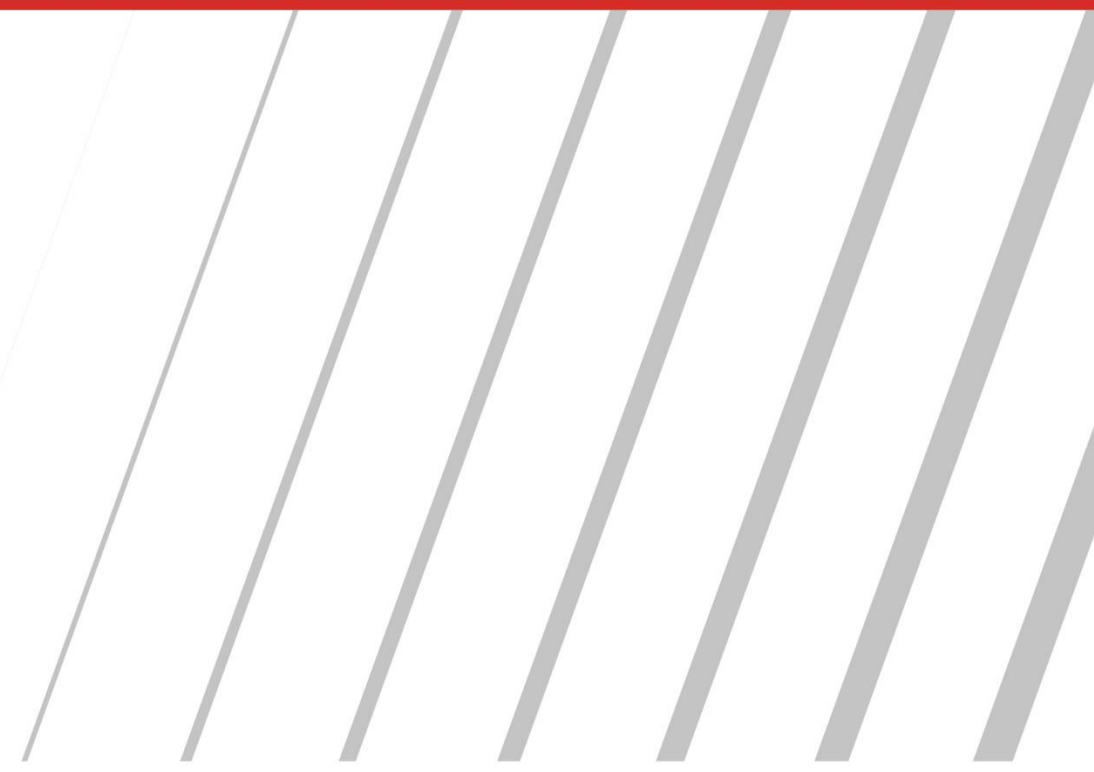




General Electric Credit Union

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2023 and 2022



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Independent Auditor's Report

Board of Directors and Supervisory Committee
General Electric Credit Union
Cincinnati, Ohio

Opinion

We have audited the consolidated financial statements of General Electric Credit Union and subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income (loss), comprehensive loss, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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 Consolidated Financial Statements" section of our report. We are required to be independent of General Electric Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2023, the Credit Union changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

FORVIS, LLP

**Indianapolis, Indiana
April 16, 2024**

General Electric Credit Union
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
ASSETS		
Cash and due from banks	\$ 20,149	\$ 27,792
Interest-bearing demand deposits	291,295	331,963
Total cash and cash equivalents	311,444	359,755
Beneficial interest in loan securitization	23,539	-
Securities available for sale	319,306	343,365
Investments held in charitable donation account	14,099	9,593
Loans, net of allowance for loan losses of \$39,353 and \$29,413	4,016,735	3,841,078
Loan held for sale	266,643	243
Premises and equipment, net	53,204	51,098
Federal Home Loan Bank stock	29,209	21,829
National Credit Union Share Insurance Fund deposit	34,763	27,658
Interest receivable	16,173	12,317
Prepaid expenses and other assets	20,111	17,938
Total assets	<u>\$ 5,105,226</u>	<u>\$ 4,684,874</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Shares	\$ 3,982,529	\$ 4,099,210
Borrowings	785,541	242,358
Corporate drafts payable	8,092	4,938
Other liabilities	22,457	19,780
Total liabilities	4,798,619	4,366,286
Members' Equity		
Regular reserves	13,346	13,346
Undivided earnings	346,720	366,101
Accumulated other comprehensive loss	(53,459)	(60,859)
	306,607	318,588
Total liabilities and members' equity	<u>\$ 5,105,226</u>	<u>\$ 4,684,874</u>

General Electric Credit Union
Consolidated Statements of Income (Loss)
Years Ended December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Interest Income		
Loans	\$ 200,356	\$ 143,945
Securities	6,497	7,003
Other interest and dividend income	15,996	6,296
	<u>222,849</u>	<u>157,244</u>
Interest Expense		
Members' shares and deposits	127,190	47,215
Borrowings	16,789	4,583
	<u>143,979</u>	<u>51,798</u>
Net Interest Income	78,870	105,446
Provision for Credit Losses	<u>22,415</u>	<u>12,852</u>
Net Interest Income After Provision for Credit Losses	<u>56,455</u>	<u>92,594</u>
Other Income		
Interchange fee income	6,602	6,350
Net gain (loss) on loan sales	(1,408)	2,226
Net loss on sales of securities available for sale	-	(154)
Net loss on of equity securities	-	(8,429)
Net loss on beneficial interest in loan securitization	(1,499)	-
Loan fees and charges	4,724	4,032
Other income	7,017	6,833
	<u>15,436</u>	<u>10,858</u>
Other Expenses		
Salaries and employee benefits	44,734	36,932
Occupancy and equipment expense	11,430	10,608
Data processing expense	5,470	5,093
Professional fees	2,290	2,948
Loan expense and fees	4,973	3,704
Office and supplies expense	1,026	895
Other expenses	10,487	9,331
	<u>80,410</u>	<u>69,511</u>
Net Income (Loss)	<u><u>\$ (8,519)</u></u>	<u><u>\$ 33,941</u></u>

General Electric Credit Union
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	<u>2023</u>	<u>2022</u>
Net Income (Loss)	<u>\$ (8,519)</u>	<u>\$ 33,941</u>
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on available-for-sale securities	10,652	(57,219)
Unrealized loss on investments held in charitable donation	(552)	(1,650)
Reclassification adjustment for realized losses on available-for-sale securities included in net income	-	154
Unrealized gain (loss) on cashflow hedge	<u>(2,700)</u>	<u>2,858</u>
Total other comprehensive income (loss)	<u>7,400</u>	<u>(55,857)</u>
Comprehensive Loss	<u><u>\$ (1,119)</u></u>	<u><u>\$ (21,916)</u></u>

General Electric Credit Union
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	<u>Regular Reserves</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2022	\$ 13,346	\$ 332,160	\$ (5,002)	\$ 340,504
Net income	-	33,941	-	33,941
Other comprehensive loss	-	-	(55,857)	(55,857)
Balance, December 31, 2022	13,346	366,101	(60,859)	318,588
Cumulative change for adoption of ASC 326	-	(10,862)	-	(10,862)
Balance, January 1, 2023	13,346	355,239	(60,859)	307,726
Net loss	-	(8,519)	-	(8,519)
Other comprehensive income	-	-	7,400	7,400
Balance, December 31, 2023	<u>\$ 13,346</u>	<u>\$ 346,720</u>	<u>\$ (53,459)</u>	<u>\$ 306,607</u>

General Electric Credit Union
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Operating Activities		
Net income (loss)	\$ (8,519)	\$ 33,941
Items not requiring (providing) cash		
Provision for credit losses	22,415	12,852
Depreciation and amortization	5,619	5,845
Net loss on sales of securities available for sale	-	154
Net loss from equity securities	-	8,429
Net (gain) loss on loan sales	1,408	(2,226)
Net gain on sale of other real estate owned	-	(181)
Net loss on beneficial interest in loan securitization	1,499	-
Net change in		
Beneficial interest in loan securitization	1,008	-
Accrued interest receivable	(3,856)	(2,910)
Other liabilities and corporate drafts payable	4,911	(86)
Loans held for sale	(266,400)	1,129
Prepaid expenses and other assets	(4,873)	(238)
Net cash provided by (used in) operating activities	<u>(246,788)</u>	<u>56,709</u>
Investing Activities		
Activity in securities - available for sale		
Purchases	-	(13,445)
Proceeds from maturities and payments	27,145	34,946
Proceeds from sales	-	9,687
Proceeds from maturities and payments of investments held		
charitable donation account	658	-
Proceeds from sales of equity investments	-	42,386
Proceeds from sale of portfolio loans	423,797	156,085
Proceeds from sale of other real estate owned	-	1,481
Loans made to members, net of repayments	(659,265)	(1,053,834)
Proceeds from sale of premises and equipment	44	259
Purchases of premises and equipment	(5,919)	(3,025)
Purchase of FHLB stock	(7,380)	(10,273)
Decrease (increase) in NCUSIF deposit	(7,105)	648
Net cash used in investing activities	<u>(228,025)</u>	<u>(835,085)</u>
Financing Activities		
Net increase (decrease) in shares	(116,681)	840,630
Repayment of borrowings	(1,234,956)	(57,395)
Proceeds from borrowings	<u>1,778,139</u>	<u>20,000</u>
Net cash provided by financing activities	<u>426,502</u>	<u>803,235</u>

General Electric Credit Union
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(Dollar Amounts in Thousands)

	<u>2023</u>	<u>2022</u>
Net Change in Cash and Cash Equivalents	\$ (48,311)	\$ 24,859
Cash and Cash Equivalents, Beginning of Year	<u>359,755</u>	<u>334,896</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 311,444</u></u>	<u><u>\$ 359,755</u></u>
Supplemental Disclosure of Cash Flows Information		
Cash paid during the year for interest	\$ 140,823	\$ 51,873
Lease liabilities arising from obtaining right-of-use assets	-	2,927
Assumption of beneficial interest in loan securitization	26,046	-

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accounting and reporting policies of General Electric Credit Union (Credit Union) and its wholly owned subsidiary, CUSO Corporation, conform to accounting principles generally accepted in the United States of America and reporting practices followed by the credit union industry. The more significant of the policies are described below.

General Electric Credit Union is federally insured and provides a full range of credit union services to its membership. As a state chartered, federally insured credit union, the Credit Union is subject to the regulations of the Ohio Division of Financial Institutions (ODFI), the National Credit Union Administration (NCUA) and the National Credit Union Share Insurance Fund (NCUSIF).

Principles of Consolidation

The consolidated financial statements include the accounts of General Electric Credit Union and its wholly owned subsidiary, CUSO Corporation. All significant inter-company Credit Union accounts and transactions have been eliminated in consolidation.

Description of Business

The Credit Union provides a variety of financial services to its members, who are located in the Ohio Counties of Hamilton, Butler, Clermont, Montgomery, Warren, Adam, Brown, Clinton, Fayette, Greene, Highland, Preble, Clark, Darke, Miami, or Shelby, or the Kentucky Counties of Boone, Campbell, or Kenton or in the Indiana Counties of Dearborn, Franklin, Ohio, and Switzerland. The Credit Union's primary source of revenue is from interest on loans to its members. Its primary source of funds is savings deposits from its members. The Credit Union's wholly owned subsidiary, CUSO Corporation, is primarily engaged in mortgage processing, investment services, insurance sales, leasing and indirect lending for smaller credit unions.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses.

Cash and Cash Equivalents

General Electric Credit Union considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Credit Union reports net cash flows for member loan and deposit transactions and certificates of deposit with financial institutions.

At December 31, 2023, the Credit Union has total uninsured cash accounts of approximately \$282,254,000, of which approximately \$213,825,000 is held with the Federal Home Loan Bank and Federal Reserve, which are not federally insured.

Beneficial Interest in Loan Securitization

The beneficial interest in loan securitization grouping is made of the Credit Union's residual interest in a loan securitization (as discussed in footnote 3). The beneficial interest in the loan securitization is recorded at fair value, with changes in fair value included in earnings.

Securities

Certain 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. Debt securities not classified as held to maturity or trading are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. 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.

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

The Credit Union established a charitable donation account with the purpose of assisting the Credit Union in its ability to make charitable contributions to specific charities. By utilizing this charitable donation account, the Credit Union has the opportunity to fund these charitable contributions through investment returns rather than through operating income. As of December 31, 2023 and 2022, the investments within the charitable donation account include treasury securities, mortgage-backed securities, and corporate bonds.

Loans Held for Sale

Mortgage and auto loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for credit losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level-yield adjustment over the respective term of the loan.

For all loan segments, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

General Electric Credit Union
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Credit Union's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments, the Credit Union promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Credit Union charges off residential and consumer loans, or portions thereof, when the Credit Union reasonably determines the amount of the loss. The Credit Union generally adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of loans to the net realizable value, less costs to sell when the loan is past due. Loans at these respective delinquency thresholds for which the Credit Union can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

Allowance for Credit Losses

The allowance for credit losses 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. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in inflation in current economic environment, experience of lending staff and unemployment factors in the geographical footprint that the Credit Union operates.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the portfolio segments as described in Note 7 and measures the allowance for credit losses using the methods below.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. 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 a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

General Electric Credit Union
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

Accrued interest receivable totaled \$13,461 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

Off-Balance Sheet Credit Exposure

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 exposures is adjusted through 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.

Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or it is more likely than not that it will 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, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other 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. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). 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. As of December 31, 2023, the Credit Union had no reserve against available for-sale securities. Accrued interest receivable on available-for-sale debt securities at December 31, 2023 is excluded from the estimate of credit losses.

Premises and Equipment

Premises and equipment is carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Leasehold improvements are amortized over the shorter of the estimated useful lives of the related assets or the lease term.

Long-Lived Asset Impairment

The Credit Union evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Restricted Equity Investments

Restricted equity investments include Federal Home Loan Bank (FHLB) of Cincinnati stock. This restricted stock is periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is required by NCUA regulations in an amount equal to 1 percent of the Credit Union's 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 NCUSIF Board.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. There were no assessments or premiums charged by the NCUA in 2023 or 2022.

Loan-Servicing Rights

Loan-servicing rights represent the allocated value of retained servicing rights on loans sold. The capitalized cost of loan-servicing rights is included in other assets on the consolidated balance sheet and is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of loan-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market interest rates and prepayment expectations. For purposes of measuring impairment, servicing rights are stratified based on predominant risk characteristics, including loan type, term, age and note rate. Impairment represents the amount by which the amortized cost of an individual stratum exceeds its fair value, and is recognized through a valuation allowance. Amortization and impairment adjustments are recorded with net loan servicing fee income.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others was \$506,262,000 and \$262,683,000 at December 31, 2023 and 2022, respectively. The Credit Union records loan-servicing rights on loans serviced for other. The corresponding servicing rights received are immaterial to the consolidated financial statements.

Shares and Deposits

Shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on shares is based on available earnings and is not guaranteed by the Credit Union. Interest rates on shares are set by the Credit Union, based on an evaluation of a number of factors, including market conditions.

Members' Equity

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

Comprehensive Loss

Comprehensive loss consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on debt securities available for sale and changes in derivative financial instruments that qualify for hedge accounting, which is recognized as a separate component of members' equity.

Income Taxes

The Credit Union is exempt from federal income tax and state income taxes but still may be subject to unrelated business income tax (UBIT). Unrelated business income is income from a trade or business regularly carried on by a tax exempt organization that is not substantially related to the organization's exempt purposes.

Revenue Recognition

A description of the Credit Union's significant revenue streams accounted for under Topic 606 are as follows:

Loan fees and charges. The Credit Union's loan fees and charges revenue primarily consists of loan fees and late charges, which are fees assessed as a result of untimely payments in accordance with the loan agreement. Loan fees and late charges are assessed as the performance obligation is satisfied, which is at the point in time the loan or the payment is made. Revenue is collected and recognized daily.

Interchange fee income. The Credit Union's debit and credit card revenue primarily consists of debit and credit card interchange income. Interchange income represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized. Revenue is collected and recognized daily through the payment network settlement process.

Derivative Financial Instruments

Derivative financial instruments can be designated as fair value hedges or cash flow hedges. The Credit Union uses interest rate swaps to hedge risk associated with interest rate volatility, either as hedges of the change in value of certain fixed-rate assets or as hedges of the variability in cash flows related to floating-rate interest payments. Changes in the fair value of fair value hedges are recorded in the same consolidated statements of income line item as the related hedged item. Changes in fair value of cash flow hedges are reported as a component of accumulated other comprehensive income (AOCI) and are reclassified into earnings in the same period – and same income statement line as the hedged item – when the hedged transaction affects earnings.

At the inception of a qualifying hedge accounting relationship, the Credit Union designates each qualifying hedge relationship as a hedge of the fair value of a specifically identified asset or liability (fair value hedge), or as a hedge of the variability of cash flows to be received or paid, related to a recognized or forecasted asset or liability (cash flow hedge). The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives for undertaking such hedge transactions. Both at hedge inception and on an ongoing basis, the Credit Union formally assesses whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative instruments qualifying as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in current period earnings. For qualifying cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (loss), and recognized in the income statement when the hedged cash flows affect earnings. Hedge accounting treatment is no longer applied if a derivative financial instrument is terminated, the hedge designation is removed, or the derivative instrument is assessed to be no longer highly effective. For terminated fair value hedges, any changes to the hedged asset or liability remain as part of the basis of the hedged asset or liability and are recognized into income over the remaining life of the hedged item. For terminated cash flow hedges, unless the forecasted cash flows are probable not to occur within a specified period, any changes in fair value of the derivative financial instrument previously recognized remain in accumulated other comprehensive income (loss) and are reclassified into earnings in the same period that the hedged cash flows affect earnings. In all instances, after hedge accounting is no longer applied, any subsequent changes in fair value of the derivative instrument will be recorded into earnings. Changes in the fair value of derivative financial instruments held for risk management purposes that are not designated as accounting hedges under GAAP are reported in current period earnings.

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Adoption of New Accounting Standards

On January 1, 2023, the Company adopted 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 expected credit 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. In addition, ASC 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 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 from the reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

	January 1, 2023		
	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	As reported Under ASC 326
Assets			
Allowance for credit losses on loans			
Real estate	\$ 3,252	\$ 1,050	\$ 4,302
Home equity	206	10	216
Automobiles	16,074	9,113	25,187
Credit cards	2,792	(103)	2,689
Other consumer	1,034	1,099	2,133
Member business	6,055	(1,227)	4,828
Total allowance for credit losses on loans	<u>\$ 29,413</u>	<u>\$ 9,942</u>	<u>\$ 39,355</u>
Liabilities			
Allowance for credit losses on off balance sheet exposures	<u>\$ -</u>	<u>\$ 920</u>	<u>\$ 920</u>

Note 2. Restriction on Cash and Due from Banks

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2023 was \$0.

Note 3. Beneficial Interest in Loan Securitization

In August 2023, the Credit Union completed an asset backed securitization (ABS), including retaining a beneficial interest in the auto loan securitization created through a certificate to the Credit Union from the special purpose entity (SPE) created in the transaction. At December 31, 2023, the fair value of the beneficial interest was approximately \$23.5 million.

Beneficial interests in auto loan securitization do not have a single maturity date as the certificate related to the ABS is related to multiple loans of differing maturity dates.

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Activity during the year-ended December 31, 2023 was as follows:

	Beneficial Interest in Loan Securitization
Balance, December 31, 2022	\$ -
Assumed interest	26,046
Unrealized net loss	(1,499)
Paydowns	(1,008)
Balance, December 31, 2023	<u><u>\$ 23,539</u></u>

Unconsolidated Variable Interest Entity

The Credit Union evaluated the special purpose entity created as part of the transaction as a variable interest entity (VIE). A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets generally that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights; or
- Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

Accordingly, the Credit Union assessed the SPE for potential consolidation under the VIE model that requires primary beneficiaries to consolidate the entity's results. A primary beneficiary is defined as the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of involvement with the entity are evaluated.

At December 31, 2023, the Credit Union determined it was not the primary beneficiary for its VIE, primarily because the Credit Union did not have the power to direct activities that most significantly impact the VIE's economic performance. Evaluation and assessment of the VIE for consolidation is performed on an ongoing basis by management. Any changes in facts and circumstances occurring since the previous primary beneficiary determination will be considered as part of this ongoing assessment. The SPE contained unconsolidated assets of approximately \$274 million as of December 31, 2023.

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Note 4. Available for Sale Securities

The fair value of securities available for sale and the related gains and losses recognized in accumulated other comprehensive income (loss) is as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Government and federal agencies	\$ 49,287	\$ -	\$ (5,395)	\$ 43,892
Mortgage-backed securities issued by government sponsored entities (GSE)	208,963	-	(30,159)	178,804
U.S. Treasury bonds	16,508	-	(1,757)	14,751
Corporate bonds	95,789	-	(13,930)	81,859
Total investment securities	<u>\$ 370,547</u>	<u>\$ -</u>	<u>\$ (51,241)</u>	<u>\$ 319,306</u>
2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Government and federal agencies	\$ 49,284	\$ -	\$ (6,873)	\$ 42,411
Mortgage-backed securities issued by government sponsored entities (GSE)	233,558	-	(34,069)	199,489
U.S. Treasury bonds	19,998	-	(2,253)	17,745
Corporate bonds	102,418	-	(18,698)	83,720
Total investment securities	<u>\$ 405,258</u>	<u>\$ -</u>	<u>\$ (61,893)</u>	<u>\$ 343,365</u>

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

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	\$ 4,300	\$ 4,285
One to five years	65,645	60,127
Five to ten years	61,294	52,367
More than ten years	30,345	23,723
	161,584	140,502
Mortgage-backed securities issued by government sponsored entities (GSE)	208,963	178,804
Total	\$ 370,547	\$ 319,306

In 2023, the Credit Union did not sell any securities. In 2022, the Credit Union had proceeds from the sale of securities of approximately \$9,687,000. On those sales, the Credit Union had gross losses of approximately \$154,000.

Certain investment securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2023 and 2022, respectively, was approximately \$319,306,000 and \$343,365,000. At those dates, this is 100% of the Credit Union's available-for-sale investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

The following tables show the Credit Union's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

Description of Securities	2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agencies	\$ -	\$ -	\$ 43,892	\$ (5,395)	\$ 43,892	\$ (5,395)
Mortgage-backed-government sponsored enterprises (GSEs) residential	-	-	178,804	(30,159)	178,804	(30,159)
U.S. Treasury bonds	-	-	14,751	(1,757)	14,751	(1,757)
Corporate bonds	-	-	81,859	(13,930)	81,859	(13,930)
Total temporarily impaired securities	\$ -	\$ -	\$ 319,306	\$ (51,241)	\$ 319,306	\$ (51,241)

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Description of Securities	2022					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agencies	\$ -	\$ -	\$ 42,411	\$ (6,873)	\$ 42,411	\$ (6,873)
Mortgage-backed government sponsored entities (GSEs) residential	9,887	(1,085)	189,602	(32,984)	199,489	(34,069)
U.S. Treasury bonds	-	-	17,745	(2,253)	17,745	(2,253)
Corporate bonds	2,669	(667)	81,051	(18,031)	83,720	(18,698)
Total temporarily impaired securities	<u>\$ 12,556</u>	<u>\$ (1,752)</u>	<u>\$ 330,809</u>	<u>\$ (60,141)</u>	<u>\$ 343,365</u>	<u>\$ (61,893)</u>

Note 5. Investments Held in Charitable Donation Account

The fair value of available for sale investments held in the charitable donation account and the related gains and losses recognized in accumulated other comprehensive income (loss) is as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments held in charitable donation account				
Mortgage-backed securities issued by government sponsored entities (GSE)	\$ 1,700	\$ -	\$ (290)	\$ 1,410
U.S. Treasury bonds	2,389	-	(232)	2,157
Corporate bonds	12,385	-	(1,853)	10,532
Total investment securities	<u>\$ 16,474</u>	<u>\$ -</u>	<u>\$ (2,375)</u>	<u>\$ 14,099</u>

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment in charitable donation account				
Mortgage-backed securities issued by government sponsored entities (GSE)	\$ 1,868	\$ -	\$ (317)	\$ 1,551
U.S. Treasury bonds	2,887	-	(307)	2,580
Corporate bonds	6,661	-	(1,199)	5,462
Total investment securities	<u>\$ 11,416</u>	<u>\$ -</u>	<u>\$ (1,823)</u>	<u>\$ 9,593</u>

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The amortized cost and fair value of investments held in the charitable donation account at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Available for Sale Fair Value
Due within one year	\$ 700	\$ 698
One to five years	3,050	2,803
Five to ten years	6,148	5,264
More than ten years	4,876	3,924
	<u>14,774</u>	<u>12,689</u>
Mortgage-backed securities issued by government sponsored entities (GSE)	<u>1,700</u>	<u>1,410</u>
Total	<u><u>\$ 16,474</u></u>	<u><u>\$ 14,099</u></u>

During 2023 and 2022, the Credit Union had no sales of investments held in the charitable donation account.

Certain investment securities are reported in the consolidated financial statements at an amount less than their historical cost.

Total fair value of these investments at December 31, 2023 and 2022, respectively, was approximately \$14,099,000 and \$9,593,000. At those respective dates, this is approximately 100% of the Credit Union's investments held in the charitable donation account.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

The following tables show the Credit Union's charitable donation account investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

Description of Securities	2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed-government sponsored enterprises (GSEs) residential	\$ -	\$ -	\$ 1,410	\$ (290)	\$ 1,410	\$ (290)
U.S. Treasury bonds	-	-	2,157	(232)	2,157	(232)
Corporate bonds	-	-	10,532	(1,853)	10,532	(1,853)
Total temporarily impaired securities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 14,099</u></u>	<u><u>\$ (2,375)</u></u>	<u><u>\$ 14,099</u></u>	<u><u>\$ (2,375)</u></u>

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Description of Securities	2022					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed-government sponsored enterprises (GSEs) residential	\$ -	\$ -	\$ 1,551	\$ (317)	\$ 1,551	\$ (317)
U.S. Treasury bonds	-	-	2,580	(307)	2,580	(307)
Corporate bonds	235	(26)	5,227	(1,173)	5,462	(1,199)
Total temporarily impaired securities	<u>\$ 235</u>	<u>\$ (26)</u>	<u>\$ 9,358</u>	<u>\$ (1,797)</u>	<u>\$ 9,593</u>	<u>\$ (1,823)</u>

Note 6. Equity Securities

In 2023, the Credit Union did not have equity securities. During 2022, the Credit Union sold all equity securities for proceeds of approximately \$42,386,000. On those sales, the Credit Union has gross gains of approximately \$1,315,000. During 2022, the Credit Union recognized net holding losses of approximately \$9,744,000 on equity securities.

Note 7. Loans and Allowance for Credit Losses

Classes of loans at December 31, 2023 and 2022, include:

	2023	2022
Real estate	\$ 1,198,725	\$ 988,415
Home equity	73,981	54,787
Automobiles	1,891,954	2,038,651
Credit card	69,272	69,013
Other consumer	106,063	113,464
Member business	663,001	550,523
Subtotal	4,002,996	3,814,853
Net deferred loan fees	14,048	14,454
Prepaid dealer reserves	39,044	41,184
Allowance for loan losses	(39,353)	(29,413)
Loans, net	<u>\$ 4,016,735</u>	<u>\$ 3,841,078</u>

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The following presents, by portfolio segment, the activity in the allowance for credit losses for the years ended December 31, 2023 and 2022:

	2023						
	Real Estate	Home Equity	Automobiles	Credit Cards	Other Consumer	Member Business	Total
Beginning Balance	\$ 3,252	\$ 206	\$ 16,074	\$ 2,792	\$ 1,034	\$ 6,055	\$ 29,413
Impact of adoption of ASC 326	1,050	10	9,113	(103)	1,099	(1,227)	9,942
Provision (credit)	(2,306)	87	17,915	4,196	3,203	(680)	22,415
Loans charged off	-	-	(40,578)	(2,449)	(2,403)	(589)	(46,019)
Recoveries	-	-	21,150	268	600	1,584	23,602
Ending Balance	<u>\$ 1,996</u>	<u>\$ 303</u>	<u>\$ 23,674</u>	<u>\$ 4,704</u>	<u>\$ 3,533</u>	<u>\$ 5,143</u>	<u>\$ 39,353</u>

	2022						
	Real Estate	Home Equity	Automobiles	Credit Cards	Other Consumer	Member Business	Total
Beginning Balance	\$ 3,937	\$ 261	\$ 13,791	\$ 2,795	\$ 977	\$ 5,640	\$ 27,401
Provision	(685)	(55)	10,988	1,606	583	415	12,852
Loans charged off	-	-	(23,365)	(1,775)	(1,254)	-	(26,394)
Recoveries	-	-	14,660	166	728	-	15,554
Ending Balance	<u>\$ 3,252</u>	<u>\$ 206</u>	<u>\$ 16,074</u>	<u>\$ 2,792</u>	<u>\$ 1,034</u>	<u>\$ 6,055</u>	<u>\$ 29,413</u>

The following tables present the balance in the allowance for credit losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2022.

	2022						
	Real Estate	Home Equity	Automobiles	Credit Cards	Other Consumer	Member Business	Total
Allowance Balances							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68	\$ 68
Collectively evaluated for impairment	3,252	206	16,074	2,792	1,034	5,987	29,345
Total allowance for loan losses	<u>\$ 3,252</u>	<u>\$ 206</u>	<u>\$ 16,074</u>	<u>\$ 2,792</u>	<u>\$ 1,034</u>	<u>\$ 6,055</u>	<u>\$ 29,413</u>
Loan Balances							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 173	\$ 173
Collectively evaluated for impairment	988,415	54,787	2,038,651	69,013	113,464	550,350	3,814,680
Total loan balances	<u>\$ 988,415</u>	<u>\$ 54,787</u>	<u>\$ 2,038,651</u>	<u>\$ 69,013</u>	<u>\$ 113,464</u>	<u>\$ 550,523</u>	<u>\$ 3,814,853</u>

Internal Risk Categories for Member Business Loans

We rate commercial loans by credit quality using the following designations:

Pass

Includes higher quality loans that do not fit any of the other categories described below.

Special Mention

These loans are fundamentally sound, but have potential weaknesses, or demonstrate declining trends, that if not checked or corrected, could weaken the loan or inadequately protect the Credit Union's position at some future date. Conditions, which might result in this rating, include:

1. Relationship lending officers may be unable to properly supervise due to an inadequate condition of, or control over, collateral, the failure to maintain proper loan documentation, or any other deviation from prudent lending practices.
2. Adverse economic or market conditions, which may, in the future, adversely affect the borrower's financial condition.
3. An adverse trend in the borrower's operations, or deterioration in the balance sheets, which has not yet reached a point where repayment of the loan is jeopardized.
4. Significant deterioration in the values of the loan collateral in situations where the borrower's financial condition may be somewhat marginal.
5. Management has recently changed, or changes repeatedly. Capabilities of current management are unknown.

Substandard

These loans are considered inadequately protected by the current worth and repayment capacity of the borrower, or the value of the collateral, if any. Such loans have well-defined weaknesses that could jeopardize the liquidation of the loan. If such weaknesses are not corrected, it is possible that the Credit Union will incur a loss. Examples of weaknesses inherent in such loans include:

1. Borrower's financial condition has deteriorated to the point that ultimate repayment of the loan may be in doubt. For example, cash is positive, but inadequate to service the debt if liquidated.
2. Cash flow deficiencies, which may jeopardize an orderly repayment of the loan, as specified in the note or loan agreement.
3. Borrower is in bankruptcy, or for any other reason, repayment is dependent on court action.
4. The credit relationship has deteriorated to the point that the sale of collateral is the primary source of repayment, unless this was the original source of repayment when the loan was originated.

Doubtful

These loans exhibit weaknesses similar to substandard loans and require immediate action. The severity of such weaknesses makes collection or repayment in full highly questionable or improbable, based on existing facts, conditions and values. The probability of loss is high, but the ultimate loss exposure cannot be completely determined due to pending factors, which may affect the loan. Such pending factors could include merger/liquidation, additional capital injection, perfection of liens on additional collateral and refinancing plans. These loans will generally be on a nonaccrual status.

Classified (Loss)

Loans classified as loss are considered uncollectible and have little or no value, and should not be booked as an active asset. This rating does not mean that the asset has no recovery or salvage value, but rather that the loan should be charged off even though a recovery might be possible. Loans will be charged off in the month they are graded loss.

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The risk characteristics of each loan portfolio segment are as follows:

Residential and Consumer

Residential and consumer loans consist of five segments - real estate, home equity, automobiles, credit card and other consumer loans. For real estate loans that are secured by 1-4 family residences and are generally owner-occupied, the Credit Union generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer loans are unsecured, such as small installment loans and credit cards. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential

Member Business

Member business loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most business loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. Business loans will include personal guarantees from the principal owner(s) of all business entity borrowers, other than not-for-profit organizations. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Member business real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Business real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Business real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Credit Union's business real estate portfolio are diverse, but with geographic location almost entirely in the Credit Union's market area. Management monitors and evaluates business real estate loans based on collateral, geography and risk grade criteria. In addition, management tracks the level of owner-occupied business real estate versus nonowner occupied loans.

The following tables present the credit risk profile of the Credit Union's loan portfolio based on rating category and payment activity as of December 31, 2023 and 2022:

	2023					
	Real Estate	Home Equity	Automobiles	Credit Cards	Other Consumer	Member Business
						Total
Grade						
Pass	\$ 1,197,993	\$ 73,722	\$ 1,880,938	\$ 68,736	\$ 105,205	\$ 650,104
Special Mention	-	-	-	-	-	8,884
Substandard	732	259	11,016	536	858	4,008
Doubtful	-	-	-	-	-	-
Classified (Loss)	-	-	-	-	-	5
Total	\$ 1,198,725	\$ 73,981	\$ 1,891,954	\$ 69,272	\$ 106,063	\$ 663,001

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	2022						
	Real Estate	Home Equity	Automobiles	Credit Cards	Other Consumer	Member Business	Total
Grade							
Pass	\$ 988,050	\$ 54,693	\$ 2,028,441	\$ 68,661	\$ 112,866	\$ 529,897	\$ 3,782,608
Special Mention	-	-	-	-	-	20,454	20,454
Substandard	365	94	10,210	352	598	80	11,699
Doubtful	-	-	-	-	-	53	53
Classified (Loss)	-	-	-	-	-	39	39
Total	<u>\$ 988,415</u>	<u>\$ 54,787</u>	<u>\$ 2,038,651</u>	<u>\$ 69,013</u>	<u>\$ 113,464</u>	<u>\$ 550,523</u>	<u>\$ 3,814,853</u>

Nonperforming loans are all loans greater than 90 days past due.

The following tables present the Credit Union's loan portfolio aging analysis as of December 31, 2023 and 2022:

	2023						Loans > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	
Real estate	\$ 6,407	\$ 739	\$ 732	\$ 7,878	\$ 1,190,847	\$ 1,198,725	\$ -
Home equity	231	180	259	670	73,311	73,981	-
Automobiles	44,911	9,674	11,016	65,601	1,826,353	1,891,954	-
Credit card	682	396	536	1,614	67,658	69,272	-
Other consumer	2,014	413	858	3,285	102,778	106,063	-
Member business	77,557	-	874	78,431	584,570	663,001	-
Total loans	<u>\$ 131,802</u>	<u>\$ 11,402</u>	<u>\$ 14,275</u>	<u>\$ 157,479</u>	<u>\$ 3,845,517</u>	<u>\$ 4,002,996</u>	<u>\$ -</u>

	2022						Loans > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	
Real estate	\$ 1,838	\$ 181	\$ 365	\$ 2,384	\$ 986,031	\$ 988,415	\$ -
Home equity	292	18	94	404	54,383	54,787	-
Automobiles	43,346	9,132	10,210	62,688	1,975,963	2,038,651	-
Credit card	325	213	352	890	68,123	69,013	-
Other consumer	1,638	539	598	2,775	110,689	113,464	-
Member business	71,013	-	115	71,128	479,395	550,523	-
Total loans	<u>\$ 118,452</u>	<u>\$ 10,083</u>	<u>\$ 11,734</u>	<u>\$ 140,269</u>	<u>\$ 3,674,584</u>	<u>\$ 3,814,853</u>	<u>\$ -</u>

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The following table represents non-accrual loans by loan class as of December 31, 2023 and 2022:

	2023	
	Nonaccrual Loans	Nonaccrual Loans with no Allowance for Credit Loss
Real estate	\$ 732	\$ -
Home equity	259	-
Automobiles	11,016	-
Credit card	536	-
Other consumer	858	-
Member business	874	654
Total loans	<u>\$ 14,275</u>	<u>\$ 654</u>

	2022
Real estate	\$ 365
Home equity	94
Automobiles	10,210
Credit card	352
Other consumer	598
Member business	115
Total nonaccrual loans	<u>\$ 11,734</u>

Prior to adoption of ASC 326, a loan was considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Credit Union will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in accordance with ASC 310-20-5.

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

	2022				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance					
Real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Home equity	-	-	-	-	-
Automobiles	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
Member business	58	58	-	154	5
Total impaired loans with no related specific reserve	<u>\$ 58</u>	<u>\$ 58</u>	<u>\$ -</u>	<u>\$ 154</u>	<u>\$ 5</u>

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

On occasion, the Credit Union modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, or interest rate reduction. In some cases, the Credit Union provides multiple types of concessions on one loan. The Credit Union closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The amount of loans modified for borrowers experiencing financial difficulty was immaterial to the consolidated financial statements for the year ended December 31, 2023.

The following tables present information regarding troubled debt restructurings by class for the years ended December 31, 2022.

Newly classified troubled debt restructurings:

	2022		
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance
Automobiles	11	\$ 406	\$ 403

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Newly restructured loans by type of modification:

	2022			
	Interest Only	Term	Combination	Total Modification
Real estate	\$ -	\$ -		\$ -
Home equity	-	-		-
Automobiles	\$ 198	\$ 23	\$ 182	403
Member business	-	-	-	-
Total	\$ 198	\$ 23	\$ 182	\$ 403

The Credit Union had three troubled debt restructuring that subsequently defaulted in the past 12 months. The recorded balance of those loans is approximately \$114,000 as of December 31, 2022.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	2023	Collateral Type
Real estate	\$ 732	Residential real estate
Home equity	259	Residential real estate
Automobiles	11,016	Automobiles
Other consumer	858	Recreational vehicles, marine vehicles, motorcycles/all-terrain vehicles
Member business	4,013	Commercial real estate and business assets
Total collateral-dependent loans	\$ 16,878	

Loan Securitization

On August 16, 2023, the Credit Union completed a \$300 million securitization of approximately \$320 million of new and used auto loans. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860 Transfers and Serving of Financial Assets. An approximate \$1.4 million loss was recognized related to the sale of the loans. The Credit Union was retained to service the auto loans. Beyond servicing the loans and the residual interest discussed in Note 3, the Credit Union's ongoing involvement in this transaction is limited to customary obligations of loans sales, including material breach of representation. In connection with this transaction, an asset servicing right was established for approximately \$6.4 million.

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Note 8. Premises and Equipment, Net

	2023	2022
Land	\$ 17,258	\$ 15,570
Land and lease improvements	698	635
Buildings and improvements	38,362	36,905
Furniture and equipment	15,595	12,925
Construction in process	318	413
	<u>72,231</u>	<u>66,448</u>
Accumulated depreciation	<u>(19,027)</u>	<u>(15,350)</u>
	<u><u>\$ 53,204</u></u>	<u><u>\$ 51,098</u></u>

Note 9. Shares and Deposits

	2023	2022
Share drafts	\$ 163,351	\$ 177,203
Regular shares	225,145	293,589
Money market shares	1,352,093	1,200,606
Certificates	1,943,100	2,164,366
Individual retirement account shares	3,280	4,183
Individual retirement account certificates	295,560	259,263
	<u>3,982,529</u>	<u>4,099,210</u>
	<u><u>\$ 3,982,529</u></u>	<u><u>\$ 4,099,210</u></u>

The above balance of money market shares includes nonmember deposits of approximately \$174,362,000 December 31, 2023.

At December 31, 2023, scheduled maturities of certificates for the next five years were as follows:

2024	\$ 1,404,995
2025	370,206
2026	68,448
2027	267,753
2028	127,258
	<u>2,238,660</u>
	<u><u>\$ 2,238,660</u></u>

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The aggregate amount of share certificates with a minimum denomination of \$250,000 or more was approximately \$872,274,000 and \$1,209,459,000 at December 31, 2023 and 2022, respectively. The above balances in the scheduled maturities table include nonmember deposits of approximately \$249,584,000 and \$707,215,000 as of December 31, 2023 and 2022.

Note 10. Borrowings

Borrowed funds at December 31, 2023 and 2022 are summarized as follows:

	2023	2022
Federal Home Loan Bank advances	\$ 572,402	\$ 242,358
Bank term funding program	64,887	-
Loans sold with recourse	148,252	-
Total borrowings	<u>\$ 785,541</u>	<u>\$ 242,358</u>

FHLB Advances

The borrowings are payable at their respective maturity dates. The Credit Union's advances, at interest rates ranging from 1.06% to 5.54% are subject to restrictions or penalties in the event of prepayment. At December 31, 2023, the Credit Union pledged securities and mortgage loans totaling approximately \$1,696,795,000 to maintain FHLB borrowing capacity.

The future maturities of borrowings at December 31, 2023 were as follows:

2024	\$ 510,000
2025	-
2026	-
2027	-
2028	-
Thereafter	62,402
	<u>\$ 572,402</u>

Bank Term Funding Program (BTFP)

The BTFP was created by the Federal Reserve System to support American businesses and households by making additional funding available to eligible depository institutions to help assure institutions have the ability to meet the needs of their depositors. The BTFP offers loans up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase by the Federal Reserve Banks in open markets. At December 31, 2023, the interest rates ranged from 5.17% to 5.46% for the Credit Union, and the future maturity date of these borrowings is 2024. At December 31, 2023, the Credit Union had securities pledged totaling approximately 65,202,000.

Loans Sold with Recourse

As of December 31, 2023, the Credit Union had loans sold with recourse to five other institutions with one- and two-year recourse periods. At the year-end date, in all cases, 90% of the loan was sold to the other institutions. The maturity of these loans ranges from 2024 to 2030 with interest rates ranging from 5.49% to 17.75%.

As of December 31, 2023, the Credit Union had a secured line of credit with Corporate One Federal Credit Union, which allows the Credit Union to borrow up to \$100,000,000. There was no balance outstanding on this line of credit as of December 31, 2023.

Note 11. Derivative Financial Instruments

In the normal course of business, the Credit Union uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying financial statements and are measured at fair value.

The Credit Union entered into derivative financial instruments on December 14, 2022, and June 28, 2023.

Fair Value Hedges

Interest rate swaps with notional amounts totaling \$90,000,000 as of December 31, 2023 and 2022, were designated as fair value hedges of certain fixed rate prepayable loans, loan participations purchased from other financial institutions, available-for-sale investments, and other consumer-based loans. The maturity years of these hedges span from 2027 to 2032. During that time, the Credit Union will pay interest rates ranging from approximately 3.16% to 3.36% while receiving a variable rate equal to the effective Fed Funds rate. The hedged assets sit in Loans on the consolidated balance sheet with a carrying amount of approximately \$231,388,000 and \$261,168,000 as of December 31, 2023 and 2022. The cumulative amount of fair value hedging adjustment including in the carrying amount of the hedged assets is approximately \$995,000 and \$2,165,000 as of December 31, 2023 and 2022. The hedges were determined to be effective during all periods presented. The Credit Union expects the hedges to remain effective during the remaining terms of the swaps.

Cash Flow Hedges

Interest rate swaps with notional amounts totaling \$230,000,000 and \$160,000,000 as of December 31, 2023 and 2022, were designated as a cash flow hedges of the Credit Union's regular Thrive Money Market Accounts (TMMAs) and FHLB advances. The maturity years of the hedges span from 2027 to 2028. As of December 31, 2023, and 2022, the notional amount related to TMMAs was 160,000,000 where the Credit Union will pay a fixed rate of approximately 3.36% while receiving a variable rate equal to the effective Fed Funds rate. As of December 31, 2023 and 2022, TMMAs were approximately \$840,967,000 and \$627,652,000, and are included in the Shares line item on the consolidated balance sheet. A new cashflow hedge was executed on June 28, 2023 related to FHLB advances with a notional amount of \$70,000,000 which is also the notional value as of December 31, 2023. The Credit Union will pay a fixed rate of approximately 3.68% while receiving a variable rate equal to the effective Fed Funds rate. As of December 31, 2023, the FHLB advance applicable to this hedge was approximately \$70,000,000.

Both hedges were determined to be effective during all periods presented. The Credit Union expects the hedge to remain effective during the remaining terms of the swaps.

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The Company presents derivative position gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet as of December 31:

		2023	
		Notional Amount	Fair Value
<u>Included in prepaid expenses and other assets</u>			
Derivatives designated as hedges			
Interest rate swaps	\$	250,000	\$ 1,650
<u>Included in other liabilities</u>			
Derivatives designated as hedges			
Interest rate swaps	\$	70,000	\$ (655)
		2022	
		Notional Amount	Fair Value
<u>Included in prepaid expenses and other assets</u>			
Derivatives designated as hedges			
Interest rate swaps	\$	250,000	\$ 5,023

The effect of cash flow hedge accounting on accumulated other comprehensive income for the year ended December 31 are as follows:

2023			
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
Interest rate contracts	\$ (2,700)	N/A	\$ -
2022			
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
Interest rate contracts	\$ 2,858	N/A	\$ -

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During 2023 and 2022, no gains or losses were reclassified into earnings for the cash flow hedge.

The effect of fair value hedge accounting on the income statement for the year ended December 31, 2023 are as follows:

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships 2023
	Interest Income
<u>The effects of fair value hedging</u>	
Gain (loss) on fair value hedging relationships	
Hedged items	
Interest rate contracts designated as hedging instruments	\$ 1,605

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships 2022
	Interest Income
<u>The effects of fair value hedging</u>	
Gain (loss) on fair value hedging relationships	
Hedged items	
Interest rate contracts designated as hedging instruments	\$ 98

General Electric Credit Union
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Note 12. Accumulated Other Comprehensive Loss

The following table illustrates activity within the balance of accumulated other comprehensive loss as of December 31, 2023 and 2022:

	Unrealized Losses on Available-for-Sale Debt Securities (A)	Investments Held in Charitable Donation Account	Unrealized Gain on Cash Flow hedge	Total
Beginning balance, January 1, 2023	\$ (61,894)	\$ (1,823)	\$ 2,858	\$ (60,859)
Net other comprehensive income	10,652	(552)	(2,700)	7,400
Ending balance, December 31, 2023	<u>\$ (51,242)</u>	<u>\$ (2,375)</u>	<u>\$ 158</u>	<u>\$ (53,459)</u>

	Unrealized Losses on Available-for-Sale Debt Securities (A)	Unrealized Losses On Investments Held In Charitable Donation Account	Unrealized Gain on Cash Flow hedge	Total
Beginning balance, January 1, 2022	\$ (4,829)	\$ (173)	\$ -	\$ (5,002)
Net other comprehensive loss	(57,065)	(1,650)	2,858	(55,857)
Ending balance, December 31, 2022	<u>\$ (61,894)</u>	<u>\$ (1,823)</u>	<u>\$ 2,858</u>	<u>\$ (60,859)</u>

(A) Reclassification adjustments for realized losses on available-for-sale securities included in net income are included within this section

Note 13. Employee Benefits and Retirement Plan

The Credit Union has a contributory defined-contribution money purchase pension plan available to employees with one year of service who have attained the age of 21 at the anniversary date of the plan. The plan provides that employees can contribute up to 10% of their annual salary. The Credit Union matches 100% of contributions up to this amount. Expense for this plan for the years ended December 31, 2023 and 2022 was approximately \$1,822,000 and \$1,699,000, respectively.

The Credit Union has a non-contributory, defined-benefit pension plan available to employees with one year of service who have attained the age of 21. The Credit Union pays a premium which together with the participant contributions are based on the calculation of actuarial amounts to ensure the participant receives a guaranteed annual return. The participation formula is contributions of the lesser of 3% excess salary over \$6,000, or 25%, of the insurance premium.

The plan was frozen in 2012. Expense for this plan for the years ended December 31, 2023 and 2022 was approximately \$732,000 and \$764,000, respectively. The Plan is subject to Section 412 (i) and has no assets and liabilities as the defined-pension benefits are guaranteed exclusively by annuity contracts and are accounted for as a defined-contribution plan.

Based on pension funding requirements, certain employees have a deferred compensation agreement. This contains contributions by the Credit Union not qualified for the pension plan.

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The Credit Union has an unfunded postretirement health care liability covering certain employees and retirees who met the eligibility requirements before the plan was frozen in 2014. The Credit Union's liability as of December 31, 2023 and 2022 was approximately \$3,697,000. In 2023, an expense was recorded to the Plan of approximately \$1,091,000. In 2022, the Plan met all funding requirements, as such, no expense was recorded in 2022.

Note 14. Commitments and Contingencies

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

At December 31, 2023 and 2022, those financial instruments whose contract amount represents credit risk included commitments to extend credit of approximately \$475,000,000 and \$392,000,000, respectively.

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. Since 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 credit worthiness 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. Collateral held varies, but may include consumer or other assets of the member.

The Credit Union and its subsidiary are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Credit Union.

Note 15. Fair Value of Financial Instruments

Fair value 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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

		2023		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in loan securitization	\$ 23,539	\$ -	\$ -	\$ 23,539
Investments held in charitable donation				
Mortgage-backed securities issued by sponsored entities (GSE)	1,410	-	1,410	-
U.S. Treasury bonds	2,157	-	2,157	-
Corporate bonds	10,532	-	10,532	-
Total investments held in charitable donation account	14,099	-	14,099	-
Available for sale				
U.S. Government and federal agencies	43,892	-	43,892	-
Mortgage-backed securities issued by sponsored entities (GSE)	178,804	-	178,804	-
U.S. Treasury bonds	14,751	-	14,751	-
Corporate bonds	81,859	-	81,859	-
Total securities available for sale	319,306	-	319,306	-
Interest rate swap agreements - asset	1,650	-	1,650	-
Total	\$ 358,594	\$ -	\$ 335,055	\$ 23,539

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		2022		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments held in charitable donation				
Mortgage-backed securities issued by sponsored entities (GSE)	\$ 1,551	\$ -	\$ 1,551	\$ -
U.S. Treasury bonds	2,580	-	2,580	-
Corporate bonds	5,462	-	5,462	-
Total investments held in donation account	9,593	-	9,593	-
Available for sale				
U.S. Government and federal agencies	42,411	-	42,411	-
Mortgage-backed securities issued by sponsored entities (GSE)	199,489	-	199,489	-
U.S. Treasury bonds	17,745	-	17,745	-
Corporate bonds	83,720	-	83,720	-
Total securities available for sale	343,365	-	343,365	-
Interest rate swap agreements - asset	5,023	-	5,023	-
Total	\$ 357,981	\$ -	\$ 357,981	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2023 and 2022.

Beneficial Interest in Loan Securitization

The Credit Union's beneficial interest in loan securitization includes a certificate that is classified as Level 3 due to the lack of observable market data. The Credit Union determines the fair value of the certificate through a third-party discounted cashflow model. The discounted cashflow model uses discount rates based on prevailing interest rates and the characteristics of the certificate itself. The valuation is performed using a discounted cashflow analysis. The discount rate utilized in the analysis was 8.19% at December 31, 2023, and is considered an unobservable input being utilized in the valuation.

Available-for-Sale Securities, and Investments Held in Charitable Donation Account

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government and federal agency securities, mortgage-backed residential securities, U.S. Treasury bonds, and corporate bonds. Level 1 securities include equity securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Credit Union does not currently hold any Level 3 securities.

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Interest Rate Swap Agreements

Certain variable rate money market accounts have been synthetically converted to fixed rate deposits by entering into interest rate swap agreements. The fair value is estimated using forward looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Nonrecurring Measurements

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

	2023			
	Fair Value Measurements Using			
Fair Value	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Collateral-dependent loans	\$ 60	\$ -	\$ -	\$ 60

	2022			
	Fair Value Measurements Using			
Fair Value	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 47	\$ -	\$ -	\$ 47

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ACL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Credit Union considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The

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appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2023	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent loans	\$ 60	Market comparable properties	Marketability discount	0% - 50%

	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range
Impaired loans	\$ 47	Market comparable properties	Marketability discount	6% - 50%

Note 16. Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by its examiners. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Credit Union's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined).

Effective January 1, 2022, the NCUA amended capital adequacy regulation and provided a simplified measure of capital adequacy that federally insured credit unions classified as complex can opt into. The new Complex Credit Union Leverage Ratio (CCULR) gives complex credit unions that maintain a minimum net worth level and meet other qualifying criteria a streamlined framework to manage capital in their institutions. As long as a credit union in the CCULR framework maintains the minimum net worth ratio, it would be considered well capitalized.

A credit union is defined as "complex" and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed five hundred million dollars (\$500,000,000), as reflected in its most recent Call Report. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio or, for a qualifying complex credit union, opting into the CCULR framework, by using the CCULR framework.

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As of December 31, 2023, the Credit Union did not opt into the CCULR framework and elected to use the risk-based capital ratio.

Management believes, as of December 31, 2023 and 2022, that the Credit Union meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7% and a minimum risk-based capital ratio of 10%. Furthermore, the Credit Union's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. As of December 31, 2023, the Credit Union was not considered well capitalized under the NCUA capital adequacy regulations as the risk-based capital ratio fell below 10%. The Credit Union still falls under the capital classification of adequately capitalized as the new worth ratio exceeds 6% and the risk-based capital ratio exceeds 8%.

	Actual Net Worth Ratio		Minimum Net Worth Ratio to be Well Capitalized Under the Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio
December 31, 2023	\$ 368,588	7.2%	\$ 358,116	7.0%
December 31, 2022	\$ 379,448	8.1%	\$ 327,941	7.0%

	Actual Risk-Based Capital Ratio		Minimum Risk-Based to be Well Capitalized Under the Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio
December 31, 2023	\$ 368,970	9.6%	\$ 383,284	10.0%
December 31, 2022	\$ 381,203	10.8%	\$ 352,433	10.0%

Note 17. Subsequent Events

Subsequent events have been evaluated through April 16, 2024, which is the date the consolidated financial statements were available to be issued.