accounts, revocable trust accounts and certain retirement accounts such as 401(k) and IRA accounts. 401(k) shares represent funds which participants of AAG's various 401(k) plans have elected to invest in the Credit Union cash option of those plans.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2021 and 2020, is approximately \$79,554,000 and \$93,419,000, respectively.

Note 7. Borrowings

The Credit Union has a \$1,835,241,000 and \$1,771,113,000 line of credit available with the FHLB at December 31, 2021 and 2020, respectively. The line of credit is secured by the general assets of the Credit Union and accrues interest at variable interest rates, which depend on market interest rates. As of December 31, 2021 and 2020, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

The Credit Union has a \$95,000,000 line of credit available with Catalyst Corporate Federal Credit Union at December 31, 2021 and 2020. This line of credit is secured by the general assets of the Credit Union with variable interest rates, which depend on market interest rates. As of December 31, 2021 and 2020, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 8. Commitments and Contingencies

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

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

Outstanding mortgage loan commitments at December 31, 2021 and 2020, total approximately \$236,127,000 and \$223,224,000, respectively.

Unfunded loan commitments under lines of credit at December 31 are summarized as follows (in thousands):

	2021	2020
Home equity	\$ 107,304	\$ 103,108
Credit card	550,270	493,126
Other consumer	409,620	401,445
	<u>\$ 1,067,194</u>	<u>\$ 997,679</u>

Commitments to extend credit are agreements to lend to a member consistent with conditions established in the contract. Certain commitments have fixed expiration dates or other termination clauses. Because some of the commitments are expected to expire without being drawn on, the total commitment amount does not necessarily represent future cash requirements. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines are commitments for possible future extensions of credit to existing members. Credit cards and other consumer lines of credit are generally uncollateralized but may be protected by a cross-collateralization clause or statutory lien if the member has other secured consumer loans or deposits with the Credit Union and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

Note 9. Regulatory Matters

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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance sheet items as calculated under GAAP.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 9. Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table, which follows) of net worth to total assets. Further, credit unions with assets over \$10,000,000 are also required to calculate a Risk-Based Net Worth (RBNW) requirement, which establishes whether or not the Credit Union will be considered complex under the regulatory framework. The minimum requirement to be considered complex under the regulatory framework is 6.00%. The Credit Union's RBNW requirements as of December 31, 2021 and 2020, were 5.94 and 5.80, respectively. Management believes, as of December 31, 2021 and 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows as of December 31 (in thousands):

	2021		2020	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as adequately capitalized	\$ 552,179	6.0%	\$ 530,076	6.0%
Amount needed to be classified as well capitalized	644,209	7.0%	618,422	7.0%
Actual net worth	842,956	9.2%	788,853	8.9%

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

Note 10. Related-Party Transactions

Compensation and benefits of approximately \$60,861,000 and \$59,366,000 in 2021 and 2020, respectively, represent costs of payroll and benefits that are paid by AAG, and reimbursed by the Credit Union. In addition, AAG provides facilities at its headquarters and at various airports and provides other services to the Credit Union. Reimbursement to AAG for such items was approximately \$3,416,000 and \$3,669,000 in 2021 and 2020, respectively.

In the normal course of business, the Credit Union extends credit to its Directors, Supervisory Committee members, and officers (related parties) on the same terms and conditions as to other Credit Union members. The aggregate loans to related parties at December 31, 2021 and 2020, were approximately \$4,641,000 and \$5,561,000, respectively. Member shares from related parties at December 31, 2021 and 2020, amounted to approximately \$6,846,663 and \$6,645,000, respectively.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 11. Fair Value Measurements

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based on the valuation techniques used. The three levels are as follows:

- Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3:** Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments available for sale: Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics for Level 2 investments or using pricing models or discounted cash flows for Level 3 investments. Level 2 would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy.

Impaired loans: Impaired loans represent certain loans for which an allowance for loan losses has been measured based on the present value of future discounted cash flows of the restructured loan contract or the market value of the collateral less costs to sell. When significant adjustments have been made to unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

Other real estate owned (OREO): OREO is initially recorded and subsequently carried at fair value and generally based on a current independent third-party appraisal. The use of significant unobservable inputs by which to assess or estimate appraised values of collateral resulted in a Level 3 classification.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2021, and no transfers between levels.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

The following table represents assets and liabilities reported on the statement of financial condition at their fair value as of December 31 by level within the fair value measurement hierarchy (in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			
2021:			
Measured on a recurring basis:			
Assets:			
Government agencies	\$ 1,978,551	\$ -	\$ 1,978,551
Negotiable certificates	749,467	-	749,467
Mortgage-backed securities	1,006,462	-	1,006,462
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	21,964	-	21,964
2020:			
Measured on a recurring basis:			
Assets:			
Government agencies	\$ 2,453,932	-	2,453,932
Negotiable certificates	491,476	-	491,476
Mortgage-backed securities	650,684	-	650,684
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	26,566	-	26,566
OREO	227	-	227