California Credit Union and Subsidiary

Consolidated Financial Statements

December 31, 2023 and 2022

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TWHC | Turner, Warren, Hwang & Conrad AC
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Directors and Supervisory Committee
California Credit Union

Opinion

We have audited the consolidated financial statements of California Credit Union and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, the consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Change in Accounting Principle

As discussed in Notes 1 and 3 to the consolidated financial statements, the credit union has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of Accounting Standards Codification (ASC) 326, *Financial Instruments—Credit Losses*.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of California 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.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

Turner, Warren, Hwang & Conrad

Burbank, California
April 9, 2024

California Credit Union and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2023 and 2022

	2023	2022
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 476,447	$ 501,685
Restricted cash	893	893
Investments:		
Debt securities available for sale, at fair value (amortized cost of $1,334,634 and $1,475,290, allowance of $0 for 2023 and 2022)	1,163,286	1,276,683
Debt securities held to maturity, at amortized cost (fair value of $72 and $96, allowance of $0 for 2023 and 2022)	74	101
Equity securities	18,835	16,608
Other	16,700	16,700
Loans held for sale	1,104	470
Loans receivable, net of allowance for credit losses of $22,256 and $3,424	2,948,117	2,500,109
Accrued interest receivable	16,700	14,120
Property and equipment, net	118,179	118,791
Note receivable	7,984	8,537
National Credit Union Share Insurance Fund (NCUSIF) deposit	34,756	34,550
Goodwill	23,115	23,115
Other assets	50,544	49,378
Total assets	$ 4,876,734	$ 4,561,740
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 4,235,941	$ 3,928,228
Borrowed funds	260,000	300,000
Accrued expenses and other liabilities	83,777	68,333
Total liabilities	4,579,718	4,296,561
Members' equity:		
Undivided earnings	300,385	295,800
Equity acquired in merger	167,986	167,986
Accumulated other comprehensive loss	(171,355)	(198,607)
Total members' equity	297,016	265,179
Total liabilities and members' equity	$ 4,876,734	$ 4,561,740

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2023 and 2022

	2023	2022
	(in thousands)	
INTEREST INCOME		
Cash balances	$ 15,800	$ 4,803
Loans receivable	117,464	79,655
Investments	31,718	22,203
Total interest income	164,982	106,661
INTEREST EXPENSE		
Members' share accounts	38,694	9,195
Borrowed funds	11,088	1,436
Total interest expense	49,782	10,631
NET INTEREST INCOME	115,200	96,030
PROVISION FOR (REVERSAL OF) CREDIT LOSS EXPENSE		
Loans	5,432	1,030
Unfunded commitments	(393)	-
Total provision for credit loss expense	5,039	1,030
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSS EXPENSE	110,161	95,000
NON-INTEREST INCOME		
Deposit service charges and related fee income	13,682	13,334
Interchange income	9,453	9,979
Service income and other	9,308	13,895
Net gain on sale of loans	178	1,161
Net gain on sale of property and equipment	9	5,260
Net real estate rental income	4,655	2,418
Total non-interest income	37,285	46,047
NON-INTEREST EXPENSE		
Compensation and benefits	64,741	64,044
Office occupancy	15,759	14,593
Other	47,085	38,988
Total non-interest expense	127,585	117,625
NET INCOME	$ 19,861	$ 23,422

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2023 and 2022

	2023	2022
	(in thousands)	
NET INCOME	$ 19,861	$ 23,422
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on debt securities available for sale:		
Unrealized holding gain (loss) arising during the year	27,243	(183,148)
Reclassification adjustment for net loss included in net income	9	457
Total other comprehensive income (loss)	27,252	(182,691)
COMPREHENSIVE INCOME (LOSS)	$ 47,113	$ (159,269)

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Members' Equity

Years Ended December 31, 2023 and 2022

	Regular Reserve	Undivided Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Loss	Total
			(in thousands)		
Balance, December 31, 2021	$ 16,459	$ 255,919	$ 167,986	$ (15,916)	$ 424,448
Comprehensive loss:					
Net income	-	23,422	-	-	23,422
Other comprehensive loss	-	-	-	(182,691)	(182,691)
Total comprehensive loss					(159,269)
Transfers	(16,459)	16,459	-	-	-
Balance, December 31, 2022	-	295,800	167,986	(198,607)	265,179
Cumulative effect of change in accounting principle due to the adoption of ASC 326	-	(15,276)	-	-	(15,276)
Comprehensive income:					
Net income	-	19,861	-	-	19,861
Other comprehensive income	-	-	-	27,252	27,252
Total comprehensive income					47,113
Balance, December 31, 2023	$ -	$ 300,385	$ 167,986	$ (171,355)	$ 297,016

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 19,861	$ 23,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit loss expense	5,039	1,030
Gain on sale of loans	(178)	(1,161)
Loss on sale of investments	9	457
Gain on sale of property and equipment	(9)	(5,260)
(Gain) loss on equity securities	(1,960)	2,351
Accretion of fair value adjustment of acquired loans	(2,580)	(645)
Amortization of deferred loan costs, net	1,892	494
Amortization of debt securities, net	6,349	8,599
Amortization of operating right-of-use (ROU) assets	1,627	3,801
Repayment of operating lease liability	(1,697)	(3,022)
Depreciation and amortization	9,175	8,063
Capitalization of mortgage servicing rights	(211)	(461)
Amortization of mortgage servicing rights	1,257	1,683
Amortization of core deposit intangible	-	649
Net change in operating assets and liabilities:		
Loans held for sale	(634)	19,705
Accrued interest receivable	(2,580)	(2,206)
NCUSIF deposit	(206)	(2,923)
Other assets	(2,784)	58,196
Accrued expenses and other liabilities	16,479	(18,807)
Net cash provided by operating activities	48,849	93,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of debt securities available for sale	(1,230)	(141,165)
Proceeds from sales, maturities and prepayments of debt securities available for sale	135,503	198,103
Proceeds from maturities and prepayments of debt securities held to maturity	45	20
Net (increase) decrease in equity securities	(267)	596
Net increase in loans receivable	(489,501)	(624,555)
Net decrease in note receivable	553	532
Proceeds from sale of loans	21,651	56,520
Proceeds from sale property and equipment	36	2,075
Purchases of property and equipment	(8,590)	(8,446)
Net cash used in investing activities	(341,800)	(516,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	307,713	135,273
Net proceeds from (repayments of) borrowed funds	(40,000)	300,000
Net cash provided by financing activities	267,713	435,273

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
	(in thousands)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$ (25,238)	$ 12,918
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	502,578	489,660
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 477,340	$ 502,578
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid on members' share accounts and borrowed funds	$ 50,794	$ 11,643
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES		
Increase in the allowance due to the adoption of ASC 326	$ 15,276	$ -
Operating ROU assets and lease liabilities arising during the year	1,055	-
Operating ROU assets and lease liabilities recorded upon adoption of Accounting Standards Update (ASU) 2016-02	-	16,676
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Note receivable issued in connection with sale of Rosenell property	$ -	$ 3,720

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: California Credit Union (the credit union) is a state-chartered credit union organized under the California Credit Union Act. Membership in the credit union is limited to qualified individuals as defined in its charter and bylaws. The credit union's primary source of revenue is providing loans to members. The credit union conducts its operations through 25 branches located in Los Angeles County, Orange County and San Diego County, California.

Field of Membership and Sponsor: Membership in the credit union is limited to those individuals who qualify under defined terms specified in the bylaws, including any employee of any public or private California school, community college, state college, university or their governing organizations (districts, regions, etc.), or any member of any organization affiliated with and recognized by said entities, and their successor organizations; or any and all persons who live, regularly work, currently attend school or currently worship in San Diego County, California, Orange County, California, or Riverside County, California, as well as any businesses, corporations and other legal entities in those counties.

Principles of Consolidation: The consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, California Members Title Insurance Company (CMTIC). CMTIC is 100% owner of California Members Title Company (CMTC). CMTC is engaged in the business of preparing title searches, title examinations, title reports, certificates or abstracts of title upon the basis of which a title insurer writes title policies. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated 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, mortgage servicing rights (MSRs), the actuarial estimate of the defined benefit obligation and the fair value of financial instruments.

Fair Value: Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The credit union's financial instruments and other accounts that are subject to fair value measurement and/or disclosure are summarized in Note 9.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents: For purposes of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand and in banks and all highly liquid debt instruments with original maturities of three months or less.

Restricted Cash: The credit union considers cash to be restricted when withdrawal or general use is legally restricted. A reconciliation of the credit union's cash and restricted cash in the consolidated statements of financial condition to the consolidated statements of cash flows is as follows:

	2023	2022
	(in thousands)	
Cash and cash equivalents	$ 476,447	$ 501,685
Restricted cash	893	893
	$ 477,340	$ 502,578

Restricted cash represents line-of-credit facilities established solely for the purpose of backing issuance of certain standby letters of credit issued by City National Bank to the credit union for the benefit of two credit union members and is not to be utilized for any other purpose.

Investments Applicable to the Year Ended December 31, 2023: Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on the sale of debt securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

Equity securities with readily determinable fair values are recorded at fair value with changes in fair value recognized as a component of non-interest income. Equity securities without a readily determinable fair value are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar securities of the same issuer.

Other investments are classified separately and stated at cost.

Allowance for Credit Losses on Debt Securities Available for Sale: Management evaluates expected credit losses on debt securities available for sale on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Management first identifies securities in an unrealized loss position and determines whether the credit union intends to sell or it is more likely than not that the credit union will be required to sell a security before recovery of its amortized cost basis. If either requirement 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 security by a rating agency, and adverse conditions specifically related to the security, among other factors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If this assessment indicates that a credit loss exists and the present value of cash flows expected to be collected is less than the amortized cost basis, an allowance for credit losses will be recorded for the credit loss, limited by the amount the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for credit loss expense or reversal of credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of a security available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met. Since substantially all of the credit union's debt securities available for sale are guaranteed or issued by the US government or government-sponsored agency of high credit quality, management believes credit risk is minimal and accordingly has not recorded an allowance for credit loss as of December 31, 2023. Accrued interest receivable on debt securities available for sale totaled $4,171,000 as of December 31, 2023 and is excluded from the estimate of credit losses.

Allowance for Credit Losses on Debt Securities Held to Maturity: Management measures expected credit losses on debt securities held to maturity on a collective basis for securities with similar risk characteristics. For securities that do not share similar risk characteristics, the losses are estimated individually. The credit union applies a zero credit loss assumption to securities that are either guaranteed or issued by the US government or government-sponsored agency, are highly rated by nationally recognized statistical rating organizations, and have a long history of no credit losses. Any credit loss is recorded through the allowance for credit losses on debt securities held to maturity and deducted from the amortized cost basis of the security, reflecting the amount the credit union expects to collect. As of December 31, 2023, accrued interest receivable on debt securities held to maturity is excluded from the estimate of credit losses, as it is immaterial to the consolidated financial statements.

Investments Applicable to the Year Ended December 31, 2022: Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities that management intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

Equity securities with readily determinable fair values are recorded at fair value with changes in fair value recognized as a component of non-interest income. Equity securities without a readily determinable fair value are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar securities of the same issuer.

Other investments are classified separately and stated at cost.

Federal Home Loan Bank (FHLB) Stock: The credit union, as a member of the FHLB of San Francisco system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its membership asset value, subject to a cap of $15 million, or 2.7% of advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial condition at cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans held for sale are generally sold with the MSRs retained by the credit union. Gains and losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying amount of the related mortgage loans sold.

Loans Receivable, Net: The credit union grants commercial, residential real estate and consumer loans to members and purchases US government-guaranteed loans. The members' or borrowers' ability to honor their loan agreements is dependent upon the economic stability of the various groups that compose the credit union's field of membership and commercial real estate borrowers. Loans that the credit union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for credit losses and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until the associated loans qualify for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Accrued interest receivable on loans totaled $11,951,000 as of December 31, 2023. The credit union elected not to measure an allowance for credit losses for accrued interest receivable, since charge-offs typically occur in a timely manner.

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

Loan origination fees and certain direct costs associated with the origination or purchase of real estate loans are deferred and recognized over the life of the related loans as an adjustment of the loan's yield using the interest method.

Allowance for Credit Losses on Loans Receivable – Current Expected Credit Losses (CECL): The credit union adopted ASC 326, *Financial Instruments—Credit Losses*, and all of the related amendments on January 1, 2023. The credit union maintains an allowance for credit losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for credit loss expense and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans receivable as of the consolidated statements of financial condition date. The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. Management divides the portfolio into four segments: commercial, US government guaranteed, residential real estate and consumer. The credit union further divides the portfolio segments into classes. The commercial segment is comprised of commercial real estate loans and other commercial. The US government guaranteed segment is comprised of purchased small business loans. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

The allowance for credit losses represents the portion of a loan's amortized cost basis that the credit union does not expect to collect due to anticipated credit losses over the loan's contractual life. The credit union measures the expected loan losses on a collective pool basis when similar risk characteristics exist. The credit union utilizes third-party software to assist with the calculation of the allowance for credit losses.

Models consisting of quantitative and qualitative components are designed for each pool to develop the expected credit loss estimates. The loan portfolio is divided into four segments and 17 loan pools based on loan types that share similar risk characteristics to calculate quantitative loss factors for each pool. The credit union uses a modified discounted cash flow model to derive quantitative loss estimates. Under this method, contractual cash flows are adjusted by layering in prepayment rates, curtailment rates and funding rate assumptions. Periodic loss rates derived through regression analysis are then applied to adjusted cash flows to quantify necessary reserves. Additional adjustments based on forecasted data and qualitative and environmental factors may be added at the discretion of management.

Loans that do not share similar risk characteristics are evaluated on an individual basis. The credit union evaluates loans for expected credit losses on an individual basis if, based on current information and events, it is probable that the credit union will be unable to collect all amounts due according to the original contractual terms of the loan agreement. The current expected loss of an individually evaluated loan is measured using the fair value of the underlying collateral if the loan is collateral dependent or the present value of expected future cash flows if the loan is not collateral dependent. When the loan is deemed uncollectible, it is the credit union's policy to promptly charge off the estimated credit losses.

Allowance for Loan Losses– Prior to the Adoption of CECL: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into four segments: commercial, US government guaranteed, residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The commercial segment is comprised of commercial real estate loans and other commercial. The US government guaranteed segment is comprised of purchased small business loans. The classes within the residential real estate portfolio segment are first mortgage and HELOC and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. 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 the information available to them at the time of their examinations.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the US government guaranteed, residential real estate and consumer segments for impairment on a pooled basis, unless they represent troubled debt restructurings (TDRs), as part of the general loan loss allowance and evaluates the commercial segment individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date.

The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and the duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segment were historical and expected future charge-offs, borrower's credit and property collateral. Significant characteristics considered for the commercial segment were type of property, geographical concentrations and risks, and individual borrower financial condition.

TDRs – Prior to the Adoption of CECL: In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession to a member for other than an insignificant period of time that the credit union would not otherwise consider, the related loan is classified as a TDR. The credit union strives to identify members in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and avoid foreclosure or repossession of the collateral. In cases where the credit union grants a member new terms that provide for a reduction of interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Unfunded Credit Commitments: ASC 326 requires the establishment of a reserve for unfunded credit commitments over the contractual period in which the entity is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the credit union. The credit union established an allowance for unfunded credit commitments relating to commercial lines of credit, unsecured lines of credit, HELOCs and credit cards. Within the period of credit exposure, the estimate of credit losses will consider both the likelihood that funding will occur and an estimate of the expected credit losses on the commitments that are expected to fund over their estimated lives. The unfunded credit exposure is calculated using utilization assumptions based on the credit union's historical utilization experience in related portfolio segments. The allowance for unfunded credit commitments is included in accrued expenses and other liabilities on the statements of financial condition. Changes to the allowance for unfunded credit commitments are included in the provision for credit loss expense on the consolidated statements of income.

Allowance for Purchased Credit Deteriorated (PCD) Loans – CECL: PCD loans are loans that have experienced a more than insignificant deterioration in credit quality since origination. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans but with no impact on earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Upon adoption of ASC 326, loans that were designated purchased credit impaired (PCI) loans under the previous accounting guidance were classified as PCD loans without reassessment.

PCI Loans – Prior to the Adoption of CECL: Loans that the credit union has acquired in merger are aggregated into pools with similar risk characteristics. For loans with evidence of credit deterioration, expected cash flows are estimated and, if they are less than the carrying value, a credit risk discount is established. The credit union calculates the carrying values of the pools, effective yields, impairment and underlying loans based on actual and projected events. The excess of the expected cash flows is considered to be accretable yield and is recognized as interest income over the estimated life of the loans. The accretable yield may fluctuate due to changes in the timing and amounts of expected cash flows.

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

Estimated useful lives of the assets are as follows:

Buildings	25–45 years
Furniture and equipment	3–5 years
Leasehold improvements	5 years

NCUSIF Deposit: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit will be refunded to the credit union if its insurance coverage is terminated, if it converts insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premium: The credit union is required to pay an annual premium based on a percentage of its total insured shares as declared by the NCUA Board, unless the payment is waived or reduced by the NCUA Board.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill: On March 1, 2017, the credit union merged with North Island Credit Union (NICU). The merger resulted in goodwill of $23,114,683. The amount represents the fair value of the acquired entity as a whole in excess of the fair value of the individual assets and liabilities. Goodwill is determined to have an indefinite useful life and is not amortized. Management reviews goodwill for impairment on an annual basis. If impairment is noted, the impairment recognized is measured as the amount by which the carrying amount of the asset exceeds its estimated fair value.

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, valuations (assuming multiple properties are involved) are performed by management and property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell. There is no other real estate owned as of December 31, 2023 and 2022.

Loan Servicing: Servicing assets are recognized as separate assets initially measured at fair value when the credit union sells mortgage loans with servicing retained. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or 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, discount rate, custodial earnings rate, inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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 non-interest income when earned.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined through stratifying servicing rights by predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. 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.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to have been 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.

Members' Share Accounts: Members' share accounts are the deposit accounts of the members of the credit union. Share ownership entitles a member to vote in the annual elections of the Board of Directors and on other credit union matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed by the credit union. Interest rates on members' share accounts are set by the Asset Liability Committee and ratified by the Board of Directors based on an evaluation of current and future market conditions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity Acquired in Merger: Equity acquired in merger represents the aggregated entity value of NICU at acquisition, measured using a weighted approach that emphasizes probable future discounted cash flows (income approach) and takes into consideration guideline transaction and market value approaches.

Core Deposit Intangible: Core deposit intangible represents a stable source of low-cost funds acquired in business combinations. The value is estimated by discounting the current balance of share, share draft and certain low denomination certificate accounts over their expected lives by the credit union's incremental borrowing rate, with adjustments made for the credit union's relatively high account servicing costs. The core deposit intangible is amortized using a discounted cash flow method over an estimated useful life of approximately six years and is included in other assets.

Members' Equity: Prior to January 1, 2022, the credit union was required by regulation to maintain a statutory reserve. This reserve, which represented a regulatory restriction of retained earnings, was not available for the payment of dividends. Effective January 1, 2022, the regular reserve is no longer required by regulation for adequately capitalized credit unions. All regular reserve amounts were transferred to undivided earnings effective January 1, 2022.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as separate components of the members' equity section on the consolidated statements of financial condition.

Income Taxes: The credit union is exempt by statute from federal income taxes under the provisions of Section 501 of the Internal Revenue Code (IRC) of 1986 and from state income taxes; however, the credit union is subject to taxes on unrelated business income as further discussed in Note 8. The credit union's wholly owned subsidiary is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended December 31, 2023 and 2022.

Advertising Costs: Advertising costs are expensed as incurred.

New Accounting Pronouncement Adopted: On January 1, 2023, the credit union adopted ASC 326 and the related amendments, which replace the incurred loss accounting methodology with the CECL approach for financial instruments measured at amortized cost, including loans receivable and debt securities held to maturity. ASC 326 also applies to off-balance-sheet credit exposures and other commitments to extend credit. In addition, ASC 326 made changes to the accounting for debt securities available for sale, requiring credit losses to be presented as an allowance rather than a write-down on debt securities available for sale management does not intend to sell or it is unlikely the credit union will be required to sell.

The credit union adopted ASC 326 using the modified retrospective approach for all 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 period amounts continue to be reported in accordance with previously applicable US GAAP. The credit union recognized a cumulative-effect adjustment to decrease undivided earnings by $15,276,000, decrease credit risk discount on PCD loans by $2,142,000 and increase the allowance for credit losses by $16,585,000 and unfunded loan commitments by $833,000. The credit union elected to account for accrued interest receivable separately from the amortized cost of loans and investment securities. Accrued interest is classified separately on the consolidated statements of financial condition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table illustrates the impact on the allowance for credit losses upon the adoption of ASC 326:

	January 1, 2023		
	As Reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
		(in thousands)	
Commercial	$ 2,043	$ 840	$ 1,203
Other commercial	106	7	99
First mortgage	9,459	130	9,329
HELOC and other mortgage	1,778	133	1,645
Automobile	5,009	909	4,100
Credit card	477	1,007	(530)
Other consumer	1,137	398	739
Allowance for credit losses on loans	20,009	3,424	16,585
PCD credit risk adjustment	-	2,142	(2,142)
	20,009	5,566	14,443
Unfunded loan commitments	833	-	833
	$ 20,842	$ 5,566	$ 15,276

Effective January 1, 2023, the credit union adopted ASU 2022-02—*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, an update to ASC 326, which eliminates the TDR recognition and measurement guidance in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, and instead, requires that the credit union evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendment enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables (i.e., loan refinancings and restructurings) made to borrowers experiencing financial difficulty. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through April 9, 2024, the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of debt securities available for sale are as follows:

	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
2023		(in thousands)		
Federal agency securities	$ 240,315	$ 243	$ (27,904)	$ 212,654
Mortgage-backed securities	845,773	19	(122,582)	723,210
Collateralized mortgage obligations	119,375	-	(17,394)	101,981
US Treasury notes	110,053	-	(2,135)	107,918
Corporate bonds	12,759	49	(959)	11,849
Exchange traded debt securities	6,359	2	(687)	5,674
	$ 1,334,634	$ 313	$ (171,661)	$ 1,163,286

NOTE 2 – INVESTMENTS (CONTINUED)

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Federal agency securities	$ 268,154	$ 360	$ (30,001)	$ 238,513
Mortgage-backed securities	948,983	4	(143,330)	805,657
Collateralized mortgage obligations	130,095	25	(18,870)	111,250
US Treasury notes	109,569	-	(4,062)	105,507
Corporate bonds	12,051	-	(1,510)	10,541
Exchange traded debt securities	6,438	-	(1,223)	5,215
	$ 1,475,290	$ 389	$ (198,996)	$ 1,276,683

The weighted average yield on debt securities available for sale was 2.12% and 1.95% as of December 31, 2023 and 2022, respectively.

The amortized cost and fair value of debt securities held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023		(in thousands)		
Mortgage-backed securities	$ 74	$ -	$ (2)	$ 72
2022				
Mortgage-backed securities	$ 101	$ -	$ (5)	$ 96

The weighted average yield on debt securities held to maturity was 4.23% and 1.37% as of December 31, 2023 and 2022, respectively.

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

	Less Than 12 Months		12 Months or Longer		Total	
2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Debt securities available for sale:						
Federal agency securities	$ 2,877	$ (5)	$ 182,842	$ (27,899)	$ 185,719	$ (27,904)
Mortgage-backed securities	-	-	721,675	(122,582)	721,675	(122,582)
Collateralized mortgage obligations	3,344	(66)	98,634	(17,328)	101,978	(17,394)
US Treasury notes	-	-	107,918	(2,135)	107,918	(2,135)
Corporate bonds	-	-	10,448	(959)	10,448	(959)
Exchange traded debt securities	-	-	5,443	(687)	5,443	(687)
	$ 6,221	$ (71)	$ 1,126,960	$ (171,590)	$ 1,133,181	$ (171,661)
Debt securities held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 72	$ (2)	$ 72	$ (2)

NOTE 2 – INVESTMENTS (CONTINUED)

2022	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Debt securities available for sale:			(in thousands)			
Federal agency securities	$ 11,682	$ (977)	$ 190,796	$ (29,024)	$ 202,478	$ (30,001)
Mortgage-backed securities	31,866	(1,398)	772,833	(141,932)	804,699	(143,330)
Collateralized mortgage obligations	29,350	(4,523)	77,574	(14,347)	106,924	(18,870)
US Treasury notes	91,768	(2,388)	13,739	(1,674)	105,507	(4,062)
Corporate bonds	2,845	(476)	7,599	(1,034)	10,444	(1,510)
Exchange traded debt securities	3,296	(654)	1,919	(569)	5,215	(1,223)
	$ 170,807	$ (10,416)	$ 1,064,460	$ (188,580)	$ 1,235,267	$ (198,996)
Debt securities held to maturity:						
Mortgage-backed securities	$ 54	$ (2)	$ 42	$ (3)	$ 96	$ (5)

As of December 31, 2023, one federal agency security and one collateralized mortgage had been in a continuous unrealized loss position for less than 12 months; 32 federal agency securities, 110 mortgage-backed securities, 27 collateralized mortgage obligations, six US Treasury notes, 240 corporate bonds and 63 exchange traded debt securities had been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Management assesses securities that are in an unrealized loss position to determine whether the decline in fair value below the amortized cost basis resulted from credit losses or other factors. The unrealized losses presented in the table above were primarily attributable to yield curve movements and widened spreads. Since substantially all of these securities are guaranteed or sponsored by agencies of the US government, the credit union expects to receive all contractual interest payments on time and believes the risk of credit loss on these securities is remote. The credit union does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery; therefore there is no allowance for credit losses on debt securities available for sale as of December 31, 2023.

Prior to the adoption of ASC 326, management evaluated securities for OTTI on at least a quarterly basis and more frequently when economic or market concerns warranted such evaluation. Consideration was given to (1) the length of time and extent to which the fair value had been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity securities consist of the following:

	2023	2022
	(in thousands)	
Mutual funds	$ 17,585	$ 15,352
Co-Op restrictive stock	1,250	1,256
	$ 18,835	$ 16,608

The investment in the credit union service organization (Co-Op) does not have a readily determinable fair value; therefore, it is recorded at cost.

NOTE 2 – INVESTMENTS (CONTINUED)

Other investments consist of the following:

	2023	2022
	(in thousands)	
Share certificates at other credit unions	$ 200	$ 200
Perpetual contributed capital in a corporate credit union	1,500	1,500
FHLB stock	15,000	15,000
	$ 16,700	$ 16,700

Share certificates are generally non-negotiable and non-transferable and may incur substantial penalties for withdrawal prior to maturity.

Perpetual capital accounts are uninsured equity accounts and are redeemable only if called by the corporate credit union.

The weighted average yield on share certificates was 0.10% and 0.10% as of December 31, 2023 and 2022, respectively. The weighted average yield on perpetual contributed capital was 5.22% and 1.46% as of December 31, 2023 and 2022, respectively.

The amortized cost and fair value of investments by contractual maturity as of December 31, 2023 are shown below. Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities and collateralized mortgage obligations may differ from the contractual maturities. Mortgage-backed securities and collateralized mortgage obligations are therefore classified with no specific maturity date.

	Debt Securities Available for Sale		Debt Securities Held to Maturity		
Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
			(in thousands)		
No contractual maturity	$ -	$ -	$ -	$ -	$ 16,500
Less than one year	95,037	94,141	-	-	200
Due in one to five years	33,108	31,190	-	-	-
Due in five to ten years	13,200	11,776	-	-	-
Due in more than ten years	228,141	200,988	-	-	-
	369,486	338,095	-	-	16,700
Mortgage-backed securities	845,773	723,210	74	72	-
Collateralized mortgage obligations	119,375	101,981	-	-	-
	$ 1,334,634	$ 1,163,286	$ 74	$ 72	$ 16,700

NOTE 3 – LOANS RECEIVABLE, NET

Total loans outstanding by portfolio segment and class of loan are as follows:

	2023	2022
	(in thousands)	
Commercial:		
Commercial real estate	$ 370,602	$ 329,400
Other commercial	11,144	8,607
	381,746	338,007
US government guaranteed	121,771	138,838
Residential real estate:		
First mortgage	1,480,033	1,139,010
HELOC and other mortgage	308,466	257,035
	1,788,499	1,396,045
Consumer:		
Automobile	575,846	545,518
Credit card	43,771	41,544
Other consumer	59,282	48,647
	678,899	635,709
Total loans	2,970,915	2,508,599
Interest rate discount	(542)	(3,123)
Credit risk discount	-	(1,943)
Allowance for credit losses	(22,256)	(3,424)
Total loans, net	$ 2,948,117	$ 2,500,109

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Loans include the loans acquired in the business combination for which nonaccretable and accretable yields were recorded. The following provides additional information about these loans and the associated approximate amounts.

	Loans Receivable	Nonaccretable Balance Outstanding	Accretable Yield Outstanding	Carrying Amount of Loans Receivable
2023		(in thousands)		
Commercial real estate	$ 30,805	$ -	$ -	$ 30,805
First mortgage	45,736	-	(542)	46,278
HELOC and other mortgage	15,604	-	-	15,604
Automobile	79	-	-	79
Other consumer	1,423	-	-	1,423
	$ 93,647	$ -	$ (542)	$ 94,189
2022				
Commercial real estate	$ 33,612	$ 394	$ 1	$ 33,217
First mortgage	53,288	1,401	3,122	48,765
HELOC and other mortgage	18,456	56	-	18,400
Automobile	970	91	-	879
Other consumer	1,875	1	-	1,874
	$ 108,201	$ 1,943	$ 3,123	$ 103,135

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The activity in the allowance for credit losses on loans, by portfolio segment, is as follows:

	Commercial	US Government Guaranteed	Residential Real Estate	Consumer	Total
2023			(in thousands)		
Allowance for loan losses:					
Beginning balance	$ 847	$ -	$ 263	$ 2,314	$ 3,424
Cumulative effect of change in accounting principle – CECL	1,302	-	10,974	4,309	16,585
Balance, January 1, 2023	2,149	-	11,237	6,623	20,009
Charge-offs	-	-	(18)	(4,699)	(4,717)
Provision for credit loss expense	466	-	1,189	3,777	5,432
Recoveries	15	-	225	1,292	1,532
Ending balance	$ 2,630	$ -	$ 12,633	$ 6,993	$ 22,256
2022					
Allowance for loan losses:					
Beginning balance	$ 938	$ -	$ 1,563	$ 1,318	$ 3,819
Charge-offs	(85)	-	(17)	(2,799)	(2,901)
Provision (credit) for loan losses	(28)	-	(1,730)	2,788	1,030
Recoveries	22	-	447	1,007	1,476
Ending balance	$ 847	$ -	$ 263	$ 2,314	$ 3,424
Individually evaluated for impairment	$ 840	$ -	$ 150	$ -	$ 990
Collectively evaluated for impairment	7	-	113	2,314	2,434
Ending balance	$ 847	$ -	$ 263	$ 2,314	$ 3,424
Recorded investment in loans:					
Individually evaluated for impairment	$ 42,659	$ 7,201	$ -	$ -	$ 49,860
Collectively evaluated for impairment	295,345	131,637	1,382,398	634,634	2,444,014
Loans acquired with deteriorated credit quality	3	-	13,647	1,075	14,725
Ending balance	$ 338,007	$ 138,838	$ 1,396,045	$ 635,709	$ 2,508,599

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The activity in the allowance for unfunded commitments is as follows:

	2023
Allowance for unfunded credit commitments:	
Beginning balance	$ -
Cumulative effect of change in accounting principle – CECL	833
Charge-offs	-
Reversal of credit loss expense – unfunded commitments	(393)
Recoveries	-
	$ 440

Changes in Accounting Methodology: As discussed in Note 1, effective January 1, 2023, the credit union adopted ASC 326, changing the allowance methodology from the incurred loss method to the expected credit loss model under US GAAP. The effect of the adoption of ASC 326 is disclosed in Note 1.

Credit Quality Indicators for Commercial Segment: The credit union assesses the credit quality of its commercial real estate loans with an eight-grade risk rating system whereby a higher grade represents a higher level of credit risk. The eight-grade risk rating system can generally be classified into the following categories: pass or watch, special mention, substandard, doubtful and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass or watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention is considered a transitory grade, and generally, the credit union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The following table presents the credit quality of commercial real estate loans graded internally based on the commonly used internal classification system:

Internal Grade	2023 (in thousands)	2022 (in thousands)
Pass/Excellent	$ -	$ -
Pass/Strong	-	120,076
Pass/Satisfactory	-	166,962
Pass/Watch	346,587	33,470
Special Mention	17,742	2,537
Substandard	6,273	6,355
Doubtful	-	-
	$ 370,602	$ 329,400

Credit Quality Indicators for US Government Guaranteed Segment: The credit union purchased small business loans that are fully backed by the US government and full repayment is expected; therefore, no allowance was provided for this segment.

Credit Quality Indicators: The credit union assesses the credit quality of its residential real estate and consumer loans by nonaccrual and past due status.

Nonaccrual and Past Due Loans: The following table summarizes the credit union's nonaccrual loans by class:

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
	(in thousands)			
Commercial real estate	$ 521	$ -	$ 521	$ -
First mortgage	983	-	983	733
HELOC and other mortgage	1,155	40	1,195	591
Automobile	1	464	465	324
Credit card	-	168	168	127
Other consumer	-	142	142	72
	$ 2,660	$ 814	$ 3,474	$ 1,847

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The following table presents an analysis of past due loans by class:

	Current	30–59 Days Past Due	60–89 Days Past Due	90–179 Days Past Due	180–359 Days Past Due	Total
2023			(in thousands)			
Commercial real estate	$ 369,692	$ 389	$ -	$ 521	$ -	$ 370,602
Other commercial	11,105	39	-	-	-	11,144
US government guaranteed	121,771	-	-	-	-	121,771
First mortgage	1,474,164	3,273	1,613	983	-	1,480,033
HELOC and other mortgage	304,790	1,800	681	1,116	79	308,466
Automobile	572,129	2,815	437	465	-	575,846
Credit card	42,979	415	209	168	-	43,771
Other consumer	58,466	495	179	142	-	59,282
	$ 2,955,096	$ 9,226	$ 3,119	$ 3,395	$ 79	$ 2,970,915
2022						
Commercial real estate	$ 328,862	$ -	$ 538	$ -	$ -	$ 329,400
Other commercial	8,456	-	151	-	-	8,607
US government guaranteed	138,838	-	-	-	-	138,838
First mortgage	1,132,951	3,407	1,919	733	-	1,139,010
HELOC and other mortgage	253,894	1,302	1,248	591	-	257,035
Automobile	541,755	2,948	491	324	-	545,518
Credit card	40,893	323	201	127	-	41,544
Other consumer	47,966	430	179	72	-	48,647
	$ 2,493,615	$ 8,410	$ 4,727	$ 1,847	$ -	$ 2,508,599

There were no loans 90 days or more past due and still accruing interest as of December 31, 2023 and 2022.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Impaired Loans: Impaired loans individually evaluated for impairment as of December 31, 2022 are shown below.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 39,051	$ 38,851	$ -	$ 36,235	$ 2,242
First mortgage	4,956	4,938	-	5,690	201
HELOC and other mortgage	553	552	-	581	19
	44,560	44,341	-	42,506	2,462
With an allowance recorded:					
Commercial real estate	3,910	3,808	840	3,887	74
First mortgage	321	318	22	324	5
HELOC and other mortgage	1,396	1,393	128	1,465	56
	5,627	5,519	990	5,676	135
Total:					
Commercial real estate	42,961	42,659	840	40,122	2,316
First mortgage	5,277	5,256	22	6,014	206
HELOC and other mortgage	1,949	1,945	128	2,046	75
	$ 50,187	$ 49,860	$ 990	$ 48,182	$ 2,597

Modifications Made to Borrowers Experiencing Financial Difficulty: There were no loan modifications made to borrowers experiencing financial difficulty as of December 31, 2023.

TDRs: There were no loans modified as TDRs during the year ended December 31, 2022. There were no loans modified as TDRS during the year ended December 31, 2022 for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring.

Collateral-Dependent Loans: The credit union designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the sale of the collateral, as the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the credit union has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for selling costs, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

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

	(in thousands)
Commercial	$ 6,542
First mortgage	983
HELOC and other mortgage	1,698
Automobile	899
	$ 10,122

NOTE 4 – PROPERTY AND EQUIPMENT, NET

The composition of property and equipment is summarized as follows:

	2023	2022
	(in thousands)	
Land	$ 37,604	$ 37,604
Buildings	87,819	87,361
Leasehold improvements	31,764	29,899
Furniture and equipment	57,814	53,193
	215,001	208,057
Accumulated depreciation and amortization	(99,000)	(92,824)
	116,001	115,233
Construction in progress	2,178	3,558
	$ 118,179	$ 118,791

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 amounted to approximately $9,175,000 and $8,063,000, respectively.

During the year ended December 31, 2022, the credit union sold the Rosenell property for a net amount of $5.8 million and recognized a gain on sale of $5.3 million. The credit union financed a portion of the proceeds from the buyer (see Note 11 for details of note receivable). The credit union also leased the property back for a period of two years. The lease is included as an ROU asset and lease liability in the consolidated financial statements.

The credit union leases space in its buildings to various tenants. The following is a schedule of minimum future gross rental income on noncancelable operating leases:

Years Ending December 31,	(in thousands)
2024	$ 6,112
2025	5,503
2026	4,696
2027	3,940
2028	3,539
Thereafter	2,978
	$ 26,768

NOTE 5 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2023 Weighted Average Cost	2023	2022
		(in thousands)	
Regular shares	0.11%	$ 1,021,813	$ 1,182,073
Checking	0.03%	1,280,353	1,370,928
Money market	1.32%	695,339	743,657
IRA shares	0.12%	29,121	33,343
		3,026,626	3,330,001
Share certificates	4.12%	838,002	412,044
IRA certificates	3.53%	53,678	45,655
Brokered certificates	5.24%	317,635	140,528
		1,209,315	598,227
		$ 4,235,941	$ 3,928,228

The aggregate amount of share and IRA certificates in denominations that met or exceeded the NCUSIF insurance limit was approximately $485 million and $204 million as of December 31, 2023 and 2022, respectively.

A summary of share, IRA and brokered certificates by maturity as of December 31, 2023 is as follows:

Years Ending December 31,	(in thousands)
2024	$ 829,296
2025	278,224
2026	88,105
2027	6,193
2028	7,295
Thereafter	202
	$ 1,209,315

Interest expense on members' share accounts is summarized as follows:

	2023	2022
	(in thousands)	
Regular shares	$ 1,288	$ 1,088
Checking	1,567	824
Money market	5,114	2,034
IRA shares	38	43
Share certificates	20,020	3,800
IRA certificates	1,361	476
Brokered certificates	9,306	930
	$ 38,694	$ 9,195

NOTE 6 – BORROWED FUNDS AND LINES OF CREDIT

The credit union has a senior line of credit with the FHLB of San Francisco. Collateral under the agreement consists of a priority interest in most one-to-four unit residential real estate loans owned by the credit union plus its capital stock and all deposits as well as pledged securities. As of December 31, 2023 and 2022, the credit union had borrowed $230,000,000 and $300,000,000, respectively, against this line. The borrowings as of December 31, 2023 of $230,000,000 mature at various dates from June 2025 through December 2026 and carry interest at rates ranging from 4.03% to 5.21%. The borrowings of $300,000,000 as of December 31, 2022 mature at various dates from January 2023 through December 2025 and carry interest at rates ranging from 4.28% to 5.99%.The credit union has pledged real estate loans with outstanding balances of $1,864,000,000,000 and $1,561,000,000 as of December 31, 2023 and 2022, respectively. Additionally, the credit union pledged investment securities with a fair market value of $114,000,000 and $683,000,000 as of December 31, 2023 and 2022, respectively. The total remaining borrowing capacity under the agreement, determined as a percentage of available loan collateral, was approximately $882,000,000 and $1,147,000,000 as of December 31, 2023 and 2022, respectively.

The credit union also has letters of credit with the FHLB worth $15 million used as collateral for public deposits.

In addition, the credit union has two open-end loan promissory notes consisting of settlement and term lines of credit with a corporate credit union. Maximum available borrowings on the settlement line were $18.5 million, subject to provision of adequate collateral. The limit on the term line of credit was $1, subject to provision of adequate collateral for credit requests. Collateral under the settlement line of credit can include share certificates, securities in safekeeping and all the assets of the credit union. The credit union pledged securities in the amount of $21 million and $26 million as of December 31, 2023 and 2022, respectively. Collateral under the term line of credit can include designated loans, corporate credit union share certificates and securities held in safekeeping. Interest is variable or fixed as determined at the time of the credit request. This arrangement is annually reviewed for continuation by the lender and the credit union. As of December 31, 2023 and 2022, there were no borrowings under the open-end loan promissory notes.

The credit union pledged loans to the Federal Reserve Bank under the borrower-in-custody (BIC) collateral arrangement. Under the terms of the BIC, the credit union has the ability to borrow from 50% to 95% of the market value of its pledged eligible loans. The collateral value as of December 31, 2023 and 2022 was approximately $398,290,000 and $360,000,000, respectively. There was no outstanding balance as of December 31, 2023 and 2022.

During the year ended December 31, 2023, the credit union accessed the FRB's Bank Term Funding Program (BTFP), which was established by the FRB to provide liquidity to eligible borrowers, taking as collateral types of securities. The program offers advances up to one year in length at the one-year overnight index swap (OIS) rate as of the day advances are made plus 10 basis points. Interest rates are fixed for the term of the advances. Pledged collateral is valued at par value. As of December 31, 2023, the credit union has pledged investment securities with a total par value of $488,972,000 as collateral for this program. As of December 31, 2023, the credit union had borrowed $30,000,000 from the BTFP with an interest rate at 4.9% and a maturity date of April 24, 2024.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings: The credit union is periodically a defendant in various legal proceedings involving matters generally incidental to its business. Although it is difficult to predict the outcome of these proceedings, management believes, based on discussions with counsel, that there are no estimable or probable material losses as of December 31, 2023.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Lease Commitments: On January 1, 2022, the credit union adopted ASU 2016-02. The credit union leases certain office facilities under non-cancelable operating leases expiring in various years through 2034. The credit union's lease terms may include options to extend the leases. The credit union's measurement of the operating lease liability and ROU asset does not include payments associated with the options to extend the lease, since it is not reasonably certain that the credit union will exercise these options.

The ROU asset and lease liabilities of $12,303,000 and $13,012,000 as of December 31, 2023 and $12,875,000 and $13,654,000 as of December 31, 2022 are recognized based on the present value of minimum lease payments over the lease term and are included in other assets and accrued expenses and other liabilities, respectively. As most of the credit union's leases do not provide an implicit rate, the credit union used the risk free interest rate available at the later of the adoption date or lease commencement date to determine the present value of future payments. The amortization of the operating lease assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in net occupancy expense under non-interest expense. The fixed lease expense is recognized on a straight-line basis over the remaining life of the lease.

As of December 31, 2023 and 2022, the weighted average remaining lease term was 5.26 years and 5.75 years, respectively, and the weighted average discount rate was 2.02% and 1.44%, respectively. Operating lease cost was approximately $6,264,000 and $5,685,000 for the years ended December 31, 2023 and 2022, respectively.

The following table presents the future lease payments of the lease liabilities as of December 31, 2023:

Years Ending December 31,	(in thousands)
2024	$ 3,299
2025	3,038
2026	2,580
2027	1,975
2028	1,221
Thereafter	1,610
Total minimum lease payments	13,723
Less imputed interest	711
Total operating lease liabilities	$ 13,012

Loan Commitments: The credit union had outstanding commercial and real estate loan commitments of $13 million and $11 million as of December 31, 2023 and 2022, respectively. The credit union also had unused lines of credit not reflected in the accompanying consolidated financial statements as follows:

	2023	2022
	(in thousands)	
Credit card	$ 235,970	$ 234,856
HELOC	370,743	357,659
Business	23,384	24,380
Overdraft protection	100,494	102,536
Other	23,161	23,454
	$ 753,752	$ 742,885

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Financial Instruments with Off-Balance-Sheet Risk: The credit union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. The financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the consolidated statements of financial condition. The contractual or notional amounts of these instruments reflect the extent of involvement the credit union has in particular classes of financial instruments. The credit union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The credit union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk as of December 31, 2023 are the commitments to extend credit of $754 million in contractual or notional amount per the above table. Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the credit union upon extension of credit, is based on management's credit evaluation of the member. Collateral held varies but may include real estate, vehicles and shares.

NOTE 8 – INCOME TAXES

The credit union is a state-chartered credit union as described in IRC Section 501(c)(14) and, as such, is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions. Tax exemption from California income tax is similar.

FASB ASC 740-10-65, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the credit union's tax returns to determine whether the tax positions are "more likely than not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions deemed to not meet the more-likely-than-not threshold should be recorded as a tax expense and liability in the current year. For the years ended December 31, 2023 and 2022, management has determined that the credit union has no material uncertain tax positions, and accordingly, the credit union has not recorded a liability for the payment of interest or penalties. The credit union is subject to and pays all state and city taxes on goods and services purchased by the credit union. There was no income tax provision for the subsidiaries in 2023 and 2022.

NOTE 9 – FAIR VALUE

Fair values of securities are usually based on quoted market prices. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities or on discounted cash flow models using the expected payment characteristics of the underlying mortgage instruments.

NOTE 9 – FAIR VALUE (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023	(in thousands)			
Debt securities available for sale	$ 1,163,286	$ 125,440	$ 1,037,846	$ -
Mutual funds	17,585	17,585	-	-
	$ 1,180,871	$ 143,025	$ 1,037,846	$ -
2022				
Debt securities available for sale	$ 1,276,683	$ 121,263	$ 1,155,420	$ -
Mutual funds	15,352	15,352	-	-
	$ 1,292,035	$ 136,615	$ 1,155,420	$ -

Fair values of assets measured on a nonrecurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023	(in thousands)			
Collateral-dependent loans	$ 8,679	$ -	$ -	$ 8,679
2022				
Impaired loans	$ 162	$ -	$ -	$ 162

Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans.

NOTE 10 – LOAN SERVICING

The credit union's servicing portfolio with capitalized MSRs is summarized as follows:

	2023	2022
	(in thousands)	
Residential loans	$ 506,431	$ 700,493
Commercial loans	147,027	185,012
	$ 653,458	$ 885,505

NOTE 10 – LOAN SERVICING (CONTINUED)

MSRs as recorded in the consolidated financial statements at amortized cost compared to fair value as determined by an independent third-party valuation company are summarized as follows:

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in thousands)		
Residential loans	$ 2,593	$ 7,372	$ 3,404	$ 9,548
Commercial loans	854	2,052	1,089	2,752
	$ 3,447	$ 9,424	$ 4,493	$ 12,300

The fair value of servicing rights was determined using a discount rate of 11.00% for residential loans and all commercial loans as of December 31, 2023. Current delinquency experience has been assumed to continue for all stratifications. The average prepayment speed (CPR) for residential loans was 6.78% and 7.10% as of December 31, 2023 and 2022, respectively. The average CPR for commercial loans was 8.95% and 8.96% as of December 31, 2023 and 2022, respectively.

MSRs are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSRs by risk stratification for loan age and interest rate. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent reversals.

The following summarizes MSR activity, loan servicing income and escrow accounts for collections, taxes and insurance held in a fiduciary capacity and not as assets of the credit union:

	2023	2022
	(in thousands)	
MSRs, beginning of year	$ 4,493	$ 5,715
Capitalized from loan originations	211	461
Amortization	(1,257)	(1,683)
MSRs, end of year	$ 3,447	$ 4,493
Loan servicing income	$ 2,509	$ 2,688
Escrow accounts	3,316	3,649

NOTE 11 – NOTE RECEIVABLE

In July 2014, the credit union sold the West LA property to an unrelated third party. The sale was partially financed by the purchaser via a promissory note from the credit union. The note receivable was for $8.7 million, payable monthly for a period of 192 months at an interest rate of 3.75%. As of December 31, 2023 and 2022, the note receivable balance was $4.3 million and $4.8 million, respectively.

In March 2022, the credit union sold the Rosenell property, which was partially financed by the purchaser via a promissory note from the credit union. The note receivable was for $3.7 million, payable for a period of 10 years and maturing in 2032. The purchaser will make interest-only payments at a variable interest rate for a period of five years, at which time the loan will convert to principal and interest payments for the remainder of the term. As of December 31, 2023 and 2022, the note receivable balance was $3.7 million for each year.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of December 31, 2023 and 2022, the credit union had cash balances totaling $10,368,000 and $7,815,000, respectively, at financial institutions, which exceeded federally insured limits.

NOTE 13 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the credit union has granted loans to principal officers and directors amounting to $4.2 million and $3.6 million as of December 31, 2023 and 2022, respectively. Deposits from related parties held by the credit union as of December 31, 2023 and 2022 amounted to $3.4 million and $3.8 million, respectively. Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances.

NOTE 14 – EMPLOYEE BENEFIT PLANS

401(k) Plan: The credit union has a salary deferral 401(k) plan. Employees who have completed three months of service are eligible to participate in the plan. For any calendar year, employee contributions may not exceed a specific dollar amount as determined by the IRS. The credit union will contribute a fixed amount of safe harbor matching contributions of 100% on the first 6% of compensation deferred into the plan. For the years ended December 31, 2023 and 2022, the credit union contributed $2.5 million and $2.3 million, respectively.

457(f) Plan: The credit union has a nonqualified deferred compensation plan for certain executives under IRC Section 457(f). To support the deferred compensation plan, the credit union has elected to purchase credit union owned variable life insurance and variable annuities. The surrender value of these investments, included in other assets, was $8.5 million and $7.4 million as of December 31, 2023 and 2022, respectively. There was no change in the market value of designated plan assets and benefit expense for the years ended December 31, 2023 and 2022. The liability for the deferred compensation is included in accrued liabilities and totaled $2.1 million and $1.2 million as of December 31, 2023 and 2022, respectively.

The credit union has another nonqualified deferred compensation plan for a key management employee under IRC Section 457(f). The credit union invested in certain mutual funds to partially defray the cost of this agreement. The assets under this arrangement are maintained at fair value of $14.2 million and $12.3 million and are included in equity securities as of December 31, 2023 and 2022, respectively. Changes in fair value of these mutual funds are recorded through earnings.

457(b) Plan: The credit union has an unfunded nonqualified deferred compensation plan for members of management. The plan allows for employees to defer a portion of their compensation. The deferred compensation investments are shown as both assets and liabilities on the credit union's consolidated financial statements and are available to creditors in the event of the credit union's liquidation. The funds were invested into certain mutual funds and are included in equity securities as of December 31, 2023 and 2022 in the consolidated financial statements. Deferred compensation investments and liabilities totaled $1,439,000 and $1,167,000 as of December 31, 2023 and 2022, respectively.

Split-Dollar Life Insurance: Included in other assets was a loan to an executive under a split-dollar life insurance arrangement between the credit union and the executive. The loan is recorded based on the collateral assignment method whereby the executive owns the life insurance policy and assigns the policy collateral back to the credit union along with an executed promissory note. The note receivable is recorded at the lesser of the cash surrender value or the note receivable plus accrued interest. As of December 31, 2023 and 2022, the balance of the loan was approximately $12,065,000 and $12,215,000, respectively, and is included in other assets on the consolidated statements of financial condition.

NOTE 15 – REVENUE FROM CONTRACTS WITH MEMBERS

The credit union's services that fall within the scope of ASC 606, *Revenue from Contracts with Customers*, are presented in non-interest income and are recognized as revenue as the credit union satisfies its obligations to the members.

The following table presents revenue from contracts with members within the scope of ASC 606 for the years ended December 31, 2023 and 2022:

	2023	2022
Deposit service charges and related fee income	$ 13,682	$ 13,334
Interchange income	9,453	9,979
Insurance commission income	5,802	6,627
	$ 28,937	$ 29,940

Deposit Service Charges and Related Fee Income: The credit union earns fees from its members for transaction-based account maintenance and overdraft services. The deposit account services include ongoing account maintenance, as well as certain services such as wire transfer services, non-sufficient funds (NSF) fees and other deposit related fees. Transaction-based fees such as NSF fees, ACH fees and other deposit related fees are recognized at the time the transaction is executed, as that is the point in time the credit union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the credit union satisfies the performance obligation. Payments for these service charges are received immediately through a direct charge to members' accounts.

Interchange Income: The credit union earns interchange fees from automated teller machine, debit and credit cardholder transactions conducted through the Visa and Mastercard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Revenue is recognized when the net profit is determined by the payment networks at the end of each day. Certain expenses directly related to the debit and credit cards are recorded on a net basis with interchange income.

Insurance Commission Income: The credit union earns insurance commission income from guaranteed asset protection insurance, credit protection insurance, mechanical breakdown insurance, and other products sold to members. The insurance commission income is based on contractual agreements between the credit union and third-party insurance carriers and earned at the point in time the contract is executed.

NOTE 16 – REGULATORY CAPITAL

The credit union is subject to various regulatory capital requirements administered by the NCUA and the Department of Financial Protection and Innovation. 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 consolidated financial statements. Under capital adequacy guidelines and the risk-based capital framework, the credit union must meet specific risk-based capital guidelines that involve quantitative measures of the credit union's assets and liabilities as calculated under US GAAP. The credit union's capital amounts and risk based capital classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

NOTE 16 – REGULATORY CAPITAL (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to assets (as defined). Effective January 1, 2022, the credit union is required to calculate a risk-based capital (RBC) ratio under the new RBC regulatory framework. The credit union's RBC ratio as of December 31, 2023 and 2022 was 17.47% and 18.82%, respectively. Management believes, as of December 31, 2023, that the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the RBC regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and maintain a minimum RBC ratio of 10% of total risk weighted assets. There are no conditions or events since that notification which management believes have changed the credit union's category.

The credit union's RBC amounts and ratios are as follows:

	Actual		Adequately Capitalized Requirement		Well Capitalized Requirement	
2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
RBC ratio numerator	$ 433,117	17.47%	$ 198,301	8.00%	$ 247,877	10.00%
Total risk weighted assets	2,478,765	N/A	N/A	N/A	N/A	N/A
2022						
RBC ratio numerator	$ 409,910	18.82%	$ 174,234	8.00%	$ 217,793	10.00%
Total risk weighted assets	2,177,929	N/A	N/A	N/A	N/A	

The credit union's net worth ratios are as follows:

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 444,557					
CECL transition provision	10,235					
	$ 454,792	9.31%	$ 292,604	6.00%	$ 341,371	7.00%
2022						
Net worth	$ 439,972	9.64%	$ 273,704	6.00%	$ 319,322	7.00%

NOTE 17 – SUBSEQUENT EVENTS

On February 5, 2024, the credit union, CMTIC and CMTC entered into a stock purchase agreement with a third party to sell the outstanding shares of CMTC's common stock for $2,100,000. The completion of the sale is pending approval from the California Department of Insurance.

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