UNIVERSITY OF WISCONSIN CREDIT UNION

FINANCIAL STATEMENTS
December 31, 2023 and 2022

UNIVERSITY OF WISCONSIN CREDIT UNION
Madison, Wisconsin

FINANCIAL STATEMENTS
December 31, 2023 and 2022

CONTENTS

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Independent Auditor's Report

To the Board of Directors
University of Wisconsin Credit Union

Opinion

We have audited the financial statements of University of Wisconsin Credit Union (the "Credit Union"), which comprise the statements of financial condition as of December 31, 2023 and 2022 and the related statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 1 to the financial statements, the Credit Union has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Codification 326, *Financial Instruments - Credit Losses*. The Credit Union adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

To the Board of Directors
University of Wisconsin Credit Union

Auditor's Responsibilities for the Audits of the Financial Statements

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

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audits procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

March 7, 2024

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(In thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 305,568	$ 329,310
Securities available-for-sale	585,100	484,401
Securities held-to-maturity	300,289	603,082
Loans held for sale, at fair value	32,433	13,996
Loans to members, net	3,710,662	3,408,085
Federal Home Loan Bank stock, at cost	6,000	9,219
Accrued interest receivable	20,284	15,551
Premises and equipment, net	243,579	186,277
National Credit Union Share Insurance Fund deposit	41,833	39,721
Mortgage servicing rights	21,026	24,120
Other assets	36,942	31,447
	$ 5,303,716	$ 5,145,209
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' deposits	$ 4,577,290	$ 4,421,042
Outstanding drafts payable	17,846	15,063
Federal Reserve advances	150,000	-
Federal Home Loan Bank advances	-	200,000
Accrued interest payable and other liabilities	88,084	70,716
	4,833,220	4,706,821
Members' equity		
Regular reserve	113,910	113,910
Undivided earnings	378,537	356,897
Accumulated other comprehensive loss	(21,951)	(32,419)
	470,496	438,388
	$ 5,303,716	$ 5,145,209

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Interest income		
Loans	$ 184,426	$ 118,605
Securities and interest-earning deposits	26,858	19,636
	211,284	138,241
Interest expense		
Members' deposits	56,425	14,448
Borrowed funds	2,503	2,887
	58,928	17,335
Net interest income	152,356	120,906
Credit loss expense	13,042	9,374
Net interest income after credit loss expense	139,314	111,532
Non-interest income		
Service charges and fees	5,015	4,576
Fees on loans	7,571	8,636
Card and ATM interchange	44,024	41,637
Net gain on sale of loans	5,078	4,030
Other	8,886	8,058
	70,574	66,937
Non-interest expense		
Salaries and employee benefits	87,226	73,039
Office occupancy	12,579	11,204
Office operations	12,410	10,772
Loan and credit card processing	16,030	16,093
Credit card member rewards	13,284	11,871
Card program interchange and processing	7,804	8,170
Data processing	9,719	7,992
Professional services	4,479	3,030
Marketing and advertising	11,128	10,407
Other	7,110	5,279
	181,769	157,857
Net income	28,119	20,612
Other comprehensive income (loss):		
Change in unrealized gain (loss) on securities	10,314	(27,727)
Reclassification adjustments for losses recognized in income	154	-
Other comprehensive income (loss)	10,468	(27,727)
Comprehensive income (loss)	$ 38,741	$ (7,115)

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2023 and 2022
(In thousands)

	Regular Reserve	Undivided Earnings	Accumulated Other Compre-hensive (Loss) Income	Total Members' Equity
Balance at January 1, 2022	$ 113,910	$ 336,513	$ (4,692)	$ 445,731
Cumulative effect of change in accounting principle	-	(228)	-	(228)
Net income	-	20,612	-	20,612
Other comprehensive loss	-	-	(27,727)	(27,727)
Balance at December 31, 2022	113,910	356,897	(32,419)	438,388
Cumulative effect of change in accounting principle	-	(6,479)	-	(6,479)
Net income	-	28,119	-	28,119
Other comprehensive income	-	-	10,468	10,468
Balance at December 31, 2023	$ 113,910	$ 378,537	$ (21,951)	$ 470,496

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities		
Net income	$ 28,119	$ 20,612
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	11,673	9,699
Credit loss expense	13,042	9,374
Amortization of mortgage servicing rights	6,088	6,329
Change in impairment reserve of mortgage servicing rights	-	(39)
Net amortization on securities	7,664	6,918
Net loss on sale of securities	154	-
Net gain on sale of loans	(5,078)	(4,030)
Net loss on sale of premises and equipment	26	-
Proceeds from sale of loans held for sale	328,151	545,626
Origination of loans held for sale, net	(344,504)	(429,868)
Net change in:		
Accrued interest receivable	(4,733)	(1,833)
Other assets	(5,495)	304
Outstanding drafts payable	2,783	128
Accrued interest payable and other liabilities	17,368	4,178
Net cash provided by operating activities	55,258	167,398
Cash flows from investing activities		
Proceeds from maturities, calls, and paydowns of securities available-for-sale	346,234	196,965
Proceeds from sale of securities available-for-sale	28,309	-
Purchases of securities available-for-sale	(169,799)	(245,461)
Purchases of securities held-to-maturity	-	(348,755)
Proceeds from the sale of premises and equipment	251	-
Purchase of premises and equipment	(69,252)	(52,375)
Redemption (purchase) of Federal Home Bank stock	3,219	(39)
Net change in:		
Loans to members	(322,098)	(639,703)
Interest bearing deposits	-	250
Securities purchased under agreements to resell	-	60,000
NCUSIF deposit	(2,112)	(3,175)
Net cash used in investing activities	(185,248)	(1,032,293)
Cash flows from financing activities		
Net change in members' deposits	156,248	308,400
Advances from the Federal Reserve Bank	250,001	-
Advances from the FHLB	495,000	800,000
Repayment of the Federal Reserve Bank advances	(100,001)	-
Repayment of the FHLB advances	(695,000)	(805,000)
Net cash provided by financing activities	106,248	303,400
Net change in cash and cash equivalents	(23,742)	(561,495)
Cash and cash equivalents at beginning of year	329,310	890,805
Cash and cash equivalents at end of year	$ 305,568	$ 329,310
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 59,000	$ 17,348
Loans transferred to loans held for sale	-	42,168

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Concentrations of Credit Risk: The Credit Union is a state-chartered, federally insured cooperative located in Madison, Wisconsin, with various branch locations to conveniently service its members in the Madison metropolitan area and also in Green Bay, LaCrosse, Milwaukee, Stevens Point, Oshkosh and Whitewater, Wisconsin. The Credit Union is organized under the laws of the state of Wisconsin for the purpose of promoting thrift among and creating a source of credit for its members. The Credit Union's primary services include accepting deposits and making loans. The Credit Union grants consumer (including credit card), education, mortgage, and home equity loans to its members. The majority of the loans are secured by collateral including autos and other types of vehicles, members' deposits, real estate, and other consumer assets. There are no significant concentrations of loans to any one industry or member. However, the members' ability to repay their loans is dependent on the general economic conditions in the area. The Credit Union primarily operates in the Madison and Milwaukee Wisconsin metro areas. Concentration in these markets in which the Credit Union does business represents a potential for significant impact should adverse economic events occur within this limited market.

Field of Membership: Any current or former employee of the University of Wisconsin System, Edgewood College or Madison Area Technical College (MATC), Madison, Wisconsin; any Wisconsin resident who is currently enrolled or has attended any accredited institution of higher education; any current or former employee of the Credit Union, or an affiliate of the University of Wisconsin System, or of Covance Clinical Research Units, Inc., Madison, Wisconsin; or of the Wisconsin Interscholastic Athletic Association; persons residing, employed, enrolled in or attending school within a five-mile radius of the headquarters' office or any branch location; a public depositor; and any member of the immediate family of any other eligible person may become a member of the Credit Union in the manner provided in the bylaws. Any organization or association may become a member of the Credit Union if a majority of the directors, owners or members thereof are eligible for membership in the Credit Union. In addition, any organization or association that has a business location within the geographic areas described earlier in this paragraph is eligible for membership in the Credit Union. Furthermore, any trust may become a member of the Credit Union if a majority of the persons who are trustee(s) and beneficiary(ies) are eligible for membership in the Credit Union.

Subsequent Events: The Credit Union has evaluated subsequent events for recognition and disclosure, through March 7, 2024, which is the date the financial statements were available to be issued.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents: Cash and cash equivalents include the Credit Union's cash on hand and balances on deposit in other institutions with original maturities of three months or less. The Credit Union reports net cash flows for member loan and share transactions, interest-bearing deposits in other financial institutions and the NCUSIF deposit. At December 31, 2023 and 2022, cash and cash equivalents include approximately $255,979 and $276,057 of deposits at the Federal Reserve Bank of Chicago, respectively.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities classified as available for sale are those debt securities that the Credit Union intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Credit Union's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value with unrealized holding gains or losses reported in other comprehensive loss.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. For premiums on callable debt securities, the premium is amortized against income over the period until the earlier of the first call date or maturity. Gains and losses on sales are recorded on the trade date and based on the amortized cost of the security sold.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. All held-to-maturity securities were in U.S government bonds and have an explicit guarantee by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. No allowance for credit losses has been recorded for investments.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Credit Union evaluates its available-for-sale (AFS) investment securities portfolio on an annual basis for indicators of credit impairment. The Credit Union assesses whether credit impairment has occurred when the fair value of a debt security is less than the amortized cost at the balance sheet date. Management starts with a qualitative analysis by reviewing the amount of unrealized loss, the credit rating history, market trends of similar security classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially be impaired. If there is insufficient evidence from the qualitative analysis that credit losses do not exist, the Credit Union uses a discounted cash flow analysis at the security level, which includes evaluating the timing and amount of the expected cash flows. Non-credit-related impairment results from other factors, including increased liquidity spreads and higher interest rates. The credit portion of the impairment is recognized through an allowance in noninterest income while the noncredit portion is recognized in OCI.

Prior to the implementation of ASU 2016-13 (CECL) on January 1, 2023, the Credit Union evaluated its AFS securities portfolio in accordance with the methodology specified in the preceding paragraph except that the credit portion of the impairment would reduce the amortized cost basis of the security. Any subsequent increase in the expected cash flows would be recognized as an adjustment to interest income.

Loans Held for Sale: Loans held for sale are recorded at fair value as of the statement of financial condition date. The fair value includes the servicing value of the loans as well as any accrued interest.

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

Loans: Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at the amount of unpaid principal, net of deferred loan origination costs, reduced by an allowance for credit losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Since uncollectible interest is charged off in a timely manner, accrued interest receivable is not included in the amortized cost basis.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan fees and direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Adoption of New Accounting Standards:

On January 1, 2023, the Credit Union adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at cost, and off-balance-sheet (OBS) 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 GAAP. The Credit Union recorded a net decrease to Members' Equity and increase to Allowance for Credit Losses of $6,479 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

In March 2022, FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The amendments in this update eliminate the accounting guidance and related disclosures for TDRs by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and are applied prospectively, except with respect to the recognition and measurement of TDRs, where an entity has the option to apply a a modified retrospective transition method. Early adoption of the amendments in this update is permitted.

As of January 1, 2023, the Credit Union adopted FASB ASU 2022-02, which superseded the current disclosure requirements for TDRs.

Allowance for Credit Losses: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans**.** Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. The remaining life methodology is used for the unsecured line of credit segment due to its relatively small size and short-term nature. The remaining life methodology applies an average loss rate to the segment balance over its remaining life. The Credit Union utilizes a discounted cashflow approach to determine the allowance for credit losses for all loan segments except the unsecured line of credit segment. The discounted sum of expected cashflows is compared to the amortized cost and any shortfall is recorded as reserve.

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

to the implementation of ASU 2016-13 (CECL) on January 1, 2023, the allowance for credit losses was subject to the guidance included in ASC 310 and ASC 450. Under that guidance, the Credit Union was required to use an incurred loss methodology to estimate credit losses that were estimated to be incurred in the loan portfolio and that could ultimately materialize into confirmed losses in the form of charge-offs. The incurred loss methodology was a backward-looking approach to loss recognition and based on the concept of a triggering event having taken place, causing a loss to be inherent within the portfolio. Additionally, loans that were identified as impaired under the definition of ASC 310, were required to be assessed on an individual basis. The allowance for credit losses and resulting provision expense levels for comparative periods presented were estimated in accordance with these requirements.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. At December 31, 2023 and 2022, the Credit Union did not have any other real estate owned.

Federal Home Loan Bank Stock: The Credit Union, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in the capital stock of the FHLB. No ready market exists for the stock and has no quoted market value. The stock is redeemable at par by the FHLB and is therefore carried at cost and periodically evaluated for impairment. The Credit Union records dividends in income on the ex-dividend date.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the asset's useful lives on the straight-line basis. Maintenance and repairs are expensed and major improvements are capitalized. Gains and losses on disposition are included in non-interest income.

National Credit Union Share Insurance Fund (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 one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums: A credit union is required to pay an annual insurance premium equal to a percent of its total insured shares, unless the payment is waived by the NCUA Board. The NCUA Board waived the insurance premium for insured shares outstanding for 2023 and 2022.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Servicing Rights: Mortgage servicing rights are initially recorded at fair value. Servicing rights are recognized separately when they are acquired through sales of loans. Fair value is primarily based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Any changes in valuation allowances would be reported with other non-interest income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. At December 31, 2023 and 2022 there is no valuation allowance for impairment of mortgage servicing rights.

Mortgage Banking Derivatives**:** Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. The Credit Union enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. The Credit Union does not designate these derivatives as hedging instruments and accordingly, recognizes the change in their fair value in earnings. Changes in the fair values of these derivatives are included in net gains on sales of loans.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Members' Deposits: Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest rates on members' deposit accounts are based on available earnings at the end of an interest period. Interest rates on members' deposit accounts are set by management in accordance with the policies set forth and approved by the Board of Directors, based on an evaluation of current and estimated future market conditions.

Members' Equity: The Credit Union was required by regulation to maintain a statutory reserve (regular reserve). This reserve, which represents a regulatory restriction of members' equity, was not available for the payment of interest to members. The Credit Union is no longer required to transfer undivided earnings to regular reserves during 2023 and 2022.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union does, however, pay sales tax, property tax, payroll taxes, and federal and state income tax on unrelated business activities.

The Internal Revenue Service (IRS) and certain taxing authorities are evaluating what, if any, products and services provided by state chartered credit unions or their credit union service organizations are subject to unrelated business income tax (UBIT). There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has issued certain technical advice memorandums identifying certain activities as being subject to UBIT. As a result, at this time there is uncertainty regarding whether state chartered credit unions should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which credit unions were granted non-taxable status. The tax liability recorded by the Credit Union as of December 31, 2023 and 2022 attributed to unrelated business activities was not material.

Retirement Savings Plan: The Credit Union sponsors a retirement savings plan covering substantially all employees eligible as to age and length of service. The amount of the contribution to the plan is determined annually at the discretion of the Board of Directors and complies with the requirements of the plan agreement.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (losses). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of members' equity.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Off-Balance-Sheet Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and lines of credit, issued to meet member-financing needs. The face amount for these items represents the exposure to loss, before considering collateral or ability to repay. Such financial instruments are recorded when they are funded.

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

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated.

(Continued)

(In thousands)

NOTE 2 – DEBT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at December 31, 2023 and 2022.

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. government bonds	$ 64,498	$ -	$ (3,312)	$ 61,186
U.S. government sponsored entities and agencies	110,000	56	(4,312)	105,744
Corporate bonds	33,513	121	(2,808)	30,826
Agency collateralized mortgage obligations-residential	47,326	539	(454)	47,411
Agency mortgage-backed securities-residential	131,923	1,386	(3,311)	129,998
Agency mortgage-backed securities-commercial	219,791	253	(10,109)	209,935
Total available-for-sale	$ 607,051	$ 2,355	$ (24,306)	$ 585,100

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. government bonds	$ 300,289	$ -	$ (7,090)	$ 293,199
Total held-to-maturity	$ 300,289	$ -	$ (7,090)	$ 293,199

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. government bonds	$ 91,898	$ -	$ (4,413)	$ 87,485
U.S. government sponsored entities and agencies	35,000	-	(5,798)	29,202
Corporate bonds	29,399	-	(3,844)	25,555
Agency collateralized mortgage obligations-residential	17,848	-	(704)	17,144
Agency mortgage-backed securities-residential	94,287	36	(4,523)	89,800
Agency mortgage-backed securities-commercial	248,388	29	(13,202)	235,215
Total available-for-sale	$ 516,820	$ 65	$ (32,484)	$ 484,401

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. government bonds	$ 603,082	$ -	$ (23,161)	$ 579,921
Total held-to-maturity	$ 603,082	$ -	$ (23,161)	$ 579,921

(Continued)

(In thousands)

NOTE 2 – DEBT SECURITIES (Continued)

In 2023, the Credit Union received proceeds of $28,309 with a net loss of $154 for securities sold during the year. There were no sales of securities in 2022.

At December 31, 2023, amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Available-for-sale		
Within one year	$ -	$ -
One to five years	133,684	128,040
Five to ten years	74,327	69,716
Mortgage-backed securities and collateralized mortgage obligations	399,040	387,344
Total	$ 607,051	$ 585,100
Held-to-maturity		
Within one year	$ 300,289	$ 293,199
Total	$ 300,289	$ 293,199

The following tables summarizes securities with unrealized and unrecognized losses at December 31, 2023 and 2022 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Available-for-sale						
U.S. government bonds	$ -	$ -	$ 61,186	$ (3,312)	$ 61,186	$ (3,312)
U.S. government sponsored entities and agencies	49,985	(15)	30,703	(4,297)	80,688	(4,312)
Corporate bonds	-	-	26,603	(2,808)	26,603	(2,808)
Agency collateralized mortgage obligations-residential	-	-	16,901	(454)	16,901	(454)
Agency mortgage-backed securities – residential	807	(7)	81,702	(3,304)	82,509	(3,311)
Agency mortgage-backed securities - commercial	22,522	(465)	167,729	(9,644)	190,251	(10,109)
Total available-for-sale	$ 73,314	$ (487)	$ 384,824	$ (23,819)	$ 458,138	$ (24,306)

(Continued)

(In thousands)

NOTE 2 – DEBT SECURITIES (Continued)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
December 31, 2023						
Held-to-maturity						
U.S. government bonds	$ -	$ -	$ 293,199	$ (7,090)	$ 293,199	$ (7,090)
Total held-to-maturity	$ -	$ -	$ 293,199	$ (7,090)	$ 293,199	$ (7,090)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
December 31, 2022						
Available-for-sale						
U.S. government bonds	$ 87,485	$ (4,413)	$ -	$ -	$ 87,485	$ (4,413)
U.S. government sponsored entities and agencies	-	-	29,202	(5,798)	29,202	(5,798)
Corporate bonds	3,759	(187)	21,796	(3,657)	25,555	(3,844)
Agency collateralized mortgage obligations-residential	17,144	(704)	-	-	17,144	(704)
Agency mortgage-backed securities – residential	87,139	(4,489)	604	(34)	87,743	(4,523)
Agency mortgage-backed securities - commercial	79,053	(3,322)	147,311	(9,880)	226,364	(13,202)
Total available-for-sale	$ 274,580	$ (13,115)	$ 198,913	$ (19,369)	$ 473,493	$ (32,484)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
December 31, 2022						
Held-to-maturity						
U.S. government bonds	$ 148,872	$ (942)	$ 431,049	$ (22,219)	$ 579,921	$ (23,161)
Total held-to-maturity	$ 148,872	$ (942)	$ 431,049	$ (22,219)	$ 579,921	$ (23,161)

(Continued)

NOTE 2 – DEBT SECURITIES (Continued)

The majority of unrealized losses at December 31, 2023 are related to U.S. government bonds, U.S. government sponsored entities and agency securities, agency mortgage-backed securities and corporate bonds. U.S. government bonds are guaranteed by the U.S. government. Agency-issued securities are generally guaranteed by a U.S. government agency, such as the Government National Mortgage Association. Government-sponsored entities, such as the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Small Business Administration, have an implied guarantee by the U.S. government. At December 31, 2023, all of the mortgage-backed securities held by the Credit Union were issued by U.S. government-sponsored entities and agencies.

Unrealized losses on corporate bonds have not been recognized into income because the issuers' bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

Securities pledged at December 31, 2023 and 2022 had a carrying amount of $361,474 and $100,000, respectively, and were pledged to secure a line of credit at the Federal Reserve.

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET

Year-end loans to members were as follows:

	2023	2022
Real Estate Secured Loans		
First mortgage real estate – consumer	$ 1,512,200	$ 1,384,596
First mortgage real estate – business	345	359
Second mortgage	53,532	22,603
Home equity line of credit	609,652	531,694
	2,175,729	1,939,252
Consumer Loans		
Direct auto loans	229,185	263,430
Indirect auto loans	843,848	766,790
Credit card loans	233,918	210,461
Unsecured term loans	94,079	76,685
Unsecured line of credit	14,193	13,135
	1,415,223	1,330,501
Education loans, unguaranteed	123,794	138,803
	3,714,746	3,408,556
Net deferred loan origination costs	21,343	19,547
Allowance for credit losses	(25,427)	(20,018)
	$ 3,710,662	$ 3,408,085

The following tables present the activity in the allowance for credit losses by portfolio segment:

December 31, 2023	Real Estate Secured Loans	Consumer Loans	Education Loans, Unguaranteed	Total
Allowance for Credit Losses:				
Beginning Balance, prior to ASC 326	$ 209	$ 18,109	$ 1,700	$ 20,018
Cumulative Effect of Change in Accounting Principle	11,276	(4,369)	(428)	6,479
Provision for Credit Losses	(642)	13,454	230	13,042
Loans Charged Off	(75)	(15,381)	(697)	(16,153)
Recoveries	182	1,632	227	2,041
Total Ending Allowance Balance	$ 10,950	$ 13,445	$ 1,032	$ 25,427

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

December 31, 2022	Real Estate Secured Loans	Consumer Loans	Education Loans, Unguaranteed	Total
Allowance for Loan Losses:				
Beginning Balance	$ 568	$ 15,615	$ 1,328	$ 17,511
Provision for Loan Losses	(396)	8,928	842	9,374
Loans Charged Off	(62)	(7,903)	(625)	(8,590)
Recoveries	99	1,469	155	1,723
Total Ending Allowance Balance	$ 209	$ 18,109	$ 1,700	$ 20,018

The following table presents the balance in the allowance for loan losses and the amortized cost in loans by portfolio segment and based on impairment for the year ended December 31, 2022 under the incurred loss methodology.

December 31, 2022	Real Estate Secured Loans	Consumer Loans	Education Loans, Unguaranteed	Total
Allowance for Loan Losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 189	$ 297	$ 17	$ 503
Collectively evaluated for impairment	20	17,812	1,683	19,515
Total ending allowance balance	$ 209	$ 18,109	$ 1,700	$ 20,018
Loans:				
Loans individually evaluated for impairment	$ 1,147	$ 1,108	$ 105	$ 2,360
Loans collectively evaluated for impairment	1,938,105	1,329,393	138,698	3,406,196
Total ending loan balances	$ 1,939,252	$ 1,330,501	$ 138,803	$ 3,408,556

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

The following tables present information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
First mortgage real estate	$ 190	$ 190	$ -	$ 111	$ 4
Second Mortgage	25	25	-	25	2
Home equity line of credit	21	21	-	21	-
Direct auto loan	164	164	-	101	8
Indirect auto loan	125	125	-	29	7
Credit cards loans	-	-	-	-	-
Unsecured term	264	264	-	234	28
Unsecured line of credit	-	-	-	-	-
Education loans, unguaranteed	14	14	-	14	-
Subtotal	803	803	-	535	49
With an allowance recorded:					
First mortgage real estate	911	911	189	911	30
Second mortgage	-	-	-	-	-
Home equity line of credit	-	-	-	-	-
Direct auto loan	50	50	4	38	3
Indirect auto loan	191	191	30	216	18
Credit cards loans	14	14	5	14	1
Unsecured term	299	299	258	250	19
Unsecured line of credit	1	1	-	1	-
Education loans, unguaranteed	91	91	17	88	10
Subtotal	1,557	1,557	503	1,518	81
Total	$ 2,360	$ 2,360	$ 503	$ 2,053	$ 130

The Credit Union has $2,360 of troubled debt restructurings, with specific reserves allocated of $503 as of December 31, 2022. The Credit Union has not committed to lend additional amounts to members with outstanding loans that are classified as troubled debt restructurings.

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

The following table presents the amortized cost in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2023:

	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing	Interest Income Recognized
First mortgage real estate	$ 3,495	$ 3,495	$ -	$ 54
First mortgage business	-	-	-	-
Second mortgage	-	-	-	-
Home equity line of credit	2,005	2,005	-	14
Direct auto loan	-	667	-	69
Indirect auto loan	-	3,979	-	397
Credit card loans	-	1,764	-	235
Unsecured term	-	580	-	76
Unsecured line of credit	-	91	-	17
Education loans, unguaranteed	-	536	-	36
Total	$ 5,500	$ 13,117	$ -	$ 898

The following tables present the amortized cost in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2022:

	Non-accrual	Loans Past Due Over 89 Days Still Accruing
First mortgage real estate	$ 1,402	$ -
First mortgage business	-	-
Second mortgage	-	-
Home equity line of credit	540	-
Direct auto loan	508	-
Indirect auto loan	3,306	-
Credit card loans	1,434	-
Unsecured term	455	-
Unsecured line of credit	151	-
Education loans, unguaranteed	492	-
Total	$ 8,288	$ -

(Continued)

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

Nonaccrual loans and loans past due 89 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified loans.

The following tables present the amortized cost in collateral-dependent loans by collateral type and class of loans as of December 31, 2023:

	Residential Real Estate
First mortgage real estate	$ 4,499
Home equity line of credit	2,446
Total	$ 6,945

The Credit Union monitors credit quality based on the aging of past due loans. The following tables present the aging of the amortized cost in past due loans as of December 31, 2023 and 2022 by class:

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
First mortgage real estate	$ 4,265	$ 1,004	$ 3,495	$ 8,764	$ 1,506,079	$ 1,514,843
First mortgage business	-	-	-	-	345	345
Second mortgage	20	-	-	20	53,536	53,556
Home equity line of credit	3,448	441	2,005	5,894	606,224	612,118
Direct auto loan	1,564	517	667	2,748	227,445	230,193
Indirect auto loan	11,953	3,837	3,979	19,769	837,713	857,482
Credit card loans	2,050	1,149	1,764	4,963	228,955	233,918
Unsecured term	779	498	580	1,857	93,108	94,965
Unsecured line of credit	198	137	91	426	13,767	14,193
Education loans, unguaranteed	721	270	536	1,527	122,949	124,476
Total	$ 24,998	$ 7,853	$ 13,117	$ 45,968	$ 3,690,121	$ 3,736,089

(Continued)

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
First mortgage real estate	$ 3,391	$ 463	$ 1,330	$ 5,184	$ 1,381,596	$ 1,386,780
First mortgage business	-	-	-	-	359	359
Second mortgage	-	-	-	-	22,618	22,618
Home equity line of credit	942	90	759	1,791	532,126	533,917
Direct auto loan	1,049	398	443	1,890	262,703	264,593
Indirect auto loan	10,621	2,788	2,797	16,206	762,886	779,092
Credit card loans	1,176	802	1,032	3,010	207,451	210,461
Unsecured term	664	280	418	1,362	76,050	77,412
Unsecured line of credit	123	95	122	340	12,795	13,135
Education loans, unguaranteed	889	254	563	1,706	138,030	139,736
Total	$ 18,855	$ 5,170	$ 7,464	$ 31,489	$ 3,396,614	$ 3,428,103

Occasionally, the Credit Union modifies loans to borrowers in financial distress by providing a change of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a combination of both. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

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

	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
First mortgage real estate	$ -	$ -	$ -	-%
First mortgage business	-	-	-	-
Second mortgage	-	-	-	-
Home equity line of credit	-	-	-	-
Direct auto loan	34	-	-	.01
Indirect auto loan	183	19	103	.04
Credit card loans	-	-	-	-
Unsecured term	70	-	-	.07
Unsecured line of credit	-	-	-	-
Education loans, unguaranteed	-	-	-	-
Total	$ 287	$ 19	$ 103	$ .01%

(Continued)

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

The Credit Union closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
First mortgage real estate	$ -	$ -	$ -	$ -
First mortgage business	-	-	-	-
Second mortgage	-	-	-	-
Home equity line of credit	-	-	-	-
Direct auto loan	16	6	20	42
Indirect auto loan	29	-	49	78
Credit card loans	-	-	-	-
Unsecured term	14	-	-	14
Unsecured line of credit	-	-	-	-
Education loans, unguaranteed	-	-	-	-
Total	$ 59	$ 6	$ 69	$ 134

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

	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction
First mortgage real estate	-	- %
First mortgage business	-	-
Second mortgage	-	-
Home equity line of credit	-	-
Direct auto loan	.57	-
Indirect auto loan	1.48	6.2
Credit card loans	-	-
Unsecured term	2.04	-
Unsecured line of credit	-	-
Education loans, unguaranteed	-	-

(Continued)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

The following table presents loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Term Extension	Interest Rate Reduction	Combination Extension and Interest Rate Reduction
First mortgage real estate	$ -	$ -	$ -
First mortgage business	-	-	-
Second mortgage	-	-	-
Home equity line of credit	-	-	-
Direct auto loan	23	-	-
Indirect auto loan	-	-	36
Credit card loans	-	-	-
Unsecured term	-	9	-
Unsecured line of credit	-	-	-
Education loans, unguaranteed	-	-	-
Total	$ 23	$ 9	$ 36

During the year ended December 31, 2022, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a change of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or reduction in principal. Modifications involving an extension of the maturity date were for periods ranging from one year to five years.

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

The following tables present loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2022 :

December 31, 2022	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
First mortgage real estate	-	$ -	$ -
Second mortgage	-	-	-
Home equity line of credit	-	-	-
Direct auto loan	8	90	90
Indirect auto loan	9	139	139
Credit card loan	-	-	-
Unsecured term	12	92	92
Unsecured line of credit	-	-	-
Education loans, unguaranteed	1	34	34
Total	30	$ 355	$ 355

The troubled debt restructurings described above increased the allowance for loan losses by $22 and resulted in charge offs of $28 during the year ended December 31, 2022.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2022:

December 31, 2022	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
First mortgage real estate	-	$ -
Second mortgage	-	-
Home equity line of credit	-	-
Direct auto loan	1	12
Indirect auto loan	6	36
Unsecured term	4	31
Unsecured line of credit	1	1
Credit Card	-	-
Education loans, unguaranteed	-	-
Total	12	$ 80

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

The troubled debt restructurings that had a payment default described above increased the allowance for loan losses by $2 and resulted in charge offs of $19 during the year ending December 31, 2022.

Loans to credit union directors, committee members, and officers totaled $3,436 and $3,367 as of December 31, 2023 and 2022, respectively.

NOTE 4 - MORTGAGE SERVICING RIGHTS

Activity for mortgage servicing rights is as follows:

	2023	2022
Balance at beginning of year	$ 24,120	$ 25,637
Additions	2,994	4,773
Amortization	(6,088)	(6,329)
Change in impairment reserve	-	39
Balance at end of year	$ 21,026	$ 24,120

Mortgage loans serviced for others are not reported as assets. The unpaid principal balances of these loans at year-end 2023 and 2022 were $3,696,945 and $3,689,024, respectively. The Credit Union receives servicing and other ancillary income on the loans serviced for others. The income recognized was $9,289 and $9,322 in 2023 and 2022, respectively, and included in fees on loans on the statement of income. Custodial escrow balances maintained in connection with serviced loans were $16,864 and $17,331 at year-end 2023 and 2022, respectively.

The fair value of servicing rights was $46,984 and $43,586 at year-end 2023 and 2022, respectively. Fair value at year-end 2023 and 2022 was determined using a discount rate of 9.4% and 9.5%, default rates of 2.05% and 2.10% and prepayment speeds ranging from 4.6% to 21.6% and 4.3% to 18.4% respectively, depending on the stratification of the specific right.

NOTE 5 - MORTGAGE BANKING DERIVATIVES

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third-party investors are considered derivatives. It is the Credit Union's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest

(Continued)

(In thousands)

NOTE 5 - MORTGAGE BANKING DERIVATIVES (Continued)

rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships.

At year-end 2023 and 2022, the Credit Union had approximately $18,503 and $15,102 of interest rate lock commitments and $46,455 and $28,887 of forward commitments for the future delivery of residential mortgage loans, respectively. The fair value of these mortgage banking derivatives are reflected by a derivative asset of $726 and $330 and a derivative liability of $782 and $58 for 2023 and 2022, respectively. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage-banking derivatives are included in net gains on sales of loans on the Statements of Income and Comprehensive Income.

The net gains relating to free-standing derivative instruments used for risk management are summarized below as of December 31:

	Location	2023	2022
Interest rate lock commitments	Net gain (loss) on sale of loans	$ 283	$ (1,222)
Forward contracts related to mortgage loans held for sale	Net (loss) gain on sale of loans	$ (611)	$ 389

The following table reflects the amount and market value of mortgage banking derivatives included in the Statements of Financial Condition as of December 31:

	2023		2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Total included in other assets:				
Interest rate lock commitments	$ 18,503	$ 424	$ 15,102	$ 141
Forward contracts	$ 5,530	$ 302	$ 23,317	$ 189
Total included in other liabilities:				
Forward contracts	$ 40,925	$ 782	$ 5,570	$ 58

(Continued)

(In thousands)

NOTE 6 - PREMISES AND EQUIPMENT, NET

Year-end premises and equipment were as follows:

	2023	2022
Land	$ 39,026	$ 32,369
Buildings	131,279	103,869
Furniture and equipment	45,396	36,918
Data processing system	17,656	13,829
Leasehold improvements	8,198	5,302
Construction in progress	78,506	61,941
	320,061	254,228
Accumulated depreciation	(76,482)	(67,951)
	$ 243,579	$ 186,277

Since 2019 the Credit Union purchased properties and began planning for the expansion of an administrative campus located in the Madison area. The total cost of expansion of the administrative campus is $63,168 and $41,021 as of December 31, 2023 and 2022, respectively, which is included in construction in progress. The estimated remaining cost to complete the campus is $1,065. The campus will be completed in 2024 and placed into service.

Since 2021 the Credit Union purchased several properties and began construction on three new branches. The total cost of construction as of December 31, 2023 is $14,211, which is included in construction in progress. The estimated cost to complete the construction is $13,762. The construction for these buildings will be completed by 2025 and placed into service.

NOTE 7 - LEASES

The Credit Union enters into leases in the normal course of business primarily for branches, back-office operations, and information technology data center locations. The Credit Union's leases have remaining terms ranging from 1 to 18 years, some of which include renewal options to extend the lease for up to 10 years. Lease extension options are included in the lease term if it is reasonably certain the Credit Union will exercise the option.

Right-of-use assets (included in other assets) and lease liabilities (included in accrued interest payable and other liabilities) are as follows:

	2023	2022
Right-of-use assets (operating leases)	$8,727	$10,035
Lease liabilities (operating leases)	9,189	10,495

(Continued)

(In thousands)

NOTE 7 - LEASES (Continued)

Lease Obligations

Future undiscounted lease payments with initial terms of one year or more as of December 31, 2023 are as follows:

2024	$ 1,940
2025	1,708
2026	1,280
2027	1,236
2028	942
Thereafter	3,013
Total undiscounted lease payments	10,119
Less: imputed interest	(930)
Net Lease Liabilities	$ 9,189

Supplemental Lease Information

	2023	2022
Operating lease weighted average remaining term (years)	8.1	8.6
Operating lease weighted average discount rate	2.13%	1.95%
Cash paid for amounts included in the measurement of Lease liabilities (statement of cash flows)	$1,976	$1,972
Rent expense	2,078	2,557

NOTE 8 - MEMBERS' DEPOSITS

Members' deposits at year end are summarized as follows:

	2023	2022
Money market accounts	$ 1,293,758	$ 1,326,740
Share certificates	787,612	237,158
Share draft accounts	1,172,624	1,227,600
Share savings accounts	1,248,160	1,559,161
Individual retirement accounts		
Share certificates	49,730	41,396
Share savings	25,406	28,987
	$ 4,577,290	$ 4,421,042

(Continued)

(In thousands)

NOTE 8 - MEMBERS' DEPOSITS, Continued

Share certificates and individual retirement account certificates as of December 31, 2023 mature as follows:

2024	$ 681,981
2025	139,567
2026	10,270
2027	3,798
2028	1,726
	$ 837,342

The total of members' share certificate accounts over $250 was $163,242 and $37,499 as of December 31, 2023 and 2022, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to make loans and open-end revolving lines of credit to members. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and open-end revolving lines of credit is represented by the contractual amount of those instruments. The Credit Union uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

Outstanding loan commitments and unused open-end revolving lines of credit at year end are as follows:

	2023	2022
Unused open-end lines of credit	$ 1,726,275	$ 1,540,295
Basic reserve overdraft protection	88,222	87,244
First mortgage commitments	18,503	15,102
	$ 1,833,000	$ 1,642,641

(Continued)

(In thousands)

NOTE 9 - COMMITMENTS AND CONTINGENCIES, Continued

Since many commitments to make loans and unused open-end revolving lines of credit expire without being used, the amount does not necessarily represent future cash commitments. In addition, 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. No material losses are anticipated as a result of these transactions. Collateral may be obtained upon exercise of the commitment and is determined using management's credit evaluation of the borrower and may include real estate, consumer assets, business assets, deposits, and other items.

The Credit Union, as an original Visa member institution, received shares of Class B common stock. These shares are subject to various restrictions. At the time of Visa's initial public offering, they established a retrospective responsibility plan whereby certain Visa member institutions are responsible for outstanding litigation at the time of the IPO. In 2011 the outstanding shares were sold to another member institution. The sale does not remove the Credit Union's obligation to cover any shortfall through the retrospective responsibility plan. As of December 31, 2023 and 2022, no liability has been accrued.

NOTE 10 - BORROWED FUNDS

At December 31, 2023 and 2022, the Credit Union had borrowing agreements with the Federal Reserve and Federal Home Loan Bank.

At year end, advances from the Federal Reserve were as follows:

	2023	2022
Fixed 4.83% rate, maturing June 2024	$ 50,000	$ -
Fixed 4.83% rate, maturing Dec 2024	100,000	-
	$ 150,000	$ -

Each advance is payable at its maturity date. The advances were collateralized by $370,000 and $100,000 of U.S. government bonds. Based on this collateral the Credit Union is eligible to borrow up to a total of $358,324 and $93,986 at year-end 2023 and 2022, respectively.

At year end, advances from the Federal Home Loan Bank were as follows:

	2023	2022
Fixed 4.34% rate, maturing Jan 2023	-	100,000
Fixed 4.68% rate, maturing Mar 2023	-	100,000
	$ -	$ 200,000

(Continued)

(In thousands)

NOTE 10 - BORROWED FUNDS, Continued

Each advance was paid at the maturity date. The advances were collateralized by $2,187,197 and $1,748,932 of first mortgage and home equity loans under a blanket lien arrangement at year-end 2023 and 2022, respectively. Based on this collateral the Credit Union is eligible to borrow up to a total of $1,454,339 and $1,296,249 at year-end 2023 and 2022, respectively.

NOTE 11 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Credit Union's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Credit Union's sources of Non-Interest Income for the twelve months ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	Year Ended December 31, 2023	Year Ended December 31, 2022
Non-interest income		
Service charges and fees		
Overdraft and insufficient funds fees	$ 862	$ 717
Negotiables and treasury services fees	809	848
Line of credit overdraft advance and balance transfer fees	1,694	1,575
Other	1,650	1,436
Fees on loans [a]	7,571	8,636
Card and ATM interchange	44,024	41,637
Net gain on sale of loans [a]	5,078	4,030
Other		
Wealth management and investment fees	3,952	3,885
Credit insurance fees	1,069	1,507
Other[b]	3,865	2,666
Total non-interest income	$ 70,574	$ 66,937

[a] Not within the scope of ASC 606.

[b] The other category includes card processing incentives totaling $2,917 and $1,913, which is within the scope of ASC 606; the remaining balance of $948 and $753 is outside the scope of ASC 606 for 2023 and 2022, respectively.

(Continued)

NOTE 11 - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Service charges and fees: The Credit Union earns fees from its deposit members for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH 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 to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Balance transfer and overdraft service fees are recognized at the point in time that the overdraft occurs. Services charges on deposits are withdrawn from the member's account balance.

Card and ATM interchange: The Credit Union earns interchange fees from debit, credit and ATM transactions conducted through the VISA and other payment networks. Interchange fees from transactions represent a flat amount or percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Wealth management and investment fees (Gross): The Credit Union earns wealth management and investment brokerage fees from its contracts with brokerage members to manage assets for investment and to transact on their accounts. These fees are primarily earned over time as the Credit Union provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e. trade date. Other related services provided include financial planning services and the fees the Credit Union earns, which are based on a fixed fee schedule, are recognized when services are rendered.

Credit insurance fees: The Credit Union earns fees from the sale of credit insurance products including credit life and disability, gap, and mechanical breakdown. These fees are generally earned over time as members pay premiums for coverage, which is also the period in which the service is provided.

(Continued)

NOTE 12 - EMPLOYEE BENEFITS, COMPENSATION AND RETIREMENT SAVINGS PLAN

Substantially all employees of the Credit Union are eligible to participate in the Credit Union's retirement savings plan. The Credit Union provides a matching funds contribution for participating employees. In 2023 and 2022, the Credit Union made a 100% matching contribution of the first 4% and an additional 50% matching contribution on the next 2% of the employee contributions. In addition, the Credit Union provided a discretionary contribution to all participant accounts equal to 4% of each employee's eligible compensation in 2023 and 2022. The expense related to the plan was $5,410 and $4,822 for the years ending December 31, 2023 and 2022, respectively.

The Credit Union provides a non-qualified deferred compensation plan as allowed under Internal Revenue Code Section 457(b) to certain higher compensated employees. This plan offers a before-tax savings opportunity to participants. The maximum amount of deferral per participant was $22.5 and $20.5 for 2023 and 2022, respectively. The participants individually direct the investment of deferred compensation fund balances. Contributions are not matched by the Credit Union, and therefore, no expense was recorded for this plan in 2023 and 2022. At December 31, 2023 and 2022, the outstanding liability under the plan was $3,839 and $3,182, respectively.

The President of the Credit Union is retained by the Board of Directors and serves at the pleasure of the Board of Directors. As provided by the Bylaws, the President is the Chief Executive Officer of the Credit Union and is in active charge of managing the Credit Union's day-to-day operations under the direction of the Board, Bylaws, Federal and Wisconsin rules, regulations, and statutes applicable to federally insured Wisconsin state-chartered credit unions. As prescribed by the Bylaws, the Board of Directors sets the compensation of the President. The Board has executed a formal employment contract with the President, which provides that either party may terminate the agreement at any time. Per the terms of the contract, the Board sets the compensation of the President using independently obtained data to benchmark the market value of the position. All employees of the Credit Union, including the President, are eligible to receive a base pay as well as a variable pay bonus based on the attainment of organizational goals, which include member satisfaction, and financial stewardship. The President receives the same life, medical, disability, and dental insurance, and 401(k) benefits that are available to all full-time employees of the Credit Union. The President is provided with other benefits, which include a supplemental disability insurance policy, and is provided an automobile allowance. The annual value of all supplemental benefits received by the President over those generally available to all full-time employees of the Credit Union was $18 and $17 in 2023 and 2022, respectively. The base and variable compensation of the President was $937 and $1,004 in 2023 and 2022, respectively.

(Continued)

NOTE 12 - EMPLOYEE BENEFITS, COMPENSATION AND RETIREMENT SAVINGS PLAN (Continued)

The Board established a Deferred Compensation Plan dated September 25, 2018 (2018 Plan). The 2018 plan is designed to compensate for benefits not eligible under the 401(k) plan as a result of limitations imposed by the IRS on allowable contributions, contribution limitations for Social Security, as well as to provide a long-term incentive for sustained performance. Deferred compensation expense under the 2018 Plan is accrued monthly, and for the year ending December 31, 2023 and 2022 was $328 and $362, respectively. At December 31, 2023 and 2022 the outstanding liability under the plan was $1,882 and $1,311, respectively.

Cumulative deferred compensation payable to the President is a general creditor obligation of the Credit Union. Future disbursements (if any) of the cumulative deferred compensation payable are contingent on the conditions established by the plan.

Wisconsin Statutes permit Officers of the Board of Directors to receive compensation for service as well as reimbursement of expenses. However, no members of the Board of Directors received compensation in 2023 and 2022. Board members do not participate in the Credit Union's employee benefits.

NOTE 13 - FAIR VALUES

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

The Credit Union used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Loans Held for Sale, at Fair Value: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2 inputs).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, at December 31, 2023:			
Securities available-for-sale			
U.S. government bonds	$ 61,186	$ -	$ -
U.S. government sponsored entities and agencies	-	105,744	$ -
Corporate bonds	-	30,826	-
Agency collateralized mortgage obligations – residential	-	47,411	-
Agency mortgage-backed securities – residential	-	129,998	-
Agency mortgage-backed securities - commercial	-	209,935	-
Total securities available-for-sale	$ 61,186	$ 523,914	$ -
Loans held for sale, at fair value	$ -	$ 32,433	$ -
Mortgage banking derivatives	$ -	$ 726	$ -
Liabilities, at December 31, 2023:			
Mortgage banking derivatives	$ -	$ (782)	$ -

(Continued)

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, at December 31, 2022:			
Securities available-for-sale			
U.S. government bonds	$ 87,485	$ -	$ -
U.S. government sponsored entities and agencies	-	29,202	-
Corporate bonds	-	25,555	-
Agency collateralized mortgage obligations – residential	-	17,144	-
Agency mortgage-backed securities – residential	-	89,800	-
Agency mortgage-backed securities - commercial	-	235,215	-
Total securities available-for-sale	$ 87,485	$ 396,916	$ -
Loans held for sale, at fair value	$ -	$ 13,996	$ -
Mortgage banking derivatives	$ -	$ 330	$ -
Liabilities, at December 31, 2022:			
Mortgage banking derivatives	$ -	$ (58)	$ -

There were no transfers between Level 1 and Level 2 during 2023 and 2022.

(Continued)

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

The Credit Union estimates the fair values of individually evaluated loans based on the present value of expected future cash flows using management's best estimates of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals). The numerical range of unobservable inputs for these valuation assumptions is not meaningful to this presentation.

The Credit Union has elected the fair value option for loans held for sale. These loans are intended for sale and the Credit Union believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on contractual terms of the loan and in accordance with the Credit Union's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the aggregate fair value, contractual balance (including interest) and gain or loss was as follows:

	2023	2022
Aggregate fair value	$ 32,433	$ 13,996
Contractual balance	31,381	13,786
Gain	1,052	210

The total amount of gains and losses from changes in fair value included in Net gain on sale of loans and interest income included on the Statements of Income and Comprehensive Income for the years ended December 31, 2023 and 2022 for loans held for sale were:

	2023	2022
Interest income	$ 2,626	$ 2,308
Change in fair value	842	(1,416)
Total	$ 3,468	$ 892

(Continued)

NOTE 14 - CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In 2015 the National Credit Union Administration (NCUA) issued a final rule establishing a risk-based capital framework. In 2021, the NCUA issued a final rule that provides for an optional, simplified measure of capital adequacy, the Complex Credit Union Leverage Ratio (CCULR) for qualifying credit unions. The final rules became effective January 1, 2022 and was elected by the Credit Union as of December 31, 2023 and 2022. The CCULR removes the requirement for qualifying credit unions to calculate and report risk-based capital, but rather only requires a net worth to average assets (leverage) ratio. Qualifying credit unions that elect to use the CCULR framework, and that maintain a leverage ratio greater than required minimums, will be considered to have satisfied the generally applicable risk based and leverage capital requirement in the NCUA's capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements. Under the final rule the CCULR minimum requirement is 9.0% as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the most recent call-reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balances.

(In thousands)

NOTE 14 - CAPITAL REQUIREMENTS (Continued)

Actual and required capital amounts and ratios at December 31 are presented below as follows:

	Actual		Minimum Required to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
2023				
Complex credit union leverage ratio	$ 496,788	9.36%	$ 477,725	9.00%
2022				
Complex credit union leverage ratio	$ 470,807	9.15%	$ 463,069	9.00%