Report of Independent Auditors and
Financial Statements

Orange County's Credit Union

December 31, 2023 and 2022

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Report of Independent Auditors

The Members of the Audit Committee and Board of Directors
Orange County's Credit Union

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orange County's Credit Union, which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income (loss), members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, Orange County's Credit Union adopted new accounting guidance Accounting Standards Codification Topic 326, *Financial Instruments–Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Irvine, California
March 28, 2024

Financial Statements

Orange County's Credit Union
Statements of Financial Condition
(Dollars in thousands)
December 31, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
Cash and cash equivalents	$ 249,690	$ 200,313
Investment securities		
Available-for-sale, at fair value (amortized cost of $385,900 and $425,226 at December 31, 2023 and 2022, respectively)	336,693	369,810
Other investments, at cost	2,198	2,198
Federal Home Loan Bank stock	12,517	11,266
Loans held-for-sale	160	-
Loans to members, net of allowance for credit losses of $15,975 and $11,010 at December 31, 2023 and 2022, respectively	1,886,403	1,812,397
Accrued interest receivable	5,481	4,854
Premises and equipment, net	18,793	17,691
NCUSIF deposit	19,505	19,880
Life insurance policies, net	18,282	22,868
Other assets	32,530	34,757
Total assets	$ 2,582,252	$ 2,496,034
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	$ 2,117,387	$ 2,107,353
Borrowed funds	204,300	147,100
Subordinated debt	35,000	35,000
Accrued expenses and other liabilities	42,219	38,904
Total liabilities	2,398,906	2,328,357
MEMBERS' EQUITY		
Regular reserve	14,248	14,248
Undivided earnings	218,305	208,845
Accumulated other comprehensive loss	(49,207)	(55,416)
Total members' equity	183,346	167,677
Total liabilities and members' equity	$ 2,582,252	$ 2,496,034

See accompanying notes.

Orange County's Credit Union
Statements of Income
(Dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Interest on loans	$ 80,383	$ 58,030
Interest on investment securities and cash equivalents	15,384	9,646
Total interest income	95,767	67,676
INTEREST EXPENSE		
Dividends on members' share and savings accounts	17,416	4,657
Interest on borrowed funds	8,584	1,064
Total interest expense	26,000	5,721
Net interest income	69,767	61,955
PROVISION FOR CREDIT LOSSES	4,912	3,952
Net interest income after provision for credit losses	64,855	58,003
NONINTEREST INCOME		
Fees and charges	6,024	5,369
Gain on sales of loans held-for-sale	280	794
Gain on sale of premises and equipment	-	1,718
Interchange income, net	10,450	10,309
Other noninterest income	6,310	8,386
Total noninterest income	23,064	26,576
NONINTEREST EXPENSE		
Compensation and benefits	42,305	37,776
Occupancy	4,486	4,100
Operations	16,424	14,173
Professional and outside services	1,961	1,332
Educational and promotional	1,777	1,792
Loan servicing	4,432	3,945
Other expense	2,121	1,826
Total noninterest expense	73,506	64,944
NET INCOME	$ 14,413	$ 19,635

See accompanying notes.

Orange County's Credit Union
Statements of Comprehensive Income (Loss)
(Dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
NET INCOME	$ 14,413	$ 19,635
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized holding gain (loss) on securities available-for-sale	6,209	(50,736)
Total other comprehensive income (loss)	6,209	(50,736)
COMPREHENSIVE INCOME (LOSS)	$ 20,622	$ (31,101)

See accompanying notes.

Orange County's Credit Union
Statements of Members' Equity
(Dollars in thousands)
Years Ended December 31, 2023 and 2022

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2021	$ 14,248	$ 189,210	$ (4,680)	$ 198,778
Net income	-	19,635	-	19,635
Other comprehensive loss	-	-	(50,736)	(50,736)
BALANCE, December 31, 2022	14,248	208,845	(55,416)	167,677
Cumulative effect of adoption of credit loss accounting standard	-	(4,953)	-	(4,953)
Net income	-	14,413	-	14,413
Other comprehensive income	-	-	6,209	6,209
BALANCE, December 31, 2023	$ 14,248	$ 218,305	$ (49,207)	$ 183,346

See accompanying notes.

Orange County's Credit Union
Statements of Cash Flows
(Dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,413	$ 19,635
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	2,228	2,071
Amortization of premiums and discounts on investment securities, net	985	1,459
Amortization of deferred loan origination fees and costs, net	650	663
Provision for credit losses	4,912	3,952
Originations of loans held-for-sale	(12,101)	(25,973)
Proceeds from sale of loans	12,221	27,974
Gain on sale of loans	(280)	(794)
Increase in cash surrender value of life insurance policies	(886)	(962)
Gain on sale of premises and equipment	-	(1,718)
Capitalization of servicing assets	(108)	(338)
Recovery of servicing assets	-	(524)
Amortization of servicing assets	697	1,352
Effect of changes in operating assets and liabilities		
Accrued interest receivable	(627)	(1,107)
Other assets	(1,411)	20,297
Accrued expenses and other liabilities	6,364	7,035
Net cash provided by operating activities	27,057	53,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale, repayments, or maturity of available-for-sale securities	38,341	50,923
Purchases of available-for-sale securities	-	(59,867)
Purchase of Federal Home Loan Bank stock	(1,251)	(2,696)
Purchase of life insurance policy	(1,391)	-
Surrender of life insurance policy	6,863	-
Loans to members, net of principal collections	(84,521)	(356,878)
Decrease (increase) in NCUSIF deposit	375	(936)
Proceeds from sale of premises and equipment	-	2,761
Purchases of premises and equipment	(3,330)	(1,990)
Net cash used in investing activities	(44,914)	(368,683)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in members' share and savings accounts	10,034	(7,603)
Proceeds from subordinated debt	-	35,000
Payments made on borrowed funds	(53,200)	(6,500)
Proceeds from borrowed funds	110,400	127,100
Net cash provided by financing activities	67,234	147,997
NET CHANGE IN CASH AND CASH EQUIVALENTS	49,377	(167,664)
CASH AND CASH EQUIVALENTS, beginning of year	200,313	367,977
CASH AND CASH EQUIVALENTS, end of year	$ 249,690	$ 200,313
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 25,967	$ 5,702
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on available-for-sale securities	$ 6,209	$ (50,736)
Right-of-use assets obtained in exchange for operating lease liabilities	$ 3,049	$ 7,450

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of operations – Orange County's Credit Union (the Credit Union) is a state-chartered credit union organized under the provisions of the California Credit Union Act and administratively responsible to the California Department of Business Oversight. The Credit Union's primary purpose is to promote thrift among and create a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws. The Credit Union's primary source of revenue is providing loans and services to its members as well as income earned from its investment securities.

Use of estimates in preparing financial statements – The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimate that is particularly susceptible to change relates to the determination of the allowance for credit losses.

Significant group concentrations of credit risk – The Credit Union provides a variety of financial services to members within its field of membership as defined in its Charter and Bylaws. The Credit Union may be exposed to credit risk from a sregional economic standpoint because a significant concentration of its borrowers work or reside in the State of California. The Credit Union continually monitors its operations, including the loan and investment portfolios, for potential impairment.

The Credit Union's loan portfolio primarily consists of member business, residential real estate, and consumer loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles, residential real estate, and commercial real estate.

Cash and cash equivalents – For purposes of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Certificates of deposit – Certificates of deposit consist of time deposits in financial institutions with original maturities greater than three months and are stated at cost.

Investment securities – Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity or trading, including debt and equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Management no longer evaluates securities for other-than-temporary impairment, as Accounting Standards Codification (ASC) Subtopic 326-30, *Financial Instruments - Credit Losses - Available for Sale Debt Securities*, changes the accounting for recognizing impairment on available for sale and held to maturity debt securities. Each reporting period management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral, among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component is recognized through the provision for credit losses on the statements of income.

Management measures expected credit losses on held-to-maturity securities by individual basis. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings and historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value, and historical loss information for financial assets secured with similar collateral, any adverse conditions, or factors. If this assessment indicates 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 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 for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The Credit Union does not maintain a trading or held-to-maturity portfolio. Other investments are classified separately, stated at cost, and subject to allowance for credit loss evaluation.

Federal Home Loan Bank stock – The Credit Union is a member of the Federal Home Loan Bank (FHLB) of San Francisco. Under the FHLB's capital structure, members are required to own FHLB stock. The FHLB stock is carried at cost because there is no quoted fair market value. FHLB stock is restricted as to purchase, sale, and redemption. The Credit Union evaluates its investment in FHLB stock for impairment on a periodic basis and has not recorded any impairment for the years ended December 31, 2023 and 2022.

Loans held-for-sale – Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. Mortgage loans are sold without recourse and with servicing rights generally retained.

Loans to members – The Credit Union grants mortgage, member business, and consumer loans to members and purchases loan participations. A substantial portion of its members' ability to honor their loan agreements is dependent on the real estate and economic stability of the various groups comprising the Credit Union's field of membership.

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 and net deferred loan origination fees and direct origination costs. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent unless it is well secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. Loans may be charged off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

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

Loan origination fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method (first mortgage loans) and the effective-yield method, which approximates the interest method (all other loan types) over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for credit losses on loans – The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Macro-economic data for historical credit loss experience provides the basis for the estimation of expected credit losses.

Accrued interest receivable is excluded from the estimate of credit losses for loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments and measures the allowance for credit losses using a discounted cash flow with probability of default and loss given default method for all segments: member business, residential real estate, and consumer. Each portfolio segment is disaggregated further into multiple sub-categories by loan type.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

When the discounted cash flow method is used to determine the allowance for credit losses, the discounted cash flow – probability of default model uses current loan-level and macroeconomic data, as well as reasonable and supportable forecasts, to produce monthly probabilities of default in the contractual life of the loan. These results are used to estimate future monthly cash flows. Projected loan-level balances in combination with estimated collateral valuations are used to project potential cash flows in each future month (from payments, prepayments, collateral recovery, etc.). Expected future cash flows are then grouped by each scenario (i.e. default, prepay, or active), then multiplied by each scenario's cash flows by corresponding monthly probabilities. These are added all together to get monthly expected cash flows for each loan. The monthly cash flows are then discounted at the effective interest rate and subtracted from the current balance to get the allowance.

Expected credit losses are estimated over the contractual term of loans, adjusted for expected prepayments when appropriate (as described above). The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Credit card receivables do not have stated maturities. In determining the estimated life of a credit card receivable, management first estimates the future cash flows expected to be received and then applies those future expected cash flows to the credit card balance. Expected credit losses for credit cards are determined by estimating the amount and timing of principal payments expected to be received as payment for the balance outstanding as of the reporting period and applying those principal payments against the balance outstanding as of the reporting period until the expected payments have been fully allocated. The allowance for credit loss is recorded for the excess of the balance outstanding as of the reporting period over the expected principal payments.

Allowance for credit losses on off-balance sheet credit exposures – The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance-sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Large groups of smaller balance homogeneous loans are collectively evaluated for credit loss. Accordingly, the Credit Union does not separately identify individual consumer loans for credit loss evaluation.

Regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for credit losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Servicing – Servicing assets are recognized separately when mortgage 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 records servicing assets at amortized cost, with related amortization recorded into earnings over the estimated remaining weighted-average useful life of the servicing rights.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk 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 capitalized amount for the tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment unless the impairment is permanent. Changes in valuation allowances are reported in noninterest income on the statements of income. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income for serviced loans is based on a contractual percentage of the outstanding principal and is recorded as income when earned.

Mortgage commitment derivatives – The Credit Union enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives and are, therefore, recorded at fair value with changes in fair value recorded in earnings.

The Credit Union sells a portion of the mortgage loans that it originates. Those loans are classified as loans held-for-sale. The commitments to sell (forward sale commitments) are considered to be derivatives and are recorded at fair value with changes in fair value recorded in earnings.

Derivatives – At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) as an instrument with no hedging designation (stand-alone derivative).

For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

At the inception of a hedge, the Credit Union documents certain items, including but not limited to the following: the relationship between hedging instruments and hedged items, Credit Union risk management objectives, and hedging strategies. Documentation includes linking all derivatives designated as fair value hedges to specific assets and liabilities on the statement of financial condition or to specific forecasted transactions.

Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedge item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings during the period of change.

Off-balance-sheet 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.

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

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. 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 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 maturity.

Premises and equipment – Land is carried at cost. Buildings and improvements, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 2 to 55 years. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Impairment of long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Leases – The Credit Union leases retail space classified as operating leases. Most leases require the Credit Union to pay real estate taxes, maintenance, insurance, and other similar costs in addition to the base rent. Certain leases also contain lease incentives, such as tenant improvement allowances and rent abatement. Variable lease payments are recognized as lease expense when incurred.

The Credit Union records an operating lease right-of-use (ROU) asset and an operating lease liability for all operating leases. The ROU asset and lease liability are recorded in other assets and accrued expenses and other liabilities, respectively, in the statements of financial condition.

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 commencement date based on the present value of lease payments over the lease term. For those leases that do not provide an implicit rate, the Credit Union uses the FHLB borrowing rates over a similar term of the lease payments at commencement date. Many of the Credit Union's leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule, which are factored into the Credit Union's determination of lease payments when appropriate. Substantially all of the leases provide the Credit Union with the option to extend the lease term one or more times following expiration of the initial term. The ROU asset and lease liability 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 lease payments is recognized on a straight-line basis over the lease term.

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 1% 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.

NCUSIF insurance premiums – A credit union is required to pay an annual insurance premium based on a percentage of its total insured shares as declared by the NCUA board, unless the payment is waived by the NCUA board.

Members' share and savings accounts – Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of a dividend period and is not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by management, based on an evaluation of current and future market conditions. The NCUSIF insures members' shares up to $250,000. This includes all account types, such as regular shares, share drafts, money market shares, and certificates of deposit. Individual retirement accounts and Keogh accounts are insured up to $250,000 separate from other types of accounts owned.

Members' equity – The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes.

The Credit Union is a tax-exempt entity under Internal Revenue Code (IRC) 501(c)(14), but may be subject to taxation on income unrelated to the Credit Union's exempt function. State-chartered credit unions should pay income tax on certain types of net taxable income from activities that taxing authorities consider unrelated to the purpose for which the Credit Union was granted nontaxable status. The Credit Union has filed Unrelated Business Income Tax (UBIT) returns (990-T) in the past, which has resulted in no income taxes paid for the years ended December 31, 2023 or 2022. In addition, there were no material uncertain tax positions at December 31, 2023 and 2022.

The Credit Union recognizes the tax benefit from uncertain tax positions, if any, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. The Credit Union had no unrecognized tax benefits at December 31, 2023 or 2022. During the years ended December 31, 2023 and 2022, the Credit Union recognized no interest and penalties.

A tax-exempt organization information return, unrelated business income tax return, and California income tax return are filed annually with the applicable tax jurisdictions.

As of December 31, 2023, the Credit Union had net operating loss carryforwards available to offset approximately $6.6 million of future unrelated business income taxes. The carryforwards expire in approximately 10 to 20 years. The tax asset representing the value of the net operating loss carryforwards has been offset by a full valuation allowance as of December 31, 2023 and 2022. There is uncertainty as to whether the Credit Union's deferred tax assets will become available to offset future tax liabilities. While there is the potential for some of the deferred tax asset to be utilized prospectively as of December 31, 2023, the amount is immaterial.

Pension plan – 401(k) – The Credit Union has a qualified 401(k) plan covering substantially all of its employees. The Credit Union matches a portion of employees' wage reductions, which is recorded in compensation and benefits expense in the statements of income.

Pension plan – deferred compensation plan – The Credit Union has nonqualified deferred compensation plans for members of management. Under the 457(b) nonqualified plan, the Credit Union makes discretionary contributions and employees are allowed to contribute to the plan. The Credit Union contributes 100% of funds to the 457(f) nonqualified deferred compensation plan. Gains and losses for the 457(b) nonqualified plan and 457(f) nonqualified plan are recorded through noninterest income on the statement of income.

Life insurance policies – Life insurance policies held as part of the Credit Union's deferred compensation plan are carried at their cash surrender value.

Split dollar program – The Credit Union records an executive officer receivable equal to the proceeds paid to the executive for split-dollar life insurance policy premiums plus interest accrued. The notes bear interest at the applicable federal rate under IRC Section 1274(d) in effect on the date of each loan. The rate is based on the executive's life expectancy and the compounding period as provided in Treasury Regulation Section 1.7872-15. Repayment of the notes occurs at the time of death of the executive officer.

Advertising costs – Advertising costs are charged to operations when incurred and totaled approximately $1,777,000 and $1,792,000 for the years ended December 31, 2023 and 2022, respectively.

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. The Credit Union has only one component of comprehensive income (loss) for 2023 and 2022.

Fair value measurements – The fair value measurement standard provides a comprehensive framework for measuring fair value and expands disclosures for assets and liabilities reported at fair value. Specifically, it sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Grants – In June 2021, the Credit Union was awarded a $1.8 million grant from the U.S. Treasury Department's Community Development Financial Institution (CDFI) Rapid Response Program (RRP). The CDFI RRP grant is designed to quickly deploy capital to community development financial institutions, such as the Credit Union, in order to provide them with resources to help counter the economic impact created by the COVID-19 pandemic in distressed and underserved communities. The grant was subject to certain performance goals and measures set forth in the program. The Credit Union satisfied the RRP performance goals and measures and recorded all of the grant amount as noninterest income in 2022. Additionally, the Credit Union was awarded a CDFI grant in 2022 for $433,000, with $390,000 recorded in 2022 in noninterest income as stipulated in the grant agreement.

New accounting pronouncements

On January 1, 2023, the Credit Union adopted Accounting Standards Update (ASU) 2016-13 *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, ASC *Topic 326* made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell.

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in an increase to the Credit Union's allowance for credit losses on loans and a cumulative-effect adjustment of approximately $4,953,000 to decrease the beginning balance of undivided earnings.

The Credit Union finalized the adoption of ASC 326 as of January 1, 2023, as detailed in the following table (dollars in thousands):

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets			
Loans			
Member business	$ 1,074	$ 1,071	$ 3
Residential real estate	2,197	275	1,922
Consumer	12,692	9,664	3,028
Allowance for credit losses on loans	$ 15,963	$ 11,010	$ 4,953

Subsequent events – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date. Management has reviewed subsequent events through March 28, 2024, the date the financial statements were issued.

Note 2 – Investment Securities

The following table presents the amortized cost and fair value of investment securities available-for-sale (dollars in thousands). Accrued interest receivable of approximately $839,000 and $902,000 as of December 31, 2023 and 2022, respectively, is excluded from these tables and reported under accrued interest receivable in the statements of financial condition.

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government and federal agency securities	$ 78,095	$ 36	$ (4,470)	$ -	$ 73,661
Federal agency mortgage-backed securities	185,843	3	(25,129)	-	160,717
Federal agency collateralized mortgage obligations	121,962	-	(19,647)	-	102,315
	$ 385,900	$ 39	$ (49,246)	$ -	$ 336,693

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ 82,572	$ 60	$ (6,574)	$ 76,058
Federal agency mortgage-backed securities	208,280	-	(29,225)	179,055
Federal agency collateralized mortgage obligations	134,374	-	(19,677)	114,697
	$ 425,226	$ 60	$ (55,476)	$ 369,810

At December 31, 2023, securities valued at approximately $281,948,000 were pledged as collateral against a line of credit with the FHLB. At December 31, 2023, securities carried at approximately $59,183,000 were pledged as collateral against a line of credit with the Federal Reserve Bank (FRB). At December 31, 2022, securities valued at approximately $335,835,000 were pledged as collateral against a line of credit with the FHLB. At December 31, 2022, securities carried at approximately $30,497,000 were pledged as collateral against a line of credit with the FRB. During the years ended December 31, 2023 and 2022, there were no sales of available-for-sale securities.

The amortized cost and fair values of investment securities available-for-sale 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 (dollars in thousands).

	Amortized Cost	Fair Value
Due in one year or less	$ 5,000	$ 4,947
Due in one year through five years	65,861	61,464
Due in five years through ten years	2,122	2,121
Due in ten years or more	5,112	5,129
	78,095	73,661
Federal agency mortgage-backed securities	185,843	160,717
Federal agency collateralized mortgage obligations	121,962	102,315
	$ 385,900	$ 336,693

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, is as follows (dollars in thousands):

	Less Than 12 Months		Greater Than 12 Months	
December 31, 2023	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ (1)	$ 568	$ (4,469)	$ 66,880
Federal agency mortgage-backed securities	(1)	2	(25,128)	160,350
Federal agency collateralized mortgage obligations	-	-	(19,647)	102,315
	$ (2)	$ 570	$ (49,244)	$ 329,545

	Less Than 12 Months		Greater Than 12 Months	
December 31, 2022	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ (391)	$ 11,082	$ (6,183)	$ 56,356
Federal agency mortgage-backed securities	(2,063)	27,856	(27,162)	151,192
Federal agency collateralized mortgage obligations	(2,415)	33,566	(17,262)	81,131
	$ (4,869)	$ 72,504	$ (50,607)	$ 288,679

U.S. government and federal agency – As of December 31, 2023 and 2022, the investment portfolio included 33 and 20 securities, respectively, in an unrealized loss position, 31 and 13 of which had unrealized losses that had existed for longer than one year, respectively.

Federal agency mortgage-backed securities and collateralized mortgage obligations – As of December 31, 2023 and 2022, the investment portfolio included 181 and 206 securities, respectively, in an unrealized loss position, 180 and 79 of which had unrealized losses that had existed for longer than one year, respectively.

As of December 31, 2023, the majority of the Credit Union's available-for-sale investments are government guaranteed securities, including risk-free treasuries, mortgage-based securities, and collateralized mortgage obligations. The Credit Union does not intend to sell these securities, nor anticipates that these securities will be required to be sold before recovery. The unrealized losses are due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such securities decline. The Credit Union does not believe any of these securities are impaired due to reasons of credit quality. The Credit Union assesses the need to sell a security due to a corporate's risk rating decline, the related losses are recognized in the earnings. No material credit losses were observed at December 31, 2023.

The Credit Union assesses for credit losses using a cash flow model. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Investment risk – Investment securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial condition.

As of December 31, 2023 and 2022, there were no securities past due by 90 days or more, nor were there any on non-accrual.

Other investments – Other investment securities at December 31 are summarized as follows (dollars in thousands):

	2023	2022
Certificates of deposit	$ 200	$ 200
Investment in credit union service organizations	1,998	1,998
	$ 2,198	$ 2,198

Note 3 – Loans to Members

The disclosures below reflect changes made in 2023 to conform with the adoption of ASC 326, *Financial Instruments – Credit Losses*, using the modified retrospective approach. Accordingly, prior period was not modified to conform to the current period presentation. Accrued interest receivable of approximately $4,642,000 as of December 31, 2023, is excluded from the tables and reported under accrued interest receivable in the statements of financial condition.

The composition of loans to members at December 31 is as follows (dollars in thousands):

	2023	2022
Member business		
Real estate [a]	$ 262,145	$ 240,660
Residential real estate		
First mortgage	737,263	752,111
Second mortgage	203,760	117,108
	941,023	869,219
Consumer		
Auto	570,338	598,402
Unsecured	92,251	75,864
Other secured	34,817	37,362
	697,406	711,628
Total loans	1,900,574	1,821,507
Net deferred loan origination fees and costs	2,243	2,453
Basis adjustment for fair value hedge	(439)	(553)
Allowance for credit losses	(15,975)	(11,010)
	$ 1,886,403	$ 1,812,397

[a] Includes small business loans of $255 and $244 as of December 31, 2023 and 2022, respectively.

The Credit Union has purchased loan participations originated by various entities that are secured by commercial property, other real estate, and autos to members of other credit unions. All of the loan participations were purchased without recourse and the originating entities perform all of the related loan servicing functions on these loans.

The composition of loan participations purchased at December 31 is as follows (dollars in thousands):

	2023	2022
Member business – real estate	$ 11,115	$ 4,198
Residential real estate – first mortgage	38,232	41,108
Consumer	138,714	197,826
	$ 188,061	$ 243,132

Specific changes in the allowance for credit losses and recorded investment in loans by segment for the years ended December 31 are as follows (dollars in thousands):

	December 31, 2023			
	Member Business	Residential Real Estate	Consumer	Total
Allowance for credit losses				
Beginning balance, prior to adoption of ASC 326	$ 1,071	$ 275	$ 9,664	$ 11,010
Impact of adopting ASC 326	3	1,922	3,028	4,953
Provision (benefit) for credit losses	64	(714)	5,562	4,912
Charge-offs	-	(8)	(6,337)	(6,345)
Recoveries	-	24	1,421	1,445
Ending balance	$ 1,138	$ 1,499	$ 13,338	$ 15,975

	December 31, 2022			
	Member Business	Residential Real Estate	Consumer	Total
Allowance for loan losses				
Beginning balance	$ 890	$ 340	$ 7,551	$ 8,781
Provision (benefit) for loan losses	181	(65)	3,836	3,952
Charge-offs	-	-	(2,815)	(2,815)
Recoveries	-	-	1,092	1,092
Ending balance	$ 1,071	$ 275	$ 9,664	$ 11,010
Ending balance individually evaluated for impairment	$ -	$ 60	$ -	$ 60
Ending balance collectively evaluated for impairment	1,071	215	9,664	10,950
	$ 1,071	$ 275	$ 9,664	$ 11,010
Loans to members				
Ending balance individually evaluated for impairment	$ -	$ 4,561	$ -	$ 4,561
Ending balance collectively evaluated for impairment	240,660	864,658	711,628	1,816,946
	$ 240,660	$ 869,219	$ 711,628	$ 1,821,507

Member business loan credit quality indicators – As part of the ongoing monitoring of the credit quality of the Credit Union's member business loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of member business loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the market area.

Management regularly reviews and risk grades member business loans in the Credit Union's portfolio. The risk rating system allows management to classify each asset by credit quality in accordance with Credit Union policy. The Credit Union's risk grading definitions are as follows:

Pass – Financial condition of the borrower at minimum will have low to moderate leverage and adequate liquidity with stable to slightly declining trends. Cash flows can be less than their minimum required debt service coverage ratio (DSCR) with mitigating factors. Loan payments will be current. Collateral will have a loan-to-value at policy maximum or better. The industry outlook, at worst, could have an outlook that is uncertain.

Special mention – Financial condition of the borrower may be marginal with liquidity and/or equity trends declining. Cash flows may be below the Credit Union's policy minimums or negative. Collateral may have a loan-to-value exceeding the Credit Union's policy of 80%. The industry outlook would be in a declining environment.

Substandard – Financial condition of the borrower shows negative trends with highly leveraged loans, poor liquidity, equity, and negative cash flows. Collateral will have a loan-to-value exceeding the Credit Union's policy of 80% with minimal equity. The industry outlook would be showing problems at this point. There were no loans classified as Substandard at December 31, 2023 or 2022.

Doubtful – Financial condition of the borrower will be a negative net worth position. Cash flows could be significantly negative. Legal action would be starting at this point. Collateral will have a loan-to-value exceeding the Credit Union's policy with little to no equity. The industry outlook would be fragmented at this point. There were no loans classified as Doubtful at December 31, 2023 or 2022.

Loss – Loans in this classification are considered uncollectible and of such little value that their continuance as loans is not warranted. There were no loans classified as Loss at December 31, 2023 or 2022.

Member business credit exposure – The credit risk profile of member business loans is monitored by internally assigned risk ratings by class, and by performing and nonperforming groupings. Management tracks the loan's performance and when the loan becomes 30 days past due, the loan is classified as a nonperforming loan. Member business loans summarized by risk rating and performing status at December 31 are as follows (dollars in thousands):

	2023	2022
Real estate		
Pass	$ 257,889	$ 238,770
Special mention	4,256	1,890
	$ 262,145	$ 240,660

	2023	2022
Performing	$ 262,145	$ 240,660
Nonperforming	-	-
	$ 262,145	$ 240,660

The Credit Union individually evalutes loans when a loan does not share risk characteristics of the collective segment, including member business loans with a risk rating of special mention or greater. As of December 31, 2023, the Credit Union held $4,256,000 in collateral dependent loans individually evaluated for credit loss.

Residential real estate and consumer loan credit quality indicators – As part of the ongoing monitoring of the credit quality of the Credit Union's residential real estate and consumer loan portfolios, management tracks certain credit quality indicators based on whether these loans are performing or nonperforming. To differentiate these categories, management tracks the loan's performance and when the loan becomes 60 days past due, the loan is classified as a nonperforming loan.

Residential real estate credit exposure – The residential real estate credit risk profile based on payment activity by class at December 31 is as follows (dollars in thousands):

2023	First Mortgage	Second Mortgage	Total
Performing	$ 731,413	$ 203,539	$ 934,952
Nonperforming	5,850	221	6,071
	$ 737,263	$ 203,760	$ 941,023
2022			
Performing	$ 749,250	$ 117,002	$ 866,252
Nonperforming	2,861	106	2,967
	$ 752,111	$ 117,108	$ 869,219

Consumer credit exposure – The consumer loan credit risk profile based on payment activity by class at December 31 is as follows (dollars in thousands):

2023	Auto	Unsecured	Other Secured	Total
Performing	$ 567,261	$ 91,332	$ 34,798	$ 693,391
Nonperforming	3,077	919	19	4,015
	$ 570,338	$ 92,251	$ 34,817	$ 697,406
2022				
Performing	$ 595,793	$ 75,493	$ 37,362	$ 708,648
Nonperforming	2,609	371	-	2,980
	$ 598,402	$ 75,864	$ 37,362	$ 711,628

A summary of past due loans by class as of December 31 is as follows (dollars in thousands):

2023	30–59 Days	60–89 Days	90 Days or Greater	Total Past Due	Current	Total Loans to Members
Member business						
Real estate	$ -	$ -	$ -	$ -	$ 262,145	$ 262,145
Residential real estate						
First mortgage	2,548	2,222	3,628	8,398	728,865	737,263
Second mortgage	980	204	17	1,201	202,559	203,760
Consumer						
Auto	5,981	1,759	1,318	9,058	561,280	570,338
Unsecured	824	434	485	1,743	90,508	92,251
Other secured	8	8	11	27	34,790	34,817
	$ 10,341	$ 4,627	$ 5,459	$ 20,427	$ 1,880,147	$ 1,900,574
2022						
Member business						
Real estate	$ -	$ -	$ -	$ -	$ 240,660	$ 240,660
Residential real estate						
First mortgage	1,325	379	2,482	4,186	747,925	752,111
Second mortgage	74	-	106	180	116,928	117,108
Consumer						
Auto	4,513	1,108	1,501	7,122	591,280	598,402
Unsecured	390	233	138	761	75,103	75,864
Other secured	168	-	-	168	37,194	37,362
	$ 6,470	$ 1,720	$ 4,227	$ 12,417	$ 1,809,090	$ 1,821,507

A summary of nonaccrual loans by class at December 31 is as follows (dollars in thousands):

	2023	2022
Member business		
Real estate	$ -	$ -
Residential real estate		
First mortgage	5,850	2,861
Second mortgage	221	106
Consumer		
Auto	3,077	2,609
Unsecured	919	371
Other secured	19	-
	$ 10,086	$ 5,947
Forgone interest on nonaccrual loans	$ 442	$ 28

As of December 31, 2023, nonaccrual loans were included in the collective evaluation with an allowance for credit loss recorded. The Credit Union had no loans that were greater than 60 days past due for which the loans were accruing interest at December 31, 2023 or 2022.

Information concerning impaired loans by loan class as of December 31, 2022, is as follows (dollars in thousands):

2022	Recorded Investment Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded					
Residential real estate					
First mortgage	$ 4,038	$ 4,038	$ -	$ 4,097	$ 169
Second mortgage	59	59	-	60	2
	$ 4,097	$ 4,097	$ -	$ 4,157	$ 171
With specific reserve recorded					
Residential real estate					
First mortgage	$ 464	$ 464	$ 60	$ 476	$ 19
Total					
Residential real estate	$ 4,561	$ 4,561	$ 60	$ 4,633	$ 190

Loan modification – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein. There were no loans modified to a borrower experiencing financial difficulties during the year ended December 31, 2023.

There were no loans modified as troubled debt restructured loans during the year ended December 31, 2022. Management has defined that a troubled debt restructured loan is considered in default when it becomes 60 days past due. There were no loans modified as troubled debt restructured loans for which there was a payment default within 12 months following the modification during the year ended December 31, 2022. The Credit Union does not have any unfunded commitments to members whose loans have been modified in a troubled debt restructuring.

Note 4 – Loan Servicing

The Credit Union sells first mortgage residential real estate loans on the secondary market and retains the servicing. Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balance of first mortgage residential real estate loans serviced for others was $507,792,000 and $528,127,000 at December 31, 2023 and 2022, respectively. The fair value of the mortgage servicing rights (MSRs) was $5,923,000 and $5,771,000 at December 31, 2023 and 2022, respectively.

Changes in the balance of MSRs net of valuation allowance, which are reported in other assets, were as follows for the years ended December 31 (dollars in thousands):

	2023	2022
BALANCE, beginning of year	$ 4,503	$ 4,993
Additions	108	338
Change to valuation reserve	-	524
Amortization	(697)	(1,352)
BALANCE, end of year	$ 3,914	$ 4,503

At December 31, 2023, there was no valuation allowance associated with MSRs. During the year ended December 31, 2022, there was a recovery of $524,000 for temporary impairment for MSRs, resulting in no valuation balance at the year ended December 31, 2022.

At December 31, 2023, the expected weighted-average life of the Credit Union's MSRs was 8.26 years. Projected amortization expense for the gross carrying value of the MSRs at December 31 is estimated to be as follows (dollars in thousands):

2024	$ 542
2025	497
2026	452
2027	407
2028	362
Thereafter	1,654
	$ 3,914

Net servicing fee income earned in connection with MSR included in the accompanying financial statements as a component of noninterest income was $1,313,000 and $1,380,000 for the years ended December 31, 2023 and 2022, respectively. Late fees related for the years ended December 31, 2023 and 2022, were not material.

The assumptions used in determining the projected amortization expense, such as prepayment speeds, are inherently subject to significant fluctuations, primarily due to the effect that changes in mortgage rates have on loan prepayment experience. Accordingly, any projection of MSR amortization in future periods is limited by the conditions that exist at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

The Credit Union performs an annual valuation of its MSR to assess the MSR for impairment. This analysis is based on certain key assumptions, including prepayment speeds, discount rate, and annual inflation. Prepayment speeds (PSAs) ranged from 96 to 391 as of December 31, 2023, and 114 to 296 as of December 31, 2022. The discount rate was 9.00% and 9.50% as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the annual inflation rate was 2.40% and 2.95%, respectively.

Note 5 – Premises and Equipment, Net

Premises and equipment at December 31 are summarized as follows (dollars in thousands):

	2023	2022
Land	$ 2,506	$ 2,506
Buildings and improvements	17,254	17,254
Furniture and equipment	6,189	6,069
Computer equipment	18,110	15,858
Leasehold improvements	5,953	5,845
	50,012	47,532
In-process software development	848	-
Accumulated depreciation and amortization	(32,067)	(29,841)
	$ 18,793	$ 17,691

Depreciation and amortization expense amounted to $2,228,000 and $2,071,000 for the years ended December 31, 2023 and 2022, respectively.

Note 6 – Leases

The Credit Union follows ASC Topic 842, *Leases*, recognizing ROU assets and lease liabilities on the Credit Union's statements of financial condition. At December 31, 2023, the Credit Union had 10 operating leases for retail branch locations. The remaining initial lease terms range from 3 months to 9.3 years, with most leases carrying optional extensions of 5 years. The Credit Union will include optional lease term extensions in the ROU assets and lease liabilities when management believes it is reasonably certain that the term extension will be exercised, and will be determined based on indicators that the Credit Union would have an economic incentive to extend the lease. Short term leases, having a term of one year or less, are expensed in the period of the lease. To calculate the present value of future lease payments, the Credit Union uses the incremental borrowing rate, which is equal to the FHLB advance rate at the time of the lease inception, or at January 1, 2022, for leases in place at that date.

The minimum monthly lease payments are generally based on square footage of the leased premises, with escalating minimum rent over the lease term. At December 31, 2023, the Credit Union was committed to paying approximately $151,000 per month in minimum monthly lease payments. The minimum monthly lease payment over the initial lease term, including any free rent period, was used to calculate the ROU and lease liability. The Credit Union's current leases do not include any non-lease components.

Total lease expense included in the Credit Union's income statement includes the amortized lease expense under ASC Topic 842, *Leases*, combined with variable lease expenses for maintenance or other expenses as defined in the individual lease agreements.

The following table includes details on these items at and for the years ended December 31 (dollars in thousands):

	2023	2022
Lease expense, year-to-date	$ 1,840	$ 1,568
ROU	7,663	6,402
Lease liability	7,847	6,488
Weighted-average remaining term (in years)	6.6	6.4
Weighted-average discount rate	2.0	1.8

The following table provides a reconciliation between the undiscounted minimum lease payments and the discounted lease liability, which is reported in accrued expenses and other liabilities, at December 31 (dollars in thousands):

	2023	2022
Due through one year	$ 1,740	$ 1,630
Due after one year through two years	1,650	1,209
Due after two years through three years	1,524	1,102
Due after three years through four years	1,324	956
Due after four years through five years	1,185	736
Due after five years	1,067	1,198
Total minimum lease payments	8,490	6,831
Less: present value discount	643	343
Lease liability	$ 7,847	$ 6,488

Note 7 – Derivatives

The Credit Union utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The Credit Union includes the gain or loss on the hedged items in the same line item, interest income, as the offsetting loss or gain on the related interest rate swaps.

Effective February 1, 2019, the Credit Union entered a pay-fixed, receive-variable interest rate swap contract with a total notional amount of $10.0 million. The interest rate swap was designated as a derivative instrument in a fair value hedge with the objective of effectively converting a pool of fixed rate assets to variable rate throughout the 10-year period beginning on February 1, 2019, and ending on February 1, 2029. Under the swap arrangement, the Credit Union will pay a fixed interest rate of 2.772% and receive a variable interest rate based on three-month Secured Overnight Financing Rate (SOFR), or a comparable benchmark interest rate, on the notional amount of $10.0 million, with monthly net settlements. Due to the paydown of the carrying amount of the hedged loan assets during 2022 and 2021, resulting from higher prepayment speeds and related loan payoffs, it was determined necessary to redesignate the hedge relationship against a new pool of loans to maintain hedge effectiveness. Effective February 26, 2021, the Credit Union de-designated the interest rate swap and redesignated a new pool of mortgage loans with a notional amount of $10.0 million to maintain hedge effectiveness. The Credit Union is amortizing the outstanding basis adjustment of the original closed pool using a straight-line method over the remaining life of the original hedge.

The Credit Union has elected the last-of-layer method with respect to its fair value hedge. This approach allows the Credit Union to designate as the hedged item a stated amount of the assets that are not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows. Relative to the identified pools of loans, this represents the last dollar amount of the designated mortgage loans, which is equivalent to the notional amount of the derivative instrument.

The following amounts were recorded on the statements of financial condition related to cumulative basis adjustment for the fair value hedge (dollars in thousands):

	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
Line Item in the Statements of Financial Condition in Which the Hedged Item is Included	As of December 31,		As of December 31,	
	2023	2022	2023	2022
Loans receivable, net [a]	$ 27,237	$ 28,994	$ (439)	$ (553)

[a] As of December 31, 2023 and 2022, the amortized cost basis of the closed portfolio used in the hedging relationship was $27.2 and $29.0 million, the cumulative basis adjustment associated with the hedging relationship was ($0.4) million and ($0.6) million, respectively, and the notional amount of the designated hedged item was $10 million.

As of December 31, 2023 and 2022, the fair value of the derivative instrument was approximately $486,000 and $633,000, respectively, and is reported in prepaid expenses and other assets in the statements of financial condition.

Note 8 – Members' Share and Savings Accounts

Members' share and savings accounts at December 31 are summarized as follows (dollars in thousands):

	2023	2022
Regular share accounts	$ 616,791	$ 730,627
Share draft accounts	474,997	499,027
Money market accounts	389,192	519,442
IRA share accounts	13,468	16,138
Total share accounts	1,494,448	1,765,234
Share and IRA certificates		
0.00% to 0.99%	31,436	205,451
1.00% to 1.99%	32,713	13,082
2.00% to 2.99%	109,852	92,261
3.00% to 3.99%	77,822	18,525
4.00% to 4.99%	141,354	12,800
5.00% to 5.99%	229,640	-
6.00% and greater	122	-
Total certificate accounts	622,939	342,119
Total members' share and savings accounts	$ 2,117,387	$ 2,107,353

Scheduled maturities of share and IRA certificates at December 31, 2023, are as follows (dollars in thousands):

2024	$ 542,630
2025	36,662
2026	8,171
2027	23,529
2028	11,947
	$ 622,939

The aggregate amounts of members' share and IRA certificate accounts in denominations of $250,000 or more were approximately $151,203,000 and $60,656,000 at December 31, 2023 and 2022, respectively.

Overdrawn share accounts reclassified to consumer loans totaled $346,000 and $376,000 at December 31, 2023 and 2022, respectively.

The NCUSIF insures members' shares and certain individual retirement accounts up to $250,000.

Note 9 – Lines of Credit and Borrowed Funds

The Credit Union maintains lines of credit (LOC) with the FHLB of San Francisco and the FRB of San Francisco at December 31, which are summarized as follows (dollars in thousands):

2023	FHLB	FRB	Total Lines
Total available	$ 850,371	$ 59,183	$ 909,554
Borrowed	(174,300)	(30,000)	(204,300)
Remaining available	$ 676,071	$ 29,183	$ 705,254
Term	LOC	LOC	
Weighted-average rate of advances outstanding	5.14%	5.26%	
2022			
Total available	$ 850,041	$ 30,497	$ 880,538
Borrowed	(147,100)	-	(147,100)
Remaining available	$ 702,941	$ 30,497	$ 733,438
Term	LOC	LOC	
Weighted-average rate of advances outstanding	4.21%	N/A	

The FHLB line is collateralized by available-for-sale securities held in safekeeping by the FHLB and certain member business real estate and residential real estate first and second mortgage loans. The outstanding principal balance of real estate loans pledged as collateral to the FHLB totaled approximately $1,083,174,000 and $936,147,000 at December 31, 2023 and 2022, respectively. The FRB line of credit is collateralized by federal agency securities held in safekeeping by the FRB. Future advances under these lines would be at then-existing rates.

Scheduled maturities of borrowed funds at December 31, 2023, are as follows (dollars in thousands):

2024	$ 43,400
2025	3,500
2026	8,400
2027	9,400
2028	13,300
	78,000
Open ended advances	126,300
	$ 204,300

Note 10 – Subordinated Debt

On June 1, 2022 (the Issue Date), the Credit Union completed the issuance of a $35,000,000 Subordinated Security (the Security) due June 1, 2052 (the Maturity Date), at an offering price equal to 100% of the aggregate principal amount of the Security, resulting in net proceeds of $35,000,000. The applicable interest rate on the Security from the Issue Date to the First Reset Date (June 2024) is 0% per annum.

From and including the First Reset Date to the Last Reset Date (June 15, 2032), the applicable interest rate (the Applicable Rate) will be reset on each annual anniversary (the Reset Date). The Applicable Rate may range between 0.5%–2.0% per annum, not to exceed 2.0%, dependent on the percentage change in qualified lending, as defined in the agreement. From the Last Reset Date to, but excluding, the Maturity Date, the interest rate shall be the Applicable Rate as calculated with respect to the Last Reset Date.

On or after the Issue Date, the Credit Union may redeem the Security, in whole or in part, subject to the approval of the NCUA and subject to the requirements 12 C.F.R. 702.414. The indebtedness of this Security is, to the extent provided in the agreement, subordinate to all other claims on the assets of the Credit Union, including claims of Members, general and secured creditors, and the NCUSIF. The Security may be included in regulatory net worth for the Credit Union under current regulatory guidelines and interpretations.

Note 11 – Off-Balance-Sheet 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, which include lines of credit, credit cards, home equity lines, and overdraft protection commitments that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

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

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk (dollars in thousands):

	2023	2022
Commitments to extend credit		
Home equity lines of credit	$ 160,469	$ 126,464
Credit cards	120,381	167,247
Line-of-credit loans	31,219	32,041
Overdraft protection program commitments	5,080	5,249
Member business loan commitments	13	14
Other unfunded commitments	88	97
	$ 317,250	$ 331,112

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 members. 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.

Note 12 – Contingencies and Commitments

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

Loans sold with recourse – The Credit Union has implemented a mortgage program whereby some of its mortgage loans are sold on the secondary market without recourse. Loans sold may have to be subsequently repurchased due to defects that occurred during the origination of the loan. The defects are generally categorized as documentation errors, underwriting errors, early payment defaults, and fraud. When a loan sold to an investor fails to perform, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Credit Union may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no defects, the Credit Union has no commitment to repurchase the loan.

There was one loan repurchased for $293,000 for the year ended December 31, 2023. There was one loan repurchased for $187,000 for the year ended December 31, 2022.

Note 13 – Capital 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 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-balance-sheet items as calculated under GAAP. The Credit Union's capital amounts and net worth classification 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 amounts and ratios (set forth in the following table) of net worth (as defined in the regulations) to total assets. Effective January 1, 2022, all federally insured credit unions defined as complex are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as complex and an RBC measure is applicable only if the credit union's quarter-end total assets exceed $500 million, as reflected in its most recent call report. A complex credit union may calculate its RBC measure either by using the risk-based capital ratio, or for a qualifying complex credit union, opting into the CCULR framework. A qualifying complex credit union that opts into the CCULR framework must maintain a minimum CCULR of 9% to be categorized as "well capitalized," which is calculated in the same manner as its net worth ratio. If the CCULR declines below 9%, the credit union has two calendar quarters to either satisfy the requirements to be a qualifying "complex credit union" or to calculate its risk-based capital ratio. In addition, eligibility for applying the simpler CCULR framework requires that a credit union have total off-balance-sheet exposure of 25% or less of total assets, total trading balances of 5% or less of total assets, and total goodwill plus other intangible assets of 25% or less of total assets. The Credit Union met the criteria to apply CCULR and management opted to apply the CCULR framework. The Credit Union's net worth ratio as of December 31, 2023, was 10.36%.

Management believes that, as of December 31, 2023 and 2022, the Credit Union meets all capital adequacy requirements to which it is subject. As of December 31, 2023, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for Prompt Corrective Action. No conditions or events have occurred since the calculation date that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31, 2023 and 2022, are also presented in the table (dollars in thousands):

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under CCULR Provisions	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 267,553	10.36%	$ 154,953	6.00%	$ 180,779	7.00%	$ 232,430	9.00%
December 31, 2022								
Net worth	$ 258,093	10.34%	$ 149,764	6.00%	$ 174,724	7.00%	$ 224,645	9.00%

Note 14 – Related-Party Transactions

In the normal course of business, the Credit Union extends credit to members of the board of directors, supervisory committee members, and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022, were approximately $4,025,000 and $3,977,000, respectively. In addition, there are also secured split dollar loans to related parties, as disclosed in Note 15. Deposits from related parties at December 31, 2023 and 2022, amounted to approximately $1,299,000 and $1,229,000, respectively.

Note 15 – 401(k) Retirement Plan

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union matches a portion of employees' wage reductions. Total expense under this plan was $1,934,000 and $1,953,000 for the years ended December 31, 2023 and 2022, respectively.

Note 16 – Deferred Compensation Plans

The Credit Union has a 457(b) nonqualified deferred compensation plan for members of management. The Credit Union makes discretionary contributions to the plan and employees are allowed to contribute to the plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

The Credit Union has a 457(f) nonqualified deferred compensation plan for members of management. The Credit Union contributes 100% of the funds to this plan. 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 deferred compensation accounts are shown as liabilities on the Credit Union's financial statements and are available to participants in the event of the Credit Union's liquidation.

The cash surrender value of life insurance policies pertaining to these plans was $18,282,000 and $22,868,000 as of December 31, 2023 and 2022, respectively. The deferred compensation payable, included in accrued expenses and other liabilities on the statements of financial condition, was $1,459,000 and $1,150,000 as of December 31, 2023 and 2022, respectively. Deferred compensation expense was $215,000 and $201,000 for the years ended December 31, 2023 and 2022, respectively.

Secured split dollar program – The Credit Union has established a post-retirement benefit plan for executive officers known as a secured split dollar program and funded the plan through multiple promissory notes.

The proceeds from the loans were used by the executive officers to purchase life insurance policies, which are known as the repayment policies, the sole purpose of which is the repayment of the loans with interest upon the death of the executive officer. The repayment policies are pledged as collateral against the loans, with the Credit Union named as the beneficiary. The Credit Union has no obligation to the executive officer under this secured split dollar program other than granting the loans originated to purchase the life insurance policies. The loans to the executive officer are included in other assets on the statements of financial condition and have an outstanding balance, including accrued interest, of approximately $8,254,000 and $8,153,000 as of December 31, 2023 and 2022, respectively.

Note 17 – Fair Value

Determination of fair value – The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurements are to focus on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value hierarchy – The Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgments or estimation.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value estimation.

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures for financial instruments:

Available-for-sale securities – The fair value of investment securities is the fair market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Interest rate swaps – The Credit Union enters into interest rate swap contracts with a financial institution to allow the Credit Union to convert fixed rate loans to variable rate loans as part of the Credit Union's asset and liability management strategy with the overall goal of minimizing the impact of interest rate volatility. The Credit Union measures the fair value of the interest rate swap based on the overnight index swap (OIS) discount curve, and, therefore, is considered a Level 2 input for the purpose of determining fair value.

Assets and liabilities measured at fair value on a recurring basis – Assets and liabilities measured at fair value on a recurring basis at December 31 are summarized as follows (dollars in thousands):

	Fair Value Measurements at Reporting Date Using			
2023	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
U.S. government and federal agency securities	$ -	$ 73,661	$ -	$ 73,661
Federal agency mortgage-backed securities	-	160,717	-	160,717
Federal agency collateralized mortgage obligations	-	102,315	-	102,315
Interest rate swap agreement	-	486	-	486

	Fair Value Measurements at Reporting Date Using			
2022	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
U.S. government and federal agency securities	$ -	$ 76,058	$ -	$ 76,058
Federal agency mortgage-backed securities	-	179,055	-	179,055
Federal agency collateralized mortgage obligations	-	114,697	-	114,697
Interest rate swap agreement	-	633	-	633

Assets and liabilities measured at fair value on a nonrecurring basis – Under certain circumstances, the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the statements of financial condition by caption and by level in the fair value hierarchy at December 31 for which a nonrecurring change in fair value has been recorded (dollars in thousands):

	Fair Value Measurements at Reporting Date Using		
2023	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights, net	$ -	$ -	$ 3,914
2022			
Impaired loans with an allowance, net	$ -	$ -	$ 404
Mortgage servicing rights, net	$ -	$ -	$ 4,503

Qualitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ended December 31, along with the valuation techniques used, are shown in the following table (dollars in thousands):

	Recorded Amount at December 31, 2023	Valuation Technique	Unobservable Input	Average Rate
Mortgage servicing rights	$ 3,914	Discounted cash flow	Prepayment speed	105%
			Discount rate	9.00%

	Recorded Amount at December 31, 2022	Valuation Technique	Unobservable Input	Average Rate
Impaired loans	$ 404	Various	Adjustment to valuation	10%*
Mortgage servicing rights	$ 4,503	Discounted cash flow	Prepayment speed	123%
			Discount rate	9.50%

* Discount to appraisal value. Amounts are estimated and carrying amount is generally lower than estimated fair value.

Note 18 – Revenue from Contracts with Customers

All of the Credit Union's revenue from contracts with customers in the scope of Topic 606 is recognized in Noninterest Income. The following table presents the Credit Union's sources of Noninterest Income for the years ended December 31:

	Years Ended December 31,	
	2023	2022
NONINTEREST INCOME		
In-scope of Topic 606		
Fees and charges on deposit and transaction accounts	$ 5,477	$ 4,854
Interchange income	10,450	10,309
Other noninterest income [a]	4,792	6,448
	20,719	21,611
Not in-scope of Topic 606		
Fees and charges on loan accounts	547	515
Gain on sales of loans held-for-sale	280	794
Gain on sale of premises and equipment	-	1,718
Other noninterest income [b]	1,518	1,938
Total noninterest income	$ 23,064	$ 26,576

[a] Includes Automated Teller Machine (ATM) fees, insurance commissions, and investment services income.

[b] Includes net loan servicing income, gain on mortgage loan derivatives, and income on life insurance policies.

Fees and charges – The Credit Union earns fees on deposit and transaction accounts related to fee income for periodic service charges on deposit accounts and transaction based fees such as those related to overdrafts, ATM charges, and wire transfer fees. Performance obligations for periodic service charges on deposit accounts are typically short-term in nature and are generally satisfied on a monthly basis, while performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Credit Union to the member. Periodic service charges are generally collected monthly directly from the member's deposit account and at the end of a statement cycle, while transaction-based service charges are typically collected at the time of or soon after the service is performed.

Interchange income – Debit/ATM interchange income represents fees earned when a debit card issued by the Credit Union is used for a transaction. These fees are earned each time a request for payment is originated by a member debit cardholder at a merchant. In these transactions, the Credit Union transfers funds from the debit cardholder's account to a merchant through a payment network at the request of the debit cardholder by way of the debit card transaction. The related performance obligations are generally satisfied when the transfer of funds is complete, which is generally a point in time when the debit card transaction is processed and the fees are earned when the cost of the transaction is charged to the customer's account. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

ATM fees – The Credit Union charges fees to members and non-members through ATM transactions, including point of sale and surcharges. ATM fees are reported as other noninterest income in the statements of income.

Insurance commissions and investment services income – The Credit Union arranges for its members to purchase insurance products and brokerage services from contracted service providers. Insurance commissions and investment services income is reported as other noninterest income in the statements of income.

Principal versus agent considerations – When more than one party is involved in providing goods or services to a customer, Topic 606 requires the Credit Union to determine whether it is the principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal, and therefore records revenue on a gross basis, if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The Credit Union most commonly acts as a principal and records revenue on a gross basis.

Practical expedients – The Credit Union has elected to apply the practical expedient allowed in ASC 340-40-25-4, which permits the Credit Union to immediately expense contract acquisition costs, such as commissions, when the asset that would have resulted from capitalizing these costs would be amortized in one year or less. The practical expedient described in Topic 606-10-32-18, which is associated with the determination of whether a significant financing component exists, is not currently applicable to the Credit Union.

Contract balances – The timing of revenue recognition may differ from the timing of cash settlements or invoicing to customers. The Credit Union records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers. The Credit Union records contract assets or receivables when revenue is recognized prior to receipt of cash from the customer. The Credit Union generally invoices and receives payments for its services during the period or at the time services are provided; therefore, the Credit Union does not have material contract assets or liabilities at period end.

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