NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Northwest Federal Credit Union and Subsidiary
Herndon, Virginia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Northwest Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwest Federal Credit Union and Subsidiary as of December 31, 2023 and 2022, 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.

We did not audit the financial statements of NW Capital Management, LLC, a wholly owned subsidiary, which statements reflect total assets of approximately $70,511,000 and $63,622,000 as of December 31, 2023 and 2022, and total revenues of approximately $18,209,000 and $18,847,000 for the years then ended, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for NW Capital Management, LLC, is based solely on the report of the other auditors.

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Northwest Federal Credit Union and Subsidiary 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2023, Northwest Federal Credit Union and Subsidiary adopted new accounting guidance for the measurement of credit losses on financial instruments through a cumulative-effect adjustment to undivided earnings. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated 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 consolidated 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 Northwest Federal Credit Union and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Federal Credit Union and Subsidiary'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
March 26, 2024

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 510,713	$ 77,787
Deposits in Other Financial Institutions	2,000	2,000
Investments:		
Equity Securities	16,783	11,745
Available-for-Sale	870,939	1,013,591
Held-To-Maturity	124,940	-
Other	4,675	16,749
Loans Held-for-Sale	1,981	2,686
Loans, Net	2,859,590	2,824,224
Accrued Interest Receivable	10,692	9,050
Property and Equipment, Net	49,272	49,086
NCUSIF Deposit	28,541	29,435
Other Assets	84,612	76,418
Total Assets	$ 4,564,738	$ 4,112,771
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 3,364,750	$ 3,586,578
Borrowed Funds	715,163	95,000
Accrued Expenses and Other Liabilities	109,766	86,097
Total Liabilities	4,189,679	3,767,675
MEMBERS' EQUITY		
Undivided Earnings	501,036	490,599
Accumulated Other Comprehensive Loss	(125,977)	(145,503)
Total Member's Equity	375,059	345,096
Total Liabilities and Members' Equity	$ 4,564,738	$ 4,112,771

See accompanying Notes to Consolidated Financial Statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
INTEREST INCOME		
Loans	$ 128,161	$ 98,893
Investments and Cash Equivalents	50,278	18,326
Total Interest Income	178,439	117,219
INTEREST EXPENSE		
Members' Share and Savings Accounts	42,151	16,852
Borrowed Funds	27,166	3,128
Total Interest Expense	69,317	19,980
Net Interest Income	109,122	97,239
PROVISION (CREDIT) FOR CREDIT LOSSES	2,501	(2,965)
Net Interest Income After Provision (Credit) for Credit Losses	106,621	100,204
NONINTEREST INCOME		
Fees and Service Charges	6,482	7,391
Interchange Income, Net	9,609	9,724
Gain on Sale of Loans, Net	781	865
Loss on Available-for-Sale Investments	(30)	-
Gain (Loss) on Equity Securities, Net	351	(5,546)
Other Income	28,455	36,940
Total Noninterest Income	45,648	49,374
NONINTEREST EXPENSE		
Employee Compensation and Benefits	72,019	71,698
Operations and Occupancy	23,301	20,893
Advertising and Promotion	3,771	2,000
Loan Servicing	11,916	11,761
Legal and Professional Services	3,524	3,298
Education, Travel, and Officials	561	425
Other Expenses	8,560	10,531
Total Noninterest Expense	123,652	120,606
NET INCOME	$ 28,617	$ 28,972

See accompanying Notes to Consolidated Financial Statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
NET INCOME	$ 28,617	$ 28,972
OTHER COMPREHENSIVE INCOME (LOSS)		
Securities Available-for-Sale:		
Unrealized Holding Gains (Losses) During the Period	19,496	(127,680)
Reclassification for Losses Included in Net Income	30	-
Total Other Comprehensive Income (Loss)	19,526	(127,680)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 48,143	$ (98,708)

See accompanying Notes to Consolidated Financial Statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT DECEMBER 31, 2021	$ 18,008	$ 443,619	$ (17,823)	$ 443,804
Cumulative Effect of Change in Regulation (See Members' Equity in Note 1)	(18,008)	18,008	-	-
Net Income	-	28,972	-	28,972
Other Comprehensive Loss	-	-	(127,680)	(127,680)
BALANCE AT DECEMBER 31, 2022	-	490,599	(145,503)	345,096
Cumulative Change in Accounting Principle - ASC 326 (Note 1)	-	(18,180)	-	(18,180)
Net Income	-	28,617	-	28,617
Other Comprehensive Income	-	-	19,526	19,526
BALANCE AT DECEMBER 31, 2023	$ -	$ 501,036	$ (125,977)	$ 375,059

See accompanying Notes to Consolidated Financial Statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 28,617	$ 28,972
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision (Credit) for Credit Losses	2,501	(2,965)
Depreciation and Amortization	5,574	5,612
(Accretion) Amortization of Premium and Discounts on Investment Securities, Net	(3,928)	3,986
Fair Value Adjustment of Mortgage Servicing Rights	(2,503)	(5,370)
Capitalization of Mortgage Servicing Rights	(399)	(620)
Loss on Sale of Available-for-Sale Investments	30	-
Net (Gain) Loss on Equity Securities	(351)	5,546
Net Gain on Sale of Loans	(781)	(865)
Proceeds from Sale of Loans Held-for-Sale	41,585	170,445
Loans Originated for Sale	(40,099)	(58,547)
Net Change in:		
Accrued Interest Receivable	(1,642)	(1,113)
Other Assets	(5,292)	(3,055)
Accrued Expenses and Other Liabilities	23,669	(20,868)
Net Cash Provided by Operating Activities	46,981	121,158
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Increase in Deposits in Other Financial Institutions	-	(2,000)
Purchase of Securities		
Available-for-Sale	-	(13,441)
Held-to-Maturity	(268,901)	-
Proceeds from Maturities and Paydowns of Securities		
Available-for-Sale	159,489	273,372
Held-to-Maturity	150,000	-
Proceeds from Sales of Securities - Available-for-Sale	548	-
Purchase of Equity Security Investments	(12,798)	(7,633)
Proceeds from Sale of Equity Security Investments	8,111	64,257
Net Change in Other Investments	12,074	3,389
Loan Originations, Net of Principal Collected	(56,047)	(554,197)
Decrease (Increase) in NCUSIF Deposit	894	(477)
Purchases of Property and Equipment	(5,847)	(4,365)
Proceeds from Disposal of Property and Equipment	87	114
Net Cash Used by Investing Activities	(12,390)	(240,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowed Funds	851,500	308,000
Payments Made on Borrowed Funds	(231,337)	(413,000)
Net Change in Members' Share and Savings Accounts	(221,828)	(19,165)
Net Cash Provided (Used) by Financing Activities	398,335	(124,165)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	432,926	(243,988)
Cash and Cash Equivalents - Beginning of Year	77,787	321,775
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 510,713	$ 77,787

See accompanying Notes to Consolidated Financial Statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

	2023	2022
SUPPLEMENTAL DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Interest Paid on Members' Share and Savings Accounts	$ 42,151	$ 16,852
Interest Paid on Borrowed Funds	$ 27,166	$ 3,128
Cumulative Change in Accounting Principle - ASC 326 (Note 1)	$ 18,180	$ -

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Northwest Federal Credit Union (the Credit Union) is a cooperative association holding a federal charter in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among and creating a source of credit for its members. The principal operations of the Credit Union are located in Northern Virginia, Suburban Maryland, and Washington, D.C. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly owned its subsidiary, NW Capital Management, LLC, a Credit Union Service Organization (CUSO). The CUSO provides insurance and wealth management services to Credit Union members. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparing Financial Statements

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.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of investment securities, and the fair value of mortgage servicing rights.

Financial Instruments with Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in Northern Virginia, Suburban Maryland, and Washington, D.C. The Credit Union continually monitors its operations, including the loan and investment portfolios, for potential impairment.

However, the loan portfolio is well diversified, and the Credit Union does not have significant concentrations of credit risk except direct and indirect vehicle and real estate loans which management monitors on an ongoing basis.

Cash and Cash Equivalents

For the purpose of the consolidated statements of financial condition and the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits in Other Financial Institutions

Deposits in other financial institutions include certificates of deposit. These are stated at cost. The certificates of deposit all mature within one year.

Securities

Securities held in mutual funds and other exchange-traded products are classified as equity securities and are reported separately on the consolidated statements of financial condition. Equity securities with readily determinable fair values are reported at fair value with changes in fair value included in noninterest income.

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available-for-sale are included in other noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. There were no callable debt securities for the year ended December 31, 2023. For callable debt securities purchased at a premium in 2022, the amortization period is shortened to the earliest call date.

Effective January 1, 2023, with the adoption of ASC 326, for available-for-sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the security’s amortized costs basis is written down to fair value through income. If these criteria are not met, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized costs, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, which is limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income (loss). Changes in the allowance for credit losses are recorded as a provision for credit loss. Prior to the adoption of ASC 326, the Credit Union used an other than temporary impairment model.

Effective January 1, 2023, with the adoption of ASC 326, for held to maturity debt securities, management measures expected credit losses on a collective basis by major security type. Prior to the adoption of ASC 326, the Credit Union used an other than temporary impairment model.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Investments

Other investments are carried at cost and are evaluated annually for impairment. In addition, the Credit Union has investments in various Credit Union Service Organizations. These investments are carried, as a practical expedient, at cost, less impairment, plus or minus changes resulting from observable price changes.

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made without recourse.

Loans to Members, Net

The Credit Union grants consumer, residential real estate, and commercial loans to members. In addition, the Credit Union purchases participation loans originated by various other Credit Unions. The ability of the members to honor their contracts is dependent upon the real estate value and general economic conditions facing the Credit Union's field of membership.

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

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which approximates the interest method, over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members, Net (Continued)

The Credit Union maintains multiple loan portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: These loans are usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

Commercial: These loans generally possess a higher inherent risk of loss than the consumer and residential 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.

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*:* A Pass credit is a loan with no significant existing or known potential credit weaknesses deserving management's close attention.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members, Net (Continued)

Watch List*:* A Watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local or market industry, adverse changes in local or regional employer, management changes (including illness, disability and death) and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

Special Mention: A Special Mention credit is a loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan or in the Credit Union's position at some future date. Special Mention credits are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard*:* Credits classified as Substandard are loans considered inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Such loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful*:* Credits classified as Doubtful are loans that have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss*:* Credits classified as Loss are loans considered uncollectible and charged-off.

Allowance for Credit Losses on Loans

Effective, January 1, 2023, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the allowance for credit losses on loans when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (Continued)

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, business conditions, or other relevant factors.

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include product or collateral type and origination type (direct, indirect or purchased). For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

The allowance for credit losses on loans estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model. The model includes both current and forecast unemployment rates. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Credit Union uses a 1-year reasonable and supportable forecast period in estimating the allowance for credit losses on loans. After the reasonable and supportable forecast period, the model effectively revert to long-term mean loss on a straight-line basis over 12 months.

Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible and recoveries are credited to the allowance for credit losses on loans when received. Expected recoveries on loans previously charged off and expected to be charged-off are included in the allowance for credit losses on loans estimate.

The Credit Union utilized the Discounted Cash Flow (DCF) method in determining expected future credit losses for each of the loan categories. This technique calculates the present value of the expected cash flows for pools of loans that share similar risk characteristics and compares the results of this calculation to the amortized cost basis to determine its allowance for credit loss balance. The contractual term used in projecting the cash flows of a loan is based on the maturity date of a loan and is adjusted for prepayment or curtailment assumptions which may shorten that contractual time period. Options to extend are considered by management in determining the contractual term. The key inputs to the DCF model are: probability of default, loss given default, prepayment and curtailment rates, reasonable and supportable economic forecast, forecast reversion period, expected recoveries on charged off loans, and discount rate.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (Continued)

The Credit Union’s expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Credit Union’s historical look–back period includes October 2016 through the current period, on an annual basis. When historical credit loss experience is not sufficient for a specific portfolio, the Credit Union may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management’s overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit–related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management’s ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses.

The Credit Union’s CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

The Credit Union establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans evaluated using a collective or pooled basis. These nonhomogeneous loans are removed from the pooling approach discussed above for the quantitative baseline and include non-accrual loans and other loans as deemed appropriate by management.

At least quarterly, management reviews the adequacy of the allowance for credit losses on loans, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates.

Prior to the adoption of ASC 326, the Credit Union used an incurred loss model to measure an allowance for loan losses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Expected credit losses related to off-balance sheet credit exposures are estimated over the contractual period for which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Credit Union. Expected credit losses are estimated using similar methodologies employed to estimate expected credit losses on loans, taking into consideration the likelihood and extent of additional amounts expected to be funded over the terms of the commitments. The liability for credit losses on off-balance sheet credit exposures is presented within other liabilities on the consolidated balance sheets. Adjustments to the liability are included in the provision for credit losses.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) assets have been isolated from the Credit Union, (2) the transferee obtained 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.

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.

Loan 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 of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union measures servicing assets at fair value at each reporting date and reports changes in fair value of servicing assets in noninterest income in the period of which the change occurs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Servicing (Continued)

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.

Property and Equipment, Net

Land and construction in progress are carried at cost. Land includes amounts for grounds improvements depreciated using the straight-line method over an estimated useful life of 20 years. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture 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 shorter of the useful lives of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

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.

Leases

The Credit Union accounts for leases in accordance with the Financial Accounting Standards Board (FASB) ASC 842, *Leases.* The Credit Union determines if an arrangement is a lease at inception. Operating leases are included in other assets and accrued expenses and other liabilities in the consolidated statements of financial condition.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Right of use (ROU) assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Credit Union has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets in the consolidated statements of financial condition.

NCUSIF Deposit and Share Insurance Premium Assessments

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

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

Prior to January 1, 2022, the Credit Union was required by regulation to maintain a statutory reserve (Regular Reserve). This Regular Reserve, which represented a regulatory restriction on members' equity, was established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The Regular Reserve was not available for the payment of interest. Effective January 1, 2022, the Regular Reserve is no longer required by regulation. All Regular Reserve amounts were transferred to Undivided Earnings effective January 1, 2022.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the consolidated statements of financial condition. Reclassifications from accumulated other comprehensive loss for realized gains (losses) on the sales of available-for-sale investments are reported as noninterest income in the consolidated statements of income.

Revenue From Contracts

The Credit Union recognizes revenue in accordance with *Revenue from Contracts with Customers (Topic 606).* The Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest income such as deposit related fees and interchange fees. Significant components of noninterest income considered to be within the scope of Topic 606 are discussed below.

Service Charges on Deposits

The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the performance obligation is satisfied. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue From Contracts (Continued)

Interchange Income, Net

When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network. Interchange fees are recorded net of the related member rewards program costs.

Investment Advisory Fees

Revenue from investment advisory and financial planning services are paid by clients three months in advance and deferred and recognized as revenue over the subsequent three months from date of payment. The performance obligation is fulfilled at the end of each month as financial advisors perform their fiduciary responsibilities. Advisory revenues collected prior to when the performance obligation has been fulfilled are recorded as contract liabilities in the consolidated balance sheets.

Broker-Dealer Referral Fees

Commission fee revenue from the Company's securities broker-dealer operations consist of referral fees from LPL Financial, LLC and are recorded on a trade-date basis as that is when the performance obligation, which is the purchase or sale of securities to investors, is deemed to have been fulfilled, and normally settled within 30 days.

Title and Escrow Services

Revenue generated from the sale of title insurance policies consists of a commission on the sale of the policy as well as loan closing and processing fees, which are recorded upon the loan settlement. The Credit Union acts as a broker between the customer and the underwriter of the title insurance and the Credit Union has no future obligations to the customer. The closing and processing fees are a one-time cost paid by the customer upon settlement of the loan.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes. The income from the CUSOs, organized as single member LLCs, flows through to the Credit Union, and therefore are not subject to federal and state income taxes.

Advertising Costs

Advertising and promotion costs which totaled approximately $1,143 and $903 for the years ended December 31, 2023 and 2022, respectively, are expensed as incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan

401(k) plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. Participants are always 100% vested in the voluntary contributions. The Credit Union may make discretionary matching contributions equal to a uniform percentage of an employee's salary deferral and/or discretionary profit sharing contribution. Credit Union contributions vest at 33% after one year of service, 67% after two years of service and 100% after three years of service. During the years ended December 31, 2023 and 2022, the Credit Union contributed a matching contribution of up to 7% of employee compensation. The Credit Union's net contributions to the plan approximated $3,065 and $2,948 for the years ended December 31, 2023 and 2022, respectively.

Charitable Donation Account (CDA)

In December 2013, the NCUA approved a rule that allows federal credit unions to be able to hold investments within a CDA that are not allowed otherwise, so long as the account in primarily charitable in nature. Among the CDA requirements is a minimum of 51% of the total return from the CDA must be distributed to one or more 501(c)(3) charities. Distributions must also be made to qualified charities no less frequently than every five years. Assets in a CDA also must be held in segregated custodial accounts or special purpose entities regulated by the Office of the Comptroller of the Currency, the Securities and Exchange Commission, or other federal or state financial regulatory agency.

The life insurance policies associated with the CDA account were sold as of December 31, 2023, resulting in a $95 gain, which is recorded in other noninterest income on the consolidated statement of income. As of December 31, 2022, the CDA account totaled $10,513 and associated CDA liability, which is included in accrued expenses and other liabilities, was not considered material. The CDA was made up of several life insurance policies and were included in other assets on the consolidated statements of financial condition. The policies were carried at the cash surrender value (CSV) of the contract, with changes in the value being recognized in other noninterest income on the consolidated statement of income.

Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to members of top management. The loans are collateralized by the assignment of the policy death benefits and cash values, of each respective life insurance policy. The policies are owned by the executives and the executives have the right to name the beneficiaries for amounts not secured by the assignments. The loans are considered non-recourse and as such, the Credit Union has recorded the balance as the lower of the outstanding loan balance, plus accrued interest, or the cash surrender value of the life insurance policies. The loan balance, including accrued interest, for the arrangements was $8,273 and $8,190 as of December 31, 2023 and 2022, respectively. The associated cash surrender value was $7,668 and $7,598 as of December 31, 2023 and 2022, respectively. The cash surrender value of the plans is included in other assets on the consolidated statements of financial condition. The difference represents the costs to the Credit Union associated with entering into this arrangement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insured Group Medical Insurance Plan

The Credit Union sponsors a self-insured group medical insurance plan. The plan is designed to provide a specified level of coverage, with stop-loss coverage provided by a commercial insurer in order to limit the Credit Union's exposure. The Credit Union's maximum claim exposure is limited to $150 per person per policy year. Substantially all of the Credit Union employees are enrolled in the plan at December 31, 2023 and 2022. Expenses associated with the plan totaled approximately $5,370 and $5,184 for the years ended December 31, 2023 and 2022, respectively. The Credit Union provides accruals based on the aggregate amount of the liability for reported claims and an estimated liability for claims incurred but not reported. At December 31, 2023 and 2022, accrued expenses and other liabilities includes an accrued liability related to this plan of $839 and $867, respectively.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may re-measure 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.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

On January 1, 2023, the Credit Union adopted ASU 2016-03, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology (CECL). The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity securities. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit. In addition, changes were made to the accounting for available for sale securities, which requires credit losses to be presented as an allowance rather than as a direct write-down of the available for sale securities when management does not intend to sell or believes that it is more likely than not that they will be required to sell.

The Credit Union adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after January 1, 2023 are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America (GAAP). The Credit Union recorded a net decrease to undivided earnings in the amount of $18,180 as of January 1, 2023 representing the cumulative effect of adopting this standard.

On March 31, 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the troubled debt restructuring (TDR), accounting model for creditors that have adopted Topic 326, *Financial Instruments – Credit Losses*. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. Upon adoption of this guidance, the Credit Union no longer establishes a specific reserve for modifications made on or after January 1, 2023 to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segment in the allowance for credit losses on loans. The Credit Union has adopted ASU 2022-02 effective on January 1, 2023. The adoption of this standard did not have a material effect on the Credit Union's operating results or consolidated financial condition.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 26, 2024, the date the consolidated financial statements were available to be issued.

Reclassification of 2022 Data

Data in the 2022 consolidated financial statements has been reclassified to conform with the presentation of the 2023 consolidated financial statements. This reclassification did not result in any change to consolidated net income or members' equity.

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Equity Securities

Equity securities are comprised of exchange traded funds and mutual fund investments. Such investments are recorded at fair value with changes in fair value reflected in income on investment securities. The fair values of equity securities as of December 31 are as follows:

	2023	2022
Exchange-Traded Funds	$ -	$ 300
Mutual Funds	16,783	11,445
Total	$ 16,783	$ 11,745

The following table shows a reconciliation of realized and unrealized (losses) gains for the years ended December 31:

	2023	2022
Net Gain (Losses) Recognized During the Year on Equity Securities	$ 351	$ (5,546)
Less: Net Realized (Gains) Losses on Sales of Equity Securities	179	4,110
Unrealized Gains (Losses) Recognized During the Reporting Period on Equity Securities Still Held as of December 31	$ 530	$ (1,436)

Available-for-Sale Investments

Investments classified as available-for-sale consist of the following:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Obligations and Federal Agencies Securities	$ 28,645	$ 29	$ (1,117)	$ 27,557
SBA Loan Pools	16,633	-	(383)	16,250
Mortgage-Backed Securities	926,475	5	(123,871)	802,609
Municipal Bonds	9,103	-	(193)	8,910
Corporate Bonds	16,060	-	(447)	15,613
Total	$ 996,916	$ 34	$ (126,011)	$ 870,939

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Obligations and Federal Agencies Securities	$ 43,644	$ 24	$ (2,175)	$ 41,493
SBA Loan Pools	22,313	-	(570)	21,743
Mortgage-Backed Securities	1,057,013	-	(141,215)	915,798
Municipal Bonds	17,920	-	(682)	17,238
Corporate Bonds	18,204	-	(885)	17,319
Total	$ 1,159,094	$ 24	$ (145,527)	$ 1,013,591

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Available-for-Sale Investments (Continued)

Sales of securities available-for-sale resulted in gross losses of approximately $30 during the year ended December 31, 2023. There were no sales of securities available-for-sale during the year ended December 31, 2022.

Held-to-Maturity Investments

Investments classified as held-to-maturity consist of the following:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 99,955	$ 16	$ -	$ 99,971
U.S. Government Obligations and Federal Agencies Securities	24,985	4	-	24,989
Total	$ 124,940	$ 20	$ -	$ 124,960

At December 31, 2023, securities carried at approximately $700,856 were pledged as collateral to secure borrowed funds from the Bank Term Funding Program, which are referenced in Note 7. At December 31, 2022 there were no held-to-maturity investments and no securities pledged as collateral to secure borrowed funds.

The Credit Union is generally restricted from investing in certain security types as defined in the NCUA Rules and Regulations under 12 CFR Sec 703. The Credit Union has invested in otherwise non-permissible securities for the purposes of benefit prefunding and charitable contributions in accordance with 12 CFR Sec 701.19(c) and Sec 721.3(2). All investments in mutual funds, equity securities, municipal bonds, and corporate bonds were acquired for the purposes of benefit prefunding and charitable contributions.

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2023, by contractual maturity are shown below. Expected maturities may 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		Held to Maturity	
	Amortized Cost	Fair Value (Carrying Value)	Amortized Cost (Carrying Value)	Fair Value
U.S. Government Obligations and Federal Agency Securities, Municipal Bonds, Corporate Bonds, and U.S. Treasury Notes:				
Less than 1 Year Maturity	$ 19,514	$ 19,101	$ 124,940	$ 124,960
1 - 5 Years Maturity	34,294	32,979	-	-
Subtotal	53,808	52,080	124,940	124,960
SBA Loan Pools	16,633	16,250	-	-
Mortgage-Backed Securities	926,475	802,609	-	-
Total	$ 996,916	$ 870,939	$ 124,940	$ 124,960

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Gross unrealized losses on securities available-for-sale and held-to-maturity and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less Than Twelve Months		Greater Than Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2023					
U.S. Government Obligations and Federal Agencies Securities	$ -	$ -	$ (1,117)	$ 17,528	$ (1,117)
SBA Loan Pools	(1)	546	(382)	15,704	(383)
Mortgage-Backed Securities	-	-	(123,871)	802,072	(123,871)
Municipal Bonds	-	-	(193)	8,910	(193)
Corporate Bonds	-	-	(447)	15,613	(447)
Total	$ (1)	$ 546	$ (126,010)	$ 859,827	$ (126,011)
December 31, 2022					
U.S. Government Obligations and Federal Agencies Securities	$ -	$ -	$ (2,175)	$ 31,469	$ (2,175)
SBA Loan Pools	(10)	3,127	(560)	18,616	(570)
Mortgage-Backed Securities	(7,498)	188,583	(133,717)	727,215	(141,215)
Municipal Bonds	(157)	3,958	(525)	13,280	(682)
Corporate Bonds	(520)	10,651	(365)	6,668	(885)
Total	$ (8,185)	$ 206,319	$ (137,342)	$ 797,248	$ (145,527)

The Credit Union does not believe that the available-for-sale securities that were in an unrealized loss position as of December 31, 2023, which were comprised of 569 individual securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. For municipal and corporate bonds, the Credit Union monitors the credit ratings monthly and determines if any significant changes that resulted in credit downgrades would require an allowance for credit losses to be recorded. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Credit Union does not intend to sell the investment securities that were in an unrealized loss position, and it is not more likely than not that the Credit Union will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Substantially all of the Credit Union's held-to-maturity securities are issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Therefore, the Credit Union did not record an allowance for credit losses for these securities as of December 31, 2023.

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

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 at December 31 are summarized as follows:

	2023	2022
Investments in CUSOs	$ 799	$ 799
FHLB Stock	3,876	6,001
Central Liquidity Facility Stock	-	9,949
Total	$ 4,675	$ 16,749

Investments in CUSOs

The Credit Union has noncontrolling equity ownership interest in other credit union service organizations (CUSOs). As a practical expedient, such investments are carried at cost, less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank (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. FHLB stock has no contractual maturity.

Central Liquidity Facility Stock

The Credit Union was a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. During the year ended December 31, 2023, the Credit Union terminated its membership with Central Liquidity Facility. The Credit Union had not borrowed from the facility.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET

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

	2023	2022
Consumer:		
New Indirect	$ 586,461	$ 630,143
Used Indirect	845,923	741,059
New Vehicle	63,141	83,191
Used Vehicle	132,644	163,441
Unsecured	52,817	50,191
Credit Cards	76,857	73,716
Other Secured	2,757	2,221
Total Consumer	1,760,600	1,743,962
Residential Real Estate:		
First Mortgages	773,864	796,050
Second Mortgages	133,764	76,535
Home Equity	120,106	109,623
Total Residential Real Estate	1,027,734	982,208
Commercial:		
Real Estate	31,774	37,155
Other	29,993	35,071
Purchased Participations	5,977	7,985
Total Commercial	67,744	80,211
Total Loans	2,856,078	2,806,381
Deferred Loan Costs (Fees)	29,249	26,219
Allowance for Credit Losses	(25,737)	(8,376)
Loans, Net	$ 2,859,590	$ 2,824,224

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2023, and 2022, accrued interest receivable for loans totaled $8,995 and $7,265 respectively, and is included in accrued interest receivable on the consolidated statements of financial condition.

The Credit Union has purchased loan participations originated by various other financial institutions which are secured by commercial property and real estate. These loan participations were purchased without recourse and the originating financial institutions perform all loan servicing functions on these loans. The total purchased participation loans are included in the purchased participations segment above.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property and real estate of the Credit Union's members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the consumer new and used indirect, residential first and second mortgages, commercial real estate, and commercial other loan segments above totaled $186,296 and $346,584 at December 31, 2023 and 2022, respectively.

A summary of the activity in the allowance for credit losses on loans for the years ended December 31, 2023 and 2022, respectively, are as follows. The Credit Union adopted CECL as of January 1, 2023. The prior year amounts presented are calculated under the prior accounting standard.

	Consumer	Residential Real Estate	Commercial	Total
December 31, 2023				
Allowance for Credit Losses of Loans:				
Beginning Balance	$ 7,476	$ 515	$ 385	$ 8,376
Adoption of CECL	18,180	-	-	18,180
Provision for Credit Losses	1,407	785	60	2,252
Charge-Offs	(5,248)	-	(104)	(5,352)
Recoveries	2,000	161	120	2,281
Ending Balance	$ 23,815	$ 1,461	$ 461	$ 25,737
December 31, 2022				
Allowance for Loan Losses:				
Beginning Balance	$ 11,313	$ 703	$ 1,259	$ 13,275
Credit for Loan Losses	(1,906)	(420)	(639)	(2,965)
Charge-Offs	(4,533)	-	(335)	(4,868)
Recoveries	2,602	232	100	2,934
Ending Balance	$ 7,476	$ 515	$ 385	$ 8,376

In addition to the allowance for credit losses on loans above, the Credit Union has established an allowance for credit losses on unfunded commitments, classified in other liabilities on the consolidated statements of financial condition. This allowance is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of December 31, 2023 was $249.

The provision for credit losses is determined by the Credit Union as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The components of the provision for credit losses included in the consolidated statements of income for the years ended December 31 are as follows:

	2023
Loans	$ 2,252
Unfunded Commitments	249
Total Provision for Credit Losses	$ 2,501

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the statement of financial condition date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

The allowance for credit losses for loans considered to be collateral dependent as of December 31, 2023 is as follows:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for Credit Losses:				
Ending Balance: Collateral Dependent	$ 162	$ -	$ -	$ 162
Loans:				
Ending Balance: Collateral Dependent	$ 509	$ 2,289	$ 1,731	$ 4,529

Collateral dependent consumer loans are mainly comprised of vehicle loans. The collateral value is based on estimated fair value reduced for selling costs. Collateral dependent residential real estate loans are comprised of first or second mortgage loans. The collateral value is based on the estimated fair value of the property reduced for estimated sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value.

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value.

Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The allowance for loan losses for loans evaluated individually and collectively for impairment by collateral class as of the year ended December 31, 2022 is as follows:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Ending Balance: Individually Evaluated for Impairment	$ 143	$ -	$ 220	$ 363
Ending Balance: Collectively Evaluated for Impairment	7,333	515	165	8,013
Total Allowance for Loan Losses	$ 7,476	$ 515	$ 385	$ 8,376
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 581	$ 2,814	$ 1,112	$ 4,507
Ending Balance: Collectively Evaluated for Impairment	1,743,381	979,394	79,099	2,801,874
Total Loans	$ 1,743,962	$ 982,208	$ 80,211	$ 2,806,381

Commercial Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's commercial loan portfolio, management tracks certain credit quality indicators including trends related to the risk ratings of commercial loans; the level of classified loans; net charge-offs; nonperforming loans; and the general economic conditions in the market area.

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

	Real Estate	Other	Purchased Participations	Total
December 31, 2023				
Pass	$ 20,239	$ 22,471	$ 5,462	$ 48,172
Watchlist	11,535	7,522	515	19,572
Total	$ 31,774	$ 29,993	$ 5,977	$ 67,744

December 31, 2022	Real Estate	Other	Purchased Participations	Total
Pass	$ 31,736	$ 26,724	$ 1,250	$ 59,710
Watchlist	-	-	3,009	3,009
Special Mention	5,419	8,347	3,081	16,847
Doubtful	-	-	645	645
Total	$ 37,155	$ 35,071	$ 7,985	$ 80,211

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The following tables show the classes within the residential real estate and consumer portfolio segments allocated by credit quality. Management tracks certain credit quality indicators based on if these loans are performing or nonperforming. To differentiate these categories, management tracks the loans performance and when the loan becomes 90 days past due these are classified as nonperforming loans.

December 31, 2023	Performing	Nonperforming	Total
Consumer:			
New Indirect	$ 586,182	$ 279	$ 586,461
Used Indirect	844,748	1,175	845,923
New Vehicle	63,140	1	63,141
Used Vehicle	132,502	142	132,644
Unsecured	52,498	319	52,817
Credit Cards	76,592	265	76,857
Other Secured	2,757	-	2,757
Total Consumer	$ 1,758,419	$ 2,181	$ 1,760,600
Residential Real Estate:			
First Mortgages	$ 772,855	$ 1,009	$ 773,864
Second Mortgages	133,682	82	133,764
Home Equity	119,791	315	120,106
Total Residential Real Estate	$ 1,026,328	$ 1,406	$ 1,027,734

December 31, 2022	Performing	Nonperforming	Total
Consumer:			
New Indirect	$ 629,509	$ 634	$ 630,143
Used Indirect	739,958	1,101	741,059
New Vehicle	83,164	27	83,191
Used Vehicle	163,314	127	163,441
Unsecured	50,016	175	50,191
Credit Cards	73,423	293	73,716
Other Secured	2,221	-	2,221
Total Consumer	$ 1,741,605	$ 2,357	$ 1,743,962
Residential Real Estate:			
First Mortgages	$ 794,295	$ 1,755	$ 796,050
Second Mortgages	76,417	118	76,535
Home Equity	109,423	200	109,623
Total Residential Real Estate	$ 980,135	$ 2,073	$ 982,208

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The following table presents information related to impaired loans for the year ended December 31, 2022:

December 31, 2022	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Specific Reserve Recorded:			
Consumer:			
New Indirect	$ 185	$ -	$ 194
Used Indirect	36	-	91
Used Vehicle	60	-	68
Unsecured	-	-	39
Residential Real Estate:			
First Mortgages	2,433	-	2,645
Second Mortgages	246	-	260
Home Equity	135	-	355
Commercial:			
Real Estate	60	-	1,354
Purchased Participations	-	-	16
Subtotal	3,155	-	5,022
With Specific Reserve Recorded:			
Consumer:			
New Indirect	122	22	144
Used Indirect	7	2	4
Used Vehicle	113	61	57
Unsecured	58	58	72
Commercial:			
Real Estate	1,052	220	946
Other	-	-	68
Subtotal	1,352	363	1,291
Total by Segment			
Consumer	$ 581	$ 143	$ 669
Residential Real Estate	2,814	-	3,260
Commercial	1,112	220	2,384
Total	$ 4,507	$ 363	$ 6,313

The recorded investment in impaired loans approximate the amount reported as unpaid impaired loan balances as of December 31, 2022.

Interest collected on impaired loans for the years ended December 31, 2022 was not significant as interest is not accrued on nonaccrual loans or other loans past-due 90 days or more.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

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

	Accruing Interest			Nonaccrual	
December 31, 2023	Current	30-59 Days	60-89 Days	Greater Than 90 Days	Total Loans
Consumer:					
New Indirect	$ 580,929	$ 4,723	$ 530	$ 279	$ 586,461
Used Indirect	836,492	7,502	754	1,175	845,923
New Vehicle	62,912	228	-	1	63,141
Used Vehicle	131,878	581	43	142	132,644
Unsecured	51,510	795	193	319	52,817
Credit Cards	75,875	511	206	265	76,857
Other Secured	2,740	12	5	-	2,757
Total Consumer	1,742,336	14,352	1,731	2,181	1,760,600
Residential Real Estate:					
First Mortgages	769,255	3,546	54	1,009	773,864
Second Mortgages	133,092	590	-	82	133,764
Home Equity	119,087	704	-	315	120,106
Total Residential Real Estate	1,021,434	4,840	54	1,406	1,027,734
Commercial:					
Real Estate	24,364	3,263	-	4,147	31,774
Other	28,130	24	-	1,839	29,993
Purchased Participations	5,846	131	-	-	5,977
Total Commercial	58,340	3,418	-	5,986	67,744
Total	$ 2,822,110	$ 22,610	$ 1,785	$ 9,573	$ 2,856,078
December 31, 2022					
Consumer:					
New Indirect	$ 623,922	$ 4,825	$ 762	$ 634	$ 630,143
Used Indirect	733,936	4,870	1,152	1,101	741,059
New Vehicle	83,027	121	16	27	83,191
Used Vehicle	162,891	405	18	127	163,441
Unsecured	49,326	397	293	175	50,191
Credit Cards	72,922	354	147	293	73,716
Other Secured	2,215	6	-	-	2,221
Total Consumer	1,728,239	10,978	2,388	2,357	1,743,962
Residential Real Estate:					
First Mortgages	791,729	1,795	771	1,755	796,050
Second Mortgages	76,344	73	-	118	76,535
Home Equity	108,944	397	82	200	109,623
Total Residential Real Estate	977,017	2,265	853	2,073	982,208
Commercial:					
Real Estate	34,371	2,784	-	-	37,155
Other	35,028	-	43	-	35,071
Purchased Participations	7,843	-	142	-	7,985
Total Commercial	77,242	2,784	185	-	80,211
Total	$ 2,782,498	$ 16,027	$ 3,426	$ 4,430	$ 2,806,381

Interest income foregone on nonaccrual loans was immaterial for years ended December 31, 2023 and 2022.

(IN THOUSANDS)

NOTE 3 LOANS TO MEMBERS, NET (CONTINUED)

The amortized costs basis for loans on nonaccrual status for which there is no related allowance for credit losses was $787 and $716 for the years ended December 31, 2023 and 2022, respectively.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Modifications during the year ended December 31, 2023, were insignificant to the consolidated financial statement disclosures.

The Credit Union has concluded that TDRs granted during the year ended December 31, 2022, were insignificant for the consolidated financial statement disclosures.

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for others were $1,357,063 and $1,440,018 as of December 31, 2023 and 2022, respectively.

Custodial funds in escrow represent member payments for principal and interest, as well as for taxes and insurance. These amounts are held in escrow, with a corresponding liability recorded until the date that such funds are released by the Credit Union for their intended purpose. As of December 31, 2023 and 2022, the Credit Union held $5,113 and $5,094, respectively, in escrow related to the loans serviced for FNMA.

The fair value of mortgage servicing rights was determined using discount rates of 7.70% and 7.90% and average prepayment speeds of 4.70% and 4.40% for the years ended December 31, 2023 and 2022, respectively.

A summary of the changes in the balance of mortgage servicing rights included in other assets in the consolidated statements of financial condition in 2023 and 2022 are as follows:

	2023	2022
Balance, Beginning of Year	$ 17,838	$ 11,848
Servicing Assets Capitalized	399	620
Fair Value Adjustment	2,503	5,370
Balance, End of Year	$ 20,740	$ 17,838

(IN THOUSANDS)

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment, net at December 31 is summarized as follows:

	2023	2022
Land	$ 17,447	$ 17,447
Buildings	40,560	40,560
Leasehold Improvements	23,668	20,373
Computer Equipment	26,189	27,694
Furniture and Equipment	6,929	6,457
Subtotal	114,793	112,531
Accumulated Depreciation and Amortization	(65,521)	(63,445)
Total	$ 49,272	$ 49,086

The Credit Union has leased office space at its main office location under a noncancellable operating lease. Rental income under the operating leases, included in noninterest income, were $1,234 and $1,688 for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

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

	2023	2022
Share Draft Accounts	$ 731,377	$ 778,328
Shares and Equivalents	726,827	840,208
Money Market Accounts	890,347	1,182,223
Individual Retirement Accounts (IRA) Shares	50,036	58,194
Share and IRA Certificates of Deposit	966,163	727,625
Total	$ 3,364,750	$ 3,586,578

Share and IRA certificates by maturity are summarized as follows:

	2023
0 - 1 Year	$ 704,063
1 - 2 Years	133,002
2 - 3 Years	27,649
3 - 4 Years	25,263
4 - 5 Years	76,186
Total	$ 966,163

The NCUSIF insures members' accounts and individual retirement accounts up to $250.

The aggregate amount of certificates of deposit in denominations of $250 or more was $315,803 and $240,560 at December 31, 2023 and 2022, respectively.

(IN THOUSANDS)

NOTE 7 BORROWED FUNDS

As of December 31, 2023 and 2022, in aggregate, the Credit Union maintained $175,000 in unsecured and secured line of credit agreements with various institutions, and are secured by a blanket security interest in the Credit Union's investment and loan portfolio. No amounts were outstanding on these line of credit agreements as of December 31, 2023 and 2022.

The Credit Union has entered into an agreement with the Federal Reserve Bank of Richmond that allows the Credit Union to obtain advances and to pledge and grant a security interest in the Credit Union's assets to a Federal Reserve Bank. Borrowings are secured by indirect vehicle loans totaling approximately $970,427. There were no amounts outstanding under this agreement as of December 31, 2023. As of December 31, 2022, the Credit Union had advanced $5,000 under the terms of this agreement. The note carries a fixed interest rate of 4.50%.

On March 16, 2023, the Credit Union borrowed from the Bank Term Funding Program (BTFP), and as of December 31, 2023, the outstanding principal balance totaled $694,163. The BTFP borrowings have a maturity of 12 months and can be refinanced at any time without penalty. The BTFP borrowings were scheduled to start maturing on March 14, 2024. Borrowings are secured by mortgage-backed securities and collateralized mortgage obligations totaling approximately $700,856. On January 16, 2024, the Credit Union repaid all outstanding balances and made new borrowings in the amount of $694,000 at 4.76%. The new borrowing matures in 12 months.

As of December 31, 2023 and 2022, the Credit Union had access to a pre-approved line of credit for $1,116,532 and $954,912, respectively, from the FHLB, secured by specific mortgage loans and investment securities totaling approximately $678,342 and $514,069 respectively. As of December 31, 2023 and 2022, the Credit Union has advanced $21,000 and $90,000, respectively, under the terms of this agreement. The notes carry adjustable interest rates between 3.69% and 4.79%.

The notes mature as follows:

Year Ending December 31,	Amount
2024	$ 694,163
2025	20,000
2026	-
2027	-
2028	1,000
Total	$ 715,163

(IN THOUSANDS)

NOTE 8 LEASES

The Credit Union leases eight branch facilities under noncancelable operating leases and is required to pay increases in real estate taxes on these facilities in addition to the minimum rents.

The cost components of the Credit Union's operating leases were as follows for the year ending December 31:

	2023	2022
Operating Lease Cost	$ 405	$ 340
Variable Lease Cost	1,061	1,064
Total Lease Cost	$ 1,466	$ 1,404

The following table summarizes other information related to the Credit Union's operating leases for the year ending December 31:

	2023	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating Cash Flows from Operating Leases	$ 931	$ 888
Operating Cash Flows from Financing Leases	96	109
Financing Cash Flows from Financing Leases	83	70
Initial Recognition of Right-of-Use Assets	1,060	4,960
Initial Recognition of Lease Liabilities	1,060	4,960
Weighted-Average Remaining Lease Term - Operating Leases, in Years	2 years	3 years
Weighted-Average Remaining Lease Term - Financing Leases, in Years	3 years	4 years
Weighted-Average Discount Rate - Operating Leases	2.47%	2.31%
Weighted-Average Discount Rate - Financing Leases	1.46%	1.46%

The right of use asset and lease liability, which are included in other assets and other liabilities in the consolidated statements of financial condition, totaled $3,988 and $3,929 for the years ended December 31, 2023 and 2022, respectively.

(IN THOUSANDS)

NOTE 8 LEASES (CONTINUED)

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2023, is as follows:

Year Ending December 31,	Operating Lease	Financing Lease
2024	$ 779	$ 93
2025	552	92
2026	564	1
2027	576	-
2028	599	-
Thereafter	1,305	-
Total Undiscounted Lease Payments	4,375	186
Less Imputed Interest	(565)	(8)
Total Right of Use Assets and Lease Liabilities	$ 3,810	$ 178

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

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

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

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member. 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, 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.

(IN THOUSANDS)

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Activities (Continued)

Unfunded loan commitments at December 31 are summarized as follows:

	2023	2022
Credit Card	$ 297,648	$ 295,057
Commercial	10,571	17,808
Home Equity	179,971	171,225
Overdraft Protection	27,133	26,752
Other Consumer	50,279	41,620
Total	$ 565,602	$ 552,462

At December 31, 2023 and 2022, the Credit Union had first mortgage loans in the amount of $4,169 and $8,919, respectively, which had been approved but not yet disbursed.

Legal Contingencies

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

NOTE 10 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-consolidated statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. 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).

Effective in 2022, the NCUA adopted the risk-based capital calculation which applies only to federally insured, natural person credit unions with quarter-end total assets exceeding $500 million who do not qualify for, or opt into, the complex credit union leverage ratio (CCULR) framework described in §702.104(d).

(IN THOUSANDS)

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of December 31, 2023, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. In addition, the credit union, if complex, must maintain a minimum risk-based capital ratio of 10% or greater. Management believes there are no conditions or events since filing the December 31, 2023, Call Report that would have changed the institution's category.

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

	Actual		Action Provision		Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Net Worth	$ 513,216	11.24%	$ 273,884	6.00%	$ 319,532	7.00%
Risk-Based Capital Ratio	$ 498,021	19.91%	$ 200,063	8.00%	$ 250,078	10.00%
December 31, 2022						
Net Worth	$ 490,599	11.93%	$ 246,766	6.00%	$ 287,894	7.00%
Risk-Based Net Worth Requirement	$ 788,829	19.18%	$ 192,463	8.00%	$ 240,578	10.00%

Because the net worth and risk-based capital ratios exceed the well capitalized thresholds, the Credit Union retains its original category.

The Credit Union adopted ASC 326 during the year ended December 31, 2023, and applied the regulatory CECL transition provisions (12 CFR Part 702.703). This provision requires a three-year phase in to regulatory net worth associated with the "day-one adjustment" required upon adoption of ASC 326. As of December 31, 2023, $12,180 was added to the Credit Union's consolidated members' equity to determine the regulatory net worth ratio.

NOTE 11 RELATED-PARTY TRANSACTIONS

The majority of employees and all members of the Board of Directors and the Supervisory Committee have member accounts at the Credit Union, including share, deposit and loan accounts. The terms of transactions involving these accounts, such as interest and dividend rates, are comparable to other members.

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members, and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022 are $14,915 and $15,160, respectively. The aggregate principal advances and principal repayments are not significant.

(IN THOUSANDS)

NOTE 11 RELATED PARTIES (CONTINUED)

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union as of December 31, 2023 and 2022 are not significant.

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2023				
Equity Securities	$ 16,783	$ -	$ -	$ 16,783
Available-for-Sale	-	870,939	-	870,939
Mortgage Servicing Rights	-	-	20,740	20,740
Total	$ 16,783	$ 870,939	$ 20,740	$ 908,462

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022				
Equity Securities	$ 11,745	$ -	$ -	$ 11,745
Available-for-Sale	-	1,013,591	-	1,013,591
Mortgage Servicing Rights	-	-	17,838	17,838
Total	$ 11,745	$ 1,013,591	$ 17,838	$ 1,043,174

(IN THOUSANDS)

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Recurring Basis (Continued)

The following tables present changes in assets and liabilities measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Balance at January 1	$ 17,838	$ 11,848
Total Gains or Losses (Realized or Unrealized) for the Year Included in:		
Net Income	2,503	5,370
Servicing Assets Capitalized	399	620
Balance at December 31	$ 20,740	$ 17,838

	December 31, 2023			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Mortgage Servicing Rights	$ 20,740	Discounted cash flow method	Prepayment speeds	1.25% - 1.54%

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Mortgage Servicing Rights	$ 17,838	Discounted cash flow method	Prepayment speeds	0.76% - 1.25%

Securities – Equity and Available for Sale

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.

Securities – Equity and Available for Sale (Continued)

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.

(IN THOUSANDS)

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Recurring Basis (Continued)

Mortgage Servicing Rights

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.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2023 and 2022 consisted of the following:

	Carrying Value			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Loss
December 31, 2023				
Collateral Dependent Loans	$ -	$ -	$ 347	$ (162)
December 31, 2022				
Impaired Loans	$ -	$ -	$ 989	$ (363)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
December 31, 2023				
Collateral Dependent Loans	$ 347	Valuation of Collateral	Estimation of Value	Not Meaningful
December 31, 2022				
Impaired Loans	$ 989	Valuation of Collateral	Estimation of Value	Not Meaningful

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Nonrecurring Basis (Continued)

Collateral Dependent Loans

Collateral dependent loans were individually evaluated under CECL for the year ended December 31, 2023. Collateral dependent consumer loans are mainly comprised of vehicle loans. The collateral value is based on estimated fair value reduced for selling costs. Collateral dependent residential real estate loans are comprised of first or second mortgage loans. The collateral value is based on the estimated fair value of the property reduced for estimated sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value.

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

(IN THOUSANDS)

NOTE 13 REVENUE FROM CONTRACTS

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31:

	2023	2022
In Scope of ASC 606:		
Services Charges on Deposits	$ 5,862	$ 6,878
Interchange Income, Net	9,609	9,724
Investment Advisory Fees	15,872	16,304
Broker-Dealer Referral Fees	1,373	1,305
Title and Escrow Services	102	421
Other	3,469	3,649
Noninterest Income in Scope of ASC 606	36,287	38,281
Noninterest Income Not Within the Scope of ASC 606 (a)	9,361	11,093
Total Noninterest Income	$ 45,648	$ 49,374

(a) This revenue is not within the scope of ASC 606, and includes fees related to loan servicing fees, gain on sale of mortgages, and credit card fees.

NOTE 14 NAMING RIGHTS AGREEMENT

In 2019, the Credit Union entered into an agreement with the Northern Virginia Science Center Foundation (doing business as Children's Science Center) to purchase the naming rights of a science center which is anticipated to be opened no sooner than 2024. The Credit Union will retain the naming rights for 99 years. In accordance with GAAP, the Credit Union has recorded these expenses as prepaid marketing expenses, included in other assets on the consolidated statements of financial condition. The Credit Union will amortize these expenses ratably over a period of time determined at the date of opening. As of December 31, 2023 and 2022, the Credit Union had prepaid marketing expenses of $10,000 and $7,500, respectively. The Credit Union has no further liability after December 31, 2023.