DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Digital Federal Credit Union and Subsidiaries
Marlborough, Massachusetts

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Digital Federal Credit Union and Subsidiaries, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Federal Credit Union and Subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, Digital Federal Credit Union and Subsidiaries adopted new accounting guidance for the measurement of credit losses on financial instruments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Digital Federal Credit Union and Subsidiaries‘ 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 Digital Federal Credit Union and Subsidiaries‘ ability to continue as a going concern for a reasonable period of time.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
March 8, 2024

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

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 787,882	$ 988,953
Deposits in Corporate Federal Credit Union	10,000	35,000
Securities - Available-for-Sale	112,546	270,021
Other Investments	28,049	11,726
Loans Held-for-Sale	21,268	-
Loans, Net	10,805,281	9,687,205
Accrued Interest Receivable	37,960	31,062
Premises and Equipment, Net	82,238	79,627
NCUSIF Deposit	98,315	88,633
Other Assets	100,714	88,514
Total Assets	$ 12,084,253	$ 11,280,741
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 10,341,873	$ 10,145,853
Borrowed Funds	515,000	-
Accrued Expenses and Other Liabilities	122,960	123,147
Total Liabilities	10,979,833	10,269,000
MEMBERS' EQUITY		
Undivided Earnings	1,107,269	1,023,234
Accumulated Other Comprehensive Loss	(2,849)	(11,493)
Total Members' Equity	1,104,420	1,011,741
Total Liabilities and Members' Equity	$ 12,084,253	$ 11,280,741

See accompanying Notes to Consolidated Financial Statements.

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

	2023	2022
INTEREST INCOME		
Loans	$ 522,870	$ 344,044
Securities, Interest-Bearing Deposits, and Cash Equivalents	25,202	18,647
Total Interest Income	548,072	362,691
INTEREST EXPENSE		
Members' Share and Savings Accounts	109,061	41,425
Borrowed Funds	12,027	514
Total Interest Expense	121,088	41,939
NET INTEREST INCOME	426,984	320,752
PROVISION FOR CREDIT LOSSES	104,000	26,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	322,984	294,752
NONINTEREST INCOME		
Service Charges and Fees	23,872	19,387
Interchange Income	49,705	62,705
Other Noninterest Income	12,883	14,075
Income on Deposit Daily Sweep Activity	22,707	25,153
Net Gain (Loss) on Sale of Loans	2,255	(1,417)
Net Loss on Equity Securities	-	(13,963)
Total Noninterest Income	111,422	105,940
NONINTEREST EXPENSE		
Employee Compensation and Benefits	173,629	151,544
Office Occupancy and Operations	88,061	90,019
Other Operating Expenses	88,681	110,074
Total Noninterest Expense	350,371	351,637
NET INCOME	$ 84,035	$ 49,055

See accompanying Notes to Consolidated Financial Statements.

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

	2023	2022
NET INCOME	$ 84,035	$ 49,055
OTHER COMPREHENSIVE INCOME (LOSS)		
Securities - Available-for-Sale:		
Unrealized Holding Gain (Loss) Arising During the Period	8,644	(9,164)
Total Other Comprehensive Income (Loss)	8,644	(9,164)
TOTAL COMPREHENSIVE INCOME	$ 92,679	$ 39,891

See accompanying Notes to Consolidated Financial Statements.

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

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE - DECEMBER 31, 2021	$ 100,227	$ 873,952	$ (2,329)	$ 971,850
Cumulative Effect of Change in Regulation (See Members' Equity in Note 1)	(100,227)	100,227	-	-
Net Income	-	49,055	-	49,055
Other Comprehensive Loss	-	-	(9,164)	(9,164)
BALANCE - DECEMBER 31, 2022	-	1,023,234	(11,493)	1,011,741
Net Income	-	84,035	-	84,035
Other Comprehensive Income	-	-	8,644	8,644
BALANCE - DECEMBER 31, 2023	$ -	$ 1,107,269	$ (2,849)	$ 1,104,420

See accompanying Notes to Consolidated Financial Statements.

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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 84,035	$ 49,055
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	14,891	15,286
Amortization of Security Premiums/Discounts, Net	1,119	1,329
Provision for Credit Losses	104,000	26,000
(Gain) Loss on Sales of Loans, Net	(2,255)	1,417
Proceeds from Sales of Loans	198,422	655,823
Loans Committed for Sale	(217,435)	(552,922)
Amortization of Servicing Rights	1,575	2,659
Reversal of Servicing Asset Impairment	(4,439)	-
Cash Surrender Value of Life Insurance	12,739	(309)
Capitalization of Servicing Rights	(1,888)	(1,257)
Amortization of Net Loan Origination Costs	9,611	9,899
Loss on Equity Securities, Net	-	13,963
Changes in:		
Accrued Interest Receivable	(6,898)	(7,643)
Other Assets	(20,187)	(46,199)
Accrued Expenses and Other Liabilities	(1,387)	15,917
Net Cash Provided by Operating Activities	171,903	183,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Decrease (Increase) in Deposits in Other Financial Institutions	25,000	(15,000)
Proceeds from Maturity of Securities - Available-for-Sale	165,000	-
Proceeds from Sales of Equity Securities	-	438,893
Net Increase in Other Investments	(16,323)	(2,308)
Increase in NCUSIF deposit	(9,682)	(6,540)
Net Increase in Loans	(1,230,487)	(2,140,679)
Expenditures for Premises and Equipment	(17,502)	(10,262)
Net Cash Used by Investing Activities	(1,083,994)	(1,735,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	196,020	1,341,565
Advances on Term Borrowings	9,860,103	1,950,000
Repayments on Term Borrowings	(9,345,103)	(1,950,000)
Net Cash Provided by Financing Activities	711,020	1,341,565
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (201,071)	$ (211,313)
Cash and Cash Equivalents - Beginning of Year	988,953	1,200,266
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 787,882	$ 988,953

See accompanying Notes to Consolidated Financial Statements.

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

	2023	2022
SUPPLEMENTAL DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Interest Paid	$ 12,027	$ 514
Members' Share and Savings Accounts Interest Paid	$ 109,061	$ 41,425

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Digital Federal Credit Union (the Credit Union) is a cooperative association holding a federal charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation

The consolidated financial statements include the accounts of Digital Federal Credit Union and its subsidiaries, Financial Vision LLC, DCU Financial Services LLC, DCU Realty LLC, Dixital LLC, Community Mortgage Alliance LLC, and Exact Finance LLC (the CUSOs), credit union service organizations that provide software development for the Credit Union, property and casualty insurance to Credit Union members, brokerage services to Credit Union members, provide loans to low income Credit Union members, innovative research and development, and digital banking software. All significant intercompany accounts and transactions have been eliminated in consolidation.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of employees or former employees of select employers and organizations who have petitioned for membership or those who live, work, worship, or go to school in participating communities in the New England area. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them, and their spouses may be members.

Uses of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, estimates related to mortgage servicing rights, the valuation of derivative financial instruments, and the determination of the adequacy of the allowance for credit losses.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who reside within the northeast region of the United States of America. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its members work or reside within a geographical field of membership.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments with Concentrations of Risk (Continued)

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except certain loan products which management monitors on an ongoing basis.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less. Accumulated deposits at correspondent financial institutions, at times, may exceed federally insured limits.

Deposits in Corporate Federal Credit Union

Deposits in corporate federal credit union include certificates of deposit. These are stated at cost. The certificates of deposit all mature within one year.

Equity Securities

Mutual funds are classified as equity securities and are carried at fair value with the change in unrealized holding gains and losses included in Noninterest Income. Realized gains and losses on equity securities are included in Noninterest Income. Gross gains on equity securities amounted to $0 and $3,752 for the years ended December 31, 2023 and 2022, respectively. Gross losses on equity securities amounted to $0 and $17,715 for the years ended December 31, 2023 and 2022, respectively.

Securities – Available-for-Sale

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income (Loss). Realized gains and losses on securities available-for-sale are included in Noninterest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Effective January 1, 2023, with the adoption of ASC 326, for available for sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost bases. If either of these criteria are met, the security's amortized costs basis is written down to fair value through income. If these criteria are not met, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities – Available-for-Sale (Continued)

amortized costs, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, which is limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income (loss). Changes in the allowance for credit losses are recorded as a provision for credit loss. Prior to the adoption of ASC 326, the Credit Union used an other than temporary impairment model.

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in impairment.

Loans Held-for-Sale

The Credit Union has elected the fair value option on a prospective basis for all types of mortgage loans originated for sale in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) 825. Loans originated and intended for sale in the secondary market are carried at fair value. Changes in the fair value of loans held-for-sale are recognized in current period income and are included in Net Gain (Loss) on Sale of Loans on the consolidated statements of income. Gains or losses from the sale of loans held-for-sale are recognized based upon the difference between the selling price and carrying value of the related loans at the time of sale.

Loans held for sale are sold with servicing rights retained. The carrying value of the loan includes the value of the servicing right. All sales are made without recourse.

Derivative Financial Instruments

The Credit Union uses derivative financial instruments as part of its risk management activities. The value of the Credit Union’s interest rate lock commitments (IRLCs) is exposed to the risk of adverse changes in interest rates between the time of commitment and the time the Credit Union funds the loan at origination. The Credit Union is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered. To offset this exposure, the Credit Union entered into forward sale commitments to deliver mortgage loans to investors at specified prices in the “To Be Announced” market (TBA securities). The TBA securities act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans.

(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

All such derivative financial instruments are designated as free-standing derivative instruments and are recognized in Other Assets and Accrued Expenses and Other Liabilities on the consolidated statements of financial condition at fair value in accordance with ASC 815. Changes in the fair value of these derivatives are reflected on the Credit Union's consolidated statements of income as Net Gain (Loss) on Sale of Loans.

The fair value of the IRLC is recorded at the time the rate is locked based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the rate lock commitment. To hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of TBAs. The TBAs are typically entered into at the time the interest rate lock commitment is made. The value of the TBA moves in the opposite direction of the value of the interest rate lock commitments and mortgage loans held for sale. Fair values of these mortgage derivatives are estimated based on changes in interest rates from the date of the interest rate lock commitment. The cash flows from these forward sales agreements are classified as operating activities in the consolidated statements of cash flows.

The notional amounts of the Credit Union's derivative instruments at December 31 are as follows:

	December 31,	
	2023	2022
Interest Rate Lock Commitments	$ 23,605	$ -
TBA Commitments	(863,800)	-

The fair value of interest rate lock commitments and forward loan sale commitments were not considered material at December 31, 2023 and 2022.

Loans, Net

The Credit Union grants consumer, residential real estate, commercial real estate, and other commercial loans to members. A substantial portion of the loan portfolio is represented by auto and residential real estate loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership and the borrower's ability to pay.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

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

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

Allowance for Credit Losses of Loans

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

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

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, geography, and internal risk ratings. These group of loans and their risk characteristics are described as follows:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses of Loans (Continued)

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

The group of loans that are risk rated and their risk characteristics are described as follows:

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

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

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

Pass (1-6): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Watch (7): Loans classified as Watch Assets have a potential weakness that deserves management's close attention. Potential weaknesses might include a weakening financial condition, an unrealistic repayment program, inadequate sources or lack of adequate collateral, credit information, or documentation. While the asset is currently protected, it is potentially weak. No loss of principal or interest is envisioned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses of Loans (Continued)

Substandard (8): Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (9): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectible and anticipated to be charged off.

For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis. These individually evaluated loans are removed from the pooling approach discussed for the quantitative assessment.

To estimate a CECL loss rate for the group of loans, management use regression models to relate one or more economic factors to default rates which ultimately drives probability of default and loss given default for group of loans. The allowance for credit losses on loans incorporates a reasonable and supportable economic forecast derived from the Federal Open Market Committee (FOMC) and is applied within the model. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Credit Union uses a four quarter forecast period in estimating the allowance for credit losses on loans. After the reasonable and supportable forecast period, the models effectively revert to long-term mean loss on a straight-line basis over the next four quarters.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union. The Credit Union utilized the Discounted Cash Flow ("DCF") method in determining expected future credit losses. The DCF method pairs loan-level term information (maturity date, payment amount, interest rate, etc.) with top-down group of loans assumptions (default rates, prepayment speeds, etc.) to produce individual expected cash flows for loans in the group.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses of Loans (Continued)

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

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

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

Transfers of Financial Assets and Participating Interests

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Rights

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

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

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

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held-for-sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Foreclosed and repossessed assets were included in Other Assets on the consolidated statements of financial condition at December 31, 2023 and 2022. Revenue and expenses from operations and changes in the valuation allowance are included in Noninterest Expense.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment, Net

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is shorter.

Leases

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

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

The Credit Union has elected not to separate non lease components from lease components and instead accounts for each separate lease component and the non-lease component as a single lease component.

NCUSIF Deposit

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

Members' Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period. Interest rates on members' share and savings accounts are set by the Asset Liability Committee and ratified by the board of directors, based on an evaluation of current and future market conditions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity

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

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

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Accumulated other comprehensive loss, also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

Revenue from Contracts with Members

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

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.

- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.

- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Members (Continued)

Service Charges and Deposit Account Fees

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

Interchange Fees

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

The Credit Union does not typically enter into long-term revenue contracts with members, and, therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Credit Union did not have any significant contract balances. As of December 31, 2023 and 2022, the Credit Union did not capitalize any contract acquisition costs.

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

The income from the CUSOs, organized as LLCs, flows through to the Credit Union and, therefore, is not subject to federal and state income taxes.

Retirement Plans

401(k) Plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions and/or a profit-sharing contribution as approved by the trustees of the plan. The Credit Union's contributions to the plan approximated $6,351 and $5,056 for the years ended December 31, 2023 and 2022, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plans (Continued)

Deferred Compensation Plan – The Credit Union has a nonqualified deferred compensation plan for senior management. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The estimated liability under the agreements is being accrued as defined in the plans over the remaining years of service.

Split-Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to retirees and members of senior management. The loans are collateralized by the assignment of the policy death benefits and cash surrender values of each respective life insurance policy. The policies are owned by retirees and senior management and they have the right to name the beneficiaries for amounts not secured by the assignments. The loans consist of both nonrecourse and recourse agreements. Nonrecourse loan arrangements are recorded according to the balance as the lower of the outstanding loan balance, plus accrued interest, or the cash surrender value of the life insurance policies. Recourse loan arrangements include a provision whereby the Credit Union has the intent to seek collection outside the life insurance policy if the executive were to be terminated with or without cause and the executives have the financial ability to repay the loan. The loan balances, including accrued interest, for the arrangements was $52,519 and $38,669 as of December 31, 2023 and 2022 respectively. The associated cash surrender value was $44,444 and $32,572 at December 31, 2023 and 2022 respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $11,854 and $13,151 for the years ended December 31, 2023 and 2022, respectively, are expensed as incurred.

Fair Value Measurements

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union elected to measure all loans held-for-sale at fair value. The Credit Union may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

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

The Credit Union adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after January 1, 2023 are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable GAAP. The Credit Union did not record an adjustment to undivided earnings as of January 1, 2023.

(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

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

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 8, 2024, the date the consolidated financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Available-for-Sale

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

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Treasury Notes	$ 115,395	$ -	$ (2,849)	$ 112,546
December 31, 2022				
U.S. Treasury Notes	$ 281,514	$ -	$ (11,493)	$ 270,021

There were no sales of securities available-for-sale during the years ended December 31, 2023 and 2022.

The amortized cost and fair value of securities, at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Treasury Notes:		
Less than One Year	$ 115,395	$ 112,546
Total	$ 115,395	$ 112,546

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
December 31, 2023	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury Notes	$ -	$ -	$ (2,849)	$ 112,546

	Less Than Twelve Months		Greater Than Twelve Months	
December 31, 2022	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury Notes	$ -	$ -	$ (11,493)	$ 270,021

The Credit Union does not believe that the available for sale securities that were in an unrealized loss position as of December 31, 2023, which were comprised of four individual securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to federal agency securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Credit Union does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Credit Union will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

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

Other Investments

Other investments are summarized as follows:

	December 31, 2023	December 31, 2022
Perpetual Paid-In Capital Account	$ 1,575	$ 1,575
FHLB Stock	21,000	5,092
Investments in CUSOs	5,123	4,708
Certificates of Deposit	351	351
Total	$ 28,049	$ 11,726

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Other Investments (Continued)

Perpetual Paid-In Capital Account

The Credit Union maintains a perpetual paid-in capital account with Eastern Corporate Federal Credit Union (EasCorp) that is uninsured and can only be paid back to the Credit Union at the discretion of EasCorp. This uninsured deposit is part of the corporate credit union's regulatory capital and is subject to impairment.

FHLB Stock

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

Investments in CUSOs

The Credit Union has minor ownership interests in other CUSOs providing services to the credit union market. These investments are carried at cost, less impairment, plus or minus price changes from observable trades.

Certificates of Deposit

The Credit Union had two insured certificates of deposit in another financial institution.

(IN THOUSANDS)

NOTE 3 LOANS, NET

The composition of loans is as follows:

	December 31, 2023	December 31, 2022
Consumer:		
Auto	$ 4,175,025	$ 4,013,180
Credit Cards	672,828	627,962
Student	150,004	152,666
Solar	139,428	166,268
Other	390,271	375,351
Subtotal	5,527,556	5,335,427
Residential Real Estate:		
First Mortgages	3,181,150	2,524,792
Second Mortgages	828,045	670,797
Subtotal	4,009,195	3,195,589
Commercial:		
Commercial Real Estate	1,341,415	1,190,665
Commercial Other	74,327	75,969
Subtotal	1,415,742	1,266,634
Total Loans	10,952,493	9,797,650
Net Deferred Loan Origination Costs	30,712	26,195
Allowance for Credit Losses	(177,924)	(136,640)
Loans, Net	$ 10,805,281	$ 9,687,205

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2023, and 2022, accrued interest receivable for loans totaled $38,251 and $30,339, respectively, and is included in accrued interest receivable on the consolidated statements of financial condition.

The Credit Union has sold commercial loan participations to various other financial institutions, which are secured by commercial property of the Credit Union's members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial real estate loan segments above totaled $426,879 and $410,671 at December 31, 2023 and 2022, respectively.

The Credit Union has sold participating interests in automobile loans. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the automobile segment above totaled $253,735 and $464,044 at December 31, 2023 and 2022, respectively.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union has sold participating interests in mortgage loans. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the first mortgages segment above totaled $39,528 and $45,903 at December 31, 2023 and 2022, respectively.

The Credit Union has sold participating interests in solar loans. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the solar segment above totaled $170,484 and $198,298 at December 31, 2023 and 2022, respectively.

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid loans that consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the residential real estate and commercial loan captions above, totaled approximately $2,016,947 and $1,561,132 at December 31, 2023 and 2022, respectively.

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

December 31, 2023	Consumer	Residential Real Estate	Commercial	Total
Allowance for Credit Losses:				
Balance - Beginning of Year	$ 105,759	$ 14,670	$ 16,211	$ 136,640
Adoption of CECL	-	-	-	-
Provision (Credit) for Credit Losses	80,842	26,583	(4,625)	102,800
Loans Charged-Off	(66,455)	(461)	(761)	(67,677)
Recoveries of Loans Previously Charged-Off	5,774	368	19	6,161
Balance - End of Year	$ 125,920	$ 41,160	$ 10,844	$ 177,924

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2022	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 115,354	$ 14,533	$ 18,407	$ 148,294
Provision (Credit) for Loan Losses	28,478	(322)	(2,156)	26,000
Loans Charged-Off	(43,220)	(108)	(45)	(43,373)
Recoveries of Loans Previously Charged-Off	5,147	567	5	5,719
Balance - End of Year	$ 105,759	$ 14,670	$ 16,211	$ 136,640

In addition to the allowance for credit losses on loans above, the Credit Union has established an allowance for credit losses on unfunded commitments, classified in other liabilities on the consolidated statements of financial condition. This allowance is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments, and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of December 31, 2023 was $1,200.

The provision for credit losses is determined by the Credit Union as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses included in the consolidated statements of income for the years ended December 31 are as follows:

	2023	2022
Loans	$ 102,800	$ 26,000
Unfunded Commitments	1,200	-
Investment Securities	-	-
Total Provision for Credit Losses	$ 104,000	$ 26,000

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

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

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

	Consumer	Residential Real Estate	Commercial	Total
Allowance for Credit Losses:				
Ending Balance: Collateral Dependent	$ -	$ 85	$ 2,331	$ 2,416
Loans:				
Ending Balance: Collateral Dependent	$ -	$ 3,818	$ 50,325	$ 54,143

Collateral dependent commercial and residential real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals when deemed necessary by management. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

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

	Consumer	Residential Real Estate	Commercial	Total
Ending Balance: Individually Evaluated for Impairment	$ 28,212	$ 3,554	$ 2,331	$ 34,097
Ending Balance: Collectively Evaluated for Impairment	77,547	11,116	13,880	102,543
Total Allowance for Loan Losses	$ 105,759	$ 14,670	$ 16,211	$ 136,640
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 108,408	$ 23,748	$ 67,570	$ 199,726
Ending Balance: Collectively Evaluated for Impairment	5,227,019	3,171,841	1,199,064	9,597,924
Total Loans	$ 5,335,427	$ 3,195,589	$ 1,266,634	$ 9,797,650

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings as of December 31, 2023:

December 31, 2023	Commercial Credit Risk Profile by Risk Rating		
	Commercial Real Estate	Commercial Other	Total
Risk Rating:			
Pass - 1 Through 6	$ 1,291,682	$ 73,735	$ 1,365,417
Watch - 7	34,502	592	35,094
Substandard - 8	15,231	-	15,231
Doubtful - 9	-	-	-
Total	$ 1,341,415	$ 74,327	$ 1,415,742

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings as of December 31, 2022:

December 31, 2022	Commercial Credit Risk Profile by Risk Rating		
	Commercial Real Estate	Commercial Other	Total
Risk Rating:			
Pass - 1 Through 6	$ 1,150,358	$ 75,969	$ 1,226,327
Watch - 7	3,024	-	3,024
Substandard - 8	37,283	-	37,283
Doubtful - 9	-	-	-
Total	$ 1,190,665	$ 75,969	$ 1,266,634

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

December 31, 2023	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 4,139,745	$ 35,280	$ 4,175,025
Credit Cards	660,114	12,714	672,828
Student	146,494	3,510	150,004
Solar	135,555	3,873	139,428
Other	381,304	8,967	390,271
Residential Real Estate:			
First Mortgages	3,178,676	2,474	3,181,150
Second Mortgages	826,701	1,344	828,045
Total	$ 9,468,589	$ 68,162	$ 9,536,751

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2022	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 3,996,312	$ 16,868	$ 4,013,180
Credit Cards	619,232	8,730	627,962
Student	149,991	2,675	152,666
Solar	162,867	3,401	166,268
Other	369,977	5,374	375,351
Residential Real Estate:			
First Mortgages	2,522,216	2,576	2,524,792
Second Mortgages	669,360	1,437	670,797
Total	$ 8,489,955	$ 41,061	$ 8,531,016

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

	Accruing Interest				
December 31, 2023	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Auto	$ 4,091,940	$ 47,805	$ -	$ 35,280	$ 4,175,025
Credit Cards	648,940	11,174	12,714	-	672,828
Student	143,604	2,890	3,510	-	150,004
Solar	131,675	3,880	-	3,873	139,428
Other	371,365	9,939	-	8,967	390,271
First Mortgages	3,169,167	9,509	-	2,474	3,181,150
Second Mortgages	820,592	6,109	-	1,344	828,045
Commercial Real Estate	1,340,244	1,140	-	31	1,341,415
Commercial Other	67,521	3,562	-	3,244	74,327
Total	$ 10,785,048	$ 96,008	$ 16,224	$ 55,213	$ 10,952,493
December 31, 2022					
Auto	$ 3,964,759	$ 31,553	$ -	$ 16,868	$ 4,013,180
Credit Cards	611,440	7,792	8,730	-	627,962
Student	147,635	2,356	2,675	-	152,666
Solar	158,272	4,595	-	3,401	166,268
Other	363,646	6,331	-	5,374	375,351
First Mortgages	2,517,070	5,146	-	2,576	2,524,792
Second Mortgages	666,205	3,155	-	1,437	670,797
Commercial Real Estate	1,189,570	1,072	-	23	1,190,665
Commercial Other	73,123	1,993	-	853	75,969
Total	$ 9,691,720	$ 63,993	$ 11,405	$ 30,532	$ 9,797,650

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

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

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

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential Real Estate	$ 8,528	$ 8,528	$ -	$ 9,248
Commercial	43,352	25,312	-	48,835
With An Allowance Recorded:				
Consumer	$ 108,408	$ 108,408	$ 28,212	$ 107,844
Residential Real Estate	15,220	15,220	3,554	16,221
Commercial	24,218	11,130	2,331	26,225
Total Impaired Loans:				
Consumer	$ 108,408	$ 108,408	$ 28,212	$ 107,844
Residential Real Estate	23,748	23,748	3,554	25,469
Commercial	67,570	36,442	2,331	75,060

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023:

	Type of Concession				
	Term Extension	Interest Rate Reduction	Payment Delay and Term Extension	Total	% of Total Segment of Loans
Other	$ 11	$ 91	$ -	$ 102	0.03%
Commercial Real Estate	-	-	7,516	7,516	0.56%
Total	$ 11	$ 91	$ 7,516	$ 7,618	0.07%

For the year ended December 31, 2023, interest rate modification made to borrowers experiencing financial difficulty included:

- Other - Reduced weighted-average contractual interest rate from 8.56% to 4%.

For the year ended December 31, 2023, payment delays and term extensions made to borrowers experiencing financial difficulty included:

- Commercial Real Estate – Extended construction availability period and P&I conversion date by 15 months.
- Other – Added a weighted average 5 years to the life of loans.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

There were not any loan modifications made to borrowers experiencing financial difficulty that defaulted (within 12-month of making the modification) during the year ended December 31, 2023.

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage and other loans serviced for others were $2,844,316 and $3,079,692 at December 31, 2023 and 2022, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $10,376 and $9,004 at December 31, 2023 and 2022, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in Other Assets and totaled $16,174 and $11,422 at December 31, 2023 and 2022, respectively. The fair values of these rights were $29,388 and $30,419 at December 31, 2023 and 2022, respectively. The fair value of servicing rights was determined using discount rates ranging from 5.53% to 17.34% and prepayment speeds ranging from 3% to 100%, depending upon the stratification of the specific right, and a weighted average coupon rate of 3.63%.

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

	Years Ended December 31,	
	2023	2022
Servicing Rights:		
Balance - Beginning of Year	$ 15,861	$ 17,263
Servicing Rights Capitalized	1,888	1,257
Servicing Rights Amortized	(1,575)	(2,659)
Balance - End of Year	$ 16,174	$ 15,861
Valuation Allowances:		
Balance - Beginning of Year	$ 4,439	$ 4,439
Reductions	(4,439)	-
Balance - End of Year	$ -	$ 4,439

(IN THOUSANDS)

NOTE 5 PREMISES AND EQUIPMENT, NET

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

	December 31, 2023	December 31, 2022
Land	$ 10,453	$ 10,783
Building	57,057	60,261
Furniture and Equipment	61,667	68,453
Leasehold Improvements	2,600	2,492
Construction in Progress	4,236	741
Subtotal	136,013	142,730
Less: Accumulated Depreciation and Amortization	(53,775)	(63,103)
Total	$ 82,238	$ 79,627

NOTE 6 LEASES

The Credit Union leases equipment as well as certain operating and office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2038 and provide for renewal options ranging from 5 to 15 years. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Additionally, the agreements generally require the Credit Union to pay real estate taxes, insurance, and repairs.

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

	2023	2022
Operating Lease Cost	$ 4,150	$ 3,933

The following table summarizes other information related to the Credit Union's operating leases as of December 31:

	2023	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	$ 3,976	$ 3,756
Initial Recognition of Right-of-Use Assets	-	20,333
Initial Recognition of Lease Liabilities	-	20,333
Weighted-Average Remaining Lease Term - Operating Leases, in Years	7.51 Years	6.98 Years
Weighted-Average Discount Rate - Operating Leases	2.93%	2.86%

(IN THOUSANDS)

NOTE 6 LEASES (CONTINUED)

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

Year Ending December 31,	Operating Leases
2024	$ 3,519
2025	3,095
2026	2,883
2027	2,572
2028	1,869
Thereafter	5,390
Total Lease Payments	19,328
Present Value Discount	(1,936)
Total	$ 17,392

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2023	December 31, 2022
Share Savings	$ 4,642,681	$ 4,706,889
Share Drafts	2,131,488	2,310,600
Money Market	2,713,639	2,572,185
IRA Deposits	64,099	71,237
Share and IRA Certificates	789,966	484,942
Total	$ 10,341,873	$ 10,145,853

The aggregate amounts of certificates of deposit in denominations of $250 or more was approximately $89,669 and $36,048 at December 31, 2023 and 2022, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $3,457 and $1,896 at December 31, 2023 and 2022, respectively.

The Credit Union uses a daily sweep service to place a portion of members' accounts into other financial institutions. The Credit Union performs all servicing functions on these members' shares. The members' shares swept into other financial institutions amounted to $153,733 and $1,347,815 at December 31, 2023 and 2022, respectively. The Credit Union settles deposits swept, net of income or (expense) on the daily sweep activity received totaling $22,707 and $25,153 during the years ended December 31, 2023 and 2022 respectively. The net income or (expense) on sweep activity is included in income on deposit daily sweep activity in the consolidated statements of income.

(IN THOUSANDS)

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2023, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2024	$ 570,571
2025	141,739
2026	23,609
2027	17,513
2028	36,534
Total	$ 789,966

Member accounts are insured to $250 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 8 BORROWED FUNDS

At December 31, 2023 and 2022, the Credit Union had an available line of credit of $50,000 with Eastern Corporate Federal Credit Union. The interest rates applied on any borrowing are determined on that borrowing date. Certificates of deposit and auto loans are pledged as collateral on the line of credit. The line matures on January 1, 2024. There were no balances outstanding on this line at December 31, 2023 and 2022.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB of Boston whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately $2,626,510 and $1,782,960 at December 31, 2023 and 2022, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. Outstanding advances amounted to $400,000 and $-0- at December 31, 2023 and 2022.

The Credit Union has access to an Ideal Way line of credit with the FHLB. The agreement provides for a credit limit of $1,000 with interest charged at a rate determined by the lender on a periodic basis. There were no balances outstanding under this agreement at December 31, 2023 and 2022.

The Credit Union has been approved to borrow through the Federal Reserve Bank's Discount Window. The terms of this agreement call for the pledging of certain investments and indirect auto loans as security for any and all obligations taken by the Credit Union under this agreement. At December 31, 2023 and 2022, the Credit Union had a credit limit of $221,684 and $453,150, respectively. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding under this agreement at December 31, 2023 and 2022.

NOTE 8 BORROWED FUNDS (CONTINUED)

On March 12, 2023, the Federal Reserve Board developed the Bank Term Funding Program (BTFP), which offers loans to credit union's with a term of up to one year. The loans are secured by pledging the Credit Union's U.S. treasuries securities, and any other qualifying assets. These pledged securities will be valued at par for collateral purposes. The Credit Union participated in the BTFP and had outstanding debt of $115,000 and pledged securities totaling a fair value of $112,546 at December 31, 2023. The securities pledged had a collateral value of $115,000.

At December 31, 2023, there were $515,000 in outstanding borrowings, maturing in the next year. There were no outstanding borrowings for the year ended December 31, 2022.

NOTE 9 REGULATORY NET WORTH REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Effective December 31, 2021, and earlier, credit unions were also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which established whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework was 6.00%.

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

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

(IN THOUSANDS)

NOTE 9 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

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

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Net Worth	$ 1,107,269	9.16%	$ 725,055	6.00%	$ 845,898	7.00%
Risk-Based Capital Ratio	$ 1,188,077	13.62%	$ 697,690	8.00%	$ 872,112	10.00%
December 31, 2022						
Net Worth	$ 1,023,234	9.07%	$ 676,844	6.00%	$ 789,652	7.00%
Risk-Based Net Worth Requirement	$ 1,071,239	13.68%	$ 626,664	8.00%	$ 783,330	10.00%

In performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

In accordance with the NCUA guidelines, the Credit Union has calculated and applied $8,721,120 and $7,833,301 at December 31, 2023 and 2022, respectively, as total risk-weighted assets for the calculation of the Risk-Based Capital ratio.

NOTE 10 RELATED PARTY TRANSACTIONS

Included in Loans, Net at December 31, 2023 and 2022, are loans to the Credit Union's board of directors, committee members, and senior executive staff of approximately $3,577 and $3,006, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2023 and 2022, are approximately $2,298 and $3,572, respectively.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

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

(IN THOUSANDS)

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Activities (Continued)

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

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

	December 31, 2023	December 31, 2022
Commitments to Grant Collateralized Loans:		
First Mortgages	$ 7,400	$ 43,620
Home Equity	7,011	9,378
Commercial Real Estate	4,851	18,227
Unfunded Secured Commitments Under Lines of Credit:		
Home Equity	991,616	944,207
Commercial Real Estate	99,186	92,981
Unfunded Unsecured Commitments Under Lines of Credit:		
Credit Card	2,537,638	2,468,868
Commercial	24,098	27,870
Student Loans	42,598	55,047
Other Consumer	210,850	192,355
Total	$ 3,925,248	$ 3,852,553

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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

Legal Contingencies

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

(IN THOUSANDS)

NOTE 12 FAIR VALUE

Recurring Basis

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

December 31, 2023	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government Treasury Notes	$ -	$ 112,546	$ -	$ 112,546
Loans Held-for-Sale	-	21,268	-	21,268
Total Assets	$ -	$ 133,814	$ -	$ 133,814
December 31, 2022				
Assets:				
Available-for-Sale Securities:				
U.S. Government Treasury Notes	$ -	$ 270,021	$ -	$ 270,021

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

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

Loans Held-for-Sale

Loans held-for-sale are marked to market on a monthly basis. The Credit Union obtains quotes or bids on these loans from purchasing financial institutions.

(IN THOUSANDS)

NOTE 12 FAIR VALUE (CONTINUED)

Nonrecurring Basis

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

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

	Fair Value at December 31, 2023			
	Level 1	Level 2	Level 3	Impairment Losses
Collateral Dependent Loans	$ -	$ -	$ 51,727	$ 2,416

	Fair Value at December 31, 2022			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 100,661	$ 34,097

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

	December 31, 2023			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Collateral Dependent Loans	$ 51,727	Evaluation of Collateral	Estimation of Value	Not Meaningful

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 100,661	Evaluation of Collateral	Estimation of Value	Not Meaningful

Collateral Dependent Loans

Collateral dependent loans were individually evaluated under CECL for the year ended December 31, 2023. Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

(IN THOUSANDS)

NOTE 12 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement.

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged off.

NOTE 13 REVENUE FROM CONTRACTS WITH MEMBERS

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

	2023	2022
In Scope of ASC 606:		
Service Charges on Deposits	$ 5,406	$ 8,323
Interchange Income	49,705	62,705
Deposit Daily Sweep Income	22,707	25,153
Other	15,833	15,385
Subtotal	93,651	111,566
Out of Scope of Topic 606	17,771	(5,626)
Total	$ 111,422	$ 105,940