



Report of Independent Auditors
and Financial Statements

Bank-Fund Staff Federal Credit Union

December 31, 2022 and 2021

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Report of Independent Auditors

The Supervisory Committee and Board of Directors
Bank-Fund Staff Federal Credit Union

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank-Fund Staff Federal Credit Union, which comprise the balance sheet as of December 31, 2022 and 2021, and the related statements of income, comprehensive loss, changes in 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 Bank-Fund Staff Federal Credit Union as of December 31, 2022 and 2021, 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 Bank-Fund Staff Federal Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 6 to the financial statements, in 2022, Bank-Fund Staff Federal Credit Union adopted new accounting guidance Accounting Standards Codification Topic 842, *Leases*. Our conclusion 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 Bank-Fund Staff Federal Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank-Fund Staff Federal 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 Bank-Fund Staff Federal 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.



Portland, Oregon
March 10, 2023

Financial Statements

Bank-Fund Staff Federal Credit Union
Statements of Financial Condition
(in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 333,062	\$ 262,332
Investments		
Available-for-sale securities	2,477,189	2,927,260
Other investments	22,840	19,602
Loans, net	3,470,669	3,258,113
Accrued interest receivable	15,809	13,577
Property and equipment, net	5,705	6,124
Lease right-of-use assets	53,250	-
NCUSIF deposit	43,055	41,078
Other assets	40,253	16,417
	\$ 6,461,832	\$ 6,544,503
Total assets		
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share accounts	\$ 5,820,398	\$ 5,778,618
Accrued interest payable	3,254	7,069
Lease liabilities	54,062	-
Accrued expenses and other liabilities	44,609	37,996
	5,922,323	5,823,683
Total liabilities		
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBERS' EQUITY		
Other reserves	-	27,151
Undivided earnings	778,085	702,857
Accumulated other comprehensive loss	(238,576)	(9,188)
	539,509	720,820
Total members' equity		
Total liabilities and members' equity	\$ 6,461,832	\$ 6,544,503

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Income
(in thousands)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
INTEREST INCOME		
Loans	\$ 106,077	\$ 103,400
Investments and interest-bearing deposits	40,321	28,475
Total interest income	146,398	131,875
INTEREST EXPENSE		
Members' share accounts	24,496	23,439
Interest on borrowed funds	102	-
Right of use asset - finance lease	4	-
Total interest expense	24,602	23,439
Net interest income	121,796	108,436
RECAPTURE OF PROVISION FOR LOAN LOSSES	<u>(855)</u>	<u>(4,250)</u>
Net interest income after recapture of provision for loan losses	122,651	112,686
NON-INTEREST INCOME		
Interchange income	12,826	11,350
Fee income	1,769	2,128
Commission income	2,331	2,001
Mortgage banking income	194	553
Net gain on sale of investments	24	477
Sublet rental income	185	247
Other non-interest income	645	9
Total non-interest income	17,974	16,765
NON-INTEREST EXPENSE		
General and administrative		
Compensation and benefits	48,926	44,526
Office operating expenses	32,830	27,464
Occupancy	7,394	7,443
Professional and outside processing fees	2,850	2,985
NCUA operating fees and other non-interest expenses	548	625
Total non-interest expense	92,548	83,043
NET INCOME	<u>\$ 48,077</u>	<u>\$ 46,408</u>

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Comprehensive Loss
(in thousands)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NET INCOME	\$ 48,077	\$ 46,408
OTHER COMPREHENSIVE LOSS		
Available-for-sale securities		
Net unrealized holding losses arising during the period	(229,364)	(48,346)
Reclassification for gains included in net income	<u>(24)</u>	<u>(477)</u>
TOTAL OTHER COMPREHENSIVE LOSS	<u>(229,388)</u>	<u>(48,823)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (181,311)</u>	<u>\$ (2,415)</u>

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Changes in Members' Equity
(in thousands)
Years Ended December 31, 2022 and 2021

	Other Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2020	\$ 27,151	\$ 656,449	\$ 39,635	\$ 723,235
Net income	-	46,408	-	46,408
Other comprehensive loss	-	-	(48,823)	(48,823)
Balance at December 31, 2021	27,151	702,857	(9,188)	720,820
Reserve transfers	(27,151)	27,151	-	-
Net income	-	48,077	-	48,077
Other comprehensive loss	-	-	(229,388)	(229,388)
Balance at December 31, 2022	<u>\$ -</u>	<u>\$ 778,085</u>	<u>\$ (238,576)</u>	<u>\$ 539,509</u>

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Cash Flows
(in thousands)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 48,077	\$ 46,408
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,136	2,479
Amortization of security premiums/discounts, net	13,794	17,490
Net gain on sale of investments	(24)	(477)
Amortization of loan participation premiums/discounts, net	32	210
Originations of loans held for sale	(600)	(6,516)
Proceeds from loans held for sale	624	6,790
Gain on sale of mortgage loans	(24)	(274)
Accretion of net loan origination fees	1,107	1,757
Recapture of provision for loan losses	(855)	(4,250)
Amortization and fair value adjustment of mortgage servicing rights	85	65
Capitalization of mortgage servicing rights	(7)	(64)
Non-cash lease costs	6,953	-
Changes in		
Accrued interest receivable	(2,232)	(114)
Other assets	(23,914)	(1,548)
Accrued interest payable	(3,815)	(1,738)
Net operating lease liabilities	(6,102)	-
Accrued expenses and other liabilities	6,613	4,268
	<u>41,848</u>	<u>64,486</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(320,913)	(1,334,497)
Proceeds from maturities and paydowns of available-for-sale securities	477,801	680,772
Proceeds from sales of available-for-sale securities	50,025	59,380
Net change in other investments	(3,238)	479
Purchase of loan participations	(18,741)	-
Principal collected from loan participations	7,066	34,021
Loan originations net of principal collected on loans to members	(201,165)	(75,933)
Increase in NCUSIF deposit	(1,977)	(4,019)
Purchases of property and equipment	(1,717)	(1,215)
	<u>(12,859)</u>	<u>(641,012)</u>
Net cash used in investing activities		

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Cash Flows
(in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	\$ 41,780	\$ 583,750
Repayment of finance lease liabilities	(39)	-
Net cash used in investing activities	41,741	583,750
NET INCREASE IN CASH AND CASH EQUIVALENTS	70,730	7,224
CASH AND CASH EQUIVALENTS, beginning of year	262,332	255,108
CASH AND CASH EQUIVALENTS, end of year	\$ 333,062	\$ 262,332
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Members' share and savings accounts interest paid	\$ 28,311	\$ 25,177
Right-of-use assets obtained in exchange for finance lease liabilities	\$ 105	\$ -
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 57,396	\$ -

See accompanying notes.

Bank Fund Staff Federal Credit Union

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Bank-Fund Staff Federal Credit Union (the Credit Union) is a federal-chartered cooperative association headquartered in Washington, D.C., organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members.

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of the staff, retirees, and families of the World Bank Group (WBG), the International Monetary Fund (IMF), and their related organizations. In addition to a regularly qualified member, household members, the spouse of a member, the blood or adoptive relatives of either of them, or their spouses may be members.

Accounting principles generally accepted in the United States of America

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes Accounting Principles Generally Accepted in the United States of America (US GAAP) that ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to US GAAP issued by the FASB in these footnotes are to The FASB Accounting Standards Codification™ commonly referred to as the Codification or ASC.

Amendments to existing US GAAP are promulgated through Accounting Standards Updates, referred to as ASUs.

Adoption of new accounting standards

During the year ended December 31, 2022, the Credit Union adopted ASU 2016-02, *Leases*. The guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities are required to recognize the lease assets and lease liabilities that arise from leases in the statement of financial condition and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The Credit Union adopted the standard under a modified retrospective approach as of the date of adoption.

Adoption of the leasing standard resulted in the recognition of both operating and finance right-to-use assets and lease liabilities, totaling approximately \$57 million upon implementation on January 1, 2022. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Credit Union's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Credit Union's financial statements.

Use of estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of securities, and valuation of mortgage servicing rights.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Comprehensive income

Accounting principles generally require revenue, expenses, gains and losses to be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as separate components of the members' equity section of the Statements of Financial Condition under the caption "Accumulated other comprehensive income (loss)".

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, amounts due from financial institutions, federal funds sold and monies held on deposit at the Federal Reserve. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of the Statement of Financial Condition date. Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale. Investments bought and held principally for the purpose of selling them in the near term are classified as trading. Investment securities are comprised of U.S. government obligations, funds collateralized by U.S. government obligations, and federal agency securities. These securities are carried at fair value.

Unrealized gains and losses on securities classified as available-for-sale are excluded from earnings and reported in accumulated other comprehensive income (loss) in the Statements of Financial Condition. Realized and unrealized gains and losses on trading securities are included in the Statements of Income and are measured using the specific identification method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

The Credit Union evaluates whether an other-than-temporary impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral, and (e) the payment structure of the security. If other-than-temporary impairment is determined, the Credit Union estimates expected future cash flows to determine the credit loss amount with a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security.

Other investments included capital stock in the Federal Home Loan Bank of Atlanta (FHLB) and the NCUA Central Liquidity Facility. These investments are carried at cost and are evaluated annually for impairment. In addition, the Credit Union has investments in Credit Union Service Organizations (CUSO's) such as PCSU, CO-OP, and GLIA. These investments are carried, as a practical expedient, at cost, less impairment, plus or minus changes resulting from observable price changes.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Loans held-for-sale

Mortgage loans originated and intended for sale in the secondary market at the time of origination are carried at the lower of cost or estimated fair value. All sales are made without recourse subject to customary representations and warranties. Gains and losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Income and fees collected for servicing are credited to noninterest income, net of the related servicing asset amortization.

Loans, net

The Credit Union grants consumer and residential mortgage loans to its members. The ability of the members to honor their contracts is dependent upon the real estate values and general economic conditions of the area.

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, net of deferred origination fees and costs, less an allowance for loan losses. Interest income on loans is accrued on the unpaid principal balance calculated using the simple interest method and recognized over the term of the loan.

Mortgage loan fees and certain direct mortgage loan origination costs are deferred; the net fee or cost is recognized as an adjustment to interest income of the related loans using the effective interest method over the contractual life of the loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing.

All interest accrued but not collected from loans that are placed on non-accrual status is reversed against interest income. Interest received on non-accrual loans generally is either applied against principal (cost recovery method) or reported as interest income (cash basis method), according to management's judgment as to the collectability of principal, until qualifying for return to accrual.

Residential mortgage and consumer loans are restored to accrual status when the obligation is brought current, and the ultimate collectability of the total contractual principal and interest is no longer in doubt and reasonably assured.

Management recommends an account for charge-off after due consideration of the following factors to determine a subsequent course of action:

- Member communication indicates that the obligation will not be paid;
- Debtor has filed bankruptcy and has not or will not reaffirm the debt;
- Income producing capability has been lost due to death, disablement, loss of job, or incarceration;
- A deficiency balance on the debt resulting from the sale of the property and the debtor has no intent to pay;

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

- A settlement agreement between the debtor and the Credit Union for less than the outstanding loan balance;
- Remaining outstanding balance is too low to warrant further Credit Union costs in attempting collection;
- When best efforts have been made to collect and a loan has reached six-months of delinquency.

The allowance for loan losses represents the Credit Union's estimate of probable losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting policy because it requires significant judgment and the evaluation of several factors: ongoing loan reviews, consideration of the Credit Union's loan loss experience, trends in delinquent and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, the size and diversity of individual large credits, and other qualitative and quantitative factors that could affect probable credit losses.

Other considerations include the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience and additional qualitative adjustments for internal and external factors, such as changes in lending policy, nature and volume of the portfolio, experience and depth of lending management, volume and severity of past due loans, and competition and legal and regulatory requirements. Additionally, an allocation of reserves may be established for special situations that are unique to the measurement period with consideration of current economic trends and conditions. Because current economic conditions can change and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change significantly.

The adequacy of the allowance for loan losses is evaluated monthly and is established through provisions for loan losses that are charged against earnings. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available, including the amounts and timing of future cash flows expected to be received on impaired loans. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

Consumer and residential mortgage loans are evaluated for impairment based on facts and circumstances associated with the loan and member at the time delinquency has reached 120 days or more past due. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Management determines the significance of payment delays and payment shortfalls taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Other factors management considers in determining impairment included payment status, collateral value, and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The Credit Union's allowance for loan losses consists of a specific valuation allowance established for probable losses on specific loans and a general allowance based upon historical losses over a one-year period for similar loans with similar characteristics and trends, adjusted, as necessary to reflect the impact of current economic conditions and other qualitative risk factors both internal and external to the Credit Union.

The allowance established for specifically identified loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value or the estimated fair value of the underlying collateral.

The general allowance based on historical loan loss experience is established for loans that can be grouped into homogenous pools based on similar characteristics. General allowance factors are based on an analysis of historical charge-off experience and expected losses. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates or extension of maturity dates, or a combination of the two. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

Transfers of financial assets and participating interests

Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered.

A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset, (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership, (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest, or recourse to the transferor other than standard representation or warranties, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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Notes to Financial Statements

Loan servicing

The Credit Union has one class of servicing assets related to the sale of mortgage loans. Servicing rights are initially measured at fair value at the date of transfer. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are measured at amortized cost on an ongoing basis. The Credit Union has elected to account for mortgage loan servicing rights using the amortization method in which the rights are amortized into noninterest income in proportion to, and over the periods of, the estimated future net servicing income of the underlying financial assets.

On a quarterly basis, the servicing asset is 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 of the underlying loans such as interest rate, term, 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. 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. 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.

Off-statement of financial condition credit related financial instruments

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

Other real estate owned

The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. Repossessed collateral normally consists of residential real estate and vehicles.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the loan balance or fair value, less cost to sell. Fair value is derived from independent appraisals. Valuation adjustments recorded at the time of foreclosure are charged to the allowance for loan losses. Subsequent to foreclosure, property valuations are periodically performed with any further reductions to fair value charged to earnings. Revenue and expenses from operations and changes in the valuation allowance, if any, are included in non-interest expenses.

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Notes to Financial Statements

Property and equipment, net

Leasehold improvements and furniture and equipment are carried at cost, less accumulated depreciation. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is depreciated using the straight-line method over the terms of the related leases or the estimated useful lives, whichever is shorter. When assets are retired or sold, the asset cost and related accumulated depreciation are eliminated from the respective accounts, and any resultant gain or loss is included in net income.

Maintenance and repairs are charged to operating expense as incurred and the cost of major improvements is capitalized.

Leases

Leases are classified as operating or finance leases at the lease commencement date. Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Credit Union includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Credit Union will exercise the option. The Credit Union uses an incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy expenses on the Credit Union's statements of income. The amortization of the right-of-use asset arising from finance leases is also expensed through occupancy expense and the interest on the related liability is expensed through interest expense on borrowings on the Credit Union's statements of income.

Impairments of long-lived assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by an asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount or fair value less estimated costs to sell.

NCUSIF deposit and insurance assessments

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to 1% of its insured members' shares and deposits. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board. NCUA premium assessments are expensed as incurred.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Members' share accounts

Members' share accounts represent 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 in excess of \$5, no member has more than one vote. Members' shares and deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares and deposits are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

Members' equity

The Credit Union historically was required by regulation to maintain a statutory reserve referred to as "regular reserves". This reserve, which represented a regulatory restriction on accumulated earnings, was not available for the payment of dividends. Due to regulatory changes in 2022, this category of equity was renamed "other reserves", and previous amounts within regular reserves were transferred into undivided earnings. Going forward, if capital levels deteriorate to where the Credit Union is no longer classified as well-capitalized, the Credit Union may be subject to earnings transfers back into other reserves which are restricted for payment of dividends.

Revenue from contracts with customers

The Credit Union accounts for revenue arising through contracts with customers under the guidance of the Financial Accounting Standards Board's Accounting Standards Codification Topic 606 (ASC 606), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Credit Union performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Credit Union satisfies a performance obligation.

A significant amount of the Credit Union's revenues come from interest income from loans and securities that are outside the scope of ASC 606. The Credit Union's revenue streams that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Credit Union satisfies its obligation to the customer. Services within the scope of ASC 606 and our accounting policy are as follows:

Interchange income – Interchange income is earned when a debit or credit card issued by the Credit Union is used to purchase goods or services at a merchant. The income earned on each transaction is determined by a combination of the transaction amount, merchant type, and other factors. The performance obligation is satisfied and the resulting income is earned when the transaction completes and is charged to the cardholders' card. Accordingly, the income is recognized in the period in which the performance obligation is satisfied. Certain expenses directly associated with credit and debit cards including transaction processing and reward program costs are netted against interchange income.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Deposit account service fees – The Credit Union earns fees from its deposit customers for account maintenance and transaction-based activity. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees are charged for specific services provided including non-sufficient funds, overdraft transfers, and wire services. The performance obligation is satisfied as the transaction completes resulting in the immediate recognition of the income.

Net gain (loss) on other real estate owned – The Credit Union records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. If the Credit Union finances the sale, it will complete standard underwriting procedures to assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, the Credit Union adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Income taxes

The Credit Union is federally chartered under the Federal Credit Union Act; therefore, no income tax returns are required to be filed. The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended December 31, 2022 and 2021, the Credit Union recognized no interest or penalties. Additionally, the Credit Union had no unrecognized tax benefits as of December 31, 2022 and 2021.

Advertising costs

Advertising and promotion costs are expensed as incurred.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Fair value measurements

The Codification defines fair value, establishes a framework for measuring fair value adjustments to certain assets and liabilities 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Subsequent events

Subsequent events are events or transactions that occur after the date of the statement of financial position but before financial statements are issued. The Credit Union recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial condition, including the estimates inherent in the process of preparing the financial statements.

Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date. Management has reviewed subsequent events through March 10, 2023, the date the financial statements were issued, and no subsequent events occurred that require accrual or disclosure.

Reclassification

Certain accounts in the 2021 financial statements have been reclassified to conform to the presentation in the 2022 financial statements. Such reclassifications have no effect on member's equity or the changes in member's equity, with the exception of renaming regular reserves to other reserves.

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

Note 2 – Investments

Available-for-sale securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
December 31, 2022				
SBA pools	\$ 62,842	\$ -	\$ (1,735)	\$ 61,107
Mortgage-backed securities	1,032,348	13	(118,380)	913,981
Collateralized mortgage obligation securities	522,251	12	(38,098)	484,165
U.S. Treasury notes	1,098,324	-	(80,388)	1,017,936
Total	\$ 2,715,765	\$ 25	\$ (238,601)	\$ 2,477,189
December 31, 2021				
SBA pools	\$ 15,347	\$ 179	\$ -	\$ 15,526
Mortgage-backed securities	1,118,577	10,769	(7,009)	1,122,337
Collateralized mortgage obligation securities	583,227	2,437	(3,613)	582,051
U.S. Treasury notes	1,219,297	2,148	(14,099)	1,207,346
Total	\$ 2,936,448	\$ 15,533	\$ (24,721)	\$ 2,927,260

Investment securities classified as available-for-sale that were in an unrealized loss position at December 31, 2022 and December 31, 2021 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position (in thousands).

	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
SBA pools	\$ 55,833	\$ (1,160)	\$ 5,274	\$ (575)	\$ 61,107	\$ (1,735)
Mortgage-backed securities	285,730	(19,056)	623,618	(99,324)	909,348	(118,380)
Collateralized mortgage obligation securities	302,406	(9,112)	175,599	(28,986)	478,005	(38,098)
U.S. Treasury notes	123,946	(3,362)	893,989	(77,026)	1,017,935	(80,388)
Total	\$ 767,915	\$ (32,690)	\$ 1,698,480	\$ (205,911)	\$ 2,466,395	\$ (238,601)
December 31, 2021						
Mortgage-backed securities	\$ 757,055	\$ (7,009)	\$ -	\$ -	\$ 757,055	\$ (7,009)
Collateralized mortgage obligation securities	294,739	(2,644)	23,903	(969)	318,642	(3,613)
U.S. Treasury notes	804,156	(11,495)	114,986	(2,604)	919,142	(14,099)
Total	\$ 1,855,950	\$ (21,148)	\$ 138,889	\$ (3,573)	\$ 1,994,839	\$ (24,721)

Bank-Fund Staff Federal Credit Union
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The Credit Union has evaluated the securities in the above tables as of December 31, 2022 and 2021, and has concluded that none of these securities has impairment that is other-than-temporary. Based on this evaluation, the Credit Union concluded that the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The Credit Union's analysis for each investment is performed at the security level. As a result of its review, the Credit Union concluded that other-than-temporary impairment did not exist due to the Credit Union's ability and intention to hold these securities for a period sufficient to recover their amortized cost basis. As of December 31, 2022, the Credit Union's portfolio consisted of 400 securities, 390 of which were in an unrealized loss position.

The Credit Union pledged four Small Business Administration securities as collateral for potential borrowings with the Federal Reserve Bank's discount window. As of December 31, 2022 and 2021, the fair value of the collateral was \$9.1 million and \$13.5 million, respectively.

Investment securities classified as available-for-sale by contract maturity as of December 31, 2022, are summarized as follows (in thousands):

	Amortized Cost	Fair Value (Carrying Value)
	<u> </u>	<u> </u>
Maturing in one year or less	\$ 215,190	\$ 210,425
Maturing after one year through five years	883,134	807,511
SBA pools, mortgage-backed securities, and collateralized mortgage obligations	<u>1,617,441</u>	<u>1,459,253</u>
Total	<u><u>\$ 2,715,765</u></u>	<u><u>\$ 2,477,189</u></u>

Actual maturities may differ from contractual maturities due to sale, call or prepayment activity.

Other investments

Other investments include the following (in thousands):

	December 31,	
	<u>2022</u>	<u>2021</u>
Investments in capital stock		
Central Liquidity Facility (CLF)	\$ 15,724	\$ 13,784
FHLB – Atlanta	3,272	2,980
Investments in Credit Union Service Organizations		
PSCU	2,162	2,156
GLIA	1,000	-
CO-OP	<u>682</u>	<u>682</u>
Total	<u><u>\$ 22,840</u></u>	<u><u>\$ 19,602</u></u>

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Central Liquidity Facility Stock – The Credit Union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2022 and 2021, the Credit Union had not borrowed from the Facility.

FHLB Atlanta – The Credit Union has an investment in FHLB stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and, as such, is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment. In addition, the Credit Union maintains cash on hand at FHLB – Atlanta.

Investments in CUSOs – The Credit Union's ownership interests in Payment Systems for Credit Unions, Inc. (PSCU), Co-Op Financial Services, and GLIA Technologies, Inc. (GLIA), are stated at cost. The CUSOs operate as cooperatives, providing transaction services for shared branching, debit/credit cards, and ATMs on a service-at-cost basis for the mutual benefit of its patrons (credit union owners). The CUSOs distribute patronage dividends to its members in the form of cash and revolving fund certificates. These instruments are carried, as a practical expedient, at cost, less impairment, plus or minus changes resulting from observable price changes. There were no identified impairments or observable price changes for the year ended December 31, 2022.

Note 3 – Loans, net

Loans are extended to members on a fixed-rate and variable-rate basis. All variable-rate consumer loans are subject to being re-priced within one year. The majority of all variable-rate real estate loans are subject to being re-priced between three to seven years. The majority of all real estate loans are collateralized by residential property located in the Washington, D.C. metropolitan area.

A summary of net loans outstanding is as follows (in thousands):

	December 31,	
	2022	2021
Consumer loans		
Vehicle loans	\$ 65,443	\$ 47,995
Credit card loans	83,787	77,523
Loans secured by shares and deposits	1,170	1,516
Other consumer loans, primarily unsecured	51,150	45,222
Subtotal	201,550	172,256
Residential real estate		
First lien mortgages	3,118,240	2,965,821
Participations	32,317	20,932
Junior lien mortgages and home equity	140,506	123,329
Subtotal	3,291,063	3,110,082
Total loans	3,492,613	3,282,338
Net deferred loan origination fees	(5,697)	(6,386)
Allowance for loan losses	(16,247)	(17,839)
Loans, net	\$ 3,470,669	\$ 3,258,113

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Loan quality and the allowance for loan losses

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. Consideration is given to various factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrower's actual or perceived financial strength, the adequacy of the underlying collateral if collateral dependent, and other relevant factors such as known and inherent risks in the loan portfolio, effects from changes in underwriting standards, and changes in the membership base or issues with primary sponsor organizations. Management, at its discretion, may determine that an appraisal or asset valuation is necessary for a particular loan in order to assess a valuation allowance. In addition, subsequent adjustments to the valuation may be warranted based on information and knowledge Management has about a particular situation.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans, if any.

For purposes of calculating the allowance for loan losses, the Credit Union segregates its loan portfolio into the following segments: consumer loans and residential real estate.

Consumer loans – The Credit Union's consumer loan segment is comprised of vehicle loans, credit card loans, loans secured by shares and deposits, and other unsecured consumer loans. Given the smaller individual loan balances and their homogeneous nature, the allowance for this segment is generally determined through the analysis of historical charge-offs and delinquencies, adjusted for risk characteristics such as hiring practices of sponsor organizations, unemployment trends in the region, and overall economic conditions. There generally is an emphasis on the rolling 12-month loan loss rates, yet management also considers the three and five-year loss rates and delinquency trends.

Residential real estate – Residential mortgage loans consist of first lien positions, junior lien positions, and home equity products. In establishing the allowance for loan losses related to mortgage loans, management considers various risk characteristics and qualitative factors, which include historical loss rates over one year with a comparison to three-year loss rates and five-year loss rates, trends in real estate values, hiring practices of sponsor organizations, unemployment trends in the region, overall economic conditions, and current loss and delinquency trends.

The analysis for determining the allowance for loan losses is consistent with guidance set forth in US GAAP and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components, specific and general allocations.

The specific component addresses specific reserves established for impaired loans. A loan is considered to be impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow on collateral values discounted for market conditions and selling costs are used to establish specific allocations.

Bank-Fund Staff Federal Credit Union Notes to Financial Statements

The general component addresses the reserves established for pools of homogenous loans, including residential real estate or consumer loans. The general component includes a quantitative and qualitative analysis where the quantitative analysis includes historical loan loss experience and other factors driven by economic and market conditions that have an effect on the probability and magnitude of a loss. Qualitative measures include other risk factors such as loan volumes, nonperformance, concentrations, competition, legal and regulatory issues, and other current economic risk factors.

The following is an analysis of the allowance for loan losses (in thousands):

	Consumer				Residential Real Estate			Total
	Vehicles	Credit Card	Share Secured	Other Consumer	First Liens	Participations	Junior Homes and Home Equity	
Balance at December 31, 2020	\$ 704	\$ 9,228	\$ -	\$ 4,434	\$ 5,937	\$ 453	\$ 2,380	\$ 23,136
(Recapture of) Provision for loan losses	150	(357)	-	(1,395)	(1,837)	(424)	(387)	(4,250)
Loans charged-off	(50)	(1,051)	-	(567)	(5)	-	-	(1,673)
Recoveries	55	257	-	243	3	-	68	626
Balance at December 31, 2021	859	8,077	-	2,715	4,098	29	2,061	17,839
(Recapture of) Provision for loan losses	(158)	(1,906)	-	716	177	16	300	(855)
Loans charged-off	(61)	(620)	-	(599)	-	-	-	(1,280)
Recoveries	80	273	-	145	4	-	41	543
Balance at December 31, 2022	\$ 720	\$ 5,824	\$ -	\$ 2,977	\$ 4,279	\$ 45	\$ 2,402	\$ 16,247

The following tables present loans that were evaluated for the allowance under the specific reserve, or individually, and those that were evaluated under the general reserve, or collectively (in thousands):

	Consumer				Residential Real Estate			Total
	Vehicles	Credit Card	Share Secured	Other Consumer	First Liens	Participations	Junior Homes and Home Equity	
December 31, 2022								
Loans evaluated for allowance								
Individually	\$ 6	\$ 206	\$ -	\$ 51	\$ -	\$ -	\$ 80	\$ 343
Collectively	65,437	83,581	1,170	51,099	3,118,240	32,317	140,426	3,492,270
Total loans, gross	\$ 65,443	\$ 83,787	\$ 1,170	\$ 51,150	\$ 3,118,240	\$ 32,317	\$ 140,506	\$ 3,492,613
Allowance established for loans evaluated								
Individually	\$ 1	\$ 103	\$ -	\$ 26	\$ -	\$ -	\$ 56	\$ 186
Collectively	719	5,721	-	2,951	4,279	45	2,346	16,061
Allowance at December 31, 2022	\$ 720	\$ 5,824	\$ -	\$ 2,977	\$ 4,279	\$ 45	\$ 2,402	\$ 16,247
Allowance as a % of loan balances	1.100%	6.951%	0.000%	5.820%	0.137%	0.139%	1.710%	0.465%

Bank-Fund Staff Federal Credit Union Notes to Financial Statements

	Consumer				Residential Real Estate			Total
	Vehicles	Credit Card	Secured	Unsecured	First Liens	Participations	Junior Homes and Home Equity	
December 31, 2021								
Loans evaluated for allowance								
Individually	\$ 69	\$ 148	\$ -	\$ 172	\$ 224	\$ -	\$ -	\$ 613
Collectively	47,926	77,375	1,516	45,050	2,965,597	20,932	123,329	3,281,725
Total loans, gross	<u>\$ 47,995</u>	<u>\$ 77,523</u>	<u>\$ 1,516</u>	<u>\$ 45,222</u>	<u>\$ 2,965,821</u>	<u>\$ 20,932</u>	<u>\$ 123,329</u>	<u>\$ 3,282,338</u>
Allowance established for loans evaluated								
Individually	\$ 17	\$ 74	\$ -	\$ 86	\$ 29	\$ -	\$ -	\$ 206
Collectively	842	8,003	-	2,629	4,069	29	2,061	17,633
Allowance at December 31, 2021	<u>\$ 859</u>	<u>\$ 8,077</u>	<u>\$ -</u>	<u>\$ 2,715</u>	<u>\$ 4,098</u>	<u>\$ 29</u>	<u>\$ 2,061</u>	<u>\$ 17,839</u>
Allowance as a % of loan balances	1.790%	10.419%	0.000%	6.004%	0.138%	0.139%	1.671%	0.543%

Delinquent loans

The Credit Union evaluates credit quality trends primarily through monitoring loan delinquencies on a monthly basis and begins to formally evaluate potential credit losses at 120 days past due whereby an allowance for loan loss is considered based on facts and circumstances known at the time. Delinquent loans past due 30 to 89 days are considered performing while loans past due 90 days or more are nonperforming and placed on nonaccrual status.

The table below presents the past-due status of loan delinquencies (in thousands):

	Loans Past Due					Total	Total Loans
	Current	30–59 Days	60–89 Days	Nonaccrual 90+ Days	Total		
December 31, 2022							
Consumer loans							
Vehicle loans	\$ 65,081	\$ 259	\$ 35	\$ 68	\$ 362	\$ 65,443	
Credit card loans	79,018	4,137	250	382	4,769	83,787	
Loans secured by shares and deposits	1,170	-	-	-	-	1,170	
Other consumer loans, primarily unsecured	50,396	594	75	85	754	51,150	
Residential real estate							
First lien mortgages	3,108,098	4,786	1,133	4,223	10,142	3,118,240	
Participations	31,914	-	403	-	403	32,317	
Junior lien mortgages and home equity	138,324	1,121	-	1,061	2,182	140,506	
Total	<u>\$ 3,474,001</u>	<u>\$ 10,897</u>	<u>\$ 1,896</u>	<u>\$ 5,819</u>	<u>\$ 18,612</u>	<u>\$ 3,492,613</u>	

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

December 31, 2021	Loans Past Due				Total	Total Loans
	Current	30–59 Days	60–89 Days	Nonaccrual 90+ Days		
Consumer loans						
Vehicle loans	\$ 47,659	\$ 241	\$ 8	\$ 87	\$ 336	\$ 47,995
Credit card loans	73,397	3,808	134	184	4,126	77,523
Loans secured by shares and deposits	1,516	-	-	-	-	1,516
Other consumer loans, primarily unsecured	44,412	543	84	183	810	45,222
Residential real estate						
First lien mortgages	2,956,043	5,058	1,347	3,373	9,778	2,965,821
Participations	20,932	-	-	-	-	20,932
Junior lien mortgages and home equity	119,574	2,087	220	1,448	3,755	123,329
Total	\$ 3,263,533	\$ 11,737	\$ 1,793	\$ 5,275	\$ 18,805	\$ 3,282,338

There were no loans greater than 90 days past due accruing interest as of December 31, 2022 and 2021.

Impaired loans

Loans are determined as impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due in accordance with the contractual terms of the loan. Loans classified as impaired are placed on nonaccrual status and are included as nonaccrual loans.

First and junior lien mortgage loans greater than 120 days past due are individually reviewed for potential impairment on a regular basis as a part of the monthly allowance for loan loss review process. In assessing the impairment of a loan and the related reserve requirement for that loan, various methodologies are employed. Impairment on loans that are not collateral dependent is determined primarily using the present value of expected future cash flows discounted at the loan's effective interest rate.

With respect to most real estate loans, and specifically if the loan is considered to be probable of foreclosure, an approach that estimates the fair value of the underlying collateral is generally used. The collateral is appraised to reflect realizable value, with the market value being adjusted for an assessment of marketing cost and the total hold period. Collateral appraisals on impaired loans are updated at least annually, and more frequently if deemed necessary based on observed market deterioration.

Troubled debt restructuring

For the year ended December 31, 2022, the Credit Union identified 12 loans secured by first mortgages that were considered TDR loans and collectively evaluated for impairment. The aggregate outstanding balance was \$5.5 million, with 12 loans in accrual status. There was no allowance for loan loss reserve established for the restructured loans.

For the year ended December 31, 2021, the Credit Union identified 13 loans secured by first mortgages that were considered TDR loans and collectively evaluated for impairment. The aggregate outstanding balance was \$5.9 million, with 12 loans in accrual status. The allowance for loan loss reserve established for the restructured loans was \$28 thousand.

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

No loans were modified in a troubled debt restructuring in 2022 or 2021.

Nonaccrual loans

The table below presents a summary of nonaccrual loans by balance and percentage (%) of loan segment (in thousands):

	December 31, 2022		December 31, 2021	
	Balance	% of Loan Segment	Balance	% of Loan Segment
Nonaccrual loans				
Consumer loans				
Vehicle loans	\$ 68	0.104%	\$ 87	0.181%
Credit card loans	382	0.456%	184	0.237%
Other consumer loans, primarily unsecured	85	0.166%	183	0.405%
Residential real estate				
First lien mortgages	4,223	0.135%	3,373	0.114%
Participations	-	0.000%	-	0.000%
Junior lien mortgages and home equity	1,061	0.755%	1,448	1.174%
Total nonaccrual loans	\$ 5,819	0.167%	\$ 5,275	0.161%

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 are summarized as follows (in thousands):

	December 31,	
	2022	2021
Mortgage loan portfolios serviced for		
Federal National Mortgage Association	\$ 91,470	\$ 113,822
Charlie Mac	375	398
Ocwen/Residential Funding Corporation	-	226
Total	\$ 91,845	\$ 114,446

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' share accounts, totaled \$562 thousand as of December 31, 2022 and 2021.

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

The Credit Union receives fees from investors in return for performing the traditional services of collecting individual loan payments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After receipt of the gross mortgage payment from individual borrowers, the Credit Union remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

The components of capitalized mortgage servicing rights are summarized as follows (in thousands):

	December 31,	
	2022	2021
Mortgage servicing rights		
Balance, net at beginning of year	\$ 855	\$ 856
Additions	7	64
Amortizations	(85)	(65)
	<u>777</u>	<u>855</u>
Total carrying value, included in other assets	<u>\$ 777</u>	<u>\$ 855</u>

The estimated fair value of the Credit Union's mortgage servicing rights approximated the carrying values as of December 31, 2022 and 2021, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 9.5% and a weighted average prepayment speed assumption of 7.49% as of December 31, 2022. The fair value of servicing rights was determined using a weighted average discount rate of 9% and a weighted average prepayment speed assumption of 12.35% as of December 31, 2021. Prepayment speeds are expressed using the Public Securities Association convention, which estimate the rate at which mortgage borrowers will pay off their mortgages, depending on the stratification of the specific right as of December 31, 2022 and 2021.

Note 5 – Property and Equipment, net

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

	Estimated Useful Lives	December 31,	
		2022	2021
Leasehold improvements	10 years	\$ 16,972	\$ 16,779
Furniture and equipment	3 years	44,648	48,251
Purchased assets in progress of capitalization	-	1,093	695
		<u>62,713</u>	<u>65,725</u>
Total property and equipment		62,713	65,725
Less: accumulated depreciation		(57,008)	(59,601)
		<u>5,705</u>	<u>6,124</u>
Total property and equipment, net		<u>\$ 5,705</u>	<u>\$ 6,124</u>

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Note 6 – Leases

The Credit Union enters into leases in the normal course of business primarily for office operations locations and automated teller machine equipment. The Credit Union's leases have remaining terms ranging from 3 to 12 years. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. In addition, the Credit Union has subleases for space in certain facilities.

Right-of-use assets and lease liabilities at December 31, 2022, by lease type, are as follows (in thousands):

Right-of-use assets:	
Operating leases	\$ 53,180
Finance leases	70
	<hr/>
Total right-of-use assets:	<u>\$ 53,250</u>
Lease liabilities:	
Operating leases	\$ 53,992
Finance leases	70
	<hr/>
Total lease liabilities	<u>\$ 54,062</u>

Lease Expense – The components of total lease cost were as follows for the year ended December 31, 2022 (in thousands):

Finance lease cost	
Right-of-use asset amortization	\$ 35
Interest expense	4
Operating lease cost	6,918
Variable lease cost	330
Less: Sublease income	(185)
	<hr/>
Total lease cost, net	<u>\$ 7,102</u>

Lease expense for all facilities leased under operating leases totaled \$7.4 million for the year ended December 31, 2021.

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

Lease Obligations – Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2022 are as follows (in thousands):

	Operating Leases	Finance Leases
	<u> </u>	<u> </u>
2023	\$ 6,122	\$ 39
2024	5,944	22
2025	5,953	5
2026	5,812	5
2027	5,948	3
Thereafter	<u>41,790</u>	<u>-</u>
Total undiscounted lease payments	\$ 71,569	\$ 74
Less: imputed interest	<u>(17,577)</u>	<u>(4)</u>
Net lease liabilities	<u>\$ 53,992</u>	<u>\$ 70</u>

Supplemental Lease Information at December 31, 2022

Finance lease weighted average remaining lease term	2.5 Years
Finance lease weighted average discount rate	4.83%
Operating lease weighted average remaining lease term	11.53 Years
Operating lease weighted average discount rate	4.83%

Note 7 – Members’ Share Accounts

Members’ share accounts are summarized as follows (in thousands):

	December 31,	
	<u>2022</u>	<u>2021</u>
Regular shares	\$ 1,283,622	\$ 1,362,523
Checking	1,559,414	1,511,638
Money market accounts	2,411,535	2,370,588
IRA savings accounts	19,171	16,989
IRA certificate accounts	13,360	14,192
Share certificate accounts	<u>533,296</u>	<u>502,688</u>
Total	<u>\$ 5,820,398</u>	<u>\$ 5,778,618</u>

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

At December 31, 2022, scheduled maturities of members' share accounts are summarized as follows (in thousands):

		Amount
Year ending December 31,	No contractual maturity	\$ 5,273,742
	2023	335,077
	2024	94,940
	2025	47,318
	2026	14,604
	2027	35,952
	Subsequent years	18,765
	Total	\$ 5,820,398

Regular shares, IRA shares, checking accounts, and money market accounts have no contractual maturity date, while IRA certificate accounts and share certificate accounts have maturities of ten years or less.

The aggregate amounts of certificates of deposit in denominations of \$250,000 or more were approximately \$165.8 million and \$177.3 million as of December 31, 2022 and 2021, respectively.

Member accounts are insured to at least \$250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

In December 31, 2022 and 2021, the Board of Directors declared supplemental dividends of \$3 million and \$7 million, which were paid in January 2023 and 2022, respectively. These amounts are included in accrued interest payable in the Statements of Financial Condition.

Note 8 – Borrowed Funds

The Credit Union established borrowing privileges at the Discount Window with the Federal Reserve Bank. No advances were made in 2022 and 2021. The Credit Union pledged \$47 million of securities as collateral as of December 31, 2022 and 2021.

The Credit Union is a member of the FHLB of Atlanta. As a member, the Credit Union may from time to time apply for an advance or advances which may be available to it. These advances are secured by all stock of the FHLB owned by the Credit Union, and essentially all eligible one- to four-family residential real estate, home equity, and commercial real estate loans under a blanket lien. Loans under blanket lien amounted to \$755 million and \$553 million as of December 31, 2022 and 2021, respectively. There were no balances outstanding on this line as of December 31, 2022 and 2021.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

Note 9 – Capital Requirements

The Credit Union is subject to regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involved quantitative measures of the Credit Union's assets, liabilities, and certain off-Statement of Financial Condition items as calculated under US 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 amounts and ratios of net worth to total assets. Further, due to regulatory capital changes effective January 1, 2022, credit unions with over \$500 million in assets are considered complex and are required to calculate a Risk-Based Capital Ratio (RBCR) or a Complex Credit Union Leverage Ratio (CCULR), to determine its net worth classification. At December 31, 2022, the Credit Union utilized the RBCR option.

As of December 31, 2022, the most recent regulatory reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.00% of assets, as well as a RBCR of 10% or more. As of December 31, 2022, the Credit union's net worth and RBCR ratios were 12.05% and 29.54%, respectively. There are no conditions or events since December 31, 2022 that management believes would have changed the institution's category.

As of December 31, 2021, the Credit Union was required to calculate a risk-based net worth (RBNW) that established whether the credit union would be considered "complex" under the regulatory framework. A credit union was defined as "complex" if the credit union's quarter-end total assets exceed \$50.0 million and its RBNW requirements exceeds 6%. The Credit Union's RBNW requirement as of December 31, 2021 was 7.7% and the Credit Union was classified as complex.

As of December 31, 2021, the NCUA categorized the Credit Union as "well-capitalized" under the NCUA regulatory framework for prompt corrective action, as a result of net worth-to-assets ratio of 11.15%. To be categorized as "well-capitalized," the Credit Union was to maintain a minimum net worth ratio of 7.00% of assets.

Note 10 – Related Party Transactions

As an additional benefit, loans to employees are made at slight discounts to prevailing market interest rates. All other terms and collateral requirements are comparable to those required of other members. The aggregate amount of these loans was approximately \$28 million and \$26 million as of December 31, 2022 and 2021, respectively.

Loans to Directors and Committee members are made on the same terms and conditions as loans made to other members. The aggregate amount of these loans was \$7.6 million and \$9.1 million as of December 31, 2022 and 2021, respectively.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

The WBG and IMF charged the Credit Union \$1.4 million for office space for the years ended December 31, 2022 and 2021.

Deposits from Directors and Committee members held by the Credit Union at December 31, 2022 and 2021, were approximately \$4.9 million and \$5.8 million, respectively.

Note 11 – Commitments and Contingencies

Off-balance-sheet risk and concentration of credit risk

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financial needs of its members. These commitments represent financial instruments to extend credit that 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 off-statement of financial condition loans commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

Unfunded loan commitments are summarized as follows (in thousands):

	December 31	
	2022	2021
Home equity lines of credit	\$ 206,421	\$ 187,937
Credit cards	369,064	362,731
Consumer lines of credit	75,238	76,907
Other	226	525
Total	\$ 650,949	\$ 628,100

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 credit worthiness 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.

Concentrations of credit risk

The Credit Union's business activity is with its members who reside primarily in the Washington, DC metropolitan area. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in metropolitan Washington, DC. The loan portfolio is concentrated in first and junior lien mortgage loans. The residential real estate portfolio represents approximately 93% and 94% of the gross loan balances for the years ended December 31, 2022 and 2021, respectively. The Credit Union adheres to high underwriting policies and guidelines and has developed a well-diversified mortgage loan portfolio.

Bank-Fund Staff Federal Credit Union
Notes to Financial Statements

Legal contingencies

The Credit Union is a 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.

Note 12 – Fair Value Measurements

The following tables summarize financial assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Value at December 31, 2022			
	Total	Level 1 in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
U.S. Treasury notes	\$ 1,017,936	\$ 1,017,936	\$ -	\$ -
Mortgage-backed securities, collateralized mortgage obligation securities and SBA pools	1,459,253	-	1,459,253	-
Total	<u>\$ 2,477,189</u>	<u>\$ 1,017,936</u>	<u>\$ 1,459,253</u>	<u>\$ -</u>
	Value at December 31, 2021			
	Total	Level 1 in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
U.S. Treasury notes	\$ 1,207,346	\$ 1,207,346	\$ -	\$ -
Mortgage-backed securities, collateralized mortgage obligation securities and SBA pools	1,719,914	-	1,719,914	-
Total	<u>\$ 2,927,260</u>	<u>\$ 1,207,346</u>	<u>\$ 1,719,914</u>	<u>\$ -</u>

There were no significant transfers between Level 1 or Level 2 investments.

Bank-Fund Staff Federal Credit Union

Notes to Financial Statements

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

Fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis that are subject to fair value adjustments in certain circumstances; for example, when there is evidence of impairment.

Other repossessed assets acquired in settlement of loans are recorded at the lower of the principal balance of the loan or fair value of the property less estimated selling expenses. Certain assumptions and unobservable inputs are currently being used by the appraisers, therefore qualifying these assets as Level 3.

The following tables present the assets and liabilities carried on the Statements of Financial Condition by caption and by level within the valuation hierarchy as described above for which a nonrecurring change in fair value has been recorded (in thousands):

	Value at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 157	\$ -	\$ -	\$ 157
Other repossessed assets	-	-	-	-
Total	<u>\$ 157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157</u>
	Value at December 31, 2021			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 407	\$ -	\$ -	\$ 407
Other repossessed assets	-	-	-	-
Total	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 407</u>

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Notes to Financial Statements

Impaired loans – In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Other repossessed assets – Other repossessed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, other repossessed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other Non-Interest Expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of other repossessed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Note 13 – Employee Benefit Plans

Defined contribution plan

The Credit Union has a defined contribution retirement savings plan for the benefit of its employees. Participation is limited to all full-time employees who have completed one or more years of service. Employer contribution amounts are based on a percentage of an employee's salary depending upon the employee's number of years of employment. Participants vest in employer contributions based on their total years of vesting service and are fully vested after five years. Participants are at all times fully vested in their own contributions. The Credit Union had \$3.3 and \$2.9 million in contribution plan expense in 2022 and 2021, respectively.