SAFE CREDIT UNION
Folsom, California

FINANCIAL STATEMENTS
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Audit Committee
SAFE Credit Union
Folsom, California

Opinion

We have audited the financial statements of SAFE Credit Union, which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of net income and 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 SAFE 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 SAFE 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 financial statements, the Credit Union changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). 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 SAFE Credit Union's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

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 SAFE 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 SAFE 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.

Crowe LLP

Crowe LLP

Sacramento, California
March 8, 2024

SAFE CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 295,443	$ 202,803
Investments:		
Available-for-sale	789,957	911,961
Other	15,057	15,057
Loans held for sale, at fair value	8,203	15,578
Loans, net of allowance $29,531 and $17,987 as of December 31, 2023 and 2022, respectively	3,286,300	3,112,149
Property and equipment, net	53,707	55,814
Share insurance deposits	40,472	40,686
Goodwill	13,282	13,282
Other intangible assets	25	134
Accrued interest receivable	10,740	8,779
Other assets	124,188	132,504
Total assets	$ 4,637,374	$ 4,508,747
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,933,315	$ 3,884,952
Public unit shares	31,081	80,076
Short Term Borrowings	300,000	200,000
Accrued expenses and other liabilities	62,858	54,442
Total liabilities	4,327,254	4,219,470
Commitments and contingent liabilities (Note 10)		
Members' equity		
Retained earnings, restricted	403,433	395,594
Accumulated other comprehensive loss	(93,313)	(106,317)
Total members' equity	310,120	289,277
Total liabilities and members' equity	$ 4,637,374	$ 4,508,747

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Interest income:		
Interest on loans	$ 128,886	$ 96,449
Interest on investments and cash equivalents	37,425	19,850
	166,311	116,299
Interest expense:		
Dividends on members' and public unit shares	56,584	10,825
Interest expense on borrowed and escrowed funds	10,202	1,476
	66,786	12,301
Net interest income	99,525	103,998
Provision for credit losses	9,980	9,270
Net interest income after provision for credit losses	89,545	94,728
Noninterest income:		
ATM and debit card income	26,806	28,133
Account service fees	17,497	16,547
Loan fees	8,561	8,207
Securities and insurance fees	5,790	5,974
Net gain on sale of loans	807	947
Other noninterest income	4,014	6,997
Total noninterest income	63,475	66,805
Noninterest expenses:		
Salaries and benefits	80,247	77,104
Professional services	22,977	20,956
Office occupancy and operations	15,858	15,757
Other noninterest expense	15,708	14,442
Total noninterest expenses	134,790	128,259
Net income	18,230	33,274
Other comprehensive income:		
Unrealized gain (loss) on investments available-for-sale	13,004	(97,605)
Total other comprehensive income (loss)	13,004	(97,605)
Comprehensive income (loss)	$ 31,234	$ (64,331)

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	Retained Earnings				Accumulated Other Comprehensive Loss	Total
	Regular Reserve	Other Appropriated	Unappropriated	Total		
Balance, January 1, 2022	$ 38,700	323,620	-	362,320	(8,712)	353,608
Net income			33,274	33,274		33,274
Net change in unrealized gain/(loss) on available-for-sale investments					(97,605)	(97,605)
Appropriations		33,274	(33,274)	-		-
Balance, December 31, 2022	$ 38,700	$ 356,894	$ -	$ 395,594	$ (106,317)	$ 289,277
Cumulative change in accounting principle (Note 1)	(10,391)			(10,391)		(10,391)
Balance, January 1, 2023 (as adjusted for change in accounting principle)	28,309	356,894		385,203	(106,317)	278,886
Net income			18,230	18,230		18,230
Net change in unrealized gain/(loss) on available-for-sale investments					13,004	13,004
Appropriations		18,230	(18,230)			
Balance, December 31, 2023	$ 28,309	$ 375,124	$ -	$ 403,433	$ (93,313)	$ 310,120

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 18,230	$ 33,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	764	989
Amortization of investment premiums and discounts, net	3,221	3,596
Provision for credit losses	9,980	9,270
Depreciation and amortization	4,818	4,154
Amortization of intangibles	109	130
Net loss/(gain) on disposition of property and equipment	339	(9)
Change in fair value of loans held for sale	(369)	437
Net gain on sale of loans	(807)	(947)
Originations of loans held for sale	(71,876)	(58,573)
Proceeds from sale of loans held for sale	80,427	53,631
Net change in:		
Cash surrender value of company-owned life insurance policies	726	1,790
Accrued interest receivable	(1,961)	(2,228)
Other assets	(1,468)	(21,593)
Accrued expenses and other liabilities	8,416	12,236
Net cash provided by operating activities	**50,549**	**36,157**
Cash Flows from Investing Activities		
Purchases of available-for-sale investments	-	(20,000)
Proceeds from maturities of available-for-sale investments	131,787	185,774
Net change in other investments	-	(1,803)
Net change in loans	(194,522)	(666,967)
Net change in share insurance deposits	214	(3,435)
Proceeds from company-owned life insurance	8,294	-
Purchases of property and equipment	(3,050)	(4,734)
Net cash (used in) investing activities	**(57,277)**	**(511,165)**
Cash Flows from Financing Activities		
Net increase/(decrease) in members' shares	48,363	(107,583)
Net (decrease)/increase in public unit shares	(48,995)	25,053
Proceeds from borrowings	100,000	200,000
Net cash provided by financing activities	**99,368**	**117,470**
Increase/(decrease) in cash and cash equivalents	**92,640**	**(357,538)**
Cash and cash equivalents, beginning of year	202,803	560,341
Cash and cash equivalents, end of year	$ 295,443	$ 202,803

(Continued)

SAFE CREDIT UNION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(Dollar amounts in thousands)

		2023		2022
Supplemental Disclosures of Cash Flow Information				
Lease liabilities arising from obtaining right-of-use assets	$	2,315	$	5,888
Cash Dividends paid on members' and public unit shares and Cash Interest paid on borrowed and escrowed funds	$	66,302	$	11,721

See accompanying notes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

Nature of operations: SAFE Credit Union (Credit Union) is a state-chartered credit union organized under the provisions of the California Financial Code and California Corporation Code. Participation in the Credit Union is limited to those individuals who qualify for membership, which is defined in the Credit Union's Charter and Bylaws.

The Credit Union provides financial services through its branches in Sacramento and the surrounding counties. Its primary member share products are checking, savings, and term certificate accounts, and its primary lending products are residential real estate, vehicle, and commercial loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or member. However, the members' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Significant accounting policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes generally accepted accounting principles (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to GAAP issued by the FASB in these notes are to the *FASB Accounting Standards Codification,* commonly referred to as the Codification or ASC.

Use of estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Subsequent events: The Credit Union has evaluated all subsequent events for recognition and disclosure through March 8, 2024, the date on which the financial statements were available to be issued. The Credit Union obtained 27,843 of Visa Class B common stock that were issued by Visa to institutions that issued Visa debit or credit cards as part of their 2008 IPO. Visa B common stock have transfer restrictions and no readily available market or reliable price, resulting in a historical carrying value of $0. In March 2024, management entered into a contract with a broker to sell all shares of Visa B common stock.

Concentrations of credit risk: Most of the Credit Union's business activity is with its members, many of whom live, work, or worship in the following counties: Amador, Alameda, Butte, Contra Costa, El Dorado, Nevada, Placer, Sacramento, San Joaquin, Solano, Sutter, Yolo, and Yuba. The Credit Union may be exposed to credit risk resulting from these geographic concentrations. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the geographic regions in which borrowers reside. Management continually monitors the Credit Union's operations, including the loan portfolio, for potential impairment and other accounting consequences associated with concentration risk.

Fair value: The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

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

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Investments – Held-to-Maturity 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. Securities not classified as held-to-maturity are classified as available-for-sale. As of December 31, 2023, and 2022, the Credit Union held no debt securities classified as held-to-maturity.

Investments – Available-for-Sale Securities: Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income or (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. The Credit Union evaluates available for sale securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Credit Union intends to sell an impaired available for sale security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. During the years ended December 31, 2023 and 2022, no allowance for credit losses nor impairment recognized in earnings related to available for sale investment securities was recorded.

Other investments primarily consist of Federal Home Loan Bank (FHLB) stock and are classified separately and are stated at cost.

FHLB stock: The Credit Union is a member of the FHLB of San Francisco and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock’s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. Cash dividends are reported as income when declared.

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market, for which the fair value option has been elected, are recorded at fair value as of December 31, 2023 and 2022. The fair value includes the servicing value of the loans.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans includes the value of the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Mortgage derivatives: Interest rate lock commitments (IRLC) for mortgage loans to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the IRLC is recorded at the time the rate is locked based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the rate lock commitment. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of To Be Announced (TBA) mortgage-backed securities (MBS). The forward sales commitments are typically entered into at the time the interest rate lock commitment is made. The value of the forward sales commitments moves in opposite direction of the value of the interest rate lock commitments and mortgage loans held for sale. Fair values of these mortgage derivatives are estimated based on changes in interest rates from the date of the interest rate lock commitment. The cash flows from these forward sales agreements are classified as operating activities in the statements of cash flows.

Loans, net: The Credit Union grants mortgage, vehicle, commercial, and other consumer loans to members. In addition, the Credit Union purchases participation loans originated by various other credit unions and sells participation loans to other financial intuitions. Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for credit losses and net deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The accrual of interest income on all classes of loans other than credit cards is discontinued at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. In addition, interest is not recognized on commercial loans when interest is discontinued and the collection of both principal and interest is considered doubtful. Other personal loans are typically charged off at approximately 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued, but not collected, for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current, payments have been made in accordance with the terms of the loan for approximately five months or more, future payments are reasonably assured, and the Credit Union elects accrual status. Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the estimated life of the loans.

Allowance for credit losses - Loans: The allowance for credit losses (ACL) is a valuation allowance for estimated expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit as of the balance sheet date. The allowance is established through a provision for credit losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

The ACL is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans, using relevant available information from internal and external sources, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. Historical credit loss experience also provides a basis for the estimation of expected credit losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The starting point for the Credit Union's estimate was cumulative loss rates covering the contractual terms of the loans within portfolio segments that share similar risk characteristics. The cumulative loss rates used as the basis for estimate of credit losses is comprised of the calculated loss rate adjusted for qualitative factors. The calculated loss rate is estimated based on various factors including: the historical relationship between the unemployment rate and loan defaults from 2004 to 2019, the forecasted unemployment rate, estimated loss given defaults, prepayment and curtailment speeds, and the recovery lag. The unemployment rate is forecasted for the next four quarters; afterwards it reverts to the long-term average using an eight-quarter straight-line reversion. Qualitative factor adjustments reflect management's belief that there exists, expected losses inherent in the portfolio, due to economic and external risk factors, that are not captured in the calculated expected loss rates.

A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the fair value of the underlying collateral, adjusted for costs to sell when applicable, less the amortized cost basis of the financial asset. If the value of underlying collateral is determined to be less than the recorded amount of the loan, a charge-off will be taken. The ACL on borrowers experiencing financial difficulties is measured using the same method as all other portfolio loans. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the current interest rate of the loan.

The Credit Union has identified the following portfolio segments to evaluate and measure the ACL:

Residential real estate – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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

Vehicle – Vehicle loans are generally underwritten based on the creditworthiness of the borrowers and are secured by vehicles. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Credit card and other consumer loans – Credit card and other consumer loans are generally unsecured and possess a higher risk of loss than other classes of loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating. For Credit Cards, the Credit Union's exposure to credit loss is represented by the outstanding balance of the commitments, as unfunded obligations are unconditionally cancellable by the Credit Union.

Loan servicing: Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans where servicing is retained, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon 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 reported in other assets. 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 is recorded for fees earned for servicing loans and is included in other noninterest income. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Other real estate owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Property and equipment: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the term of the related lease or the life of the asset.

Leases: The Credit Union records leases on the balance sheet at the lease commencement date in the form of a lease liability for the present value of future minimum payments under the lease terms, and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. The Credit Union does not record leases on the balance sheets that are classified as short term (less than one year).

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

At lease inception, the Credit Union determines the lease term by considering the minimum lease term and all optional renewal periods that the Credit Union is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Credit Union's leases do not contain residual value guarantees or material variable lease payments that will cause the Credit Union to incur additional expenses. Substantially all the Credit Union's leases are comprised of operating leases in which the Credit Union is lessee of real estate property for branches and ATM locations.

The Credit Union has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

The Credit Union's variable lease expense includes rent escalators that are based on market conditions. Non-lease components include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. Total operating lease expense consists of lease costs allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, non-lease components, and any impairment of the right-of-use asset. Operating lease expenses are included in occupancy and equipment expense on the Credit Union's statements of income.

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

<u>Company-owned life insurance</u>: The Credit Union has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. In 2023, the Credit Union liquidated two policies totaling $8,294,000. Cash surrender values were $32,621,000 and $40,188,000 at December 31, 2023 and 2022, respectively, and are included in other assets on the statements of financial condition. Income earned on these policies, net of expenses, totaled $726,000 and $1,790,000 for the years ended December 31, 2023 and 2022, respectively.

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

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Goodwill and other intangible assets: Identifiable assets, liabilities, and contingent liabilities in entities acquired are measured at fair value at the date of acquisition. Identifiable intangible assets are recognized if they can be separated or arise from a contractual right and the fair value can be reliably measured. Any excess of the cost of business combination over the fair value of the acquired identifiable assets, liabilities, and contingent liabilities is recognized as goodwill. Goodwill is assessed for impairment at least annually and more frequently if events or changes in circumstance indicate that the carrying value may not be recoverable. Goodwill is the only intangible asset with an indefinite life on the statements of financial condition. Other intangible assets consist of the premium recognized on the value of a book of client investment accounts acquired during 2015, and the intangible asset related to the deposits purchased from another credit union during 2016, both of which are amortized over the estimated life of the asset and evaluated for impairment on at least an annual basis.

Unfunded commitments and related financial instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, issued to meet member financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded on the balance sheet when they are funded. There is no ACL associated with these financial instruments as they are unconditionally cancelable.

Members' shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation.

Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

Advertising costs: Advertising costs are expensed as incurred.

Income taxes: The Credit Union is exempt, by statute, from federal income taxes. The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, the Credit Union is subject to taxes related to unrelated business income, certain excise expenses and political donations.

FASB Codification Topic 740, *Income Taxes,* provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. For the years ended December 31, 2023 and 2022, management has determined that there are no material uncertain tax positions.

Retirement plans: Employee 401(k) and profit-sharing plan expense is the amount of matching and discretionary contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Fair value of financial instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loss contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management was not aware of any loss contingencies that will have a material effect on the financial statements.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or members' equity.

Adoption of New Accounting Standards:

On January 1, 2023, the Credit Union adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaced 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 CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and available-for-sale 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.

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 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. The Credit Union recorded a net decrease to retained earnings of $10,391,000, as of January 1, 2023, as the cumulative effect of adopting ASC 326. As the Credit Union had no held-to-maturity debt securities or expected credit losses on available-for-sale debt securities at adoption date, the entire transition adjustment was due to the measurement of expected credit losses on loan receivables.

The following table illustrates the impact of ASC 326 adoption (in thousands).

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Residential real estate	$ 14,406	$ 5,964	$ 8,442
Commercial and small business	5,756	1,618	4,138
Vehicle	4,826	6,876	(2,050)
Credit card and other consumer	3,390	3,529	(139)
Allowance for credit losses on loans	$ 28,378	$ 17,987	$ 10,391

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Along with the adoption of ASC 326 on January 1, 2023, the Credit Union adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (TDR) and Vintage Disclosures*. The standard eliminates the accounting guidance for TDRs and requires determination of whether a modification results in a new loan or a continuation of an existing loan, as well as expands disclosures related to modifications. The Credit Union elected the option to apply a modified retrospective transition method. The adoption of ASU 2022-02 resulted in new disclosures in the financial statements.

NOTE 2 - INVESTMENTS

Investments classified as available-for-sale consist of the following (in thousands):

December 31, 2023	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 6,947	$ -	$ (404)	$ 6,543
U.S. Government sponsored agency Mortgage-backed securities, residential	876,323	2	(92,911)	783,414
	$ 883,270	$ 2	$ (93,315)	$ 789,957

There were no allowance for credit losses recorded for available-for-sale securities for the year ended December 31, 2023.

December 31, 2022	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 8,085	$ -	$ (707)	$ 7,378
U.S. Government sponsored agency Mortgage-backed securities, residential	1,010,193	-	(105,610)	904,583
	$ 1,018,278	$ -	$ (106,317)	$ 911,961

There were no sales or calls of securities for the years ended December 31, 2023 and December 31, 2022.

Investments by maturity as of December 31, 2023 are summarized as follows (in thousands):

	Available-for-Sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 15,057
U.S. Government sponsored agency collateralized mortgage obligations, residential	6,947	6,543	-
U.S. Government sponsored agency mortgage-backed securities, residential	876,323	783,414	-
	$ 883,270	$ 789,957	$ 15,057

(Continued)

NOTE 2 - INVESTMENTS (Continued)

Expected maturities of U.S. Government sponsored agency collateralized mortgage obligations and U.S. Government sponsored agency mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are therefore classified separately with no specific maturity date. FHLB stock and certain other investments have been classified with no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position were as follows (in thousands):

December 31, 2023	Fair Value Associated With Unrealized Losses Existing for: Less Than 12 Months	12 Months or Longer	Continuous Unrealized Losses Existing for: Less Than 12 Months	12 Months or Longer	Total Unrealized Losses
Available-for-sale:					
U.S. Government sponsored agency securities, collateralized mortgage obligations, mortgage-backed securities, residential	$ 1,091	$ 785,403	$ (41)	$ (93,274)	$ (93,315)

December 31, 2022	Fair Value Associated With Unrealized Losses Existing for: Less Than 12 Months	12 Months or Longer	Continuous Unrealized Losses Existing for: Less Than 12 Months	12 Months or Longer	Total Unrealized Losses
Available-for-sale:					
U.S. Government sponsored agency securities, collateralized mortgage obligations, mortgage-backed securities, residential	$ 298,335	$ 613,626	$ (7,952)	$ (98,365)	$ (106,317)

At December 31, 2023, the investment portfolio included 105 securities,1 which had a current unrealized gain that has existed for less than one year, 1 which had a current unrealized loss that has existed for less than one year, and 103 of which had unrealized losses that have existed for more than one year. All of the securities were considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

The Credit Union did not have any credit losses embedded in the 2023 available-for-sale securities.

Other investments consist of the following at December 31 (in thousands):

	2023	2022
FHLB stock	$ 15,000	$ 15,000
Other investments	57	57
	$ 15,057	$ 15,057

The fair value of other investments and FHLB stock is not practical to determine due to restrictions placed on its transferability.

NOTE 2 - INVESTMENTS (Continued)

The Credit Union views its investment in the FHLB stock as a long-term investment, is carried at cost and evaluated for impairment. The Credit Union reviews the FHLB of San Francisco's financial statements when released and based on certain factors, management has concluded that the stock was not impaired at December 31, 2023 or 2022.

Securities totaling $358,410,000 and $88,349,000 have been pledged as collateral to secure borrowings with the Federal Reserve Bank of San Francisco, as disclosed in Note 8 at December 31, 2023 and 2022, respectively. Securities totaling $360,041,000 and $439,851,000 are available to be pledged as collateral to secure FHLB advances, as more fully disclosed in Note 8, at December 31, 2023 and 2022, respectively.

NOTE 3 - LOANS

Loans consist of the following at December 31 (in thousands):

	2023	2022
Residential real estate	$ 1,820,851	$ 1,628,621
Commercial	324,242	241,567
Vehicle	1,031,393	1,118,941
Credit card and other consumer	123,187	119,456
Loans receivable, gross	3,299,673	3,108,585
Deferred net loan origination costs	16,158	21,551
Allowance for credit losses	(29,531)	(17,987)
	$ 3,286,300	$ 3,112,149

The following presents, by portfolio segment, the changes in the ACL and the allowance for credit losses, for the years ended December 31, 2023 and 2022, respectively (in thousands):

December 31, 2023	Residential Real Estate	Commercial	Vehicle	Credit Card and Other Consumer	Total
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	$ 5,964	$ 1,618	$ 6,876	$ 3,529	$ 17,987
Impact of adopting ASC326	8,442	4,138	(2,050)	(139)	10,391
Provision for credit losses	1,161	2,679	1,742	4,398	9,980
Charge-offs	-	(130)	(4,885)	(5,801)	(10,816)
Recoveries	32	6	1,491	460	1,989
Ending Balance	$ 15,599	$ 8,311	$ 3,174	$ 2,447	$ 29,531

December 31, 2022	Residential Real Estate	Commercial	Vehicle	Credit Card and Other Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 5,216	$ 1,515	$ 4,467	$ 2,895	$ 14,093
Provision for loan losses	447	(1,551)	5,995	4,378	9,269
Charge-offs	-	(10)	(4,593)	(4,294)	(8,897)
Recoveries	301	1,664	1,007	550	3,522
Ending Balance	$ 5,964	$ 1,618	$ 6,876	$ 3,529	$ 17,987

(Continued)

NOTE 3 - LOANS (Continued)

The allowance for loan losses at December 31,2022 was done under the probable incurred loss methodology and was considered by the Credit Union as adequate to cover probable incurred losses in the loan portfolio as of the balance sheet date. However, no assurance can be given that the Credit Union, in any particular period, will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio, and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

The following table presents the balance in the allowance for loan losses and gross loans by portfolio segment based on impairment method as of December 31, 2022 (in thousands):

December 31, 2022	Residential Real Estate	Commercial	Vehicle	Credit Card and Other Consumer	Total
Allowance for loan losses:					
Ending balance attributable to loans:					
Individually evaluated for impairment	$ 1,743	$ 15	$ 135	$ 73	$ 1,966
Collectively evaluated for impairment	4,221	1,603	6,741	3,456	16,021
Total ending allowance balance	$ 5,964	$ 1,618	$ 6,876	$ 3,529	$ 17,987
Loans:					
Loans individually evaluated for Impairment	$ 19,193	$ 4,211	$ 847	$ 356	$ 24,607
Loans collectively evaluated for Impairment	1,609,428	237,356	1,118,094	119,100	3,083,978
Total ending gross loans balance	$ 1,628,621	$ 241,567	$ 1,118,941	$ 119,456	$ 3,108,585

(Continued)

NOTE 3 - LOANS (Continued)

The following presents the recorded investment and unpaid principal balance for impaired loans with associated allowance amount, if applicable, as of December 31, 2022 (in thousands). The recorded investment in loans includes accrued interest receivable and loan origination fees, net.

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance:					
Residential real estate	$ 10,740	$ 10,579	$ 1,743	$ 9,953	$ 604
Commercial	1,629	1,605	15	1,671	131
Vehicle	631	625	135	743	38
Credit card and other consumer	313	310	73	279	14
	$ 13,313	$ 13,119	$ 1,966	$ 12,646	$ 787
Impaired loans without an allowance:					
Residential real estate	$ 8,453	$ 8,374	$ -	$ 9,258	$ 71
Commercial	2,582	2,563	-	3,742	-
Vehicle	216	214	-	229	-
Credit card and other consumer	43	43	-	52	-
	$ 11,294	$ 11,194	$ -	$ 13,281	$ 71
Totals:					
Residential real estate	$ 19,193	$ 18,953	$ 1,743	$ 19,211	$ 675
Commercial	4,211	4,168	15	5,413	131
Vehicle	847	839	135	972	38
Credit card and other consumer	356	353	73	331	14
	$ 24,607	$ 24,313	$ 1,966	$ 25,927	$ 858

Interest income recorded on a cash basis was not material during the year ended December 31, 2022.

The ACL was $29,531,000 as of December 31, 2023 as compared to the allowance for loan losses of $17,987,000 at December 31, 2022. The primary increase in the allowance for credit losses was the result of the implementation of CECL with a one time adjustment to the ACL and retained earnings of $10,391,000 as of January 1, 2023. The starting point for the Credit Union's estimate was cumulative loss rates covering the contractual terms of the loans within portfolio segments that share similar risk characteristics. The cumulative loss rates used as the basis for estimate of credit losses is comprised of the calculated loss rate adjusted for qualitative factors. The calculated loss rate is estimated based on various factors including: the historical relationship between the unemployment rate and loan defaults from 2004 to 2019, the forecasted unemployment rate, estimated loss given defaults, prepayment and curtailment speeds, and the recovery lag. The unemployment rate is forecasted for the next four quarters; afterwards it reverts to the long-term average using an eight-quarter straight-line reversion. Qualitative factor adjustments reflect management's belief that there exists expected losses inherent in the portfolio, due to economic and external risk factors, that are not captured in the calculated expected loss rates.

NOTE 3 - LOANS (Continued)

The following tables present the book value of collateral-dependent loans by class of loans as of December 31, 2023 (in thousands):

	Commercial Real Estate
Residential real estate	$ -
Commercial and small business	1,615
Vehicle	-
Credit card and other consumer	-
Total	$ 1,615

The Credit Union has two collateral dependent commercial loans with outstanding book values of $1,615,000 at December 31, 2023. These loans are collateralized by commercial real estate with valuations totaling $3,500,000. These loans are determined to be collateral dependent because repayment is expected to come from the sale or operation of the collateral securing the loans, rather than from cash flow from the borrowers. Based on the analysis, there is no required reserve on these loans.

Occasionally, the Credit Union modifies loans to borrowers in financial distress by providing term extensions, interest rate reductions and principal forgiveness. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses, unless ordered otherwise by a legal judgement.

In some cases, the Credit Union provides multiple types of concessions on one loan. For the loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness and/or an interest rate reduction.

The following table presents the book value of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the book value of the loans that were modified to borrowers in financial distress as compared to the book value of each class of financing receivable is also presented below.

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Principal Forgiveness and Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Residential real estate	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and small business	-	-	-	-	-	-	-
Vehicle	9	-	110	-	3	49	0.02%
Commercial	-	-	-	-	-	-	-
Credit card and other consumer	-	-	-	-	-	-	-
Total	$ 9	$ -	$ 110	$ -	$ 3	$ 49	0.02%

(Continued)

NOTE 3 - LOANS (Continued)

The Credit Union has not committed to lend additional amounts to the borrowers included in the previous table.

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 loans that have been modified in the last 12 months were all current as of December 31, 2023.

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Principal Forgiveness	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (In Months)
Residential real estate	$ -	-	$ -
Vehicle	11	(3.69%)	39
Commercial	-	-	-
Credit card and other consumer	-	-	-
Total	$ 11	$ (3.69%)	$ 39

There were no loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

Credit Quality Indicators:

The Credit Union categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Credit Union analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $50,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Credit Union's internal risk grading system definitions are as follows:

- Satisfactory—loans that are protected by the current net worth and paying capacity of the obligor(s) or by the value of the underlying collateral.
- Special Mention—loans with potential weaknesses that require close attention. If left uncorrected, the weaknesses may result in deterioration of the repayment prospects for the asset, or in the future loan credit position.
- Substandard—loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.
- Doubtful—a loan classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: sale or liquidation actions; other forms of income or assistance; perfecting liens on collateral; and refinancing plans.

(Continued)

NOTE 3 - LOANS (Continued)

- Loss—a loan classified as a loss is considered uncollectible and of such little value that its continuance as a loan is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this asset even though partial recovery may occur in the future.

Loans less than $50,000 are pass rated at origination and are included in groups of homogeneous loans. Loans less than $50,000 that become 30 days delinquent will automatically be rated Substandard and loans delinquent 60 days or more will be rated doubtful. Despite classification, they will remain in the pool of homogeneous loans and not individually evaluated.

The following presents, by credit quality indicator, the commercial portfolio as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Satisfactory	$ 315,563	$ 233,640
Special mention	6,413	5,483
Substandard	2,263	2,444
Doubtful	3	-
Loss	-	-
	$ 324,242	$ 241,567

Management reviews the performance of the loan portfolio on a regular basis. Non-commercial loans are evaluated on the basis of performing and nonperforming status. Nonperforming loans are defined as being greater than 60 days past due.

(Continued)

NOTE 3 - LOANS (Continued)

The following presents, by credit quality indicator, the residential real estate, vehicle, and credit card and other consumer loan portfolio as of December 31, 2023 and 2022 (in thousands):

December 31, 2023	Performing	Nonperforming	Total
Residential real estate	$ 1,811,693	$ 9,158	$ 1,820,851
Vehicle	1,026,534	4,859	1,031,393
Credit card and other consumer	122,054	1,133	123,187
	$ 2,960,281	$ 15,150	$ 2,975,431

December 31, 2022	Performing	Nonperforming	Total
Residential real estate	$ 1,627,307	$ 5,314	$ 1,628,621
Vehicle	1,114,518	4,423	1,118,941
Credit card and other consumer	118,408	1,048	119,456
	$ 2,856,233	$ 10,785	$ 2,867,018

NOTE 3 - LOANS (Continued)

The following represents an aging analysis of past due loans as of December 31, 2023 and 2022 (in thousands):

December 31, 2023	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current	Total Loan Receivable, Gross	Loans in Which Interest Has Been Discontinued
Residential real estate	$ 8,296	$ 828	$ 8,330	$ 17,454	$ 1,803,397	$ 1,820,251	$ 8,330
Commercial	1,923	3	-	1,926	322,316	324,242	111
Vehicle	12,934	2,733	2,126	17,793	1,013,600	1,031,393	2,126
Credit card and other consumer	1,235	663	470	2,368	120,819	123,187	470
	$ 24,388	$ 4,227	$ 10,926	$ 39,541	$ 3,260,132	$ 3,299,673	$ 11,037

December 31, 2022	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current	Total Loan Receivable, Gross	Loans in Which Interest Has Been Discontinued
Residential real estate	$ 9,418	$ 422	$ 4,891	$ 14,731	$ 1,613,890	$ 1,628,621	$ 4,891
Commercial	70	1	5	76	241,491	241,567	173
Vehicle	10,625	1,727	2,696	15,048	1,103,893	1,118,941	2,696
Credit card and other consumer	1,042	408	641	2,091	117,365	119,456	641
	$ 21,155	$ 2,558	$ 8,233	$ 31,946	$ 3,076,639	$ 3,108,585	$ 8,401

There were no loans at December 31, 2023 or 2022 that were on accrual status and 90 days or more past due.

NOTE 4 - LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans at December 31, are summarized as follows (in thousands):

	2023	2022
Mortgage loan portfolios serviced for others	$ 744,100	$ 720,883

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in member shares, were $4,219,000 and $3,733,000 at December 31, 2023 and 2022, respectively.

Mortgage servicing rights are recorded within other assets on the statements of financial condition. A summary of the changes in the balance of mortgage servicing rights for the years ended December 31 was as follows (in thousands):

	2023	2022
Balance, beginning of the year	$ 5,722	$ 5,134
Servicing assets recognized during the year	649	447
Amortization of servicing rights	(764)	(989)
Change in valuation allowance	108	1,130
Balance, end of year	$ 5,715	$ 5,722

(Continued)

NOTE 4 - LOAN SERVICING (Continued)

	2023	2022
Fair value of mortgage servicing rights	$ 8,102	$ 8,222

The aggregate changes in the valuation allowances for mortgage servicing rights for the years ended December 31, were as follows (in thousands):

	2023	2022
Balance, beginning of the year	$ 394	$ 1,524
Additions	172	17
Reductions	(280)	(1,147)
Balance, end of year	$ 286	$ 394

The key economic assumptions used in determining the fair value of mortgage servicing rights at December 31, were as follows:

	2023	2022
Prepayment speed	15.09%	21.22%
Weighted-average life (years)	7.83	4.74
Yield to maturity discount rate	11.38%	10.98%

NOTE 5 - PROPERTY AND EQUIPMENT, NET

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

	2023	2022
Land	$ 10,023	$ 10,023
Building	48,674	48,513
Leasehold improvements	4,137	4,140
Furniture and equipment	48,017	47,511
	110,851	110,187
Accumulated depreciation and amortization	(57,144)	(54,373)
	$ 53,707	$ 55,814

Depreciation and amortization expense was $4,809,000 and $4,145,000 for 2023 and 2022, respectively.

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS

The Credit Union completed a merger transaction with American River HealthPro Credit Union that became effective on July 1, 2009. This merger was accounted for as a purchase business combination. As the purpose of this merger was to achieve growth and economies of scale among these mutual enterprises, no payment considerations were involved, contingent or otherwise. The goodwill of $13,282,000 associated with this merger, arising from expected synergies from the combined operations, for the years ended December 31, 2023 and 2022, is subject to an annual impairment test. Management assesses goodwill for impairment at November 30, 2023, and has determined that there was no goodwill impairment for 2023 or 2022.

In 2015, the Credit Union purchased a book of client investment accounts, which resulted in an intangible asset of $196,000 as of December 31, 2015. This intangible asset is amortized over a period of 10 years beginning January 2016. During the fourth quarter of 2017, it was determined that the client investment accounts were not performing as originally expected. Analysis indicated that future earnings were less than the carrying amount resulting in an other-than-temporary impairment write down of $58,000, which was recorded in other noninterest expense. The remaining amortization period on this intangible was not impacted. The intangible asset balance related to the purchase of client investment accounts was $25,000 and $37,000 for the years ended December 31, 2023 and 2022, respectively.

In 2016, the Credit Union purchased $34,322,000 in member share accounts from another credit union. The purchase consisted of regular shares, money market accounts, certificates, and individual retirement accounts. The purchase resulted in an initial intangible asset of $817,000. This intangible asset is amortized over a period of 7 years beginning November 2016, and ended in October 2023. The intangible balance related to the purchase of the deposits was $0 and $97,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 - MEMBERS' AND PUBLIC UNIT SHARES

Members' shares at December 31 are summarized as follows (in thousands):

	2023	2022
Regular share accounts	$ 710,255	$ 876,883
Share draft accounts	876,583	947,744
Money market accounts	1,371,847	1,410,766
Certificate accounts	861,291	543,090
Individual retirement accounts	33,972	43,524
Individual retirement certificate accounts	79,367	62,945
	$ 3,933,315	$ 3,884,952

(Continued)

NOTE 7 - MEMBERS' AND PUBLIC UNIT SHARES (Continued)

Certificates by maturity as of December 31, 2023 are summarized as follows (in thousands):

Zero to one year maturity	$	822,391
One to two years maturity		84,500
Two to three years maturity		15,457
Three to four years maturity		7,980
Four to five years maturity		9,004
Over five years maturity		1,326
	$	940,658

Regular share accounts, share draft accounts, money market accounts, and individual retirement accounts have no contractual maturity. Certificate accounts have maturities of six years or less.

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

The aggregate amount of certificate accounts in denominations of $250,000 or more at December 31, 2023 and 2022 was $226,296,000 and $117,905,000, respectively.

At December 31, 2023 and 2022, overdraft demand shares reclassified to loans totaled $1,487,000 and $1,167,000, respectively.

The Credit Union maintains public unit money market and certificate share accounts. These funds are interest bearing and subject to immediate withdrawal for money market accounts or at maturity for certificates. The balance in public unit share accounts was $31,081,000 and $80,076,000 at December 31, 2023 and 2022, respectively.

The Credit Union has pledged collateral for public unit shares in the form of letter of credit agreements totaling $34,050,000 and $108,025,000 at December 31, 2023 and 2022, respectively. The letters of credit are collateralized by first mortgage loans under a blanket lien arrangement with the FHLB. The letters of credit are as follows (in thousands):

	2023		2022	
Maturing April 2024, with an annual maintenance charge of 10 basis points	$	33,025	$	-
Maturing November 2024, with an annual maintenance charge of 10 basis points	$	1,025	$	-
Maturing March 2023, with an annual maintenance charge of 10 basis points	$	-	$	33,025
Maturing November 2023, with an annual maintenance charge of 10 basis points	$	-	$	75,000

(Continued)

NOTE 8 - BORROWINGS ARRANGEMENTS

Advances at the Federal Home Loan Bank can be collateralized by either first mortgage loans under a blanket lien arrangement or by certain investments held in safekeeping by the FHLB. At December 31, 2023 and 2022, the Credit Union had $0 and $200,000,000, respectively, in advances collateralized by first mortgage loans summarized as follows (in thousands):

		2023		2022
Overnight advances, variable rate of 4.65%	$	-	$	100,000
Fixed rate advance, maturing January 2023, rate at 3.87%, contains a prepayment penalty	$	-	$	50,000
Fixed rate advance, maturing February 2023, rate at 4.57%, contains a prepayment penalty	$	-	$	50,000

There were no advances from the Federal Home Loan Bank at December 31, 2023.

Based on the collateral currently pledged and the Credit Union's holdings of FHLB stock, the Credit Union is eligible to borrow up to a total of $1,239,961,000 at year-end 2023.

The Federal Reserve Board authorized the Federal Reserve Bank of San Francisco (FRBSF) to establish the Bank Term Funding Program (BTFP) in 2023 to make available additional funding against high-quality securities. Advances made under the BTFP may have a term up to one year. The eligible collateral under the BTFP is limited to collateral eligible for purchase by the Federal Reserve in open market per 12 CFR 201.108(b) and valued at its par value. Advances are prepayable with all principal and interest due at time of payoff, or at maturity. The rate for term advances under the BTFP was the one-year overnight index swap rate plus 10 basis points at December 31, 2023. At December 31, 2023 the Credit Union had a term advance collateralized by government backed investment securities held in safekeeping at FRBSF as follows (in thousands):

Fixed rate term advance, maturing December 2024, rate at 4.84%, prepayable with no penalty	$	300,000

In January 2024, the $300,000,000 advance was refinanced for a rate of 4.76%, maturing January 2025.

Based on eligible collateral held at the FRBSF, the Credit Union is eligible to borrow an additional $41,646,000 at year-end 2023.

The Credit Union is also authorized to use the Discount Window with the FRBSF to borrow money on the terms and security required per the FRBSF's Operating Circular No. 10, effective July 16, 2013, as amended and supplemented from time to time thereafter ("OC-10"). The agreement is reviewed for continuation by the FRBSF and the Credit Union annually.

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES

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

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

The Credit Union has approved 1st mortgage residential real estate and equity loans in processing that were not yet funded at December 31, 2023 and 2022 of $7,851,000 and $11,004,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows (in thousands):

	2023	2022
Residential real estate	$ 98,029	$ 93,812
Commercial	2,554	3,892
Credit card and other consumer	446,900	440,004
	$ 547,483	$ 537,708

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

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

On August 13, 2019, the Credit Union entered into a non-cancellable Agreement with the City of Sacramento for Naming Rights to the City of Sacramento's Convention Center and Performing Arts District. The agreement calls for the Credit Union to make annual payments over a twenty-five year period beginning in 2019 with total payments of $22,988,000 to be paid by the Credit Union over the life of the contract. As of December 31, 2023, there was $19,000,000 remaining to be paid under the Naming Rights Agreement as follows (in thousands):

Years Ending December 31,	
2024	$ 850
2025	850
2026	850
2027	850
2028	850
Subsequent Years	14,750
	$ 19,000

As part of the Naming Rights agreement, the City of Sacramento maintains $30,000,000 in interest bearing deposits with the Credit Union. Total deposits were $30,075,000 on December 31, 2023, due to interest earned through year-end. These deposits are treated as public unit shares.

NOTE 11 - EMPLOYEE BENEFITS

The Credit Union has a defined-contribution 401(k) benefit and profit-sharing plan and a 457(b) plan, where substantially all or certain employees can defer a portion of their salary into the plans. The Credit Union is not required to make matching and profit-sharing contributions to the 401(k) plan. All benefit plan and profit-sharing plan costs are accrued and funded on a current basis. The Credit Union voluntarily contributed $2,396,000 and $4,402,000 to the 401(k) plan for the years ended December 31, 2023 and 2022, respectively. In 2023, the Credit Union began making contributions to the 457(b) plans on behalf of certain executives. The expense recognized under these plans was $130,000 in 2023.

The Credit Union maintains supplemental executive retirement plans to provide certain retirement benefits for key executives. The contributions into the plans are accrued as compensation expense and funded on a current basis. The expense recognized under these plans was $269,000 and $400,000 for the years ended December 31, 2023 and 2022, respectively. The Credit Union had $52,000 and $352,000 accrued under these plans at December 31, 2023 and 2022, respectively.

The Credit Union recognized $2,795,000 and $4,802,000 in compensation and benefit expense for all plans for the years ended December 31, 2023 and 2022, respectively.

NOTE 12 - MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA and the California Department of Financial Protection and Innovation (DFPI). 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 GAAP. The Credit Union's capital amounts and 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 ratios of net worth to total assets (as defined by the regulation). Prior to 2022, credit unions were also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which established whether or not the Credit Union was considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the framework was 6.0 percent.

Effective January 1, 2022, all federally insured, natural person 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 a risk-based capital 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 risk-based capital measure either by using the risk-based capital ratio, or for a qualifying complex credit union, opting into the CCULR framework. To be considered well-capitalized by the NCUA, credit unions will have to have a minimum RBC ratio of 10%, as well as a net worth to assets ratio of 7% (or opt into the CCULR framework and have a new worth of 9% or greater).

As of December 31, 2023, the Credit Union followed the RBC rule. The Credit Union's RBC ratio and net worth ratio was 14.60 percent and 8.81 percent, respectively, as of December 31, 2023. The Credit Union's net worth ratio and RBNW requirement as of December 31, 2022 was 14.42 percent and 8.74 percent respectively. The Credit Union is classified as a "well capitalized" institution at December 31, 2023 and 2022. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Other appropriated retained earnings represent a restriction of retained earnings as established by the Board of Directors.

NOTE 13 - RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to the Board of Directors and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022 were $2,386,000 and $2,380,000, respectively. Member shares from related parties at December 31, 2023 and 2022 amounted to $2,815,000 and $4,097,000, respectively.

(Continued)

NOTE 14 – MORTGAGE DERIVATIVES

The Credit Union is an active participant in the production of mortgage loans that are sold to government sponsored entities (GSE), such as Fannie Mae. These loans are classified as Loans Held for Sale in the Credit Union's Statements of Financial Condition. The value of the Credit Union's IRLCs is exposed to the risk of adverse changes in interest rates between the time of commitment and the time the Credit Union funds the loan at origination. The Credit Union is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered to the GSE. Beginning in 2017, to offset this exposure, the Credit Union entered forward sales commitments to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). These forward sales commitments act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans. The Credit Union does not account for these mortgage derivatives as qualifying accounting hedges and therefore accounts for them as economic hedges. The Credit Union records IRLCs and forward sales commitments as derivative instruments at fair value in its Statements of Financial Condition and records changes in the fair value of those mortgage derivative instruments in current earnings.

On December 31, 2023 and 2022, the Credit Union had interest rate lock commitments of $17,161,000 and $2,322,000, respectively, and forward sales commitments for the future delivery of residential mortgage loans totaling $17,800,000 and $16,300,000, respectively. The fair value of these mortgage derivatives was reflected by a net derivative asset of $164,000 and $202,000 on December 31, 2023 and 2022, respectively. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage derivatives are included in net gains on sales of loans.

The net gains and losses relating to free-standing derivative instruments used for risk management are summarized below as of December 31 (in thousands):

	Location	2023	2022
Forward commitments related to mortgage loans held for sale	Net (loss) gain on sale	$ (177)	$ 2,476
Interest rate lock commitments	Net gain (loss) on sale	$ 351	$ (410)

The following tables reflects the amount and fair value of mortgage derivatives included in the Statement of Financial Condition as of December 31 (in thousands):

	2023	2022
Included in other assets:		
Forward commitments related to mortgage loans held for sale	$ -	$ 188
Interest rate lock commitments	365	14
Total included in other assets	$ 365	$ 202

	2023	2022
Included in other liabilities:		
Forward commitments related to mortgage loans held for sale	$ 201	$ 1
Interest rate lock commitments	-	-
Total included in other liabilities	$ 201	$ 1

(Continued)

NOTE 15 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other 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.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investments available-for-sale: The fair value of investment securities is the 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 upon externally developed models that use unobservable inputs due to the limited market activity of the instrument (level 2 inputs).

Loans held for sale: The fair value of loans held for sale is determined based on an evaluation of best execution forward sales contract prices sourced from the TBA market, by agency (level 2 inputs).

Mortgage derivatives: The derivative instruments consist of IRLC and forward sale commitments that trade in liquid markets. IRLCs are valued according to prices obtained from the GSE and based on mandatory delivery for a delivery period that corresponds with the number of days remaining in the IRLC. Loan level pricing adjustments, if applicable based on the characteristics of the loan, are added to the price (level 2 inputs). Prices for forward commitments are obtained from the purchasing agency based on loans allocated to the commitments. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgement (level 2 inputs).

Fair value on a recurring basis: The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	2023			
Assets	Fair Value	Level 1	Level 2	Level 3
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 6,543	$ -	$ 6,543	$ -
U.S. Government sponsored agency mortgage-backed securities, residential	783,414	-	783,414	-
Loans held for sale, at fair value	8,203	-	8,203	-
Mortgage derivatives (net)	164	-	164	-
	$ 798,324	$ -	$ 798,324	$ -

(Continued)

NOTE 15 - FAIR VALUE (Continued)

	2022			
Assets	Fair Value	Level 1	Level 2	Level 3
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 7,378	$ -	$ 7,378	$ -
U.S. Government sponsored agency mortgage-backed securities, residential	904,583	-	904,583	-
Loans held for sale, at fair value	15,578	-	15,578	-
Mortgage derivatives (net)	200	-	200	-
	$ 927,739	$ -	$ 927,739	$ -

Financial Instruments Recorded Using Fair Value Option

The Credit Union has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Credit Union believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on contractual terms of the loan and in accordance with the Credit Union's policy on mortgage loans held for investment. None of these loans are 90 days or more past due or non-accrual as of December 31, 2023 and 2022 (in thousands).

	2023	2022
Aggregate fair value	$ 8,203	$ 15,578
Contractual balance	7,988	15,732
Gain (loss)	215	(154)

Fair value on a nonrecurring basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis. The instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were no instruments carried on the Statement of Financial Condition as of December 31, 2023 and 2022 where a nonrecurring change in fair value was recorded.

Individually evaluated loans: The Credit Union records collateral dependent loans at fair value on a non-recurring basis. The fair value of individually evaluated loans is estimated by either an observable market price (if available) or the fair value of the underlying collateral, less selling costs. The fair value of collateral is determined periodically by third party asset valuation models for residential loans and appraisals (by licensed appraisers) for commercial loans. Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Appraisals conducted on collateral securing commercial loans utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, size and quality. Unobservable market data also includes liquidation discounts estimated by appraisers or management.

(Continued)

NOTE 15 - FAIR VALUE (Continued)

Appraisals for collateral-dependent loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Credit Union. For commercial properties, the Credit Union reviews the assumptions and approaches utilized in the appraisal to determine the reasonableness of the overall resulting fair value. For residential properties, the appraised value is compared to other sources including Broker Price Opinions and Automated Valuation Models to validate the reasonableness of the appraised amount. On an annual basis, the Credit Union obtains an updated appraisal for collateral-dependent loans and compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

There were no financial instruments measured at fair value on a non-recurring basis as of December 31, 2023 and 2022.

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition: The majority of the Credit Union's revenues come from interest income from loans and securities and other sources, including derivatives, loan fees and leases, all of which are outside of the scope of ASC 606. The Credit Union sources of revenue that do fall within the scope of ASC 606 Revenue from Contracts with Customers, are presented in Noninterest Income and are recognized as revenue as the Credit Union satisfies its obligation to its member. Services within the scope of ASC 606 include such items as service charges and related fees on deposit accounts, debit and credit card interchange income, wealth management fees, and if applicable, the sale of other real estate owned. The following table provides a summary of qualifying noninterest income (in thousands):

	2023	2022
Overdraft protection fees	$ 12,089	$ 11,124
Checking account fees	3,778	3,583
Money Market and Savings account fees	348	391
Commercial account fees	336	334
Member and consumer fees	946	1,116
ATM fees	2,133	1,975
Shared branching fees	917	752
Other fee income	56	56
Debit card fees	23,087	24,056
Credit Card Interchange fees	5,124	5,318
Investment fees	4,769	4,475
Gain on sale of assets	-	103
	$ 53,583	$ 53,283

(Continued)

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

A brief description of the Credit Union's revenue streams accounted for under ASC 606 is as follows:

Service Charges and Related Fees on Deposit Accounts: The Credit Union earns fees for account maintenance, transaction-based services, and overdraft services. Account maintenance fees, which relate primarily to monthly account maintenance, are generally earned over the course of the statement cycle, representing the period over which the Credit Union satisfies the performance obligation. Transaction-based fees include services such as stop payment charges, official check fees, statement rendering, shared branching services and ATM usage fees. Transaction-based fees are generally recognized at the time the transaction is executed as that is the point in time when the Credit Union fulfills the member request. Overdraft service charges include non-sufficient funds (NSF) and overdraft protection fees and are recognized at the time an NSF item is returned or overdraft is paid. Depending on the type of service charge or fee, revenue is included on the Statement of Net Income and Comprehensive Income in the following categories: Account Service Fees, ATM and Debit Card Fees and Other Noninterest Income.

Debit and Credit Card Interchange Income: The Credit Union earns interchange revenue from debit and credit cardholder transactions conducted through various merchant networks. 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. Components of interchange revenue are included in ATM and Debit Card Fees and Loan Fees in the Statement of Net Income and Comprehensive Income.

Wealth Management Fees: The Credit Union earns wealth management fees from investment brokerage services provided to its members by third party providers. The Credit Union earns fees for the management of member assets (account management fees) and/or transactions on their accounts (transaction-based fees). Account management fees are predominately recognized monthly on a tiered scale based on total assets under management (AUM). A much smaller percentage of account management fees are recognized quarterly and consist of trail commissions on AUM from various third-party investment providers. Transaction-based revenue is recognized at time of trade. Wealth management fees are included with other revenue generated from investment brokerage services in Securities and Insurance Fees in the Statement of Net Income and Comprehensive Income.

NOTE 17 – LEASES

The Credit Union enters into leases in the normal course of business primarily for branches and ATM locations. The Credit Union has 21 operating leases that have remaining terms ranging from 1 to 10 years, some of which may include renewal options to extend the lease in up to 10 year increments and provisions requiring the Credit Union to pay property taxes and operating expenses over base time periods. All rental payments are dependent only upon the lapse of time.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows as of December 31 (in thousands).

	Balance Sheet Classification	2023	2022
Right-of-use assets:			
Operating leases	Other Assets	$ 5,434	$ 4,064
Lease Liabilities:			
Operating leases	Other Liabilities	$ 6,054	$ 4,741

(Continued)

NOTE 17 – LEASES (Continued)

Lease Expense

The components of total lease cost were as follows for the period ending December 31 (in thousands):

	2023	2022
Operating lease cost	$ 1,070	$ 1,268
Short-term lease cost	39	16
Variable lease cost	398	413
Total lease cost, net	$ 1,507	$ 1,697

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023, are as follows (in thousands):

	Operating Leases
2024	$ 1,190
2025	928
2026	894
2027	903
2028	776
Thereafter	2,200
Total undiscounted lease payments	6,891
Less: imputed interest	(837)
Net lease liabilities	$ 6,054

Supplemental Lease Information

	December 31, 2023	December 31, 2022
Operating lease weighted average remaining lease term (years)	7.2	7.3
Operating lease weighted average discount rate	3.0%	2.0%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,126	$ 1,176
Lease liabilities arising from obtaining right-of-use assets	$ 2,315	$ 5,888