Report of Independent Auditors and Financial Statements

Bank-Fund Staff Federal Credit Union

December 31, 2023 and 2022

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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 statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income (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, 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 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 1 to the financial statements, in 2023, Bank-Fund Staff Federal Credit Union adopted new accounting guidance Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses.* 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.

Moss Adams LLP

Portland, Oregon
March 1, 2024

Financial Statements

Bank-Fund Staff Federal Credit Union
Statements of Financial Condition
(in thousands)
December 31, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
Cash and cash equivalents	$ 296,632	$ 333,062
Investments		
Available-for-sale securities	2,251,542	2,477,189
Other investments	25,218	22,840
Loans, net	3,628,981	3,470,669
Accrued interest receivable	16,256	15,809
Property and equipment, net	6,311	5,705
Lease right-of-use assets	49,385	53,250
NCUSIF deposit	41,958	43,055
Other assets	22,784	40,253
Total assets	$ 6,339,067	$ 6,461,832
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share accounts	$ 5,599,470	$ 5,820,398
Accrued interest payable	1,000	3,254
Lease liabilities	50,866	54,062
Accrued expenses and other liabilities	43,599	44,609
Total liabilities	5,694,935	5,922,323
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBERS' EQUITY		
Undivided earnings	819,842	778,085
Accumulated other comprehensive loss	(175,710)	(238,576)
Total members' equity	644,132	539,509
Total liabilities and members' equity	$ 6,339,067	$ 6,461,832

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Income
(in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Loans	$ 124,908	$ 106,077
Investments and interest-bearing deposits	57,595	40,321
Total interest income	182,503	146,398
INTEREST EXPENSE		
Members' share accounts	59,275	24,496
Interest on borrowed funds	3	102
Right of use asset - finance lease	2	4
Total interest expense	59,280	24,602
Net interest income	123,223	121,796
PROVISION FOR (RECAPTURE OF) CREDIT LOSSES	2,401	(855)
Net interest income after provision for (recapture of) credit losses	120,822	122,651
NON-INTEREST INCOME		
Net interchange income	7,060	6,654
Fee income	2,464	1,769
Commission income	2,372	2,331
Mortgage banking income	310	194
Net gain on sale of investments	-	24
Sublet rental income	108	185
Other non-interest income	733	645
Total non-interest income	13,047	11,802
NON-INTEREST EXPENSE		
General and administrative		
Compensation and benefits	52,036	48,926
Office operating expenses	29,370	26,658
Occupancy	7,435	7,394
Professional and outside processing fees	3,571	2,850
Other non-interest expense	575	548
Total non-interest expense	92,987	86,376
NET INCOME	$ 40,882	$ 48,077

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Comprehensive Income (Loss)
(in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
NET INCOME	$ 40,882	$ 48,077
OTHER COMPREHENSIVE INCOME (LOSS)		
Available-for-sale securities		
Net unrealized holding gains (losses) arising during the period	62,866	(229,364)
Reclassification for gains included in net income	-	(24)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	62,866	(229,388)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 103,748	$ (181,311)

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Changes in Members' Equity
(in thousands)
Years Ended December 31, 2023 and 2022

	Other Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
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	-	778,085	(238,576)	539,509
Cumulative change in accounting principle - ASC 326	-	875	-	875
Net income	-	40,882	-	40,882
Other comprehensive income	-	-	62,866	62,866
Balance at December 31, 2023	$ -	$ 819,842	$ (175,710)	$ 644,132

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Cash Flows
(in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 40,882	$ 48,077
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,348	2,136
Amortization of security premiums/discounts, net	9,770	13,794
Net gain on sale of investments	-	(24)
Amortization of loan participation premiums/discounts, net	427	32
Originations of loans held for sale	(10,368)	(600)
Proceeds from loans held for sale	10,601	624
Gain on sale of mortgage loans	(233)	(24)
Accretion of net loan origination fees	645	1,107
Provision for (recapture of) credit losses	2,401	(855)
Amortization and fair value adjustment of mortgage servicing rights	139	85
Capitalization of mortgage servicing rights	(105)	(7)
Non-cash lease costs	6,925	6,953
Changes in		
Accrued interest receivable	(447)	(2,232)
Other assets	17,435	(23,914)
Accrued interest payable	(2,254)	(3,815)
Net operating lease liabilities	(6,217)	(6,102)
Accrued expenses and other liabilities	(1,010)	6,613
Net cash provided by operating activities	70,939	41,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(246,226)	(320,913)
Proceeds from maturities and paydowns of available-for-sale securities	524,969	477,801
Proceeds from sales of available-for-sale securities	-	50,025
Net change in other investments	(2,378)	(3,238)
Purchase of loan participations	(106,980)	(18,741)
Principal collected from loan participations	12,515	7,066
Loan originations net of principal collected on loans to members	(66,445)	(201,165)
Decrease (increase) in NCUSIF deposit	1,097	(1,977)
Purchases of property and equipment	(2,954)	(1,717)
Net cash from investing activities	113,598	(12,859)

See accompanying notes.

Bank-Fund Staff Federal Credit Union
Statements of Cash Flows
(in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in members' share and savings accounts	$ (220,928)	$ 41,780
Repayment of finance lease liabilities	(39)	(39)
Net cash from financing activities	(220,967)	41,741
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(36,430)	70,730
CASH AND CASH EQUIVALENTS, beginning of year	333,062	262,332
CASH AND CASH EQUIVALENTS, end of year	$ 296,632	$ 333,062
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Members' share and savings accounts interest paid	$ 61,529	$ 28,311
Right-of-use assets obtained in exchange for finance lease liabilities	$ -	$ 105
Right-of-use assets obtained in exchange for operating lease liabilities	$ 554	$ 57,396

See accompanying notes.

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 (U.S. GAAP) that ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to U.S. 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 U.S. GAAP are promulgated through Accounting Standards Updates, referred to as ASUs.

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

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in a $1.1 million decrease in the allowance for credit losses (ACL) on loans, and an increase of $201 thousand in the allowance for unfunded commitments, resulting in a cumulative-effect adjustment of $875 thousand, increasing the beginning balance of undivided earnings.

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

	January 01, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Residential real estate	$ 6,845	$ 6,726	$ (119)
Consumer auto	354	720	366
Credit card	7,104	5,824	(1,280)
Other consumer	868	2,977	2,109
Allowance for credit losses on loans	$ 15,171	$ 16,247	$ 1,076
Liabilities:			
Reserve for unfunded commitments	$ 201	$ -	$ (201)

In addition, during the year ended December 31, 2023, the Credit Union adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Use of estimates – The preparation of the financial statements in conformity with U.S. 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 credit losses, valuation of securities, and valuation of mortgage servicing rights.

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. 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. 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.

Effective January 1, 2023, management no longer evaluates securities for other-than-temporary impairment, as ASC Subtopic 326-30, *Financial Instruments – Credit Losses – Available for Sale Debt Securities*, changes the accounting for recognizing impairment on available for sale and held to maturity debt securities. Each reporting period management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component is recognized through the Provision for Credit Losses on the Statements of Income.

Allowance for Credit Losses on Available-for-Sale Securities: For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

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

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 PSCU, 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.

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 credit losses (ACL). 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.

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;

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

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union segments the loan portfolio into residential real estate, auto, credit card, and other consumer loans. The ACL for these segments is estimated using probability of default and loss given default modeling, adjusted for qualitative factors. The ACL also includes an amount for the estimated losses on individually evaluated loans, as applicable.

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

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan restructuring with a member facing financial difficulty will be executed or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

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

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

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.

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 credit 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.

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.

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 FASB's ASC 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 are netted against interchange income.

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, 2023 and 2022, the Credit Union recognized no interest or penalties. Additionally, the Credit Union had no unrecognized tax benefits as of December 31, 2023 and 2022.

Advertising costs – Advertising and promotion costs are expensed as incurred.

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.

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 1, 2024, the date the financial statements were available to be issued, and no subsequent events occurred that require accrual or disclosure.

Reclassification – Certain accounts in the 2022 financial statements have been reclassified to conform to the presentation in the 2023 financial statements. Such reclassifications have no effect on reported members' equity or net income.

The most significant changes relate to the classifications of major loan segments and credit card delinquency reporting in Note 3, as well as the reporting of certain interchange related expenses in the statements of income. Credit card delinquency reporting was changed to reflect actual days past due versus cycle-based days past due. Lastly, certain interchange related expenses, previously reported in non-interest expenses, have been reclassified into interchange income, to more accurately reflect net interchange income.

Note 2 – Investments

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

	Amortized Cost	Allowance For Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
December 31, 2023					
SBA pools	$ 55,416	$ -	$ 638	$ (766)	$ 55,288
Mortgage-backed securities	899,749	-	66	(94,660)	805,155
Collateralized mortgage obligation securities	463,083	-	-	(33,318)	429,765
U.S. Treasury notes	1,009,004	-	396	(48,066)	961,334
Total	$ 2,427,252	$ -	$ 1,100	$ (176,810)	$ 2,251,542
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

Investment securities classified as available-for-sale that were in an unrealized loss position at December 31, 2023 and 2022 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, 2023						
SBA pools	$ 8,409	$ (26)	$ 8,470	$ (740)	$ 16,879	$ (766)
Mortgage-backed securities	2,198	(9)	786,586	(94,651)	788,784	(94,660)
Collateralized mortgage obligation securities	28,537	(487)	401,178	(32,831)	429,715	(33,318)
U.S. Treasury notes	-	-	827,802	(48,066)	827,802	(48,066)
Total	$ 39,144	$ (522)	$ 2,024,036	$ (176,288)	$ 2,063,180	$ (176,810)

	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)

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

At December 31, 2023 and 2022, the investment portfolio included 15 and 242 securities with unrealized loss positions less than one year, respectively. At December 31, 2023 and 2022, the investment portfolio included 303 and 148 securities with unrealized losses that have existed for one year or longer, respectively.

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, 2023 and 2022, the fair value of the collateral was $7.5 million and $9.1 million, respectively.

Investment securities classified as available-for-sale by contract maturity as of December 31, 2023, are summarized as follows (in thousands):

	Amortized Cost	Fair Value (Carrying Value)
Maturing in one year or less	$ 329,338	$ 324,299
Maturing after one year through five years	679,666	637,036
SBA pools, mortgage-backed securities, and collateralized mortgage obligations	1,418,248	1,290,207
Total	$ 2,427,252	$ 2,251,542

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, 2023	December 31, 2022
Investments in capital stock		
Central Liquidity Facility (CLF)	$ 16,770	$ 15,724
FHLB – Atlanta	4,523	3,272
Investments in Credit Union Service Organizations		
PSCU	2,243	2,162
GLIA	1,000	1,000
CO-OP	682	682
Total	$ 25,218	$ 22,840

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, 2023 and 2022, 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, 2023.

Note 3 – Loans and Allowance for Credit Losses

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.

The following table presents total loans by portfolio segment and class of loans receivable at December 31, 2023 and 2022 (in thousands):

	2023	2022
Residential real estate	$ 3,355,938	$ 3,291,063
Consumer auto	139,684	65,443
Credit card	91,914	83,787
Other consumer	63,148	52,320
Gross loans	3,650,684	3,492,613
Net deferred loan origination costs (fees)	(4,951)	(5,697)
Allowance for credit losses	(16,752)	(16,247)
Net loans	$ 3,628,981	$ 3,470,669

Allowance for credit losses – The Credit Union has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses expected in the Credit Union's portfolio. For purposes of determining the allowance for credit losses, the Credit Union segments loans in its portfolio by product type.

The increase in the ACL was the result of changes in loan volume and changes in credit quality associated with levels of past due and non-performing loans in addition to changes in qualitative factors. The quantitative component of the ACL increased reserve requirements due to loan volume growth. In addition to the quantitative loan portfolio and credit quality characteristics, the Credit Union's CECL methodology incorporates the use of qualitative factors. As of December 31, 2023, the Credit Union expects that the markets in which it operates will experience a decline in economic conditions and an increase in the unemployment rate and level and trend of delinquencies thereby resulting in adjustments to the qualitative components of the ACL that resulted in a net increase in required reserves. As compared to historical norms, inflation remains elevated from continued disruptions in the supply chain, wage pressures, and higher living costs such as housing and food prices. As a result, management continues to believe that certain credit weaknesses are likely present in the overall economy and that it is appropriate to maintain an ACL that incorporates such risk factors.

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

2023	Residential Real Estate	Consumer Auto	Credit Card	Other Consumer	Total
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	$ 6,726	$ 720	$ 5,824	$ 2,977	$ 16,247
Impact of adopting ASC 326	119	(366)	1,280	(2,109)	(1,076)
Charge-offs	(187)	(121)	(792)	(490)	(1,590)
Recoveries	42	46	404	318	810
Provision (Recapture)	698	897	(13)	779	2,361
Ending balance	$ 7,398	$ 1,176	$ 6,703	$ 1,475	$ 16,752
2022					
Allowance for loan losses:					
Beginning balance	$ 6,188	$ 859	$ 8,077	$ 2,715	$ 17,839
Charge-offs	-	(61)	(620)	(599)	(1,280)
Recoveries	45	80	273	145	543
Provision (Recapture)	493	(158)	(1,906)	716	(855)
Ending balance	$ 6,726	$ 720	$ 5,824	$ 2,977	$ 16,247
Ending balance					
individually evaluated for impairment	$ 56	$ 1	$ 103	$ 26	$ 186
collectively evaluated for impairment	$ 6,670	$ 719	$ 5,721	$ 2,951	$ 16,061
Loans receivable					
Ending balance	$ 3,291,063	$ 65,443	$ 83,787	$ 52,320	$ 3,492,613
Ending balance					
individually evaluated for impairment	$ 80	$ 6	$ 206	$ 51	$ 343
collectively evaluated for impairment	$ 3,290,983	$ 65,437	$ 83,581	$ 52,269	$ 3,492,270

Consumer credit quality indicators – The Credit Union monitors past due status for the purpose of managing credit risk for all loans. The following tables provide past due amounts for each class of loan (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
December 31, 2023						
Residential real estate	$ 7,644	$ 2,343	$ 4,446	$ 14,433	$ 3,341,505	$ 3,355,938
Consumer auto	158	-	33	191	139,493	139,684
Credit card	406	172	274	852	91,062	91,914
Other consumer	335	110	323	768	62,380	63,148
Total	$ 8,543	$ 2,625	$ 5,076	$ 16,244	$ 3,634,440	$ 3,650,684
December 31, 2022						
Residential real estate	$ 5,907	$ 1,536	$ 5,284	$ 12,727	$ 3,278,336	$ 3,291,063
Consumer auto	259	35	68	362	65,081	65,443
Credit card	250	176	206	632	83,155	83,787
Other consumer	594	75	85	754	51,566	52,320
Total	$ 7,010	$ 1,822	$ 5,643	$ 14,475	$ 3,478,138	$ 3,492,613

In addition to past due status, management also reviews trends associated with FICO score and loan-to-value information as part of the overall credit risk analysis.

There were no loans greater than 90 days past due accruing interest as of December 31, 2023 and 2022. The total allowance for credit losses allocated to non-accrual loans was $692 thousand as of December 31, 2023.

Loan modifications – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein. Loan modifications to those experiencing financial difficulties during the year ended December 31, 2023 were not significant to the financial statements.

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 credit loss reserve established for the restructured loans.

Collateral dependent loans – The Credit Union has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

- Consumer auto are secured by new and used automobiles.
- Other consumer loans are secured by motorcycles, recreational vehicles and other personal property.

Some other consumer loans are unsecured and have no underlying collateral.

The following table presents the amortized cost basis and related ACL of collateral dependent loans, which were in non-accrual status, by portfolio class as of December 31, 2023 :

	Total	Allowance for Credit Losses
Residential real estate	$ 4,446	$ 84
Consumer auto	33	11
Credit card	274	274
Other consumer	323	323
	$ 5,076	$ 692

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,	
	2023	2022
Mortgage loan portfolios serviced for		
Federal National Mortgage Association	$ 89,072	$ 91,470
Charlie Mac	351	375
Total	$ 89,423	$ 91,845

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' share accounts, totaled $253 thousand as of December 31, 2023 and 2022.

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, 2023	December 31, 2022
Mortgage servicing rights		
Balance, net at beginning of year	$ 777	$ 855
Additions	105	7
Amortizations	(139)	(85)
Total carrying value, included in other assets	$ 743	$ 777

The estimated fair value of the Credit Union's mortgage servicing rights approximated the carrying values as of December 31, 2023 and 2022, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 9.4% and a weighted average prepayment speed assumption of 7.65% as of December 31, 2023. 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. 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, 2023 and 2022.

Note 5 – Property and Equipment, net

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

	Estimated Useful Lives	December 31, 2023	December 31, 2022
Leasehold improvements	10 years	$ 14,899	$ 16,972
Furniture and equipment	3 years	38,853	44,648
Purchased assets in progress of capitalization	-	1,782	1,093
Total property and equipment		55,534	62,713
Less: accumulated depreciation		(49,223)	(57,008)
Total property and equipment, net		$ 6,311	$ 5,705

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 1 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, 2023 and 2022, by lease type, are as follows (in thousands):

	2023	2022
Right-of-use assets		
Operating leases	$ 49,351	$ 53,180
Finance leases	34	70
Total right-of-use assets	$ 49,385	$ 53,250
Lease liabilities		
Operating leases	$ 50,832	$ 53,992
Finance leases	34	70
Total lease liabilities	$ 50,866	$ 54,062

Lease expense – The components of total lease cost were as follows for the year ended December 31, 2023 and 2022 (in thousands):

	2023	2022
Finance lease cost		
Right-of-use asset amortization	$ 36	$ 35
Interest expense	3	4
Operating lease cost	6,889	6,918
Variable lease cost	377	330
Less: Sublease income	(108)	(185)
Total lease cost, net	$ 7,197	$ 7,102

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

	Operating Leases	Finance Leases
2024	$ 6,127	$ 22
2025	6,128	5
2026	5,916	5
2027	5,948	3
2028	6,087	-
Thereafter	35,703	-
Total undiscounted lease payments	65,909	35
Less: imputed interest	(15,077)	(1)
Net lease liabilities	$ 50,832	$ 34

Supplemental Lease Information at December 31, 2023

	2023	2022
Finance lease weighted average remaining lease term	2.12 Years	2.5 Years
Finance lease weighted average discount rate	4.83%	4.83%
Operating lease weighted average remaining lease term	10.61 Years	11.53 Year
Operating lease weighted average discount rate	4.83%	4.83%

Note 7 – Members' Share Accounts

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

	December 31, 2023	December 31, 2022
Regular shares	$ 994,455	$ 1,283,622
Checking	1,456,831	1,559,414
Money market accounts	1,952,164	2,411,535
IRA savings accounts	16,300	19,171
IRA certificate accounts	15,964	13,360
Share certificate accounts	1,163,756	533,296
Total	$ 5,599,470	$ 5,820,398

At December 31, 2023, scheduled maturities of members' share accounts are summarized as follows (in thousands):

		Amount
	No contractual maturity	$ 4,419,750
Year ending December 31,	2024	787,722
	2025	112,212
	2026	121,448
	2027	39,191
	2028	62,941
	Subsequent years	56,206
	Total	$ 5,599,470

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 $425.2 million and $165.8 million as of December 31, 2023 and 2022, 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, the Board of Directors declared supplemental dividends of $3 million, which were paid in January 2023. These amounts are included in accrued interest payable in the Statements of Financial Condition. No supplemental dividends were declared for the year ended December 31, 2023.

Note 8 – Borrowed Funds

The Credit Union established borrowing privileges at the Discount Window with the Federal Reserve Bank. No advances were made in 2023 and 2022. The Credit Union pledged $47 million of securities as collateral as of December 31, 2023 and 2022.

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 $811 million and $755 million as of December 31, 2023 and 2022, respectively. There were no balances outstanding on this line as of December 31, 2023 and 2022.

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 U.S. 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, 2023 and 2022, the Credit Union utilized the RBCR option.

As of December 31, 2023, 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, 2023, the Credit union's net worth and RBCR ratios were 12.93% and 30.07%, respectively. There are no conditions or events since December 31, 2023 that management believes would have changed the institution's category. As of December 31, 2022, the Credit union's net worth and RBCR ratios were 12.05% and 29.54%, respectively.

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 $30 million and $28 million as of December 31, 2023 and 2022, 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 $8.4 million and $7.6 million as of December 31, 2023 and 2022, respectively.

The WBG and IMF charged the Credit Union $1.5 million and $1.4 million for office space for the years ended December 31, 2023 and 2022.

Deposits from Directors and Committee members held by the Credit Union at December 31, 2023 and 2022, were approximately $4.2 million and $4.9 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	
	2023	2022
Home equity lines of credit	$ 233,471	$ 206,421
Credit cards	402,475	369,064
Consumer lines of credit	75,961	75,238
Other	37	226
Total	$ 711,944	$ 650,949

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.

At December 31, 2023 and 2022, the ACL related to unfunded commitments totaled $240 thousand and $0, respectively and is included in accrued expenses and other liabilities in the statements of financial condition.

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 92% and 94% of the gross loan balances for the years ended December 31, 2023 and 2022, respectively. The Credit Union adheres to high underwriting policies and guidelines and has developed a well-diversified mortgage loan portfolio.

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, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Fair Value Measurements			
December 31, 2023	Total	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 961,334	$ 961,334	$ -	$ -
Mortgage-backed securities, collateralized mortgage obligation securities and SBA pools	1,290,208	-	1,290,208	-
Total	$ 2,251,542	$ 961,334	$ 1,290,208	$ -
December 31, 2022				
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	$ 2,477,189	$ 1,017,936	$ 1,459,253	$ -

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

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, such as repossessed and foreclosed assets, or collateral dependent loans:

Collateral dependent loans – Fair values of collateral dependent loans are determined based on the fair value of the collateral securing the loan. The value of collateral is determined based on independent appraisals or other observable market-based data.

Foreclosed and repossessed assets – These 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 credit 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.

Assets carried on a nonrecurring basis at December 31, 2023 and 2022 were not significant to the financial statements.

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 $3.5 and $3.3 million in contribution plan expense in 2023 and 2022, respectively.