2023 ANNUAL REPORT

PENFED CREDIT UNION

OUR MISSION

To deliver financial value to help our members achieve their dreams.

OUR VISION

To be recognized as one of America's premier financial institutions, delivering convenience and compelling value.

OUR VALUES

Personal & Professional Excellence

We always strive to do our best.

Integrity & Respect

We do the right thing and expect the same of our colleagues.

Teamwork

We achieve at higher levels together.

Service

We take perfect care of our members and community.

High Performance

We use innovation, expertise, and continuous improvement to deliver what our members deserve.

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CHAIRMAN'S LETTER

Dear Fellow Members,

This past year has tested the resilience and agility of financial institutions worldwide. Amid these tests, our commitment to you – to safeguard and enhance our shared financial future – has never wavered. In the current market environment, it is important to adopt strategic goals and actions that protect and strengthen our institution. I'm pleased to share how we've not only navigated these times but also laid down tracks for a future filled with promise. PenFed continues to operate safely and soundly. The following pages of this report delineate our journey through the year, underscoring our operational achievements, strategic initiatives, and, importantly, how we delivered on our mission to provide financial value to help you achieve your dreams.

In 2023, we zeroed in on what truly matters: operational efficiency, robust deposits, capital and liquidity, prudent risk management, and above all, your trust and partnership. The result – a year marked by the sustained growth of our membership and shares.

We have a strong balance sheet and a solid risk management regime that drives our financial performance. As noted in our President's report, we achieved growth of over $1.7 billion in shares while maintaining asset quality and closing the year with a solid net worth position. PenFed is laser focused on providing great rates and assisting you, our membership, in achieving your financial goals.

As the digital wave transforms finance, we're riding the crest – all to bring you state-of-the-art banking solutions. We are focused on making your online and mobile banking experience smoother, faster, and more intuitive. We're not just keeping pace; we're setting the standard. And, if you contact our service centers, you'll find that our response times have been greatly improved to best serve you!

Our commitment to philanthropy, illustrated by the donation of over $2.4 million in 2023, underscores our dedication to addressing vital issues such as food insecurity, mental health, and housing. The PenFed Foundation's initiatives, especially the Veteran Entrepreneur Program, stand as a testament to our 'people helping people' ethos, offering critical support and resources to veteran-owned businesses. This program, alongside the Foundation's other grants and initiatives, has been instrumental in empowering military families and enhancing their well-being. The collective endeavors of our credit union and the PenFed Foundation not only advance our mission but also affirm our shared values, making us all rightfully proud of the positive impact we've made.

Looking forward, PenFed is optimally positioned to navigate the complexities of the financial services landscape. Our strategic priorities are aligned with anticipating and responding to industry trends, ensuring the continued growth and success of our institution. The dedication of our team, combined with the strategic guidance of our Board of Directors, forms the cornerstone of our optimism for the future.

On behalf of the Board, I extend our deepest gratitude to you, our members, for your continued trust and support. Your faith in our vision and your commitment to our shared success are invaluable. Together, we look forward to a future marked by growth, innovation, and continued excellence in service to you. Thank you!

Sincerely,

EDWARD B. CODY
CHAIRMAN, BOARD OF DIRECTORS

PRESIDENT'S REPORT

Thank you for choosing PenFed to help you achieve your financial dreams in 2023 and beyond. We continue to deliver on our key priorities of building deposits, liquidity and capital, despite a challenging economic environment.

Together, we are nearly 3 million members strong. In 2023, over 230,000 new members joined PenFed for our great rates and world-class service.

At PenFed we measure success not just by financial results, but most importantly, by how many people we've helped. We are especially proud to have donated $2.4 million to support the communities where we live and serve.

2023 FINANCIAL HIGHLIGHTS

- PenFed's member shares grew year-over-year by $1.7 billion, which represents 6% growth.
- PenFed reduced total operating expense by $123 million year-over-year, which represents a 13% reduction.
- PenFed's external borrowings declined $1.9 billion year-over-year, as external borrowings were replaced with member share deposits, driven by offering great rates to our members.
- PenFed's total cash and investments increased to 11.3% of total assets, an improvement of 1.4% year-over-year.
- PenFed closed the year with over $735 million of capital in excess of required regulatory net worth.

THANK YOU

We couldn't have made this positive impact without you. Our members are the reason why PenFed is recognized as one of America's premier financial institutions year after year. On behalf of PenFed's team of dedicated financial professionals, we send you our heartfelt thanks.

Respectfully yours,

JAMES R. SCHENCK
PRESIDENT & CEO

FINANCIAL HIGHLIGHTS

TOTAL MEMBERS

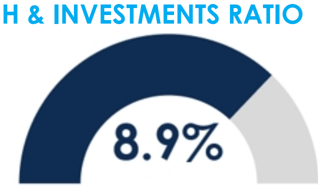
NET WORTH RATIO

2021

2022

2023

CASH & INVESTMENTS RATIO

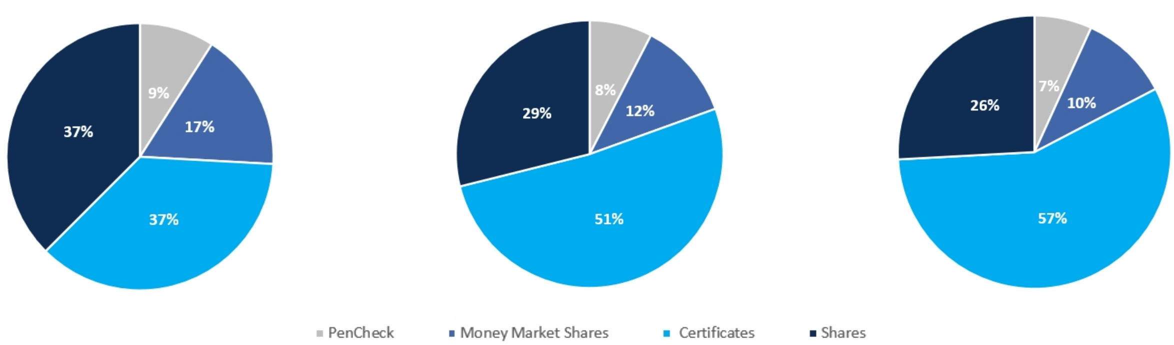


2021

2022

2023

MEMBER SHARES BY PRODUCT



$23.1B
2021

$27.7B
2022

$29.4B
2023

BORROWINGS

$5.8B	$3.8B	$1.9B
2021	2022	2023

OPERATING EXPENSE

$862M	$939M	$817M
2021	2022	2023

ACCOMPLISHMENTS

PenFed was recognized as **"Best Overall Credit Union"** by personal finance digital platform Money because of a combination of low fees, large ATM network, ease of opening balances and high dividend rates paid on deposit accounts.

Triple Impact named PenFed its **"Business Partner of the Year"** in 2023 for PenFed's support of the military community by employing military spouses across the United States.

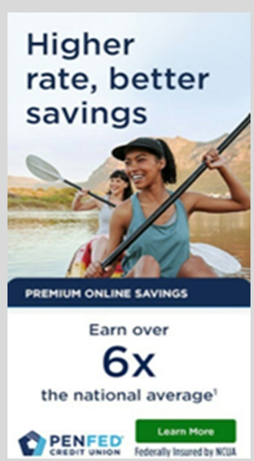
TRIPLEIMPACT CONNECTIONS

The American Legion Department of Puerto Rico honored PenFed with its prestigious **Legacy and Vision Award**.

In 2023, we offered members great rates with our **Premium Online Savings**. This account type is popular with members who have larger balances that would like to earn dividends while still having the flexibility to access their funds and make purchases.

Key account features:

- **No monthly maintenance fee**
- **Higher APY**
- **Free online transfers**



BOARD OF DIRECTORS

Your board members and supervisory committee members are volunteers who serve without compensation. In addition to their service to the credit union, they spend hundreds of hours from their personal lives on credit union business and activities in the interest of our esteemed members.

Edward B. Cody
Chairman of the board

Edward B. Cody is the owner of Enterprise Business Consulting, a service-disabled veteran-owned small business assisting wounded, ill and injured recovering service members since 2011. Formerly, he was the chief financial executive and comptroller at the Defense Information Systems Agency. Ed has over 35 years of federal service, including two years as an Army lieutenant stationed at Fort Sill and in Vietnam. He has been associated with PenFed Credit Union since 1982, starting out on the supervisory committee and as a member of the board since 1987. For many years, he served as PenFed Credit Union's treasurer. Ed is also a member of the PenFed Foundation Board.

Retired Army Col. James F. Quinn
Vice Chairman

Retired Army Col. James F. Quinn retired from the United States Army in 2006 after 32 years on active duty. His last assignment was as the Army's ethics officer for the Office of the Judge Advocate General. He has served on the PenFed Credit Union Board since 1995 and on the boards of four other credit unions for an additional eight years since 1979. He was named the National Association of Federal Credit Unions Volunteer of the Year in 2015. Jim previously served as the chairman of the PenFed Credit Union Board. He also serves on the board of the PenFed Foundation, is chairman of the planning committee, and is a member of the employee benefits & development and financial management & risk committees.

Sandra L. Patricola
Treasurer

Sandra "Sam" Patricola joined the PenFed Board in 2005. Sam had previous experience on the board of the Northern Tier Federal Credit Union in Minot, North Dakota, and on the supervisory committee at MAX Federal Credit Union in Montgomery, Alabama. She is the staff auditor in the Air Force Audit Agency and a certified public accountant in federal service since 1987. Sam also serves as secretary/treasurer for the PenFed Foundation Board, chairwoman for the financial management & risk committee, and member of the planning committee.

Retired Army Col. Robert W. Siegert, III
Secretary

Retired Army Col. Robert "Bill" W. Siegert, III joined the board in 1999 and received the Chairman's Award in 2011. Bill currently serves as chair of the information technology committee and is a member of the real estate committee and the planning committee. Bill served on active duty for 30 years. His last assignment was as director at New TRIAD Integration, on the staff of the Assistant Secretary of Defense for International Security Policy. He additionally served as a special advisor to the Secretary of Defense on strategic and intermediate range nuclear arms control negotiations, issues and initiatives. Bill is now a director and senior program manager for Science Applications International Corporation. Bill is director emeritus at the PenFed Foundation and served both as vice chairman and chairman of the Foundation.

Retired Army Col. Ronald P. Hudak

Retired Army Col. Ronald P. Hudak has been a PenFed Credit Union Board member since 2008. A graduate of West Point, Ron served 30 years on active duty in the Army with operational, tactical, strategic, and educational assignments in the United States, Europe, and Vietnam. After military service, he held academic positions at Nova Southeastern University and Marymount University. He earned his doctoral and law degrees from The George Washington University and is a Fellow of the American College of Healthcare Executives and a member of the Bars of the District of Columbia and Florida. Ron is currently a strategic planner for the Department of Defense Health Agency in Falls Church, Virginia. Ron is chairman of the employee benefits & development committee, and a member of the planning committee.

Retired Navy Reserve Lt. Cmdr. Ed Lucio

Retired Navy Reserve Lt. Cmdr. Ed Lucio is a Naval Academy graduate and Naval Aviator who participated in Operation Shining Hope aboard the USS Inchon and accumulated over 1,500 flight hours on the H-53 Sea Dragon, H-3 Sea King, and C-12 King Air. Upon leaving active duty, he started his new career as a business and financial analyst with the Federal Reserve Board, specializing in bank operations and data management. Ed is a certified public accountant, a project management professional and holds a green belt in Lean Six Sigma. He has an MBA from Georgetown University, a Master of Science in finance from Johns Hopkins University, and a Master of Science in information systems from Northwestern University. Ed is a member of the information technology, financial management & risk, and real estate committees.

Retired Army Col. Philip F. Romanelli

Retired Army Col. Philip F. Romanelli joined the PenFed Credit Union Board in 2007 and has been a PenFed member since he was a second lieutenant. He earned his bachelor's degree in history from Princeton University, and a master's in business administration from the University of Cambridge. Philip has deployed once to the Balkans and twice to Operation Iraqi Freedom as a civil affairs officer and served as a military attaché in both Belgium and Fiji. He serves as a senior civil servant in the Department of the Army. Previously, he was the deputy chief of the strategic initiatives group for the Secretary of the Army. During that time, he provided substantial support to the White House's Joining Forces initiative for veteran hiring, training, and health. He is also a graduate of the United States Army War College, earning a master's degree in strategic studies. Prior to retiring from the United States Army Reserve, he was on active-duty orders for four years as the chief of mobilization within the Office of the Assistant Secretary of the Army (manpower and reserve affairs). His decorations include the Bronze Star and the Legion of Merit. Philip is a member of the employee benefits & development and financial management & risk committees.

Alfred Rudolph

Alfred Rudolph launched Rudolph International LLC, Interactive Hospitality Consultancy, after managing the Department of Defense moral welfare and recreation community and service programs in the USA, Germany, and South Korea. He held the position of director, executive dining operations for the Secretary of the Navy, responsible for administrative matters, and successfully realigned the Secretary of Defense dining operation. Alfred was the past chair of Belvoir Federal Credit Union. He currently serves as board member for PenFed Credit Union and PenFed Foundation, chairman of the real estate committee, and is a member of the employee benefits & development and financial management & risk committees.

Retired Army Lt. Col. Ron Spear

Retired Army Lt. Col. Ron Spear has been a member of the credit union since 1986 and joined the PenFed Board in 2016. He served 22 years on active duty as a U.S. Army intelligence and acquisition corps officer. During his military career, Ron served on the United States Senate Year 2000 Committee professional staff, the Office of the Secretary of Defense staff, the joint staff, and the U.S. Army staff. Since his Army retirement, he has been a trusted advisor actively involved in Department of Defense and Intelligence community enterprise governance and systems engineering. During this time, he also spent six years as a director at Integrity Applications Incorporated. Ron earned a Master of Science degree in computer science from the Naval Postgraduate School and undergraduate degrees in mathematics and computer science from Concordia College, Moorhead, Minnesota. Ron is a member of the information technology and financial management & risk committees.

SUPERVISORY COMMITTEE REPORT

As a matter of introduction, my name is Brad Honkus, and I have the honor of serving as the Chairman of PenFed's Supervisory Committee along with the three members of this committee.

Safety and soundness. Comforting words that capture the confidence you can place in PenFed throughout times of risk and adversity brought on by international conflict, natural disasters, and economic uncertainty impacting our nation and PenFed's members. PenFed is your trusted source of financial services. PenFed's members and employees are like family to me, and I am committed to ensuring its safe and sound operation in the face of these challenges. Rest assured - PenFed will continue to "have your back" and do what is right for its members and employees.

The Supervisory Committee is appointed by the PenFed Board of Directors and plays a critical role in the overall governance structure of the credit union including maintaining its safety and soundness. We volunteer our time to provide our fellow members assurance that the operations of the credit union are carried out in accordance with the Federal Credit Union Act, regulations of the National Credit Union Administration (NCUA) and Consumer Financial Protection Bureau (CFPB), and the policies established by PenFed's Board of Directors acting on your behalf.

There are three oversight methods used by the Committee to meet its responsibilities.

The first method is the annual external audit conducted by an independent CPA firm to review the financial condition of PenFed. The Committee engaged the services of BDO USA, to perform the annual audit of the 2023 financial statements. BDO provided an unmodified opinion, the gold standard, as a result of their audit and reported no weaknesses or deficiencies in PenFed's internal controls over financial reporting. This opinion speaks to how well your Board and executive team are fulfilling their fiduciary responsibilities to safeguard your assets and ensure the credit union is operated in a fiscally safe and sound manner.

The second method is the annual regulatory examination conducted by the NCUA and the reviews performed by the CFPB. These regulatory reviews help to ensure PenFed is operationally and financially safe and sound and in compliance with the laws and regulations governing credit unions and protection of our members. We work closely with the regulators to address any concerns and to ensure we keep abreast of risks impacting the financial services industry.

Third, the Committee oversees the internal audit function that independently evaluates the internal controls of the credit union on a continual basis. Supervisory Committee members bring a wealth of professional and industry experience to help advise PenFed management.

Based on the activity of the external auditors, the regulators, and the internal auditors, we report to you that PenFed continues to be fiscally strong, and operationally safe and sound while providing quality member service. You can be confident that PenFed will be here for you for the long term.

The PenFed Board of Directors, management, and staff are to be commended for their continuing leadership and dedication to our credit union.

Thank you for your time.

BRAD HONKUS
CHAIRMAN, SUPERVISORY COMMITTEE

SUPERVISORY COMMITTEE

Brad Honkus
Supervisory Committee Chairman

Brad Honkus serves as the chairman of the supervisory committee. He is the assistant director of quality control and compliance at the Department of Justice. Brad is a Certified Public Accountant, and has 30+ years of progressive budget, audit, and financial management experience, and is an internal control and financial policy subject matter expert.

James Golden

James "Jim" Golden is an internationally recognized IT governance and information security executive. He served as an associate partner with IBM Global Business Services for approximately 10 years after 30+ years as a senior IT executive at the US Postal Service. He is also a retired Naval Reserve Captain in Cryptology, and he maintains several professional certifications including Certified Information Systems Security Professional (CISSP) and Certified in Governance of Enterprise IT (CGEIT).

Rafael Roman

Rafael Roman is a retired United States Marine Corps Chief Warrant Officer, and has held progressively responsible audit and financial management leadership positions. He is a Certified Public Accountant and Certified Internal Auditor with extensive experience in audit, accounting, and compliance requirements for federal government programs. Mr. Roman is the current Director of Finance & Operations at The Silverene Group LLC and most recently, served with the American Institute of Certified Public Accountants (AICPA) managing the Governmental Audit Quality Center, an organization that enables AICPA member firms to achieve the highest quality standards in governmental audits.

Colette Wilson

Colette Wilson is a Certified Public Accountant who served as a partner with the accounting firm of Cotton & Company where she actively participated in audit, accounting, and management advisory services for federal agencies. Colette served on the Board of Directors of the Virginia Society of Certified Public Accountants (VSCPA) and was the first African American woman to chair the VSCPA Board where she addressed issues significant to the VSCPA, its members and the accounting profession at large. Colette is an entrepreneur, and small business owner of a full-service catering company where she pursues her passion of cooking and serving others.

EXECUTIVE TEAM

James Schenck
President & CEO

Since James Schenck became president and CEO in April 2014, PenFed has grown assets from $17.8 billion to nearly $35 billion and increased membership from 1.3 million to 2.9 million. During his over 20-year tenure serving in PenFed leadership, James led nearly every operating division, as well as PenFed Realty and the PenFed Foundation. James is a graduate of the U.S. Military Academy and Harvard Business School. During 13 years of service in the U.S. Army, James flew Black Hawk helicopters, trained other Army aviators, and taught economics and finance at West Point. During his assignment at the Pentagon, James received the Legion of Merit for his contribution to the Army. Always moving PenFed forward in driving our mission for our members, James is continually motivated to hire, inspire, and retain the best and brightest financial professionals.

Shashi Vohra
Senior EVP & President, Affiliated Business

Shashi Vohra joined PenFed in 1980 and has held various positions. In his current role, Shashi leads all PenFed insurance products and serves as president and CEO of PenFed Title, LLC and its subsidiaries and as CEO of PenFed Realty, LLC and DigMed, LLC (dba White64). Shashi oversees all merger and acquisition efforts and has been instrumental in overseeing the integration of over 40 mergers throughout his career, including the merger with Progressive Credit Union that gave PenFed its “universal charter.” Shashi also oversees the development and implementation of new products, business ventures and expansions of related businesses through acquisitions and partnerships. Shashi earned his bachelor’s and master’s degrees in commerce in India. He is also a certified public accountant (CPA).

Ricardo Chamorro
EVP, Consumer Banking & Strategy

Ricardo Chamorro joined PenFed in 2014 and currently leads PenFed’s consumer banking and corporate strategy efforts, which includes retail deposits, payments, and consumer loans. In his current leadership role, Ricardo also oversees PenFed’s marketing and consumer banking technology teams, both of which are focused on improving PenFed’s “go to market” strategy and ongoing digital transformation efforts. Additionally, Ricardo works closely with the PenFed executive leadership team in monitoring and understanding the competitive landscape so that PenFed is prudently poised to develop, communicate, execute, and sustain strategic initiatives that help drive PenFed business growth and profitability. During his tenure at PenFed, Ricardo has delivered numerous merger partnerships, including the merger with Progressive Credit Union that gave PenFed its “universal charter.” Ricardo has nearly 20 years of experience in financial services and investment banking, including leadership roles at UBS Investment Bank and Lazard. Previously, Ricardo served as a military intelligence officer in the U.S. Army and was awarded the Joint Service Commendation Medal and Bronze Star. Ricardo is a graduate of West Point (B.S.) and Harvard Business School (MBA). Ricardo is also a board member of the Armed Forces YMCA and the Washington Hispanic Chamber of Commerce.

Jamie Gayton
EVP, Member Operations & Global Fixed Assets

Jamie Gayton currently serves as PenFed’s executive vice president of member operations. Jamie oversees PenFed service centers and financial centers, phone operations, collections, and buying, leasing, selling and maintaining of all PenFed’s facilities. After leading teams in the U.S. military for 30 years with combat deployments to Iraq for Desert Shield/Storm in 1990-1991, and Operation Iraqi Freedom in 2005-2006, he joined PenFed in 2017. Jamie earned degrees from West Point (B.S.), MIT Sloan (MBA) and Pardee RAND (Ph.D.). He previously taught economics at West Point and culminated his military career by teaching economics at the National Defense University’s Eisenhower School from 2015 to 2017. He also developed West Point’s course in personal finance, oversaw the Investment Club and authored the book, *Guide to Personal Financial Planning for the Armed Forces* (seventh edition).

Terry Grafenstine
EVP & Chief Audit Executive

Terry Grafenstine is responsible for leading PenFed's internal audits across the enterprise. With over 25 years of experience, Terry is a recognized leader in the audit profession and speaks globally on auditing, accounting, cyber security, leadership, and risk. In 2021, *Security Magazine* recognized her as one of the top ten security professionals. In 2019, the Institute of Internal Auditors (IIA) recognized her as one of the "Top Ten Audit Thought Leaders of the Decade" and inducted her into its Hall of Distinguished Practitioners. Terry has helped to advance the auditing and accounting profession through her leadership roles as a member of the IIA's North American and global boards of directors, the American Institute of Certified Public Accountants (AICPA) board of directors, and as the global chair of ISACA. She previously held leadership positions at Citi and Deloitte and served as the inspector general for the U.S. House of Representatives from 2009 to 2017. Terry also served on PenFed's supervisory committee and as chairwoman of the committee from 2014 to 2018. Terry is a certified information systems auditor (CISA), certified information systems security professional (CISSP), certified internal auditor (CIA), certified public accountant (CPA), certified in risk and information systems control (CRISC), certified in the governance of enterprise IT (CGEIT) and earned a bachelor's degree in accounting from Saint Joseph's University in Philadelphia.

Sarah Heintzman
EVP, Chief Financial Officer

Sarah Heintzman is responsible for leading PenFed's comprehensive financial programs and initiatives across all businesses and products at the enterprise level. Sarah is a successful leader with decades of experience in financial management, commercial lending, and credit risk management at Fortune 100 financial institutions. Prior to joining PenFed, Sarah held several CFO roles spanning the card, commercial and retail businesses of Capital One. She previously held positions at CapitalSource Bank and Goldman Sachs. Sarah is a chartered financial analyst (CFA) and earned a bachelor's degree in commerce from Queen's University in Ontario, Canada.

Scott Lind
EVP, General Counsel

Scott Lind joined the executive team at PenFed Credit Union in 2014, serving as executive vice president and general counsel, with responsibility for all legal, compliance, and procurement matters. Scott also serves on numerous outside boards and committees. Following law school, Scott served in the active-duty U.S. Army Judge Advocate General's Corps from 1986 to 2009 and retired in the rank of colonel. He served in numerous leadership roles, to include serving as the Staff Judge Advocate of the Army's largest unit and serving as the general counsel of the U.S. Army Contracting Command. Scott is the recipient of three Legions of Merit and the Bronze Star. Upon leaving active duty, Scott continued his service to our country as a senior attorney with the Army, where he excelled in providing legal support in the complex arena of government procurement law, while serving in the capacity of senior supervisory attorney. Scott is a graduate of Clarkson College, Albany Law School, and the George Washington University. In addition to his Juris Doctor, Scott has two Masters of Law degrees.

Joseph Thomas
EVP, Chief Information Officer

Joseph Thomas joined PenFed in March 2015 as its chief information officer. Prior to PenFed, Joseph led banking technology at USAA for 15 years. Joseph is a graduate of the University of Manchester in England where he earned a Bachelor of Science in computer science and accounting. He is also a graduate of the BAI Graduate School of Retail Bank Management.

Maura Watson
EVP, Talent, Risk and Communications

Maura Watson joined PenFed in early 2021. In her current position as executive vice president of talent, risk, and communications, Maura is responsible for leading enterprise risk management, enterprise data, talent recruitment and development, and corporate communications. Prior to joining PenFed, she spent 28 years as a Central Intelligence Agency officer, with operational work spanning five continents. During that time, Watson worked and led complex human intelligence, cyber and counterintelligence operations within the Directorate of Operations and the Directorate of Digital Innovation. She holds a bachelor's and a master's degree in history from the University of Scranton, an executive MBA from Northwestern University's Kellogg School of Management and an Information Security Certificate from Harvard University.

Winston Wilkinson
EVP & President, Mortgage Banking

Winston Wilkinson joined PenFed in 2018 as executive vice president and president of mortgage banking. Winston brings more than 34 years of experience in large financial services firms. Prior to PenFed, Winston served as USAA Federal Savings Bank's president of mortgage and consumer real estate for five years. The majority of Winston's career was spent at Wachovia, where he served as executive vice president in various roles, including mortgage, wealth management and retail and commercial banking. He has served on the board of directors and in leadership roles of numerous charitable and nonprofit community organizations across the country.

CULTURE OF GIVING

PenFed donations total **$2.4** MILLION in 2023

Founded in 2001 by the PenFed Credit Union, the **PenFed Foundation is a national non-profit organization** committed to providing high-impact financial support and opportunity. The Foundation's mission is to champion our military through investment, advocacy and outreach. That's why 95% of donations go directly to those we support.

The PenFed Foundation partners with **wear blue: run to remember** to honor fallen service members through purposeful steps every week in community runs.

The PenFed Foundation provided a $30,000 grant in 2023 to support wear blue's **Gold Star Youth Mentorship Program** and widely recognized **"wear blue Mile"** that honors fallen service members by displaying their photos and ribbons for one mile in large marathons across the country.

PenFed CEO James Schenck was named **"Visionary Leader of the Year"** by wear blue, for his contribution and engagement to meaningful causes.

In April 2023, PenFed sponsored the first **Honor Flight** in history from Puerto Rico to Washington, D.C. bringing veterans from World War II, Korea, and Vietnam for a three-day visit to see the monuments built in their honor.

We furthered our commitment to prisoners of war veterans and their families in 2023 with a $150,000 donation to the **American Heritage Museum** in Hudson, Mass.

The donation supported a one-of-a-kind Hỏa Lò prison exhibit honoring the hundreds of U.S. prisoners of war in Vietnam who were subjected to years of captivity, enduring extreme torture, isolation and malnutrition. The prison was coined the "Hanoi Hilton" by POWs.

PEOPLE HELPING PEOPLE

Through our partnership with organizations such as **Canine Companions, Willing Warriors and Easterseals** PenFed is empowering our military service members, veterans, and their communities with the support they need to succeed.

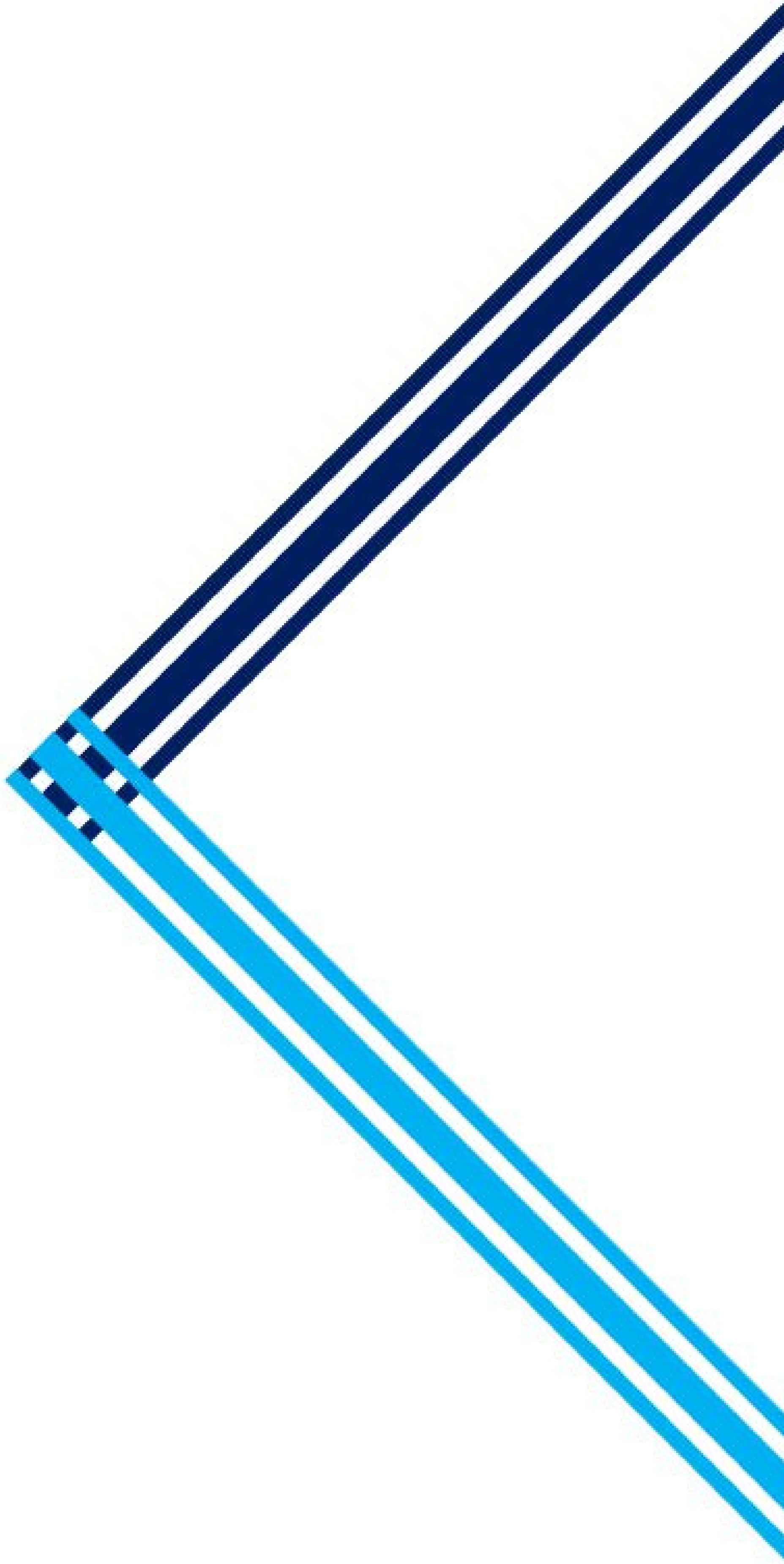
PenFed supported veterans and others with disabilities with a $50,000 donation to **Canine's Companions**, the first and largest service dog organization in the United States, providing life-changing, highly-skilled dogs.

PenFed introduced the Canine Companions puppy raising program to its employees in 2018. Since then, we've supported our employees raising nine service dogs at PenFed financial centers across the country.

PenFed provided a **$10,000** monetary donation to the **Hawaii Credit Union League**, as well as food, hygiene items and other supplies to support the communities heavily impacted by the Maui wildfires in 2023.

PenFed gave back to the local community by **donating over 1,250 items** to Mobile Hope, an organization that provides support and emergency shelter to youth up to age 24 who are at-risk, precariously housed, or homeless and empowers them to become self- sufficient and experience improved well-being.

PenFed also awarded Arcadia Farms in Virginia a **$50,000** grant in support of their **Veterans' Farming Program**. This program allows transitioning servicemembers to receive a multilayered training that develops new farmers, create a local market of sustainably grown produce, and encourage entrepreneurship and job creation.



2023

Audited Financial Statements

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee and Members of
Pentagon Federal Credit Union
McLean, Virginia

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, the Credit Union changed its method of accounting for the allowance for credit losses due to the adoption of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses* ("ASC 326").

Responsibilities of Management for the 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 the Credit Union's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

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

BDO USA, P.C.

Philadelphia, Pennsylvania
March 29, 2024

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)	December 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 676,653	$ 774,890
Restricted cash	5,007	3,810
Investment securities		
Available-for-sale (amortized cost of $3,342,649 and $2,821,064; and allowance for credit losses of $0 as of December 31, 2023)	3,116,861	2,551,947
Other investments	116,890	187,734
Loans held for sale	108,995	98,259
Loans held for investment, at amortized cost	28,701,635	29,488,351
Allowance for loan losses	(717,636)	(280,785)
Loans held for investment, net	27,983,999	29,207,566
Loans held for investment, at fair value	228,409	243,143
Accrued interest receivable	138,739	124,133
National Credit Union Share Insurance Fund deposit	242,615	231,498
Credit Union Life Insurance	373,856	367,298
Charitable Donation Account	147,513	146,966
Goodwill	30,744	31,094
Other intangible assets, net	112,689	115,837
Property and equipment, net	551,755	576,604
Other assets	956,448	865,581
Total assets	**$ 34,791,173**	**$ 35,526,360**
Liabilities and members' equity		
Members' accounts	$ 29,447,479	$ 27,716,601
Borrowed funds	1,916,000	3,823,023
Other liabilities	545,671	524,160
Total liabilities	31,909,150	32,063,784
Members' equity:		
Additional paid-in capital	1,150	1,150
Undivided earnings	2,798,809	3,383,835
Accumulated other comprehensive income	81,085	76,478
Total Pentagon Federal Credit Union members' equity	2,881,044	3,461,463
Non-controlling interests	979	1,113
Total members' equity	2,882,023	3,462,576
Total liabilities and members' equity	**$ 34,791,173**	**$ 35,526,360**

The accompanying notes are an integral part of these consolidated financial statements.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
(Dollars in thousands)	**2023**	**2022**
Interest income		
Loans	$ 1,709,118	$ 1,396,258
Investment securities	114,941	65,899
Total interest income	1,824,059	1,462,157
Interest expense		
Members' accounts	695,750	279,152
Borrowed funds	82,938	97,530
Total interest expense	778,688	376,682
Net interest income	1,045,371	1,085,475
Provision for credit losses	479,803	272,814
Net interest income after provision for credit losses	565,568	812,661
Non-interest income		
Fees and charges	140,252	169,675
(Losses)/gains on debt extinguishments	(16)	76,368
Credit card and debit card interchange	39,875	31,227
Gains/(losses) on sales of loans	10,966	(104,412)
Losses on sales of investment securities, net	-	(121)
Mortgage banking activities	5,995	90,742
Other	71,185	106,721
Total non-interest income	268,257	370,200
Non-interest expense		
Compensation and benefits	377,577	444,833
Office operations	168,372	151,901
Loan servicing	80,443	100,892
Occupancy	31,808	32,560
Education and promotional	57,395	67,357
Professional and outside services	54,557	78,426
Other	46,654	63,425
Total non-interest expense	816,806	939,394
Net income	17,019	243,467
Less: net income attributable to non-controlling interests	(251)	(190)
Net income attributable to Pentagon Federal Credit Union	**$ 16,768**	**$ 243,277**

The accompanying notes are an integral part of these consolidated financial statements.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
(Dollars in thousands)	2023	2022
Net income	$ 17,019	$ 243,467
Other comprehensive income:		
Net unrealized gains / (losses) on investment securities available-for-sale	43,329	(252,693)
Adjustment for realized losses on investment securities included in the consolidated statements of income	-	(121)
Net unrealized (losses) / gains on cash flow hedges	(48,667)	360,963
Amounts reclassified into interest expense in the consolidated statements of income on cash flow hedges	(1,365)	(2,477)
Change in unrealized pension and postretirement liabilities recorded to compensation and benefits in the consolidated statements of income	1,443	3,520
Adjustment for realized pension and postretirement costs	9,867	7,775
Other comprehensive income, net of reclassification adjustments	4,607	116,967
Comprehensive income	**$ 21,626**	**$ 360,434**

The accompanying notes are an integral part of these consolidated financial statements.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(Dollars in thousands)	Additional Paid-In Capital	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Credit Union Members' Equity	Non-Controlling Interests	Total Members' Equity
Balance, January 1, 2022	**$ 1,175**	**$ 3,138,568**	**$ (40,489)**	**$ 3,099,254**	**$ 1,588**	**$ 3,100,842**
Net income	-	243,277	-	**243,277**	190	**243,467**
Equity from mergers	-	1,990	-	**1,990**	-	**1,990**
Sale of controlling interest	(175)	-	-	**(175)**	(423)	**(598)**
Capital contributions from non-controlling interests	150	-	-	**150**	-	**150**
Distributions to non-controlling interests	-	-	-	**-**	(242)	**(242)**
Other comprehensive income, net of reclassification adjustments	-	-	116,967	**116,967**	-	**116,967**
Balance, December 31, 2022	**$ 1,150**	**$ 3,383,835**	**$ 76,478**	**$ 3,461,463**	**$ 1,113**	**$ 3,462,576**
Cumulative effect from adoption of ASC 326	-	(601,794)	-	**(601,794)**	-	**(601,794)**
Net income	-	16,768	-	**16,768**	251	**17,019**
Distributions to non-controlling interests	-	-	-	**-**	(385)	**(385)**
Other comprehensive income, net of reclassification adjustments	-	-	4,607	**4,607**	-	**4,607**
Balance, December 31, 2023	**$ 1,150**	**$ 2,798,809**	**$ 81,085**	**$ 2,881,044**	**$ 979**	**$ 2,882,023**

The accompanying notes are an integral part of these consolidated financial statements.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
(Dollars in thousands)	**2023**	**2022**
Operating activities		
Net income	$ 17,019	$ 243,467
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Provision for credit losses	479,803	272,814
Depreciation, amortization, and accretion	143,783	155,686
(Gains)/losses on sales of loans held for sale	(10,966)	104,412
Losses on sales of available-for-sale investment securities, net	-	121
Losses on sales of foreclosed assets	-	809
Losses/(gains) on disposal of property and equipment	1,929	(1,609)
Losses/(gains) on valuation of servicing rights	13,498	(14,882)
Loans originated to be sold	(2,198,034)	(11,166,669)
Proceeds from sales of loans held for sale	2,179,428	9,572,707
Losses / (gains) on debt extinguishments	16	(76,368)
Bargain gains from mergers	-	(6,116)
Other, net	(11,088)	(39,665)
Net changes in:		
Loans held for sale	(34,990)	(7,427,078)
Accrued interest receivable	(14,606)	(23,557)
Other assets	(70,687)	320,067
Other liabilities	23,744	30,333
Operating lease liabilities	(7,681)	(7,513)
Net cash provided by / (used in) operating activities	**511,168**	**(8,063,041)**
Investing activities		
Proceeds from paydowns of investment securities	380,175	383,993
Purchases of investment securities	(955,719)	(1,268,650)
Proceeds from maturities of investment securities	58,975	-
Proceeds from sales of investment securities	-	178,527
Net decrease in other investments	70,844	57,801
Net increase in cash surrender value of Credit Union Life Insurance and Charitable Donation Account	(7,105)	(18,342)
Proceeds from sales of loans held for investment	137,490	1,495,842
Net (increase)/decrease in loans	(33,493)	4,947,010
Proceeds from sales of foreclosed assets	1,399	38
Proceeds from sale of minority interest	-	634
Cash from mergers	-	52,326
Purchase of property and equipment	(75,893)	(87,444)
Proceeds from disposal of property and equipment	2,755	9,173
Net increase in National Credit Union Share Insurance deposit	(11,117)	(45,708)
Net cash (used in) / provided by investing activities	**(431,689)**	**5,705,200**
Financing activities		
Proceeds from borrowings	3,015,000	14,847,736
Repayment of borrowings	(4,922,012)	(16,791,590)
Capital contributions from non-controlling interests	-	150
Distributions to non-controlling interests	(385)	(242)
Net increase in members' accounts	1,730,878	4,525,684
Net cash (used in) / provided by financing activities	**(176,519)**	**2,581,738**
Net (decrease) / increase in cash and cash equivalents and restricted cash	(97,040)	223,897
Cash and cash equivalents and restricted cash at beginning of year	778,700	554,803
Cash and cash equivalents and restricted cash at end of year	**$ 681,660**	**$ 778,700**

The accompanying notes are an integral part of these consolidated financial statements.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
(Dollars in thousands)	**2023**	**2022**
Supplemental disclosure of cash flow information:		
Interest paid	$ 949,179	$ 366,119
Supplemental disclosures of non-cash information:		
Transfers of loans, net to other foreclosed assets	11,227	299
Transfers to loans held for sale	12,661	1,495,842
Entity value equity from mergers	-	2,729
Fair value of assets acquired in mergers	-	62,062
Fair value of liabilities assumed in mergers	-	105,543

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

a) Organization and Nature of Business

Pentagon Federal Credit Union (the "Credit Union" or "PenFed") is a federal credit union that was organized and chartered on March 25, 1935, under the Federal Credit Union Act of 1934. It exists to promote thrift among its members and to create a source of credit for productive purposes. PenFed wholly owns PenFed Realty, LLC, which provides real estate brokerage services to the Credit Union's members and the general public, as well as PenFed Title, LLC, which provides real estate settlement title services to the Credit Union's members and the general public. During 2022, PenFed Title, LLC, sold a 60% ownership interest in its wholly owned subsidiary, Member's Title of California. PenFed also owns 75% of DigMed, LLC, which provides advertising services to the Credit Union and the general public. Unless the context indicates otherwise, all references to "PenFed," "the Credit Union," "we," "our," or "us" include PenFed and its respective subsidiaries. The Credit Union is regulated by the National Credit Union Administration ("NCUA").

Our principal executive offices and headquarters are located at 7940 Jones Branch Drive, McLean, Virginia 22102, telephone (800) 247-5626. Our website address is www.PenFed.org. We make our annual reports, and all amendments to those reports, available free of charge on our website. Information on our website is not deemed to be incorporated by reference into these consolidated financial statements.

Membership in the Credit Union is open to any individual who qualifies as defined in its charter and bylaws. The Credit Union extends credit to its members through direct negotiation with a borrower, indirectly originating loans through third parties, or by purchase of loans from other lenders. Such extensions of credit may be in the form of promissory notes, advances, mortgages, lines of credit, letters of credit, vehicle loans, overdrafts, and similar obligations. The Credit Union generally services the loans it originates or purchases; however, the Credit Union may also buy loans that are serviced by other counterparties and in certain cases where we merge to minimize operational disruptions, we allow existing acquirees' servicers to continue servicing the acquired loans at the time of the merger - we refer to these loans as serviced by others ("SBOs").

b) Income Taxes

The Credit Union is exempt from all taxes, except for local real property and personal property taxes, in accordance with Section 122 of the Federal Credit Union Act (12 U.S.C.§1768).

c) Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Where applicable, accounting policies conform with accounting and reporting guidelines prescribed by regulatory authorities. US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The most significant of these estimates and assumptions include assessment of the fair value of certain assets and liabilities (e.g., available-for-sale securities) and the allowance for credit losses ("ACL"). Actual results could materially differ from those estimates. Changes in estimates are recorded in the period in which they become known.

d) Principles of Consolidation

The consolidated financial statements include the accounts of PenFed and other entities, in which it has a controlling interest. All material intercompany accounts and transactions have been eliminated. The Credit Union does not consolidate any variable interest entities, or "VIEs", since it is not considered the primary beneficiary in any VIE, in which it participates. VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights; (iii) do not have the obligation to absorb the expected losses; or (iv) do not have the right to receive the residual returns of the entity.

In determining whether the Credit Union is the primary beneficiary of a VIE, the Credit Union considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE, such as: its role in establishing the VIE and our ongoing rights and responsibilities; our economic interests, including debt and equity investments, servicing fees and other arrangements deemed to be variable interests in the VIE; the design of the VIE, including the capitalization structure, subordination of interests, payment priority, relative share of interests held across various classes within the VIE's capital structure and the reasons why the interests are held by the Credit Union. The Credit Union would be deemed the primary beneficiary of a VIE only if it has both (i) the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

e) Reclassifications

Certain amounts reported in previous years have been reclassified to conform to current year presentation.

f) Business Combinations

The Credit Union accounts for business combinations under the acquisition method of accounting. This method requires the recording of acquired assets and assumed liabilities at their acquisition date fair values. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. If the fair value of assets, less the fair value of liabilities acquired, exceeds the purchase price, the difference is recognized as a bargain purchase gain in non-interest income. Results of operations related to business combinations are included prospectively beginning on the date of acquisition. Determining the fair value of acquired intangibles requires significant judgment in selecting underlying assumptions, including projected revenue growth rates, profit margins and discount rates. In some cases, the Credit Union uses discounted cash flow analyses, which are based on our best estimate of future earnings and cash flows, after considering such factors as general market conditions, changes in working capital, long-term business plans and recent operating performance.

g) Goodwill and Intangibles

Goodwill represents the excess of purchase price over the net fair value of assets acquired and liabilities assumed. Intangible assets with finite useful lives are amortized. Goodwill and intangible assets with indefinite lives are not amortized but are evaluated, at least annually, for impairment. The Credit Union evaluates goodwill and the indefinite lived intangible asset for impairment annually, as of October 31st, on a qualitative basis, incorporating factors such as the general economic environment, industry, market considerations and its overall financial performance. The Credit Union determines goodwill impairment at the consolidated level (i.e., entity wide level).

h) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash and due from other financial institutions, interest-bearing deposits and other short-term investments, all of which, if applicable, have original maturities of three months or less.

Funds included in restricted cash are unavailable for withdrawal or usage. Such cash primarily include legally restricted deposits, such as:

- Earnest money deposits to sellers while other home-buying activities (property, appraisal, inspections, etc.) continue;
- Cash paid to our title companies to facilitate settlement and closing transactions;
- Funds held in trust.

i) Investment Securities

The Credit Union's investments in debt securities are classified as available-for-sale ("AFS"). Debt securities classified as AFS are measured at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income ("AOCI"). Unrealized gains and losses related to AFS securities, which are the hedged item in a fair value hedging relationship, are recorded into interest income during the period.

Purchase premiums and discounts are recognized in interest income using the effective interest method over the term of the securities purchased. Gains and losses on dispositions of investment securities are computed using the specific identification method and recognized as non-interest income.

Beginning on January 1, 2023, the Credit Union evaluates each individual security in its portfolio for impairment on a quarterly basis. Impairment exists when the fair value of the AFS debt security is less than its amortized cost. If management intends to sell a security in an unrealized loss position, or it is more likely than not that it will be required to sell the security before expected recovery of its amortized cost, it is written down to fair value. If management does not intend to sell a security, and it is not more likely than not that management will be required to sell the security, the Credit Union then determines if the unrealized loss is due to credit deterioration and if so, records an allowance for credit losses and corresponding provision through the consolidated statements of income. The amount of the allowance of credit loss is limited to the security's unrealized loss as of the reporting date.

Prior to January 1, 2023, management evaluated each individual security in an unrealized loss position for other-than-temporary impairment ("OTTI"). Through this process, consideration was given to the length of time and the extent to which the fair value had been less than amortized cost, the financial condition and near-term prospects of the issuer, our intent and likelihood to sell and our ability to retain the investment for a period of time sufficient, to allow for any anticipated recovery in fair value. Declines in fair value that are OTTI, if any, were recognized in non-interest income, whereas declines attributed to the interest rate environment were recognized in AOCI.

j) Other Investments

The Credit Union has stock in the Federal Home Loan Bank ("FHLB") of Atlanta. The Credit Union is required to hold this stock as a condition of its membership with the FHLB. The Credit Union's total investment consists of two classes of stock: Class B2 membership stock and Class B1 activity stock. Each member of the FHLB is required to own capital stock in an amount equal to the greater of a membership stock requirement, or an activity stock requirement. All stock that supports a member's activity stock requirement with the FHLB is classified as Class B1 activity stock. Any additional amount of stock necessary for the total amount of Class B stock held to equal a member's minimum investment amount will be classified as Class B2 membership stock. The Credit Union purchases Class B2 membership stock to satisfy its membership stock requirement with the FHLB. Both classes of stock are mandatorily redeemable after a 5-year notice period expires. This investment is a restricted investment and is carried at cost, which is par value, less impairment, if any.

The Credit Union also holds certificates of deposit with various banks and credit unions that are held at cost, as they are non-marketable and thus an appropriate measure of fair value. FHLB stock and certificates of deposit are evaluated for impairment annually. There was no impairment for the years ended December 31, 2023 and 2022.

k) Charitable Donation Account (CDA)

The Credit Union utilizes a Charitable Donation Account ("CDA"), in which any revenues and/or gains are used to support charities as allowed under credit union regulations. CDA is a restricted investment measured at the cash surrender value, which approximates fair value.

l) Loans

The Credit Union's loan portfolio includes real estate (mortgage and equity), commercial, vehicle, credit cards and other consumer loans. Other consumer loans consist of personal lines of credit and education loans. At the time of origination or acquisition, loans are classified as either held for investment ("HFI") or held for sale ("HFS").

Held for Investment ("HFI")
Loans are classified as HFI when the Credit Union has both the intent and ability to hold the loan for the foreseeable future, until maturity, or payoff. The Credit Union's intent and view of the foreseeable future may change based on changes in business strategies, the economic environment, market conditions and the availability of government programs.

The majority of loans held for investment are reported at their amortized cost, which is the loan's unpaid principal balance (UPB), adjusted for accretion, amortization, collection of cash, charge-offs and fair value hedge basis accounting adjustments. Loan fees and certain direct loan origination costs, which are included in amortized cost, are deferred, and the net fee/cost is recognized as an adjustment to interest income over the term of the loans, using the effective interest method - except for credit cards, which are amortized on a straight-line basis over twelve months. The Credit Union separately recognizes accrued interest receivable. Such election is permitted on the basis that the Credit Union places HFI loans on non-accrual on a timely basis, which results in the reversal of interest income on a timely basis.

The Credit Union elected the fair value option for taxicab medallion loans and certain mortgage loans. Changes in fair value are recognized in other non-interest income. Loan fees, certain direct loan origination costs and transaction costs are immediately recognized to other non-interest income. Interest income represents the amount contractually due.

Past Due Loans
Past due loans are those where the borrower has failed to make a contractual payment on or before its due date. In determining a single-family mortgage loan's delinquency status, the Credit Union may use the paid through date, which means credit is given for aggregate partial payments received.

Nonaccrual Loans
Interest accruals are discontinued on loans when management believes, after considering economic factors, business conditions and collection efforts, that the collection of principal and interest is doubtful. The Credit Union considers the following additional factors when determining the discontinuation of interest accruals:

- The loan is 90 days or more past due its contractual terms;
- The loan has been modified due to the borrower experiencing financial difficulty;
- The borrower has filed for bankruptcy;
- The borrower becomes deceased.

Loans accounted for under the fair value option and loans held for sale are considered nonaccrual loans if the nonaccrual criteria are met. Credit card loans that are contractually 90 days or more past due have not been put on nonaccrual status, as they are typically charged off at 180 days, which is consistent with regulatory guidelines.

Uncollected interest is reversed against interest income the same month a loan is placed in nonaccrual status. All cash collections received while a loan is on nonaccrual status are applied to the loan's amortized cost, until there is no longer any doubt regarding full collectability of the amortized cost of the loan. The loans are then returned to accrual status when the borrower demonstrates the ability to repay the obligation, which is generally after six consecutive timely payments and the member is current.

Loans Held for Sale ("HFS")
Loans that the Credit Union intends to sell, or for which it does not have the ability and intent to hold for the foreseeable future, are classified as HFS. Real estate loans originated with the intent to sell to government-sponsored enterprises are accounted for under the fair value option. The Credit Union elected the fair value option on these loans as part of our management of interest rate risk. All other loans classified as HFS are recorded at the lower of cost or fair value.

Loan origination fees and direct loan origination costs related to loans, for which the fair value option was elected, are recognized as incurred and are reported within other non-interest income, in the consolidated statements of income. Interest income is calculated based on the loan's stated rate of interest and is reported within interest income, in the consolidated statements of income. Fair value adjustments attributable to HFS loans, or loans in which the fair value option has been elected, are recorded within other non-interest income, in the consolidated statements of income.

Loan origination fees, direct loan origination costs, and any discounts and premiums related to loans, carried at the lower of cost or fair value, are deferred until the loan is sold and are then recognized as part of the total gain or loss on sale. The fair value of HFS loans is determined on an aggregate portfolio basis for each loan type.

If the Credit Union changes the intent that results in a reclassification of HFI loans to HFS loans, such reclassified loans are recorded at the lower of cost or fair value, less estimated selling costs on the date of redesignation, unless the impacted loans are under the fair value option. Any declines in fair value due to credit risk are recorded as a charge-off to the ACL at the time of transfer. This excludes transfers of loans carried at fair value under the fair value option.

HFS loans are typically sold with the servicing rights retained and are generally sold without recourse, subject to customary representations and warranties. The Credit Union recognizes the sale of loans when they are legally isolated from the Credit Union's creditors, the transferee has the right to pledge or exchange the loans and the Credit Union no longer maintains effective control over the loans.

Loan Modifications

Concurrent with the adoption of Current Expected Credit Loss ("CECL"), the Credit Union adopted ASC Topic 326, *Financial Instruments-Credit Losses* (hereinafter ASC Topic 326) on January 1, 2023, which eliminates the accounting and disclosure guidance for troubled debt restructurings ("TDRs") and enhances disclosure requirements for loan modifications when a borrower is experiencing financial difficulty or financial difficulty modifications ("FDMs"). All FDMs should now be evaluated to determine if the FDM results in either a new loan, or a continuation of the existing loan. Deferred loan origination fees and costs will continue to be amortized if it is determined that the original loan still exists, but will be immediately recognized into non-interest income if it is determined that a new loan exists. A new loan would exist if there were a 10% or more change in cash flows resulting from the modification, or if the modification is more than minor, based on the specific facts and circumstances (and other relevant considerations) surrounding the modification.

Troubled Debt Restructurings (Applicable to 2022 only)

A troubled debt restructuring ("TDR") is a loan, for which the Credit Union grants a concession it would not have otherwise considered, because a member is experiencing financial difficulties. The concession could either be an agreement between the Credit Union and the member, imposed by law, or through a court order. Accordingly, loans where members received bankruptcy relief are classified as TDRs. Concessions we usually grant in a TDR include, but are not limited to, term extensions and/or interest rate reductions. TDRs are considered impaired loans. We measure impairment on TDR loans where we cannot reasonably estimate expected future cash flows as the excess of the loan's recorded investment over the fair value of the collateral, less estimated selling costs. On all other TDR loans the impaired amount is generally measured as the excess of the loan's recorded balance over the present value of expected future cash flows, discounted at the loan's effective interest rate. If both collateral values and discounted cash flows are not available, we use the loan's observable market price to calculate impairment as the difference between the loan's recorded investment and the loan's observable market price. Costs incurred to complete a TDR are expensed as incurred.

m) Allowance for Credit Losses ("ACL")

Loans Held for Investment

We maintain an allowance for loan losses ("allowance") that represents management's current estimate of expected credit losses over the contractual terms of our loans held for investment. We measure the allowance on a quarterly basis through consideration of past events, including historical experience, current conditions, and reasonable and supportable forecasts.

We measure current expected credit losses over the contractual terms of our loans. The contractual terms are adjusted for expected prepayments but are not extended for renewals or extensions, except when an extension or renewal arises from a borrower option that is not unconditionally cancellable.

We aggregate loans sharing similar risk characteristics into pools, for purposes of measuring expected credit losses. Pools are reassessed periodically to confirm that all loans within each pool continue to share similar risk characteristics. Expected credit losses for loans that do not share similar risk characteristics with other financial assets are measured individually.

Expected recoveries of amounts previously charged off, or expected to be charged off, are recognized within the allowance, with a corresponding reduction to our provision for credit losses. At times, expected recoveries may result in a negative allowance. We limit the allowance recovery expectations to amounts previously charged off and expected to be charged off. Charge-offs of uncollectible amounts result in a reduction to the allowance; recoveries of previously charged off amounts result in an increase to the allowance.

When developing an estimate of expected credit losses, we use both quantitative and qualitative methods in considering all available information relevant to assessing collectability. This may include internal information, external information, or a combination of both relating to past events, current conditions and reasonable and supportable forecasts. Significant judgment is applied to the development and duration of reasonable and supportable forecasts used in our estimation of lifetime losses. The Credit Union utilizes a forecast that extends over the contractual term of the loans, and which it considers reasonable and supportable for the life of the loan. This forecast uses historical information and takes into consideration current conditions and economic expectations before converging to a long-run trend.

Management will consider and may qualitatively adjust for conditions, changes and trends in loan portfolios that may not be captured in modeled results. These adjustments are referred to as qualitative factors and represent management's judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the allowance for loan losses. Management's judgment may involve an assessment of current and forward-looking conditions including, but not limited to, changes in lending policies and procedures, nature and volume of the portfolio, external factors and uncertainty as it relates to economic, model, or forecast risks, where not already captured in the modeled results.

Expected credit losses for collateral-dependent loans are based on the fair value of the underlying collateral, less expected costs to sell. A loan is deemed to be a collateral-dependent loan when: (i) we determine foreclosure or repossession of the underlying collateral is probable, or (ii) foreclosure or repossession is not probable, but the borrower is experiencing financial difficulty and we expect repayment to be provided substantially through the sale of the collateral. The allowance for a collateral-dependent loan reflects the difference between the loan's amortized cost and the fair value (less estimated selling costs, where applicable) of the loan's underlying collateral.

Our consumer and mortgage portfolio segments consist of smaller-balance, homogeneous loans. The consumer segment is comprised of credit cards, auto loans and other consumer loan products. Our real estate portfolio segment is comprised of mortgage loans and home equity products. We assess our mortgage and consumer portfolio segments based on common risk characteristics such as origination year, contract type and borrower credit score. Our commercial portfolio segment is primarily composed of commercial real estate loans. These loans are subject to reviews that result in internal risk classifications. In assessing the risk classification of a particular commercial loan, among the factors we consider are the financial condition of the borrower, collateral performance, historical loss experience and industry-specific information that management believes is relevant in determining and measuring expected credit losses. Subjective assessment and interpretation are involved.

For consumer, mortgage, and commercial loans, the contractual period typically does not include renewals or extensions, because the renewals and extensions are generally not at the borrower's exclusive option to exercise. The undrawn credit exposure associated with our credit card loans is unconditionally cancellable. For this reason, expected credit losses are measured based only on the drawn balance at each quarterly measurement date and not on the undrawn exposure. Because credit card loans do not have a defined contractual life, management estimates both the volume and application of payments, to determine a contractual life of the drawn balance at the measurement date, over which expected credit losses are developed for credit card loans.

We have made a policy election to not measure an allowance on accrued interest for loans held for investment, because we reverse uncollectible accrued interest in a timely manner.

The allowance related to consumer and mortgage loans assessed on a pooled basis is based on a modeled calculation, which is supplemented by management judgment as described above. Because of the homogeneous nature of our consumer loan portfolios, the allowance is based on the aggregated portfolio segment evaluations. The allowance is established through a process that begins with estimates of historical losses in each pool based upon various statistical analyses, with adjustments for current conditions and reasonable and supportable forecasts of conditions, which includes expected economic conditions. Loss forecast models are utilized to estimate expected credit losses and consider several portfolio indicators including, but not limited to, expected economic conditions, historical loss experience, account seasoning, the value of collateral underlying secured loans, estimated foreclosures or defaults based on observable trends, delinquencies, and general business trends. Management also considers an evaluation of overall portfolio credit quality based on indicators such as changes in our credit evaluation, underwriting and collection management policies, the effect of other external factors such as competition and legal and regulatory requirements, general economic conditions and business trends, and uncertainties in forecasting and modeling techniques used in estimating our allowance.

The allowance related to commercial loans assessed on a pooled basis is based on our historical loss experience for loans with similar risk characteristics and consideration of the current credit quality of the portfolio, which is supplemented by management judgment as described above. These are adjusted for current conditions, and reasonable and supportable forecasts of conditions likely to cause future losses, which vary from historical levels. Management may also apply judgment to adjust the loss factors derived, taking into consideration both quantitative and qualitative factors, including general economic conditions, industry-specific and geographic trends, portfolio concentrations, trends in internal credit quality indicators and current and past underwriting standards that have occurred, but are not yet reflected in the historical data underlying our loss estimates.

Off-Balance Sheet Credit Exposures

In addition to the allowance, we also measure expected credit losses related to unfunded lending commitments that are not unconditionally cancellable. This primarily consists of unfunded exposures related to home equity lines of credit ("HELOCs"), certain personal lines of credit and commercial real estate loans. This reserve is measured using the same measurement objectives as the allowance for loan losses and is recorded within other liabilities, on our consolidated balance sheets. Expected credit losses are not measured on unfunded lending commitments that are unconditionally cancellable.

Charge-Offs and Recoveries
On January 1, 2023, the Credit Union changed its estimate of loan charge-offs, consistent with regulatory guidance. This change in estimate resulted in an additional charge-off to the allowance for credit losses, which reduced the allowance for credit losses.

Closed-end consumer loans such as auto loans are charged-off at 120 days past due unless the Credit Union can demonstrate that repossession of the collateral is in-process and assured. Open-end consumer loans such as credit cards and certain personal loans are charged-off at 180 days past due. Mortgage loans are charged-off to the estimated fair value of the collateral, less estimated selling costs, at 180 days past due. Commercial loans are charged-off when all or a portion of the loan is deemed uncollectible. Expected recoveries of amounts previously charged-off are estimated as part of the allowance for loan losses and are recorded as an increase to the allowance when received.

n) Servicing Rights

Servicing rights are recognized as separate assets (or liabilities) when loans are sold and the Credit Union retains the right to service these sold loans, for a fee that provides more (or less) than adequate compensation. A servicing asset is recorded if the benefits of servicing are greater than adequate compensation, while a servicing liability is recorded if the benefits of servicing are less than adequate compensation. No asset or liability is recognized, if the benefits of servicing are equal to adequate compensation. The Credit Union accounts for its servicing rights at fair value.

o) Foreclosed and Repossessed Assets

Real Estate Owned
The Credit Union records real estate acquired through foreclosure proceedings, or when a delinquent borrower chooses to transfer a mortgaged property in lieu of foreclosure ("real estate owned" or "REO"), at fair value on the date of acquisition, net of estimated selling costs, resulting in a new cost basis. The difference between the loan's carrying amount and its fair value is recorded as a charge-off through the ACL. The fair value of REO is determined using the automated valuation method ("AVM"), broker price opinions ("BPOs") and/or full independent appraisals. Holding costs, or carrying costs, such as real estate taxes, insurance, maintenance and utilities, are expensed as incurred. After foreclosure, updated fair values are obtained, after which the real estate owned is carried at the lower of cost or fair value, less estimated costs to sell. The balances of such assets are included within other assets, in the consolidated statements of financial condition. The Credit Union generally expects to dispose of REO assets held within one year or less. A gain or loss is recognized within non-interest income, in the consolidated statements of income, upon disposition of the REO, as the difference between cash proceeds received and the asset's net carrying amount.

Taxicab Medallions
The Credit Union acquires taxicab medallions through, or in lieu of, foreclosure proceedings. The Credit Union initially records the taxicab medallions at fair value. This fair value becomes the "cost", or carrying amount, of the foreclosed or repossessed collateral. The Credit Union intends to sell the repossessed taxicab medallions. Subsequently, the taxicab medallions are carried at the lower of cost or fair value, less estimated costs to sell.

Other Repossessed Assets
The Credit Union repossesses non-real estate collateral, which includes, but is not limited to, vehicles. Upon repossession, and when sufficient information is available on the collateral value, such repossessed collateral is measured at the lower of cost or fair value on the date of acquisition, less estimated disposal costs.

p) Property and Equipment, net

Property and Equipment
Property and equipment (excluding land) is stated at cost, which includes asset additions, improvements, betterments and interest capitalized during the period of construction, less accumulated depreciation. The cost and related accumulated depreciation are eliminated from the accounts when assets are disposed. Any resulting gain or loss is reflected within other non-interest income, in the consolidated statements of income. Leasehold improvements are amortized over the lesser of the estimated economic life of the improvements, or the remaining term of the lease. Depreciation and amortization are calculated based on the cost of the asset, reduced by the asset's estimated residual or salvage value, using the straight-line method. Ranges of estimated useful lives of depreciable and finite intangible assets used by the Credit Union are shown below. Land is stated at cost and is not depreciated.

Classification of property and equipment	Estimated useful life
Buildings and improvements	5 to 50 years
Furniture and fixtures	3 to 8 years
Computer equipment	3 to 10 years
Computer software	3 to 10 years
Leasehold improvements	1 to 10 years
Aircraft equipment	20 years

Internal-Use Software
The Credit Union purchases, internally develops and customizes certain software to enhance or perform internal business functions. Qualifying software development and implementation costs are capitalized and amortized, using the straight-line method, over the useful life of the developed software. Costs related to purchased software, as well as internally developed software for the Credit Union's internal use, are capitalized during the application development stage for capitalizable costs, such as coding. Capitalization of internally developed software costs ends when the software is ready for its intended use. Significant improvements that add new functionality to internal-use software assets are capitalized and amortized when the software is placed into service. Nonqualifying costs are expensed as they are incurred (e.g., maintenance and repair expenditures that do not add new functionality, preliminary stage project costs such as project planning and post-implementation stage costs including training, maintenance after implementation, data conversion).

If a cloud computing arrangement does not include a software license element (considered to be an internal-use software asset), the Credit Union accounts for the arrangement as a software as a service ("SaaS") contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred. If the Credit Union enters into a subscription agreement, the cost is immediately expensed or recorded as a prepaid asset until the subscription takes effect. GAAP generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract, with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license element as defined further below.

If the Credit Union has entered a cloud computing arrangement that is a service contract, it is required to capitalize certain implementation costs as if the arrangement were an internal-use software project. The internal-use software guidance requires the capitalization of certain costs typically incurred only during the application development stage (e.g., costs of integration with on-premises software, coding, configuration, customization). The internal-use software guidance also requires the Credit Union to expense costs during the preliminary project and post-implementation stages (e.g., costs of project planning, training, maintenance after implementation, data conversion) as they are incurred.

Leases
Lease classification is determined at inception for all lease transactions with an initial term greater than one year. Operating leases are included as right-of-use ("ROU") assets within other assets, property and equipment; operating lease liabilities are classified as other liabilities, in our consolidated statements of financial condition. The Credit Union does not have any finance leases. Operating lease expense is included in occupancy within non-interest expense, in our consolidated statements of income.

q) National Credit Union Share Insurance Fund ("NCUSIF") Deposit

Per NCUA regulations, the Credit Union is required to maintain a deposit in the NCUSIF equal to one percent of the Credit Union's insured shares. The deposit is refunded to us if: (1) the insurance coverage is terminated; (2) the Credit Union converts to insurance coverage from another source; or (3) the operations of the fund are transferred from the NCUA Board.

r) Education and Promotional Expense

Education and promotional expenses are expensed as incurred. Advertising expense for 2023 and 2022 was $57,395 and $67,357, respectively.

s) Comprehensive Income / (Loss)

Accounting principles generally require revenue, expenses, gains and losses to be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities, gains and losses on cash flow hedge derivatives and pension-related adjustments are reported as a separate component of members' equity, in the consolidated statements of financial condition.

t) Revenue Recognition

ASC Topic 606, *Revenue from Contracts with Customers* (hereinafter ASC Topic 606), requires an entity to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments past due, such as our loans, investment securities and mortgage lending income, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our significant revenue-generating activities that are within the scope of ASC Topic 606, which are presented within our consolidated statements of income as components of non-interest income, are as follows:

Commissions – The Credit Union receives brokerage commission for realty services in selling, buying, or leasing a property. Each service is considered a distinct, stand-alone performance obligation, representing the bundled services that culminate when the sales (or lease) agreement is executed, representing the point in time when payments and title change hands, allowing the customer to obtain control.

Interchange Fees – These fees are charged to the merchant for participation in the Credit Union's card network ecosystem. The Credit Union is the principal in providing this service, and interchange revenue will be recognized at a point in time on a gross basis as the Credit Union approves the transactions and transfers funds, while fees paid will be classified as an expense. Credit card rewards and rebate costs are consideration paid to the cardholder, not a merchant bank, and are considered separate expenses not recorded net of interchange fees.

Core Service Charges – These represent fee revenue from membership services as a series, where the Credit Union's only performance obligation is to serve as custodian, providing access to funds as necessary. This performance obligation is satisfied over time, utilizing the time-based output method.

Insurance Placement Fee – The Credit Union engages with insurance companies to place its members in insurance products, for which it receives a commission from the insurance policy issuer. The Credit Union does not recognize any revenue pertaining to renewal as commissions arising from member renewals is deemed to be fully constrained until uncertainty is resolved (e.g., member renews for ongoing commission income).

Sales of REO and Other Assets – The Credit Union defines an accounting sale with full gain or loss recognition, and related asset derecognition, if the transaction meets certain requirements.

u) Fair Value of Assets and Liabilities

Fair value represents the exit price that the Credit Union would receive to sell an asset, or pay to transfer a liability, in an orderly transaction with a market participant at the measurement date. Fair value measurements are disclosed by level within a fair value hierarchy that gives the highest priority to quoted prices in active markets.

The Credit Union believes its estimated fair value amounts are reasonable; however, as outlined below, there are inherent limitations in any valuation estimate.

The Credit Union's estimated fair value amounts are made as of the consolidated statements of financial condition date and are highly subjective in nature. The Credit Union selects assumptions and inputs from a market participant's perspective, to use with any of its valuation estimates. Such assumptions and inputs include, but are not limited to, the amount and timing of future cash flows, expected interest rate volatility, possible distributions of future interest rates used to value options and the selection of discount rates that appropriately reflect market and credit risks. Significant judgment is required when selecting such assumptions and inputs. Using different assumptions and inputs could have a material effect on the Credit Union's estimated fair value amounts. The estimated fair value amounts presented in the Credit Union's consolidated statements of financial condition and disclosed in the notes to the consolidated financial statements may not be indicative of the amounts that would be realized upon settlement in current market transactions.

The Credit Union uses various valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset/liability, or unobservable, meaning those that reflect the Credit Union's own assumptions developed, based on the best information available in the circumstances.

The fair value hierarchy is as follows:

Level 1 - Valuations for assets and liabilities traded in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The Credit Union has cash as Level 1.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from observable inputs other than Level 1 prices such as: quoted prices for similar assets or liabilities; quoted prices in markets that are not active; other inputs that are observable, or can be corroborated by observable market data, for substantially the full term of the assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations have certain assumptions and projections, which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.

v) Derivative Instruments

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. These instruments include interest rate swaps (including swaptions), caps, floors, collars, forwards, futures contracts and when-issued securities, as examples. All derivatives are reported at fair value.

Accounting Hedges
Derivative financial instruments which qualify for hedge accounting treatment are classified as either fair value hedges or cash flow hedges. A qualifying hedge accounting relationship exists, when a derivative hedging instrument is expected to effectively offset changes in the fair values or cash flows of the hedged item, during the term of the hedge relationship. The Credit Union prepares contemporaneous documentation at inception of the hedge relationship, to support that the hedge relationship qualifies for hedge accounting treatment and assesses hedge effectiveness on an ongoing basis. The Credit Union employs both fair value and cash flow hedges.

Fair value hedges are used to protect against exposure to changes in the fair value of a recorded asset or liability. Changes in the fair value of the derivative instrument and hedged item in a fair value hedge are recorded within the same line item, either interest income or interest expense, in the consolidated statements of income. The Credit Union uses portfolio-layer hedges, which are a type of fair value hedge, to manage interest rate risk related to its mortgage portfolio. This strategy entails designating a closed-end pool of mortgages as the hedged item, in which the Credit Union uses one or more derivatives to hedge the last cash flows associated with the closed-end pool. In doing this, the impact of prepayment and default risk are not considered in measuring for hedge effectiveness. Basis adjustments associated with portfolio-layer hedges are maintained on a portfolio basis (that is, they are not allocated to individual assets). The Credit Union also enters fair value hedges of certain of its available-for-sale debt securities. Since available-for-sale debt securities are measured at fair value in other comprehensive income ("OCI"), the adjustment of the available-for-sale security's carrying amount, attributable to the risk being hedged, is recognized in interest income to offset the gain or loss on the hedging instrument.

The Credit Union may elect to discontinue (or partially discontinue) hedge accounting prospectively, for all or a portion of the hedged layer, for one or more hedging relationships associated with the closed portfolio at any time, if a breach has not occurred and a breach is not anticipated. If multiple hedged layers are associated with the closed portfolio, the Credit Union may voluntarily elect to discontinue hedge accounting (or partially discontinue hedge accounting) related to any hedged items associated with that closed portfolio. If the hedging relationship is voluntarily discontinued (or partially discontinued), the outstanding basis adjustment associated with the de-designated amount is to be allocated to the remaining individual assets in the closed portfolio that supported the de-designated hedged layer, using a systematic and rational method. The Credit Union amortizes those amounts consistent with the amortization of other discounts or premiums associated with the respective assets.

Cash flow hedges are used to protect against exposure to changes in the cash flows of a recognized asset, liability, or forecasted transaction. If a cash flow hedge is highly effective, changes in the fair value of the hedging instrument are recognized in AOCI until the related cash flows from the hedged item are recognized in earnings. If the cash flow hedge ceases to be highly effective, the Credit Union discontinues hedge accounting and recognizes the changes in fair value in non-interest income.

The Credit Union has master netting agreements within its derivatives counterparties and has elected to present derivative assets and liabilities on a net basis within the consolidated statements of financial condition. At inception and at least quarterly during the life of the hedge, the Credit Union documents its analysis of actual and expected hedge effectiveness.

If a derivative that qualifies as a fair value or cash flow hedge is terminated or de-designated, the realized or then unrealized gain or loss is recognized in income over the life of the hedged item (fair value hedge), or in the period in which the hedged item affects earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge), or if it is probable that the hedged cash flows will not occur (cash flow hedge).

Economic Hedges
Derivatives not designated as an accounting hedge are considered an economic hedge. The changes in fair value of economic hedges are included as non-interest income.

w) Pension Accounting and Retirement Benefit Plans

The Credit Union has a defined benefit pension plan, 401(K) deferred contribution, postretirement medical plan and non-qualified supplemental retirement plan.

The funding status of each defined benefit plan is reflected as an asset or liability, in the consolidated statements of financial condition. GAAP requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans, measured solely as the difference between the fair value of plan assets and the projected benefit obligation, as an asset or liability, in the consolidated statements of financial condition. Unrecognized actuarial gains and losses and unrecognized prior service costs are included as a component of AOCI.

Actuarial gains and losses and prior service costs and credits that arise during a period are included in OCI, to the extent they are not included in net periodic pension cost (a component of compensation and benefits expense). Settlements are recognized into non-interest expense when settlement payouts exceed service cost, plus interest cost. In such cases, a remeasurement event has occurred, and the net periodic pension cost is recalculated for the remainder of the calendar year.

x) Borrowed Funds

The Credit Union is an active borrower with the Federal Home Loan Bank of Atlanta ("FHLB"). Borrowing from the FHLB takes the form of various types of advances, which vary in tenor (up to 30 years) and rate structure (fixed, floating). Each advance is separately negotiated and accounted for as a separate agreement and carried at the amount of proceeds received from the FHLB. From time to time, the Credit Union may restructure advances for the purpose of extending the term, or obtaining a lower interest rate. Restructurings are accounted for as an extinguishment when the modified terms of the borrowing are substantially different than the original terms; otherwise, they are treated as a modification. In cases of a modification, all costs paid to the FHLB are deferred and amortized over the term of the modified borrowing. In cases of an extinguishment, all costs paid to the FHLB are expensed in the period. In other situations, the Credit Union holds a symmetrical prepayment option, which allows prepayment of an advance at an amount lower than face value. These prepayments are treated as extinguishments when there is no contemporaneous new borrowing with the FHLB, and the amount of the discount is recorded as a gain, in the consolidated statements of income.

y) Recently Adopted Accounting Pronouncements

Standard	Summary of Guidance	Effect on Consolidated Financial Statements
Reference Rate Reform (ASU 2020-04) *Issued March 2020*	• In March of 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"): Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04). The amendments provide optional expedients and exceptions for applying generally accepted accounting principles ("GAAP") to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In January of 2021, the FASB issued ASU 2021-01 Reference Rate Reform (Topic 848) Scope, that refined the scope of Topic 848 and clarified some of its provisions. • In December of 2022, the FASB issued ASU 2022-06 Deferral of Sunset Date, which extended the sunset date to December 31, 2024.	• This ASU is effective from March 12, 2020, through December 31, 2024, with early adoption as of January 1, 2020, permitted. • The Credit Union adopted certain provisions related to derivative contract modifications and hedge accounting in this guidance in 2021. • The early adoption of the expedients in the guidance eased the administrative burden of accounting for London Interbank Offering Rate ("LIBOR") related contract modifications. Our adoption of this standard did not have a material impact on our consolidated financial statements.
Financial Instruments-Credit Losses (ASU 2016-13), Current Expected Credit Loss ("CECL") *Issued June 2016*	• Requires use of the current expected credit loss model that is based on expected losses (net of expected recoveries), rather than incurred losses, to determine our allowance for credit losses on financial assets measured at amortized cost, certain net investments in leases and certain off-balance sheet arrangements. • Replaces current accounting for purchased credit-impaired ("PCI") and impaired loans. • Amends the other-than-temporary impairment model for available-for-sale ("AFS") debt securities to require that credit losses be recorded through an allowance approach, rather than through permanent write-downs for credit losses and subsequent accretion of positive changes through interest income over time. Losses on AFS securities are limited to the fair value of the individual AFS security.	• The Credit Union adopted this guidance in the first quarter of 2023, using the modified retrospective method of adoption. Upon adoption, the Credit Union recorded an increase to its allowance for loan losses of $581,687, a liability for unfunded commitments of $20,107 and a decrease to its retained earnings of $601,794.
Financial Instruments-Credit Losses (ASU 2022-02) Troubled Debt Restructurings and Vintage Disclosures *Issued March 2022*	• On March 31, 2022, the FASB issued Accounting Standards Update ("ASU") 2022-2 which eliminates the accounting model for loans modified in a troubled debt restructuring ("TDR") and, instead, enhances disclosure requirements related to loans modified to borrowers experiencing financial difficulty (former TDRs). • Accounting for loan modifications was based on two separate sources of US GAAP. If the modification was considered a concession and the borrower was experiencing financial difficulty, then the loan was deemed to be a TDR and would follow ASC Topic 310 Receivables which contains specific guidance regarding measuring impairment (i.e., the allowance). Under the ASU, CECL would be applied to determine the amount of the impairment. • Since the ASU eliminated the concept of a TDR (and TDR accounting), all modifications should be evaluated under ASC Topic 310 Receivables. Specifically, the Credit Union now will determine if there is 1) a continuation of the existing loan or 2) a new loan. Deferred loan origination fees and costs will continue to be amortized if it is determined that the original loan still exists, but will be immediately recognized into non-interest income if it is determined that a new loan exists. A new loan would exist if there is a 10% change in cash flows resulting from the modification.	• The Credit Union's adoption of this standard did not have a material impact on its consolidated financial statements. • The guidance required new disclosures that require us to provide information related to loan modifications that are made to borrowers that are deemed to be in financial difficulty. We adopted the ASU on January 1, 2023, on a prospective basis. The impact of these amendments was not material.

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Credit Union's cash and cash equivalents and restricted cash reported within the consolidated statements of financial condition and the consolidated statements of cash flows were as follows:

	December 31, 2023	December 31, 2022
Funds with Federal Reserve bank	$ 454,357	$ 478,797
Funds on hand and on deposit with other financial institutions	102,123	166,476
Deposits in transit	120,173	129,617
Cash and cash equivalents	**676,653**	**774,890**
Restricted cash	5,007	3,810
Total cash and cash equivalents and restricted cash	**$ 681,660**	**$ 778,700**

NOTE 3 – INVESTMENT SECURITIES

The Credit Union's AFS securities as of December 31, 2023 and 2022 were as follows:

December 31, 2023	Allowance for Credit Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities					
Federal agency securities-bonds	$ -	$ 199,761	$ -	$ (20,260)	$ 179,501
Government agency bonds	-	326,673	89	(11,793)	314,969
Mortgage-backed securities	-	2,767,427	2,185	(195,138)	2,574,474
Asset-backed securities	-	11,137	-	(113)	11,024
Other	-	37,651	-	(758)	36,893
Total available-for-sale debt securities	**$ -**	**$ 3,342,649**	**$ 2,274**	**$ (228,062)**	**$ 3,116,861**

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities				
Federal agency securities-bonds	$ 209,758	$ -	$ (27,708)	$ 182,050
Government agency bonds	204,508	174	(10,915)	193,767
Mortgage-backed securities	2,324,023	-	(226,661)	2,097,362
Asset-backed securities	20,143	-	(387)	19,756
Other	62,632	-	(3,620)	59,012
Total available-for-sale debt securities	**$ 2,821,064**	**$ 174**	**$ (269,291)**	**$ 2,551,947**

The Credit Union sold AFS securities for cash proceeds of $0 and $178,527 for the years ended December 31, 2023 and 2022, respectively. Gross realized gains of $0 and gross realized losses of $0 were included in other non-interest income for the year ended December 31, 2023. Gross realized gains of $327 and gross realized losses of $448 were included in other non-interest income for the year ended December 31, 2022.

The contractual maturities on December 31, 2023 and 2022 are detailed in the following table (actual maturities may differ from contractual maturities as certain security issuers have the right to prepay obligations without penalty):

	December 31, 2023	
	Amortized Cost	Fair Value
Available-for-sale debt securities		
Due in one year or less	$ 51,566	$ 50,948
Due after one year through five years	479,136	449,510
Due after five years through ten years	1,481,159	1,453,316
Due after ten years	1,330,788	1,163,087
Total available-for-sale debt securities	**$ 3,342,649**	**$ 3,116,861**

	December 31, 2022	
	Amortized Cost	Fair Value
Available-for-sale debt securities		
Due in one year or less	$ 152,852	$ 150,949
Due after one year through five years	357,586	339,339
Due after five years through ten years	928,763	871,732
Due after ten years	1,381,863	1,189,927
Total available-for-sale debt securities	**$ 2,821,064**	**$ 2,551,947**

Prior Guidance Regarding Other-than-temporary Impairment

As of December 31, 2022, all securities in an unrealized loss position were reviewed individually to determine whether those losses were caused by an other-than-temporary decline in fair value. The Credit Union makes a determination of whether unrealized losses are other-than-temporary based on the following factors: whether the Credit Union intends, or would be required, to sell or hold the security until its costs can be recovered; the nature of the security; the portion of unrealized losses that are attributable to credit losses and the financial condition of the issuer of the security. The Credit Union does not intend to sell, nor would the Credit Union be, more likely than not, required to sell these securities, before recovering their amortized cost basis. The unrealized losses associated with these investments are not a result of changes in the credit quality of the issuers; rather, the losses are reflective of changing market interest rates. The Credit Union expects to recover the entire cost basis of these securities as there were no declines in the fair value that were considered other-than-temporary during the year ended December 31, 2022.

The following table presents AFS securities in a gross unrealized loss position, and whether such securities have been in a gross unrealized loss position for less than 12 months, or 12 months or greater:

	December 31, 2023								
	Less than 12 Months					12 Months or Greater				
	Number of Investments	Fair Value		Gross Unrealized Losses		Number of Investments	Fair Value		Gross Unrealized Losses	
Available-for-sale debt securities										
Federal agency securities-bonds	-	$	-	$	-	21	$	179,501	$	(20,260)
Government agency bonds	7		127,918		(698)	29		165,805		(11,095)
Mortgage-backed securities	22		504,518		(2,424)	240		1,605,232		(192,714)
Retained asset-backed securities	-		-		-	5		10,535		(113)
Other	-		-		-	4		36,892		(758)
Total	**29**	**$**	**632,436**	**$**	**(3,122)**	**299**	**$**	**1,997,965**	**$**	**(224,940)**

	December 31, 2022									
	Less than 12 Months					12 Months or Greater				
	Number of Investments	Fair Value		Gross Unrealized Losses		Number of Investments	Fair Value		Gross Unrealized Losses	
Available-for-sale debt securities										
Federal agency securities-bonds	-	$	-	$	-	22	$	182,050	$	(27,708)
Government agency bonds	26		173,359		(10,896)	1		2,083		(19)
Mortgage-backed securities	132		1,147,099		(52,353)	122		884,978		(174,308)
Retained asset-backed securities	9		19,756		(387)	-		-		-
Other	7		59,012		(3,620)	-		-		-
Total	**174**	**$**	**1,399,226**	**$**	**(67,256)**	**145**	**$**	**1,069,111**	**$**	**(202,035)**

Other Investments

Other investments are summarized as follows:

	December 31,	
Other Investments	**2023**	**2022**
Paid-in Capital Account	$ 6,076	$ 6,076
FHLB Stock	109,818	178,441
Investments in CDs	996	3,217
Total Other Investments	**$ 116,890**	**$ 187,734**

Paid-in Capital Account

The Credit Union maintains paid-in capital accounts with corporate credit unions. These investments are uninsured and are paid back to the Credit Union at the discretion of the corporate credit union.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta ("FHLB"). The amortized cost or par value represents fair value. This investment is carried at cost, which is par value, less impairment, if any.

Investments in CDs

The Credit Union holds certificates of deposit with various banks and credit unions that are held at cost as they are non-marketable, thus an approximate measure of fair value.

NOTE 4 – LOANS, NET

The composition of the Credit Union's loans HFI, by loan type and delinquency, are shown below:

	December 31, 2023						
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Delinquent Loans	Deferred Fees, Costs, and Other Basis Adjustments (1)	Total
Real estate	$15,074,807	$ 101,948	$ 26,986	$ 62,738	$ 191,672	$ (6,956)	$15,259,523
Commercial	1,644,174	63,889	-	1,119	65,008	(3,176)	1,706,006
Vehicle	4,980,965	129,587	46,559	19,106	195,252	29,846	5,206,063
Credit cards	2,309,695	28,521	24,148	58,564	111,233	536	2,421,464
Consumer and other	4,129,673	45,786	31,190	28,945	105,921	(127,015)	4,108,579
Total loans held for investment, at amortized cost	**28,139,314**	**369,731**	**128,883**	**170,472**	**669,086**	**(106,765)**	**28,701,635**
Allowance for loan losses							(717,636)
Total loans held for investment, net	**$28,139,314**	**$ 369,731**	**$ 128,883**	**$ 170,472**	**$ 669,086**	**$ (106,765)**	**$27,983,999**

	December 31, 2022						
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Delinquent Loans	Deferred Fees, Costs, and Other Basis Adjustments (1)	Total
Real estate	$15,497,608	$ 61,186	$ 25,249	$ 40,828	$ 127,263	$ (4,407)	$15,620,464
Commercial	1,640,221	617	255	1,324	2,196	(5,638)	1,636,779
Vehicle	4,929,630	126,670	56,133	102,548	285,351	34,041	5,249,022
Credit cards	2,037,766	18,378	14,032	41,090	73,500	1,259	2,112,525
Consumer and other	4,823,902	50,244	33,278	95,043	178,565	(132,906)	4,869,561
Total loans held for investment, at amortized cost	**28,929,127**	**257,095**	**128,947**	**280,833**	**666,875**	**(107,651)**	**29,488,351**
Allowance for loan losses							(280,785)
Total loans held for investment, net	**$28,929,127**	**$ 257,095**	**$ 128,947**	**$ 280,833**	**$ 666,875**	**$ (107,651)**	**$29,207,566**

(1) Includes cumulative basis adjustments related to fixed-rate mortgages designated in portfolio layer fair value hedges of $(105,537) and $(185,117) as of December 31, 2023 and 2022, respectively.

Excluded from the tables above are $228,409 and $243,143 of loans measured at fair value as of December 31, 2023, and 2022; as of December 31, 2023, and 2022, loans measured at fair value and greater than 90 days past due were $45,891 and $57,067, respectively.

The accrual status of loans HFI, at amortized cost, by loan type are shown below:

	December 31, 2023	
	Non-accrual Loans	90+ DPD and Accruing
Real estate	$ 106,704	$ -
Commercial	294,416	-
Vehicle	77,790	-
Credit cards	-	58,564
Consumer and other	50,272	-
Total	**$ 529,182**	**$ 58,564**

	December 31, 2022	
	Non-accrual Loans	90+ DPD and Accruing
Real estate	$ 97,198	$ 692
Commercial	1,642	-
Vehicle	134,449	571
Credit cards	-	41,090
Consumer and other	111,242	73
Total	**$ 344,531**	**$ 42,426**

Nonaccrual loans with no allowance totaled $674 as of December 31, 2023.

At December 31, 2023, the Credit Union had commercial loans carried at their collateral value of $141,274.

Credit Quality Indicators

The Credit Union closely monitors economic conditions and loan performance trends to assess and manage exposure to credit risk. These risks and our credit quality indicator for each portfolio segment are discussed below:

Real Estate

We regularly update the property values of real estate collateral and calculate an updated combined loan-to-value ("LTV") ratio. We examine LTV migration to measure and monitor changes in our risk profile.

We use a combination of original LTV and updated LTV for internal risk management and reporting purposes (e.g., line management, loss mitigation strategies). In addition to the fact that property values by their nature are estimates, given certain data limitations, it is important to note that updated LTVs may be based upon management's assumptions (i.e., if an updated LTV is not provided by the third-party service provider, home price index ("HPI") changes may be incorporated in arriving at management's estimate of updated LTV).

Updated LTV is estimated using modeled property values. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models, broker price opinions, HPIs, property location, internal and external balance information, origination data and management assumptions. Accordingly, the results of the calculations may not represent actual appraised loan level collateral, or updated LTV, based upon lien balances held by others, and as such, are necessarily imprecise and subject to change as we refine our methodology.

The following table presents the current and combined LTV by vintage, respectively, by class of financing receivable within the real estate portfolio segment, as of December 31, 2023 and 2022, respectively:

	December 31, 2023							December 31, 2022
	Term Loans by Vintage Year							
	2023	2022	2021	Prior	Total Term Loans	Revolving Loans	Revolving Loans Converted to Term	
Mortgage								
Current LTV								
Less than or equal to 80%	$ 66,489	$3,651,913	$5,561,047	$1,786,489	$11,065,938	$ -	$ -	
80 to 100%	118,525	652,495	459,129	41,779	1,271,928	-	-	
Over 100%	34,987	150,170	119,593	16,941	321,691	-	-	
Total Mortgage	**$ 220,001**	**$4,454,578**	**$6,139,769**	**$1,845,209**	**$12,659,557**			**$ 13,086,609**
Home equity (1)								
Combined LTV								
Less than or equal to 80%	$ 75	$ 583	$ 1,306	$ 141,548	$ 143,512	$2,078,736	$ 16,147	
80 to 100%	-	195	127	1,400	1,722	342,267	1,177	
Over 100%	-	-	1,227	10,595	11,822	40,806	1,840	
Total Home equity	**$ 75**	**$ 778**	**$ 2,660**	**$ 153,543**	**$ 157,056**	**$2,461,809**	**$ 19,164**	**$ 2,533,855**

(1) Certain real estate loans are included in fair value hedging relationships. The amortized cost excludes $38 million of basis adjustments for loans in closed portfolios with active hedges under the portfolio layer method at December 31, 2023. These basis adjustments would be allocated to the amortized cost of specific loans within the closed pool if the hedging was de-designated.

Commercial

The Credit Union measures commercial credit risk by assigning an internal risk classification to each loan. These internal risk classifications align with the regulatory risk classifications used by the NCUA. This assessment evaluates the borrower's current financial condition and ability to repay the loan. The risk classification is generally assigned using various methods, including evaluating cash flows from the borrower and the loan's underlying collateral. The evaluation considers key metrics such as debt service coverage and loan-to-value, and are also supported by credit history, ability to repay on an amortization market constant, collateral type, tenant composition, local market conditions and management/borrower capacity, along with additional qualitative factors, where needed.

Loans with a "pass" classification are those that the Credit Union believes will be fully repaid in accordance with the contractual loan terms. Commercial loans that are "special mention" have potential weaknesses that, if left uncorrected, may result in deterioration of the Credit Union's credit position at some future date. "Substandard" loans are loans that have well-defined weaknesses that could hinder repayment of the debt. "Doubtful" loans have the same weaknesses as substandard, with the added possibility of a highly probable loss, where collection of the full amount due is improbable.

The following table presents the regulatory risk classifications, by class of financing receivable within the commercial portfolio segment as of December 31, 2023, and 2022, respectively:

	December 31, 2023							December 31, 2022
	Term Loans by Vintage Year							
	2023	2022	2021	Prior	Total Term Loans	Revolving Loans	Revolving Loans Converted to Term	
Commercial real estate								
Pass	$ 32,929	$ 146,729	$ 69,311	$ 226,708	$ 475,677	$ 643,939	$ -	$ 1,257,597
Special Mention	-	-	-	3,846	3,846	-	-	23,331
Sub-standard	-	-	-	65,244	65,244	-	139,447	11,392
Doubtful	-	-	-	1,119	1,119	-	-	838
Total commercial real estate	**32,929**	**146,729**	**69,311**	**296,917**	**545,886**	**643,939**	**139,447**	**1,293,158**
Other								
Pass	-	-	-	12,866	12,866	265,922	-	343,596
Special Mention	-	-	16	-	16	-	97,930	25
Total Other	**-**	**-**	**16**	**12,866**	**12,882**	**265,922**	**97,930**	**343,621**
Total Commercial loans[1]	**$ 32,929**	**$ 146,729**	**$ 69,327**	**$ 309,783**	**$ 558,768**	**$ 909,861**	**$ 237,377**	**$ 1,636,779**

Consumer Loans

Our consumer portfolios are highly diversified across millions of accounts and numerous geographies, without significant individual exposure. We therefore generally manage credit risk based on portfolios with common risk characteristics. The risk in our credit card loan portfolio correlates to broad economic trends, such as unemployment rates and the U.S. Real Gross Domestic Product ("GDP") Rate, as well as consumers' financial condition, all of which can have a material effect on credit performance.

For all loan types, we generally use a combination of internal loan parameters as well as an updated FICO score. We use FICO scores as a primary credit quality indicator. Along with the monitoring of delinquency trends and losses for each class, FICO credit score updates are obtained at least quarterly along with a variety of credit bureau attributes. Loans with high FICO scores tend to have a lower likelihood of loss. Conversely, loans with low FICO scores tend to have a higher likelihood of loss.

The following table presents current FICO, by class of financing receivable within the consumer portfolio segment as of December 31, 2023, and 2022, respectively:

	December 31, 2023							December 31, 2022
	Term Loans by Vintage Year							
Current FICO	2023	2022	2021	Prior	Total Term Loans	Revolving Loans	Revolving Loans Converted to Term	
Vehicle								
Greater than 800	$ 514,072	$ 306,185	$ 270,737	$ 114,301	$1,205,295	$ -	$ -	
701-800	984,673	677,352	325,828	172,076	2,159,929	-	-	
601-700	341,489	590,690	260,359	95,159	1,287,697	-	-	
600 or below	32,181	303,474	172,562	44,925	553,142	-	-	
Total Vehicle	**$1,872,415**	**$1,877,701**	**$1,029,486**	**$ 426,461**	**$5,206,063**	**$ -**	**$ -**	**$ 5,249,022**
Other Consumer								
Greater than 800	$ 151,599	$ 273,694	$ 321,971	$ 237,005	$ 984,269	$ 4,077	$ -	
701-800	392,186	641,495	645,830	261,906	1,941,417	29,258	-	
601-700	170,686	374,039	316,905	89,328	950,958	30,097	-	
600 or below	17,374	76,808	47,343	18,507	160,032	8,471	-	
Total Consumer	**$ 731,845**	**$1,366,036**	**$1,332,049**	**$ 606,746**	**$4,036,676**	**$ 71,903**	**$ -**	**$ 4,869,561**
Credit card								
Greater than 800	-	-	-	-	-	$ 347,992	-	
701-800	-	-	-	-	-	1,045,641	-	
601-700	-	-	-	-	-	868,202	-	
600 or below	-	-	-	-	-	159,629	-	
Total Credit card						**$2,421,464**	**$ -**	**$ 2,112,525**

Loan Modifications and Troubled Debt Restructurings

As part of our loss mitigation efforts, we may provide short-term (one to twelve months) or long-term (greater than twelve months) modifications to a borrower experiencing financial difficulty (financial difficulty modifications or FDMs) to improve long-term collectability of the loan and to avoid the need for repossession, or foreclosure, of collateral. FDMs are accumulated and the performance of each loan that received a FDM is reported on a rolling twelve-month basis.

The following table presents the major modification types, amortized cost amounts per modification and financial effects for all FDMs undertaken during twelve months, ended December 31, 2023:

	December 31, 2023					
	Loans by Modification Type					
Loan Modifications Granted to Borrowers Experiencing Financial Difficulty	Term Extension	Payment Delay	Interest Rate Reduction	Combination	Total	% of Loan Class
Real estate	$ 18,747	$ 6,859	$ 1,347	$ 11,358	$ 38,311	0.25%
Commercial	143,928	-	-	98,024	241,952	14.18%
Vehicle	-	3,408	-	-	3,408	0.07%
Credit cards	-	-	-	-	-	0.00%
Consumer and other	8,220	1,248	-	-	9,468	0.23%
Total	**$ 170,895**	**$ 11,515**	**$ 1,347**	**$ 109,382**	**$ 293,139**	**1.02%**

The following table presents the financial effect of modifications to borrowers experiencing financial difficulty, including total principal forgiven, along with weighted average interest rate reduction, term extension and payment delay, as of December 31, 2023:

	December 31, 2023		
Financial Effect of Modifications to Borrowers Experiencing Financial Difficulty	**Weighted-Average Interest Rate Reduction**	**Weighted-Average Term Extension (in Months)**	**Weighted-Average Payment Delay (in Months)**
Real estate	1.03%	110	9
Commercial	4.31%	16	-
Vehicle	-	-	8
Credit cards	-	-	-
Consumer and other	-	10	10
Total		**136**	**27**

We monitor loan performance trends, including FDMs, to assess and manage our exposure to credit risk. The following table presents FDMs over a rolling 12-month period, by delinquency status, as of December 31, 2023:

	December 31, 2023				
	Loans by Delinquency				
Delinquency Status of Loans Modified to Borrowers Experiencing Financial Difficulty	**Current**	**30-59**	**60-89**	**90+**	**Total**
Real estate	$ 26,862	$ 2,798	$ 1,911	$ 6,740	$ 38,311
Commercial	241,952	-	-	-	241,952
Vehicle	2,749	414	213	32	3,408
Credit cards	-	-	-	-	-
Consumer and other	7,603	1,071	429	365	9,468
Total	**$ 279,166**	**$ 4,283**	**$ 2,553**	**$ 7,137**	**$ 293,139**

Subsequent Defaults of Financial Difficulty Modifications ("FDMs") to Borrowers

FDMs may subsequently enter default. A default occurs if a FDM is either 90 days or more delinquent, has been charged off, or has been reclassified from accrual to nonaccrual status. Loans that entered a modification program in any stage of delinquency are included in the aging table above. Loans that entered a modification program while in default are not considered to have subsequently defaulted for purposes of this disclosure. The following table presents the amortized costs basis FDMs that entered subsequent default for the twelve-months ended December 31, 2023:

	December 31, 2023			
	Loans by Modification Type			
Amortized Cost Basis of Loans Modified to Borrowers Experiencing Financial Difficulty that Subsequently Defaulted	**Term Extension**	**Payment Delay**	**Combination**	**Other**
Real estate	$ 678	$ 714	$ 640	$ 2,032
Commercial	143,734	-	97,930	241,665
Vehicle	-	298	-	298
Credit cards	-	-	-	-
Consumer and other	1,398	230	-	1,628
Total	**$ 145,810**	**$ 1,242**	**$ 98,570**	**$ 245,623**

Prior Guidance Regarding Loan Modifications and Troubled Debt Restructurings

Prior to January 1, 2023, the Credit Union followed guidance regarding assessment and subsequent treatment of loan modifications as TDRs. On January 1, 2023, the Credit Union prospectively adopted ASU 2022-02, which eliminates the accounting guidance for TDRs and enhances the disclosure requirements for certain loan modifications when a borrower is experiencing financial difficulty. Accounting and disclosures for TDRs for the year ending December 31, 2022, are shown below.

TDRs are considered impaired at the time of the restructuring. Impairment is measured as the difference between the net carrying amount of the loan and the modified future expected cash flows discounted at the loan's original effective interest rate. For real estate loans that are collateral dependent, impairment is measured by the difference between the recorded investment and the collateral value, net of costs to sell. Subsequent to designation as a TDR, a loan is placed on nonaccrual. A TDR loan may be returned to accrual status if six consecutive months of payments are received. Additional impairment is recognized for TDRs that exhibit further credit deterioration after modification.

The following table summarizes the recorded investment balances, by type of concession granted to borrowers, whose loans became TDRs during the year ended December 31, 2022, which excludes loan modifications that do not meet the definition of a TDR and loans that received relief under the guidance issued by the Federal Banking Agencies and contained in the CARES Act in response to the COVID-19 pandemic:

	December 31, 2022				
	Number of Contracts	Term Extension	Payment Deferral	Other [(1)]	Total
Real estate	226	$ 33,948	$ 1,687	$ 5,419	$ 41,054
Commercial	-	-	-	-	-
Vehicle	88	-	2,445	-	2,445
Credit cards	2	-	16	-	16
Consumer and other	50	80	813	460	1,353
Total	**366**	**$ 34,028**	**$ 4,961**	**$ 5,879**	**$ 44,868**

[(1)] Other includes principal forgiveness, or other concessions that do not fall into the stated categories.

The Credit Union considers loans to be in a payment default when the contractual payment due is at least two months delinquent (i.e., greater than 30 days past due), a foreclosure or repossession has occurred, or an event has occurred that is considered a default during the periods reported.

The following table discloses the number and recorded investment balances for TDRs that subsequently defaulted within twelve months of restructure. The recorded investment balance disclosed is at the time of payment default:

	December 31, 2022	
	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real estate	80	$ 10,792
Vehicle	29	762
Credit cards	-	-
Consumer and other	16	443
Total	**125**	**$ 11,997**

Prior Guidance Regarding Individually Impaired Loans

Generally, large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Those loans may include, but are not limited, to credit card and consumer and other loans. Therefore, the only time the Credit Union assesses individual loans for impairment is when there is evidence and doubt related to its ability to collect all amounts due according to the contractual terms of the loan.

Individually impaired loans include TDRs and all loans assessed as probable that the Credit Union will not collect all contractual amounts due, excluding loans classified as fair value option loans. The following tables display the total unpaid principal balance, recorded investment, related allowance, average recorded investment and interest income recognized for individually impaired loans:

As of, and for the Year ended, December 31, 2022	Recorded Investment [1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 103,730	$ 104,756	$ -	$ 112,437	$ 974
Commercial	9,785	9,785	-	16,985	-
Vehicle	5,856	5,954	-	6,222	246
Credit cards	-	-	-	-	-
Consumer and other	4,638	4,633	-	4,594	238
With an allowance recorded:					
Real estate	40,613	40,793	(5,157)	38,096	626
Commercial	2,699	2,699	(557)	4,539	-
Vehicle	1,634	1,645	(184)	1,731	110
Credit cards	163	163	(163)	185	-
Consumer and other	1,261	1,245	(202)	1,743	166
Total Individually Impaired Loans:					
Real estate	$ 144,343	$ 145,549	$ (5,157)	$ 150,533	$ 1,600
Commercial	12,484	12,484	(557)	21,524	-
Vehicle	7,490	7,599	(184)	7,953	356
Credit cards	163	163	(163)	185	-
Consumer and other	5,899	5,878	(202)	6,337	404

[1] Recorded investment is defined as the unpaid principal balance, net of unamortized fees, costs, premiums, discounts, or other basis adjustments, net of charge offs, and accrued interest receivable.

Allowance for Credit Losses

Rollforward of Allowance for Loan Losses

The table below summarizes changes in the allowance for loan losses and reserve for unfunded lending commitments, by portfolio segment, for the twelve-months ended December 31, 2023 and 2022:

	Real Estate	Commercial	Vehicle	Credit Cards	Consumer and Other	Total
Allowance for Loan Losses						
Balance as of December 31, 2022	$ 8,587	$ 15,083	$ 35,594	$ 48,882	$ 172,639	$ 280,785
Cumulative effects from adoption of ASC 326	53,506	22,634	75,568	168,858	261,121	581,687
Balance as of January 1, 2023	$ 62,093	$ 37,717	$ 111,162	$ 217,740	$ 433,760	$ 862,472
Provision for loan loss	(5,374)	124,022	103,996	163,007	103,169	488,820
Charge-offs	(3,040)	(9)	(206,485)	(178,480)	(336,916)	(724,930)
Recoveries	356	632	42,198	16,279	31,809	91,274
Allowance for loan losses December 31, 2023	**$ 54,035**	**$ 162,362**	**$ 50,871**	**$ 218,546**	**$ 231,822**	**$ 717,636**
Allowance for Unfunded Lending Commitments [1]						
Balance as of December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative effects from adoption of ASC 326	8,343	4,938	-	-	6,826	20,107
Balance as of January 1, 2023	$ 8,343	$ 4,938	$ -	$ -	$ 6,826	$ 20,107
Provision for unfunded lending commitments	(459)	(2,135)	-	-	(6,423)	(9,017)
Allowance for Unfunded Lending Commitments December 31, 2023	**$ 7,884**	**$ 2,803**	**$ -**	**$ -**	**$ 403**	**$ 11,090**
Allowance for Credit Losses as of December 31, 2023	**$ 61,919**	**$ 165,165**	**$ 50,871**	**$ 218,546**	**$ 232,225**	**$ 728,726**

[1] The allowance for unfunded lending commitments is classified as other liabilities within our consolidated statements of financial condition.

December 31, 2022	Real Estate	Commercial	Vehicle	Credit Cards	Consumer and Other	Total
Balance, beginning of year	$ 13,334	$ 10,234	$ 37,678	$ 49,118	$ 140,991	$ 251,355
Provision for credit loss	(4,307)	8,779	23,258	73,273	171,811	272,814
Charge-offs	(1,246)	(9,871)	(29,440)	(81,804)	(147,168)	(269,529)
Recoveries	806	5,941	4,098	8,295	7,005	26,145
Balance, end of year	**$ 8,587**	**$ 15,083**	**$ 35,594**	**$ 48,882**	**$ 172,639**	**$ 280,785**
End balance: Loans individually evaluated for impairment	5,157	557	184	163	202	6,263
End balance: Loans collectively evaluated for impairment	3,430	14,526	35,410	48,719	172,437	274,522
Loans, amortized cost (excluding ALL)						
End balance: Impaired loans with allowance	$ 40,613	$ 2,699	$ 1,634	$ 163	$ 1,261	$ 46,370
End balance: Impaired loans without an allowance	103,730	9,785	5,856	-	4,638	124,009
End balance: Loans collectively evaluated for impairment	15,476,121	1,624,295	5,241,532	2,112,362	4,863,662	29,317,972
Total loans, amortized cost	**$15,620,464**	**$1,636,779**	**$5,249,022**	**$2,112,525**	**$4,869,561**	**$29,488,351**

NOTE 5 – LOAN SALES

In the normal course of business, the Credit Union may originate and transfer residential mortgage and consumer loans in a sales transaction, in which it has continuing involvement, through retained loan servicing. Mortgage loans are sold to the Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"), collectively, the Government Sponsored Enterprises ("GSEs"). The GSEs generally securitize loans into mortgage-backed securities that are sold to third-party investors in the secondary market. The Credit Union is also an issuer of Government National Mortgage Association ("GNMA") securities. In these transactions, federally insured and/or guaranteed loans are pooled and sold as securities to third-party investors, with a guarantee payment from GNMA. Mortgage loans are also sold to private third-party investors. Consumer loans are sold to private third-party investors and other credit unions.

At December 31, 2023 and 2022, the Credit Union had $108,995 and $98,259, respectively, of loans held for sale, which were committed for sale prior to the respective year-end periods. During 2023 and 2022, the Credit Union sold loans with proceeds from sales of HFI and HFS loans totaling $2,316,918 and $11,068,549, respectively, and recognized net gains on sales of loans totaling $10,966 and losses on sale of $104,412, respectively, which were reported within non-interest income, in the consolidated statements of income.

Representation and Warranties

For mortgage and consumer loans transferred in sale transactions or securitizations to the GSEs, GNMA and other investors, the Credit Union has made representations and warranties that the loans meet specified requirements. These requirements typically relate to collateral, underwriting standards, validation of certain borrower representations in connection with the loan and the use of standard legal documentation. In connection with the sale of loans to the GSEs, GNMA and other investors, the Credit Union may be required to repurchase the loan or indemnify the respective entity for losses due to breaches of these representations and warranties. The Credit Union does not currently recognize a liability for estimated losses related to these representations and warranties, due to the fact that repurchase is not probable and estimable, as evidenced by its significantly low repurchase history.

The Credit Union's continuing involvement in loans transferred includes ongoing servicing, repurchasing previously transferred loans under obligations related to standard representations, and warranties. The Credit Union repurchased $26,354 and $44,075 of previously transferred loans in 2023 and 2022, respectively, and were accounted for as part of our loan portfolio. During 2023 and 2022, there have been no losses on loans in the portfolio of previously transferred loans repurchased.

Servicing

The Credit Union retains servicing rights on loans transferred in sale transactions. Servicing rights assets are recognized at fair value on the date of sale and thereafter when the benefits of servicing the sold loans exceeds adequate compensation. Actual and expected loan constant prepayment rates ("CPR"), discount rates, servicing costs and other economic factors are considered in determining the servicing rights fair value. The servicing rights valuation is sensitive to interest rate and prepayment risk.

The table below discloses a sensitivity analysis of the hypothetical effect on fair value of servicing rights as a result of a 100-200 basis point decline/increase in the risk-free rate:

	Weighted-Average	
	December 31,	
Servicing Rights Assumptions	2023	2022
Prepayment speed (CPR)	8.1	8.6
Projected life (Years)	7.6	7.6
Discount rate	6.43%	6.96%

	Hypothetical Effect on Servicing Rights Fair Value	
	December 31,	
	2023	2022
Servicing Rights Fair Value	$ 296,590	$ 273,196
Change in fair value from:		
-100 bp decline in risk free rate	(26,917)	(13,140)
-200 bp decline in risk free rate	(63,028)	(34,454)
+100 bp increase in risk free rate	19,204	8,131
+200 bp increase in risk free rate	32,147	13,310

The Credit Union earns servicing and other ancillary fees for its role as servicer. The Credit Union's servicing revenue is included within fees and charges, in the consolidated statements of income. During the years ended December 31, 2023 and 2022, the Credit Union received $16,153 and $12,505, respectively, of late charges, which are included in fees and charges, in the consolidated statements of income.

The Credit Union's responsibilities as servicer typically include collecting and remitting monthly principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and in certain instances, funding servicing advances that have not yet been collected from the borrower. The Credit Union recognizes servicing advances, net of estimated uncollectible advances, within other assets in the consolidated statements of financial condition. Servicing advances, net of allowance, as of December 31, 2023 and 2022 totaled $20,358 and $14,625, respectively.

The following table provides the outstanding and delinquent mortgage loan balances of transferred loans, for which the Credit Union retains servicing rights. These amounts are excluded from the consolidated statements of financial condition, as they meet the definition of a sale under ASC Topic 860, *Transfers and Servicing:*

	December 31,	
Retained Servicing Rights	2023	2022
Principal balances of loans serviced	$ 22,126,972	$ 21,677,524
Principal balances of delinquent loans [1]	$ 85,312	$ 48,778

[1] Delinquency within the above table is identified as greater than 30 days past due

In August 2022, the Credit Union completed a securitization of consumer automobile loans (the "Transaction"). The Transaction was executed as a two-step transfer, in which the Credit Union, as Sponsor, first sold a portfolio of $519,816 of consumer auto loans to PenFed Auto Receivables Funding, LLC, a wholly owned subsidiary of the Credit Union, who then sold the portfolio of receivables to PenFed Auto Receivables Owner Trust 2022-A ("PAROT 2022-A"), an asset-backed securities issuer trust (the "Trust"). PAROT 2022-A then used the purchased receivables as collateral for issuing $484,520 of notes and $24,883 of residual certificates in a private offering under Rule 144A of the Securities and Exchange Act of 1933. In exchange for the sale of the loans to the Trust, the Depositor received both cash proceeds of $477,119 and beneficial interests of $25,328 in the Trust.

The Credit Union has determined that the Trust is a variable interest entity ("VIE") since it does not have sufficient equity at risk to finance its own activities. Additionally, the Credit Union considered the beneficial interests retained as part of the securitization to be variable interests. The Credit Union assessed the Trust for consolidation by determining if it was the primary beneficiary of the Trust. In performing this assessment, the Credit Union, as the sponsor of the securitization and servicer of the underlying collateral, has determined that it has the power to direct the activities that most significantly impact the Trust. However, the Credit Union has concluded that it does not have the obligation to absorb the expected losses (or right to residual returns) that could be potentially significant to the Trust and therefore does not report the Trust as a consolidated entity.

The retained beneficial interests consist of a 5% interest in each of the classes of notes and a 5% interest in the residual certificate. These assets are accounted for as debt securities and are included in the Credit Union's investment portfolio as AFS debt securities.

NOTE 6 – FORECLOSED ASSETS

Real Estate Owned

As of December 31, 2023 and 2022, REO assets, which are recognized within other assets in the consolidated statements of financial condition, had carrying values totaling $640 and $0, respectively.

As of December 31, 2023 and 2022, the amortized cost of mortgage loans secured by residential mortgage real estate, where formal foreclosure procedures were in process, was $16,945 and $17,321, respectively.

Taxicab Medallions

As of December 31, 2023, and 2022, taxicab medallions, which are recognized within other assets in the consolidated statements of financial condition, had values of $8,152 and $5,466, respectively.

NOTE 7 – GOODWILL AND OTHER INTANGIBLES

The Credit Union completed its annual goodwill impairment assessment and concluded that no impairment existed at October 31, 2023, and October 31, 2022.

The table below presents changes in the carrying value of goodwill for the periods ended December 31, 2023, and 2022:

	Carrying Value Goodwill	
	December 31, 2023	December 31, 2022
Goodwill at beginning of year	$ 31,094	$ 25,087
Goodwill additions during the year	-	5,963
Other	(350)	44
Goodwill at end of year	**$ 30,744**	**$ 31,094**

The table below presents the rollforward of intangibles for the years ended December 31, 2023 and 2022:

	Carrying Value Intangibles	
	December 31, 2023	December 31, 2022
Intangibles at beginning of year (1)	$ 115,837	$ 118,746
Intangible additions during the year	-	751
Amortization and adjustments	(3,148)	(3,660)
Intangibles at end of year	**$ 112,689**	**$ 115,837**

(1) In 2019, PenFed acquired an indefinite lived intangible of $108,942 that removed limitations on its field of membership and core deposit intangibles.

Based on the current amount of intangibles subject to amortization, the estimated amortization expense over the next five years is as follows:

2024	$ 1,878
2025	1,353
2026	401
2027	110
2028	5

NOTE 8 – BUSINESS ACQUISITIONS AND DIVESTITURES

Acquisitions

There were no acquisitions for the year, ended December 31, 2023.

allU.S. Federal Credit Union
On October 1, 2022, the Credit Union acquired allU.S. Federal Credit Union, a California-based federally chartered credit union, whereby the fair value of the identifiable assets acquired of $50,518 and liabilities assumed of $45,209 exceeded the fair value of the acquired credit union. This resulted in the Credit Union recognizing a bargain purchase gain of $3,498, associated with the acquisition. The gain was included within non-interest income, in the consolidated statements of income. The measurement period, where the Credit Union, as acquirer, may adjust the valuation, is deemed closed as of December 31, 2022.

Gallo Realty, Inc.
On July 21, 2022, PenFed Realty acquired Gallo Realty, Inc., a real estate brokerage firm, whereby the fair value of the identifiable asset acquired of $17 and no liabilities were assumed that was less than the fair value of the consideration transferred of $3,800. The amount of contingent consideration received was $1,350. This resulted in the Credit Union recognizing goodwill of $3,783 associated with the acquisition. The measurement period, where the Credit Union, as acquirer, may adjust the valuation, is deemed closed as of December 31, 2022.

NMA Federal Credit Union
On February 1, 2022, the Credit Union acquired NMA Federal Credit Union, a Virginia-based federally chartered credit union whereby the fair value of the identifiable assets acquired of $61,630 and liabilities assumed of $58,094 exceeded the fair value of the acquired credit union. This resulted in the Credit Union recognizing a bargain purchase gain of $2,618, associated with the acquisition. The gain was included within non-interest income, in the consolidated statements of income. The measurement period, where the Credit Union, as acquirer, may adjust the valuation, is deemed closed as of December 31, 2022.

The following table summarizes the assets acquired and liabilities assumed recognized at the respective acquisition date(s):

	December 31, 2022				
	allU.S. Federal Credit Union	**Gallo Realty**	**NMA Federal Credit Union**	**Others**	**Total**
Fair value of consideration (1)	$ -	$ 3,800	$ -	$ 2,184	**$ 5,984**
Enterprise value of acquiree	1,811	-	918	-	**2,729**
Fair value of assets acquired					
Cash and cash equivalents	$ 26,809	$ -	$ 29,261	$ -	**$ 56,070**
Loans, net of allowance	18,088	-	27,558	-	**45,646**
Property and equipment, net	4,089	17	1,913	4	**6,023**
National Credit Union Share Insurance deposit	432	-	549	-	**981**
Other intangible assets, net	549	-	202	-	**751**
Other	551		2,147	-	**2,698**
Total fair value of assets acquired	**50,518**	**17**	**61,630**	**4**	**112,169**
Fair value of liabilities assumed					
Other liabilities	312	-	56	-	**368**
Member accounts	44,897	-	58,038	-	**102,935**
Total fair value of liabilities assumed	**45,209**	**-**	**58,094**	**-**	**103,303**
Fair value of net assets acquired	**$ 5,309**	**$ 17**	**$ 3,536**	**$ 4**	**$ 8,866**
Bargain purchase gain	3,498	-	2,618	-	**6,116**
Goodwill	-	3,783	-	2,180	**5,963**

(1) Includes $2,240 of contingent consideration in 2022.

Divestitures

On December 7, 2022, PenFed Title, a wholly owned subsidiary of the Credit Union, sold the last 60% ownership interest in its wholly owned subsidiary, Member's Title of California, for $634. The sale was not considered a strategic shift that will have a major effect on the Credit Union’s operations or financial results.

NOTE 9 – PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

	December 31, 2023	December 31, 2022
Land	$ 42,191	$ 42,483
Buildings and improvements	330,924	328,652
Furniture and fixtures	57,321	56,356
Computer equipment	95,454	95,844
Aircraft equipment	10,540	10,540
Computer software	528,713	466,677
Leasehold improvements	24,006	20,772
Operating lease right of use assets	29,743	36,106
Property and equipment	**1,118,892**	**1,057,430**
Accumulated depreciation and amortization	(567,137)	(480,826)
Property and equipment, net	**$ 551,755**	**$ 576,604**

Depreciation and amortization expense related to property and equipment was $91,310 and $81,923 for the years ended December 31, 2023 and 2022, respectively, and is included in occupancy expense.

Software amortization expense was $67,749 and $56,215 for the years ended December 31, 2023 and 2022, respectively, and is a subset of depreciation and amortization expense.

Leases

Our primary involvement with leases is in the capacity as a lessee, where we lease commercial real estate to support our business. A majority of our leases are operating leases of office space and financial centers. For real estate leases, we have elected to account for the lease and non-lease components together as a single lease component. Our operating leases expire at various dates through 2033 and many of them require variable lease payments by us for property taxes, insurance premiums, common area maintenance and other costs. Certain of these leases also have extension or termination options, and we assess the likelihood of exercising such options. If reasonably certain that we will exercise the options, then we include the impact in the measurement of our right-of-use assets and lease liabilities.

Our right-of-use assets and lease liabilities for operating leases are included within property and equipment, net and other liabilities, in our consolidated statements of financial condition. None of our operating leases provide an implicit rate, and accordingly, we use our incremental borrowing rate in determining the present value of lease payments. Operating lease/rent expense was $10,796 and $10,825 for 2023 and 2022, respectively, and is included within non-interest expense. Total operating lease expense consists of total lease cost, which is recognized on a straight-line basis over the lease term, and variable lease cost, which is recognized based on actual amounts incurred. We also sublease certain premises, and sublease income is included within other non-interest income, in our consolidated statements of income.

The following tables present information about our operating lease portfolio and the related lease costs as of and for the years ended December 31, 2023 and 2022:

	December 31,	
	2023	2022
Right-of-use assets	$ 29,743	$ 36,106
Lease liabilities	33,597	36,255
Weighted-average remaining lease term	6.30	6.73
Weighted-average discount rate	2.31%	1.80%

	2023	2022
Operating Lease Costs		
Operating lease cost	$ 8,521	$ 8,882
Variable lease cost	2,275	1,943
Total lease cost	**$ 10,796**	**$ 10,825**
Cash paid for amounts included in measurement of lease liabilities	$ 8,361	$ 8,064

Maturities of Operating Leases and Reconciliation to Lease Liabilities	
2024	$ 6,813
2025	6,053
2026	5,265
2027	4,995
2028	4,353
Thereafter	8,643
Total Undiscounted Lease Payments	**36,122**
Less: Imputed interest	(2,525)
Total lease liabilities	**$ 33,597**

NOTE 10 – MEMBERS' ACCOUNTS

Share and deposit amounts up to $250 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding $250 at December 31, 2023 and 2022, totaled $4,491,307 and $3,622,934, respectively.

Interest rates on member's accounts are set by the Board of Directors and are based on an evaluation of market conditions. Interest expense on members' accounts for the 2023 and 2022 year end are as follows:

	December 31, 2023		December 31, 2022	
	Balances	Interest Expense	Balances	Interest Expense
Regular shares	$ 7,440,251	$ 120,249	$ 7,800,380	$ 54,265
Pencheck	1,998,774	2,748	2,097,632	2,841
Money market shares	3,112,603	45,127	3,342,511	21,202
Share certificates	14,971,680	474,194	12,549,487	170,492
IRA shares	180,429	102	238,040	134
IRA certificates	1,743,742	53,330	1,688,551	30,218
Total	**$ 29,447,479**	**$ 695,750**	**$ 27,716,601**	**$ 279,152**

NOTE 11 – BORROWED FUNDS

Borrowed funds are summarized as follows:

December 31, 2023							
	Coupon	Fixed/Variable	Payment	Maturities	Outstanding Balance	Unamortized Borrowing Costs	Carrying Amount
FHLB Borrowing	5.54%-5.65%	Variable	Quarterly	2024	$ 1,850,000	$ -	$ 1,850,000
FHLB Borrowing	5.80% - 6.05%	Fixed	Monthly	2024	66,000	-	66,000
Total FHLB Borrowings					**$ 1,916,000**	**$ -**	**$ 1,916,000**

December 31, 2022							
	Coupon	Fixed/Variable	Payment	Maturities	Outstanding Balance	Unamortized Borrowing Costs	Carrying Amount
FHLB Borrowing	3.95% - 4.49%	Variable	Quarterly	2023	$ 3,155,000	$ -	$ 3,155,000
FHLB Borrowing	3.53%	Variable	Semi-annually	2023	290,000	-	290,000
FHLB Borrowing	5.80% - 6.05%	Fixed	Monthly	2023-2024	376,000	-	376,000
FHLB Borrowing	2.95% - 3.08%	Fixed	Quarterly	2023-2024	1,996	27	2,023
Total FHLB Borrowings					**$ 3,822,996**	**$ 27**	**$ 3,823,023**

As of December 31, 2023 and 2022, the Credit Union had $9,428,541 and $9,579,823 of loans pledged as collateral for FHLB borrowings. Accrued interest payable on borrowings was $9,098 and $15,053 as of December 31, 2023 and 2022, respectively.

The Credit Union had the following unused lines of credit as of December 31, 2023 and December 31, 2022:

	December 31,	
Unused lines of Credit	**2023**	**2022**
Federal Reserve Bank of Richmond	$ 3,477,595	$ 1,873,766
Federal Home Loan Bank	5,977,149	4,185,355
SunTrust Bank	25,000	25,000
JPMorgan Chase Bank	50,000	50,000
Wells Fargo Bank	125,000	125,000
PNC Bank	50,000	50,000
Alloya Corporate CU	1,500	1,500
Total	**$ 9,706,244**	**$ 6,310,621**

NOTE 12 – EMPLOYEE BENEFIT PLANS

The Credit Union Employee Pension Plan

The Credit Union sponsors a trustee, noncontributory, defined-benefit pension plan (the "Plan") covering eligible employees. Benefits under the Plan are primarily based on years of service and the employees' compensation during the last five years of employment. The Credit Union's policy is to make annual contributions to the Plan, equal to the amount required to maintain the Plan in sound condition and to satisfy minimum funding requirements. Eligibility requirements of the Plan were modified in December 2006, to exclude employees hired or rehired after December 31, 2006 from participating in the Plan.

Retiree Medical Plan

The Credit Union sponsors a defined benefit postretirement plan. Eligibility requirements of the defined benefit postretirement plan were modified in December 2012, to exclude employees hired or rehired on or after December 1, 2012 from participating. The plan covers eligible employees providing medical, dental, vision, life insurance and grandfathered sick leave benefits. The plan is contributory for retirees who retired after January 1, 1995. For these retirees, effective April 1, 2006, retiree medical contributions were set at 70% for retirees age 65 or above, and 90% for retirees age 55 to 65. Effective April 1, 2007, the plan includes an increase in the contribution level for retirees age 65 and above to 90% of the premium. The 70% and 90% contribution provisions do not apply to employees who retired before January 1, 1995, for whom the Credit Union pays 100% of the premiums.

401(k) Plan

The Credit Union has a 401(k) plan that provides for contributions by employees and the employer, with the employer contributions consisting of a 100% matching of the employees' contributions up to the first 4% of the employees' salaries, subject to federal limitations. The Plan is available to substantially all employees of the Credit Union. The expense related to this plan for 2023 and 2022 was $9,845 and $10,580, respectively.

The following table provides key balances and transaction amounts of the pension and retiree medical plans:

	Retirement Plan		Postretirement Benefits	
Key Balances and Transaction Amounts	**2023**	**2022**	**2023**	**2022**
Accumulated benefit obligation at year end	$ 85,127	$ 92,957	$ N/A	$ N/A
Projected benefit obligation at year end	98,403	108,359	3,540	3,295
Fair value of plan assets at year end	87,810	91,312	-	-
Over/(under) funded	(10,593)	(17,047)	(3,540)	(3,295)
Employer contributions	-	-	246	248
Plan participants' contributions	-	-	397	360
Benefits paid	(16,997)	(11,908)	(642)	(608)
Net periodic benefit cost	5,196	5,805	150	258

The weighted-average assumptions used to determine the projected benefit obligation and net periodic benefit costs for the pension and retiree medical benefit plans were as follows:

	Retirement Plan		Postretirement Benefits	
Weighted Average Assumptions	**2023**	**2022**	**2023**	**2022**
Discount rate				
Projected benefit obligation	4.75%	4.95%	4.85%	5.00%
Net periodic benefit cost	4.95%	2.60%	5.00%	2.80%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Expected long-term rate of return on plan assets	5.00%	5.00%	N/A	N/A
Current year healthcare cost trend rate	N/A	N/A	7.50%	7.50%

The long-term rate of return assumption represents the expected average rate to be earned on plan assets and future plan contributions to meet benefit obligations. The assumption is based on several factors, including the anticipated long-term asset allocation of plan assets, historical market index and plan returns and a forecast of future expected asset returns.

The amounts in AOCI that have not yet been recognized as components of net periodic benefit cost as of December 31 are as follows:

	Retirement Plan		Postretirement Benefits	
Amounts in Accumulated Other Comprehensive Income	**2023**	**2022**	**2023**	**2022**
Net prior service cost	$ -	$ -	$ 861	$ 963
Net loss/(gain)	7,883	19,534	(2,109)	(2,552)
Accumulated Other comprehensive loss/(income)	**$ 7,883**	**$ 19,534**	**$ (1,248)**	**$ (1,589)**

The amounts recognized in AOCI for the years ended December 31, 2023 and 2022, consist of:

	Retirement Plan		Postretirement Benefits	
Amounts Recognized in Accumulated Other Comprehensive Income	**2023**	**2022**	**2023**	**2022**
Amounts amortized during the year				
Net prior service cost	$ -	$ -	$ (102)	$ (102)
Net gain/(loss)	(1,526)	(3,503)	185	85
Amounts arising during the year				
Net loss/(gain)	(10,125)	(6,930)	258	(845)
Total recognized in other comprehensive income	**$ (11,651)**	**$ (10,433)**	**$ 341**	**$ (862)**

NOTE 13 – REGULATORY MATTERS

Regulatory Net Worth Ratio

Quantitative measures established by the NCUA under its Prompt Corrective Action ("PCA") framework to ensure capital adequacy require the Credit Union to maintain minimum amounts of net worth to total assets. Under this framework, the NCUA categorizes credit unions as "well capitalized", "adequately capitalized", or "undercapitalized", depending on a credit union's ratio of net worth to total assets. As of December 31, 2023 and December 31, 2022, the NCUA categorized the Credit Union as "well capitalized" under this regulatory framework. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets and comply with certain levels of risk-based capital.

Due to the impact of adopting CECL, the NCUA has provided transitional relief, which allows the Credit Union to phase-in the Day 1 impact of adopting CECL, over a period of three years. Specifically, the impact to undivided earnings is phased-in each December 31st, beginning on December 31, 2023 and ending on December 31, 2025, at which point, the full Day 1 impact of adopting CECL will be measured in the Credit Union's net worth ratio. Total members' equity, in the consolidated statements of financial condition, is reconciled to total regulatory net worth, in the table below:

Regulatory Net Worth Reconciliation	December 31, 2023	December 31, 2022
Total members' equity	$ 2,882,023	$ 3,462,576
CECL Day 1 phase in	403,202	-
Less:		
Minority interest	(979)	(1,113)
Additional paid-in-capital	(1,150)	(1,150)
Other comprehensive income	(81,085)	(76,478)
Total Regulatory Net Worth	**$ 3,202,011**	**$ 3,383,835**

The Credit Union's actual regulatory net worth amounts and regulatory required ratios are presented below:

Net Worth to Total Assets	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023	$ 3,202,011	9.10%	≥ $ 2,110,854	≥ 6.0%	≥ $ 2,462,663	≥ 7.0%
December 31, 2022	$ 3,383,835	9.52%	≥ $ 2,131,582	≥ 6.0%	≥ $ 2,486,845	≥ 7.0%

Risk-Based Capital
Credit Unions are also required to assess capital adequacy under a risk-based capital framework as a determinant to maintaining a regulatory categorization as "well capitalized". Beginning on March 31, 2022, credit unions were required to calculate a risk-based capital ("RBC") ratio, which assigns risk weights to all on-balance sheet assets as well as certain off-balance sheet items. In order for a credit union to maintain a regulatory categorization of "well capitalized," it must maintain an RBC ratio of greater than 10%. As of December 31, 2023 and December 31, 2022, the credit union's RBC ratio was 12.41% and 12.62%, respectively, and accordingly, maintained its categorization as "well capitalized" under the new guidance. In lieu of calculating RBC, credit unions can opt into the Complex Credit Union Leverage Ratio ("CCULR") framework. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its regulatory net worth ratio. A qualifying credit union that has opted into the CCULR framework is considered to have met the capital ratio requirements to be categorized as, "well capitalized," if it has a CCULR of 9% or higher. In addition to a CCULR of 9% or higher, a qualifying credit union is a complex credit union that has met other requirements related to amount of off-balance sheet exposure, goodwill and intangible assets. The Credit Union has not opted into the CCULR framework. A qualifying complex credit union can opt into the CCULR framework at the end of each calendar quarter.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments and as such, credit risk related to these commitments could be like existing loans, if they became funded.

A summary of the Credit Union's commitments at December 31, 2023 is as follows:

	Fixed Rate	Variable Rate	Total Contract or Notional Amount
Thrifty credit services lines of credit	$ 362,329	$ -	$ 362,329
Second trust mortgages	-	129,492	129,492
Credit cards	-	10,644,708	10,644,708
First trust mortgages	281,399	-	281,399
Commercial real estate	128,803	985,870	1,114,673
Total commitments	**$ 772,531**	**$ 11,760,070**	**$ 12,532,601**

Commitments to extend credit are agreements to lend to a member, if 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Other Contractual Obligations

The following table discloses the Credit Union's other contractual obligations and various other commitments as of December 31, 2023:

	Years ended December 31,						
	2024	2025	2026	2027	2028	There-after	Total
FHLB Borrowings [1]	$ 1,916,000	$ -	$ -	$ -	$ -	$ -	$ 1,916,000
Certificates of deposit and IRAs [1]	11,160,310	3,440,459	481,146	1,086,102	270,461	276,944	16,715,422
Retirement obligations [2]	8,073	6,737	7,125	7,483	7,116	37,250	73,784
Total	**$13,084,383**	**$ 3,447,196**	**$ 488,271**	**$ 1,093,585**	**$ 277,577**	**$ 314,194**	**$18,705,206**

[1] Excludes contractual interest associated with the balances

[2] Thereafter includes amounts from 2029 through to 2033

Contingencies

The Credit Union is, and may in the future, be involved in several pending and threatened judicial, regulatory and arbitration proceedings, including investigations, examinations and other actions brought by governmental and self-regulatory agencies. At any given time, the Credit Union may also be in the process of responding to requests for documents, data, testimony relating to such matters, or engaging in discussions to resolve such litigation matters. The Credit Union may also be subject to putative class action claims and similar broader claims and indemnification obligations.

Due to the inherent difficulty of predicting the outcome of litigation matters, especially when such matters are in early stages or where the claimants seek indeterminate damages, the Credit Union cannot state, with certainty, the eventual outcome of such litigation, including timing, loss, fines, or penalties associated with each pending matter, if any.

As of December 31, 2023, these legal proceedings are at varying stages of adjudication, arbitration, or investigation. In accordance with applicable accounting guidance, we establish accruals for matters when a loss is probable, and the amount of the loss can reasonably be estimated. For legal actions or proceedings where it is not reasonably possible that a loss may be incurred, or where the Credit Union is not currently able to estimate the reasonably possible loss, or range of loss, the Credit Union does not establish an accrual. Based on currently available information, the Credit Union believes that the outcome of pending litigation will not have a material adverse effect on its consolidated financial statements.

NOTE 15 – RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends loans and incurs expenses to, receives deposits and earns income from, related parties that include its affiliated entities (such as wholly owned subsidiaries), certain of its officers (such as members of the Board of Directors, Supervisory Committee, and other executive officers), and its employees.

The following table is a summary of interest income earned on loans, and interest expense incurred on member shares, by the Credit Union's related parties for the year ended December 31, 2023 and 2022:

Executive Officers and Management	December 31, 2023	December 31, 2022
Interest income	$ 30	$ 46
Unpaid principal balance	1,356	1,796
Interest expense	2	2
Members' accounts	12,353	11,585

The Credit Union has an employee loan discount program that permits certain eligible Credit Union employees, including executive officers and management, interested in any of its loan products, to receive a discount that ranges between 25 to 100 basis points off the prevailing market rates for similar loans at the time of application. This includes loans that have been sold.

NOTE 16 – FAIR VALUE

The Credit Union measures certain assets and liabilities at fair value in accordance with ASC Topic 820, *Fair Value Measurement*, through various valuation approaches as described in Note 1 – Fair Value of Assets and Liabilities.

The carrying amounts are per the consolidated statements of condition. The net carrying value is net of any allowance for credit losses. Fair value estimates represent the exit prices that we would receive to sell assets, or pay to transfer liabilities, in an orderly transaction with market participants, at the measurement date. They do not represent an estimate of our overall market value as a going concern, as they do not consider future business opportunities, or profitability of assets and liabilities. We measure instrument-specific credit risk attributable to our consolidated obligations based on our nonperformance risk; see Note 14 – Commitments and Contingencies. As a result, we did not recognize any instrument-specific credit risk attributable to our consolidated obligations that are carried at fair value. See Note 1 - Summary of Significant Accounting Policies for our fair value policies and Note 17 – Derivative Instruments for more information on the netting and cash collateral amounts.

The following table is a summary of the net carrying amounts, fair value estimates, related levels in the hierarchy, and netting and cash collateral amounts:

As of December 31, 2023	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
Carried at fair value on a recurring basis						
Cash	$ 681,660	$ 681,660	$ 681,660	$ -	$ -	$ -
Available-for-sale debt securities	3,116,861	3,116,861	-	3,116,861	-	-
Loans held for investment	228,409	228,409	-	147,508	80,901	-
Loans held for sale	108,995	108,995	-	108,995	-	-
Servicing rights	296,590	296,590	-	-	296,590	-
Derivative assets	10,319	10,319	-	255,550	-	(245,231)
Derivative liabilities	(1,105)	(1,105)	-	(72,868)	-	71,763
Carried at fair value on a nonrecurring basis						
Taxi medallion collateral	8,152	8,152	-	-	8,152	-
Loans HFI individually assessed, net	141,274	141,274	-	-	141,274	-
Other real estate owned, net	640	640	-	-	640	-
Total	**$ 4,591,795**	**$ 4,591,795**	**$ 681,660**	**$ 3,556,046**	**$ 527,557**	**$ (173,468)**

As of December 31, 2022	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
Carried at fair value on a recurring basis						
Cash	$ 778,700	$ 778,700	$ 778,700	$ -	$ -	$ -
Available-for-sale debt securities	2,551,947	2,551,947	-	2,551,947	-	-
Loans held for investment	243,143	243,143	-	152,725	90,418	-
Loans held for sale	98,259	98,259	-	98,259	-	-
Servicing rights	273,196	273,196	-	-	273,196	-
Derivative assets	13,690	13,690	-	478,552	-	(464,862)
Derivative liabilities	-	-	-	(1,979)	-	1,979
Carried at fair value on a nonrecurring basis						
Taxi medallion collateral	5,466	5,466			5,466	
Loans HFI identified as impaired, net	40,107	40,107	-	-	40,107	-
Total	**$ 4,004,508**	**$ 4,004,508**	**$ 778,700**	**$ 3,279,504**	**$ 409,187**	**$ (462,883)**

During 2023 and 2022 there were no transfers between levels. Transfers into or out of Level 3 are made if the significant inputs used in the pricing models, measuring the fair values of the assets and liabilities, became unobservable or observable, respectively.

Fair Value on a Recurring Basis

The following is a discussion of the valuation and inputs used by the Credit Union in estimating the fair value of assets and liabilities measured on a recurring basis.

Available-for-Sale Debt Securities
The Credit Union receives pricing for AFS debt securities from a third-party pricing provider. These financial instruments are valued based on similar assets in the marketplace, or derived from model-based valuation techniques, for which all significant assumptions are observable.

Loans HFS
The Credit Union elects the fair value option for select HFS loans. The fair value of HFS loans is determined based on an evaluation of best execution forward sales contract prices, sourced from the TBA market by a government-sponsored mortgage agency.

Servicing Rights
Servicing assets do not trade in an active, open market with readily observable prices. The fair value of servicing rights is determined by whether or not adequate compensation is received. Servicing rights are recognized as separate assets (or liabilities) when loans are sold and we retain the right to service these sold loans, for a fee that provides more or less than adequate compensation. A servicing asset is recorded if the benefits of servicing are greater than adequate compensation; a servicing liability is recorded if the benefits of servicing are less than adequate compensation. No asset or liability is recognized if the benefits of servicing are equal to adequate compensation. Actual and expected loan prepayment, discount rate, servicing costs and other factors are considered in measurement, as the servicing rights valuation is based on unobservable inputs.

Loans HFI
The Credit Union has elected the fair value option for taxicab medallion loans and certain real estate loans. The fair value of taxicab medallion loans is based on discounting expected cash flows that consider the term of the loan. The discount rates used reflect the Credit Union’s required return on the taxicab medallion loan investment. As the taxicab medallion loans valuation is based on unobservable inputs, the fair value of real estate loans is based on a market approach using comparable sales of similar loans in the marketplace.

Derivative Assets/Liabilities
Derivative assets/liabilities are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point. The Credit Union estimates the fair value of a derivative that is not transacted in such an active market using standard valuation techniques such as discounted cash-flow analysis and comparisons to similar instruments. The Credit Union is subject to nonperformance risk in derivative transactions due to the potential default by its derivative counterparties. To mitigate this risk, the Credit Union has entered into master netting agreements and credit support agreements with its derivative counterparties for its bilaterally executed derivative contracts that provide for the daily delivery of collateral.

The fair value of forward sales contracts are determined based on an evaluation of contract prices sourced from the TBA market by a government-sponsored mortgage agency.

The fair value of Interest Rate Lock Commitments ("IRLC") are determined based on forward contract prices sourced from the TBA market, adjusted by the probability it will settle and become a loan.

Fair Value on a Non-Recurring Basis

The following is a discussion of the valuation of certain assets and liabilities that are measured at fair value on a non-recurring basis, which are subject to fair value adjustments, resulting from the application of the lower of cost or fair value accounting, or the write-down of individual assets due to impairment.

Taxi Medallion Collateral
Medallions acquired through, or in lieu of, foreclosure are to be sold and are carried at lower of cost or fair value, less estimated costs to sell. Fair value is based upon the estimated discounted cash flows generated by the collateral of the underlying medallions. These assets are included in Level 3 of the fair value hierarchy upon the lowest level of input that is significant to the fair value measurement.

Real Estate Owned and Individually Assessed Loans
REO assets are recorded at the lower of cost or fair value, less costs to sell. Fair value is determined using an automated valuation methodology or “AVM”. If an expectation of cash flows exist, impaired loans are recorded at the modified future expected cash flows, discounted at the loan’s original effective interest rate. Impaired loans that are collateral dependent are recorded at the collateral value, net of estimated costs to sell.

The Credit Union utilizes appraised values, less estimated selling expenses, to estimate the fair market value of the collateral. During the holding period, updated appraisals are obtained periodically to reflect changes in fair value. A home appraisal involves a certified, state-licensed professional determining the value of the property, through an inspection and comparison to other home sales.

During 2023 and 2022, there were no transfers between fair value hierarchy levels. The tables below present the rollforwards for the years ended December 31, 2023 and 2022, for all Level 3 assets that are measured at fair value on a recurring basis:

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2023	**December 31, 2022**
Servicing rights at beginning of year	$ 273,196	$ 169,560
Fair value adjustment	(13,498)	14,882
Issuances	36,892	88,754
Servicing rights at end of year	**$ 296,590**	**$ 273,196**

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2023	**December 31, 2022**
Taxi medallion loans at beginning of year	$ 90,418	$ 83,113
Acquisitions	-	1,598
Fair value adjustment	137	6,621
Principal paydown	(9,654)	(914)
Taxi medallion loans at end of year	**$ 80,901**	**$ 90,418**

NOTE 17 – DERIVATIVE INSTRUMENTS

The Credit Union utilizes derivative instruments to manage interest rate risk that affects its ongoing business operations. Interest rate swaps are used to hedge the variability in interest cash flows due to changes in a benchmark interest rate associated with fixed rate assets and floating rate liabilities. Similarly, interest rate caps are used to manage the maximum exposure to variable rate obligations that are tied to a benchmark interest rate.

The Credit Union has master netting agreements with its derivative counterparties. Under these agreements, the Credit Union may be required to post or receive cash collateral on a regular basis. As of December 31, 2023 and 2022, the Credit Union held $173,468 and $462,883 of posted cash collateral for its derivative positions, respectively. Cash collateral is presented within other assets, in the consolidated statements of financial condition and have been offset against the Credit Union's derivative instrument provisions, excluding cash collateral related to TBA contracts, totaling $5,417 and $7,731 as of December 31, 2023 and December 31, 2022, respectively.

The Credit Union recognizes all derivative instruments as either assets or liabilities at fair value, in the consolidated statements of financial condition. The Credit Union designates derivatives into either cash flow hedges – a hedge of an exposure to changes in cash flows or a recognized asset, liability, or forecasted transaction - or fair value hedges – a hedge of an exposure to changes in the fair value of a recorded asset or liability.

Cash Flow Hedges

Interest rate swaps with a total notional amount of $1,615,000 and $3,650,000 as of December 31, 2023 and 2022, respectively, are designated as cash flow hedges of FHLB borrowings and certain share deposit accounts, and are highly effective. The Credit Union expects the interest rate swaps to remain highly effective during their remaining terms:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	
	2023	2022		2023	2022
Interest rate swaps	$ (48,667)	$ 360,963	Interest expense	$ 1,365	$ 2,477
Total	**$ (48,667)**	**$ 360,963**	**Total**	**$ 1,365**	**$ 2,477**

Fair Value Hedges

Interest rate swaps are used as fair value hedges on designated closed mortgage portfolios in a portfolio layer hedging relationship. Gains and losses on these interest rate swaps, as well as the offsetting gain or loss on the hedged closed mortgage portfolio, are recognized in interest income. The Credit Union includes the gain or loss on the closed loan portfolio in the same consolidated financial statements line item – interest income; loans – as the offsetting loss or gain on the related interest rate swaps.

The following amounts were recorded in the consolidated statements of financial condition, related to cumulative basis adjustments for fair value hedges as of December 31:

Line item in the consolidated statements of financial condition in which the hedged item is included	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Discontinued hedge relationships	
	2023	2022	2023	2022	2023	2022
Loans, net of allowance	$ 8,676,176	$ 9,147,882	$ (105,537)	$ (185,117)	$ (67,475)	$ (14,206)
Available-for-sale debt securities, net of allowance	570,835	-	7,118	-	(10,347)	-
Total	**$ 9,247,011**	**$ 9,147,882**	**$ (98,419)**	**$ (185,117)**	**$ (77,822)**	**$ (14,206)**

	2023	2022
Portfolio Layer Hedge Relationships		
Amortized cost basis of closed portfolios used in the portfolio layer designation (included in the totals above)	$ 8,676,176	$ 9,147,882
Cumulative basis adjustments associated with portfolio layer hedging relationships:		
Unallocated basis adjustments	(38,062)	(170,911)
Discontinued hedge relationships [(1)]	(67,475)	(14,206)
Total	**$ (105,537)**	**$ (185,117)**
Amount of the designated hedged items	$ 6,999,000	$ 6,745,000

[(1)] During the year ended December 31, 2023, the Credit Union voluntarily de-designated $2,000,000 in notional interest rate swaps that were designated in a portfolio layer hedge relationship

Mortgage Banking Derivatives

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third-party investors are considered derivatives. The Credit Union's practice is to enter forward commitments for the future delivery of residential mortgage-backed securities, when interest rate lock commitments are entered into, to economically hedge the effect of changes in interest rates, resulting from commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships. At December 31, 2023, the Credit Union had approximately $172,736 of interest rate lock commitments and $168,350 of forward commitments for the future delivery of residential mortgage-backed securities. At December 31, 2022, the Credit Union had notional amounts of approximately $319,033 of interest rate lock commitments and $306,405 of forward commitments for the future delivery of residential mortgage-backed securities. Changes in the fair value of these mortgage banking derivatives are included in non-interest income as mortgage banking activities.

Changes to the fair value of our servicing rights arise from changes in interest rates and are economically hedged using swaptions, floors, swaps and forward commitments. The Credit Union had $696,000 and $550,000 notional and $8,527 and $8,777 fair value outstanding as of December 31, 2023 and 2022, respectively, to hedge the fair value of servicing rights. Changes in the fair value of these economic hedges are recognized in non-interest income.

Offsetting Derivative Assets and Derivative Liabilities

The following table presents details regarding the offsetting of our bilateral derivatives in our consolidated statements of financial condition. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable:

	Derivative Assets		Derivative Liabilities	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	Bilateral	Bilateral	Bilateral	Bilateral
Derivatives with legal right of offset				
Gross recognized amount	$ 253,694	$ 477,274	$ (71,872)	$ (1,979)
Netting adjustments and cash collateral	(245,231)	(464,862)	71,763	1,979
Derivatives with legal right of offset, net	**8,463**	**12,412**	**(109)**	**-**
Derivatives without legal right of offset	1,856	1,278	(996)	-
Derivatives in consolidated statements of financial condition	**10,319**	**13,690**	**(1,105)**	**-**
Derivative Assets and Liabilities, Net	**$ 10,319**	**$ 13,690**	**$ (1,105)**	**$ -**

At December 31, 2023 and 2022, we had no additional credit exposure due to pledging of noncash collateral to our counterparties, which exceeded our net derivative bilateral position.

NOTE 18 – CONCENTRATION OF RISK

The Credit Union originates and services different types of loans throughout the United States and its territories. It also extends loans to military personnel stationed outside the United States. For operational and strategic reasons, the Credit Union outsources servicing of some loans acquired through mergers and acquisitions.

Geographical Concentration

The geographical concentration risk for all loans we service is where the geographical distribution of total outstanding principal loan balances has a concentration of 10% or more in a state. As of December 31, 2023, this included California, with unpaid principal balances of $7,032,065 and a concentration percentage of 24%. As of December 31, 2022, this included California, with unpaid principal balances of $6,684,192 well as concentration percentages of 24%.

NOTE 19 – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through March 29, 2024, the date when these consolidated financial statements were issued. There were no events that have occurred that would require adjustments to our disclosures included in the financial statements for the period ended December 31, 2023.