2022 ANNUAL REPORT

PENFED CREDIT UNION

OUR MISSION & VALUES

OUR MISSION

To empower the members of our community to achieve their financial well-being.

OUR CORE VALUES

Kindness & Respect – We respect our teammates by being kind, with no surprises. We listen to each other. We appreciate our diversity of ideas and opinions.

Service – We serve our members and the communities in which we live and work.

Innovation – We provide market-leading products, with a best-in-class experience.

Collaboration – We believe everyone has unique expertise and skills. Teamwork allows us to achieve more.

Integrity – We always strive to do the right thing. We choose the harder right over the easier wrong.

TABLE OF CONTENTS

CHAIRMAN'S LETTER

Dear Fellow Members,

As we reflect on the past year, it has clearly been a challenging time for financial institutions around the globe. In the current market environment, it is important to adopt strategic goals and actions that drive responsible growth. I am pleased to report to you that throughout these challenging economic times, PenFed continues to operate safely and soundly. The following pages of this report provide the details of how we delivered on our mission to help you achieve your financial well-being.

In 2022, our focus on operating efficiency, building capital, maintaining sufficient liquidity, and minimizing risk has resulted in the sustained growth of our membership and shares. Clearly, it was a successful year for the institution and you, our members. We have a strong balance sheet and a solid risk management regime that drives our financial performance. As noted in our President's report, we achieved growth of over $4.6 billion in shares while maintaining asset quality and growing our capital to a solid net worth position. PenFed is laser focused on providing great rates and assisting you, our membership in achieving your financial goals.

As technology in the financial industry continues to evolve, we know that we must continue to enhance our delivery systems to you. To operate in this competitive environment, continuous improvement is mandatory. Although our mobile and online access systems are robust, we seek to innovate and build-upon the member experience. When members contact our service centers, the response times have been greatly improved to best serve you!

Also, we continue to be active in the communities that we serve. In 2022, PenFed donated more than $2.2 million to charities. We have addressed issues such as food insecurity, behavioral health, and housing. The PenFed Foundation has raised funds to assist military families through grants and programs to improve their lives.

The PenFed Foundation operates a Veteran Entrepreneur Investment Program to assist veteran-owned businesses to obtain the training and funding necessary to succeed. I am very proud of the efforts of our credit union and the PenFed Foundation teams in furthering our mission of people helping people.

Looking forward, PenFed is well-positioned to take on the evolving challenges that face our industry and our members. I am proud of the PenFed Team, our volunteers, leaders, and staff. Their hard work, collaboration and can-do attitude have paid dividends. I am confident that we will continue to serve you well. On behalf of my volunteer Board of Directors, thank you for placing your trust in us.

Sincerely,

EDWARD B. CODY
CHAIRMAN, BOARD OF DIRECTORS

PRESIDENT'S REPORT

Thank you for choosing PenFed to help you improve your financial well-being in 2022 and beyond. We achieved our strategic goals in 2022 to further increase member shares, liquidity, and capital, despite a challenging economic environment.

Together, we are 2.8 million members strong. In 2022, over 450,000 new members joined PenFed for our great rates and world-class service.

At PenFed we measure success not just by financial results, but most importantly, by how many people we've helped. We are especially proud to have donated $2.2 million to support over 100 charities in the communities where we live and serve.

2022 FINANCIAL HIGHLIGHTS

- PenFed's deposit balances grew year-over-year by $4.6 billion, a growth rate of 20%, as PenFed offered market leading dividend rates to deliver value to our members and help them do better financially.
- PenFed's net worth ratio of 9.52% as of December 31st, 2022 is well above the NCUA's requirement of 7% to be considered well capitalized.
- PenFed closed 2022 with nearly $900 million of capital in excess of required regulatory net worth.

THANK YOU

We couldn't have made this positive impact without you. Our members are the reason why PenFed is recognized as one of America's premier financial institutions year after year. On behalf of PenFed's more than 3,300 dedicated financial professionals, we send you our heartfelt thanks.

Respectfully yours,

JAMES R. SCHENCK
PRESIDENT & CEO

FINANCIAL HIGHLIGHTS

TOTAL MEMBERS

TOTAL ASSETS

LOAN ORIGINATION VOLUME

MEMBERS SHARES

NET WORTH RATIO

10.6%	9.7%	9.5%
2020	2021	2022

NET REVENUE

$769M	$1,158M	$1,183M
2020	2021	2022

ACCOMPLISHMENTS

INTRODUCING FREE CHECKING

Free checking allows our members to do more of what they want wherever life takes them.

Access to a **fee-free ATM network of over 85,000 ATMs nationwide.**

GET PAID EARLY

24/7 DIGITAL BANKING

PENFED FHA LOANS

Furthering our commitment to help members achieve home ownership, we offer **Federal Housing Administration (FHA) Loans.**

First-time homebuyers can use FHA loans as a solution that allows them to enjoy the benefits of owning a home.

Money BEST VA LOAN LENDERS 2022

PENFED POWER BUYER SOLUTIONS

PENFED DIGITAL MARKETING CAMPAIGN

PenFed is **greeting millions** through our Marketing Campaign takeover of concourse C connector at Washington Dulles International Airport.

The magnificent digital displays that make up the **PenFed Tunnel** provide a wow factor with audio and visual effects no other brand has previously activated.

BOARD OF DIRECTORS

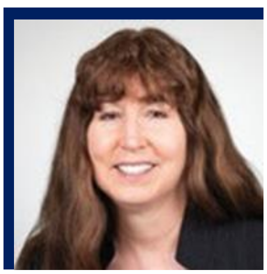
Your board members and supervisory committee members are volunteers who serve without compensation. In addition to their service to the credit union, they spend hundreds of hours from their personal lives on credit union business and activities in the interest of our esteemed members.

Mr. Edward B. Cody
Board Chairman

Mr. Edward B. Cody is the owner of Enterprise Business Consulting, a service-disabled veteran-owned small business assisting wounded, ill and injured recovering service members since 2011. Formerly, he was the chief financial executive and comptroller at the Defense Information Systems Agency. Ed has over 35 years of federal service, including two years as an Army lieutenant stationed at Fort Sill and in Vietnam. He has been associated with PenFed Credit Union since 1982, starting out on the Supervisory Committee and as a member of the Board since 1987. For many years, he served as PenFed Credit Union's Treasurer. Ed is also a member of the PenFed Foundation Board.

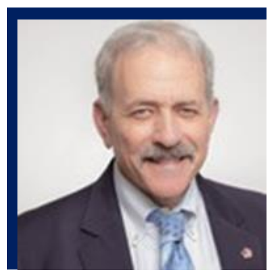
Col. (Ret.) James F. Quinn,
United States Army
Board Vice Chairman

Col. (Ret.)James F. Quinn retired from the United States Army in 2006 after 32 years on active duty. His last assignment was as the Army's ethics officer for the Office of the Judge Advocate General. He has served on the PenFed Credit Union Board since 1995 and on the boards of four other credit unions for an additional eight years since 1979. He was named the National Association of Federal Credit Unions Volunteer of the Year in 2015. Jim previously served as the Chairman of the PenFed Credit Union Board. Jim also serves on the Board of the PenFed Foundation.



Ms. Sandra "Sam" Patricola
Board Treasurer

Ms. Sandra "Sam" Patricola joined the PenFed Board in 2005. Sam had previous experience on the board of the Northern Tier Federal Credit Union in Minot, North Dakota, and on the Supervisory Committee at MAX Federal Credit Union in Montgomery, Alabama. She is the staff auditor in the Air Force Audit Agency and a certified public accountant in federal service since 1987. Sam also serves as secretary/treasurer for the PenFed Foundation.



Lt. Col. (Ret.) John A. Rolando,
United States Air Force
Board Secretary

Lt. Col. (Ret.) John A. Rolando has served on PenFed's Board of Directors for over 18 years and has been the board secretary since 2016. He also serves as a chairman of the PenFed Board's Information Technology Committee, member of the Real Estate Committee, and formerly on the PenFed Foundation Board. His 46 years with the Department of Defense included 23 years active duty as a navigator on F-111s and operations research analyst at the United States Air Force headquarters, thereafter as a civilian in the Joint Staff, followed by program and budget analyses with the Office of the Secretary of Defense, Chief Information Officer.

COL (Ret.) Ronald P. Hudak
United States Army

Col. (Ret.) Ronald P. Hudak has been a PenFed Credit Union Board member since 2008. A graduate of West Point, Ron served 30 years on active duty in the Army with operational, tactical, strategic, and educational assignments in the United States, Europe, and Vietnam. After military service, he held academic positions at Nova Southeastern University and Marymount University. He earned his Ph.D. and law degrees from The George Washington University and is a Fellow of the American College of Healthcare Executives and a member of the Bars of the District of Columbia and Florida. Ron is currently a strategic planner for the Department of Defense Health Agency in Falls Church, Virginia. Ron serves as Chairman of the Employee Benefits and Development Committee and is a member of the Planning Committee.

Lt. (Ret.) Commander Edwin Lucio,
United States Naval Reserve

Ed is a Naval Academy graduate and Naval Aviator who participated in Operation Shining Hope aboard the USS Inchon and accumulated over 1,500 flight hours on the H-53 Sea Dragon, H-3 Sea King, and C-12 King Air. Upon leaving active duty, he started his new career as a business and financial analyst with the Federal Reserve Board, specializing in bank operations and data management. Ed is a Certified Public Accountant, a Project Management Professional and holds a green belt in lean six sigma.

The Honorable Frederick F.Y. Pang

The Honorable Frederick F.Y. Pang has served as principal deputy undersecretary of defense for personnel and readiness; assistant secretary of the Navy for manpower and reserve affairs; and as a professional staff member of The Armed Service Committee. Prior to serving in those positions, he served for 27 years in the Air Force and retired in the grade of colonel. He is currently a managing partner of a private investment company and a senior consultant in the private sector to companies serving government clients. Fred has been a member of the PenFed Credit Union Board since 2001 and previously served as Chairman of the PenFed Foundation Board.

Col. (Ret.) Philip F. Romanelli
United States Army Reserve

Col. (Ret.) Philip F. Romanelli joined the PenFed Credit Union Board in 2007 and has been a PenFed member since he was a second lieutenant. He earned his bachelor's degree in history from Princeton University, and a master's in business administration from the University of Cambridge. Philip has deployed once to the Balkans and twice to Operation Iraqi Freedom as a civil affairs officer and served as a military attaché in both Belgium and Fiji. He serves as a senior civil servant in the Department of the Army. Previously, he was the deputy chief of the strategic initiatives group for the Secretary of the Army. During that time, he provided substantial support to the White House's Joining Forces initiative for veteran hiring, training, and health. He is also a graduate of the United States Army War College, earning a master's degree in strategic studies. Prior to retiring from the United States Army Reserve, he was on active-duty orders for four years as the chief of mobilization within the Office of the Assistant Secretary of the Army (manpower and reserve affairs). His decorations include the Bronze Star and the Legion of Merit.

Mr. Alfred E. Rudolph

Mr. Alfred E. Rudolph launched Rudolph International LLC, Interactive Hospitality Consultancy, after managing the Department of Defense moral welfare and recreation community and service programs in the USA, Germany, and South Korea. He held the position of director, executive dining operations for the Secretary of the Navy, responsible for administrative matters, and successfully realigned the Secretary of Defense executive dining operation. Alfred was the past chair of Belvoir Federal Credit Union. He currently serves as board member for PenFed Credit Union and PenFed Foundation.

Col. (Ret.) Robert William "Bill" Siegert III,
United States Army

Col. (Ret.) Robert William "Bill" Siegert III joined the PenFed Credit Union Board in 1999 and received the Chairman's Award in 2011. Bill served on active duty for 30 years. His last assignment was on the staff of the Assistant Secretary of Defense for International Security Policy as a special advisor to the Secretary of Defense on nuclear matters. Bill is now a director and senior program manager for Science Applications International Corporation. He is a past chairman of the PenFed Foundation and now serves on the planning, real estate, and IT board committees.

Lt. Col. (Ret.) Ron Spear,
United States Army

Lt. Col. (Ret.) Ron Spear has been a member of the credit union since 1986 and joined the PenFed Board in 2016. His PenFed Board committee assignments include the financial management and risk committee as well as the IT committee. He served 22 years on active duty as a U.S. Army intelligence and acquisition corps officer. During his military career, Ron served on the United States Senate Year 2000 Committee professional staff, the Office of the Secretary of Defense staff, the joint staff, and the U.S. Army staff. Since his Army retirement, he has been a trusted advisor actively involved in Department of Defense and Intelligence community enterprise governance and systems engineering. During this time, he also spent six years as a director at Integrity Applications Incorporated. Ron earned a Master of Science degree in computer science from the Naval Postgraduate School and undergraduate degrees in mathematics and computer science from Concordia College, Moorhead, Minnesota.

The Honorable Douglas W. Webster (Emeritus)

The Honorable Douglas W. Webster is the former chief financial officer of the U.S. Department of Labor. Doug has also served as the deputy director of the Department of Defense Business Transformation Agency, and in 2004 served in the Coalition Provisional Authority as the principal finance advisor to the Iraq Ministry of Transportation. Doug served a 21-year career in the U.S. Air Force, followed by over 20 years providing management consulting services to more than two dozen federal agencies. Doug has a doctorate in business administration and is the co-author of books on cost management, organizational change management and risk management. Doug has been a member of the PenFed Credit Union Board since 2004. Doug also is an elected Fellow of the National Academy of Public Administration.

2022 SUPERVISORY COMMITTEE REPORT

As a matter of introduction, my name is Brad Honkus, and I have the honor of serving as the Chairman of PenFed's Supervisory Committee along with the three members of this committee.

Safety and soundness. Comforting words that capture the confidence you can place in PenFed in these trying times of risk and adversity brought on by disease and natural disasters, international conflict and economic uncertainty impacting our nation and PenFed's members. PenFed is your trusted source of financial services. PenFed's members and employees are like family to me and I am committed to ensuring its safe and sound operation in the face of these challenges. Rest assured - PenFed will continue to "have your back" and do what is right for its members and employees.

The Supervisory Committee is appointed by the PenFed Board of Directors and plays a critical role in the overall governance structure of the credit union including maintaining its safety and soundness. We volunteer our time to provide our fellow members assurance that the operations of the credit union are carried out in accordance with the Federal Credit Union Act, regulations of the National Credit Union Administration (NCUA) and Consumer Financial Protection Bureau (CFPB), and the policies established by PenFed's Board of Directors acting on your behalf.

There are three oversight methods used by the Committee to meet its responsibilities.

The first method is the annual external audit conducted by an independent CPA firm to review the financial condition of PenFed. The Committee engaged the services of BDO USA, to perform the annual audit of the 2022 financial statements. BDO provided an unmodified opinion, the gold standard, as a result of their audit and reported no weaknesses or deficiencies in PenFed's internal controls over financial reporting. This opinion speaks to how well your Board and executive team are fulfilling their fiduciary responsibilities to safeguard your assets and ensure the credit union is operated in a fiscally safe and sound manner.

The second method is the annual regulatory examination conducted by the NCUA and the reviews performed by the CFPB. These regulatory reviews help to ensure PenFed is operationally and financially safe and sound and in compliance with the laws and regulations governing credit unions and protection of our members. The examiners have also provided very positive feedback on PenFed.

Third, the Committee oversees the internal audit function that independently evaluates the internal controls of the credit union on a continual basis. On March 31, 2023, our Chief Audit Executive retired, and his replacement is scheduled to start with us on May 22, 2023.

In the interim, Bobbi Paulson, our Managing Director for Audit Assurance Services, is Acting as the Chief Audit Executive. Bobbi is a CPA and MBA graduate that has served PenFed for a number of years.

Based on the activity of the external auditors, the regulators, and the internal auditors, we report to you that PenFed continues to be fiscally strong, and operationally safe and sound while providing quality member service. You can be confident that PenFed will be here for you for the long term.

The PenFed Board of Directors, management, and staff are to be commended for their continuing leadership and dedication to our credit union.

Thank you for your time.

BRAD HONKUS

CHAIRMAN, SUPERVISORY COMMITTEE

2022 SUPERVISORY COMMITTEE

Brad Honkus

Bradley serves as the chairman of the supervisory committee. He is the assistant director of quality control and compliance at the Department of Justice. Brad is a Certified Public Accountant, and has 30 years of progressive budget, audit, and financial management experience, and is an internal control and financial policy subject matter expert.

James Golden

Jim is an internationally recognized IT governance and information security executive. He served as an associate partner with IBM Global Business Services for approximately 10 years after 30+ years as a senior IT executive at the US Postal Service. He is also a retired Naval Reserve Captain in Cryptology, and he maintains several professional certifications including Certified Information Systems Security Professional (CISSP) and Certified in Governance of Enterprise IT (CGEIT).

Rafael Roman

Rafael Roman is a retired United States Marine Corps Chief Warrant Officer, and he has held progressively responsible audit and financial management leadership positions. He is a Certified Public Accountant and Certified Internal Auditor with extensive experience in audit, accounting, and compliance requirements for federal government programs. Most recently, Rafael served with the American Institute of Certified Public Accountants (AICPA) managing the Governmental Audit Quality Center (GAQC), an organization that enables AICPA member firms to achieve the highest quality standards in governmental audits. Rafael recently fulfilled a life-long dream to hike the Appalachian Trail.

Colette Wilson

Colette Wilson is a Certified Public Accountant who served as a partner with the accounting firm of Cotton & Company where she actively participated in audit, accounting, and management advisory services for federal agencies. Colette served on the Board of Directors of the Virginia Society of Certified Public Accountants (VSCPA) and was the first African American woman to chair the VSCPA Board where she addressed issues significant to the VSCPA, its members and the accounting profession at large. Colette is an entrepreneur, and small business owner of a full-service catering company where she pursues her passion of cooking and serving others.

EXECUTIVE TEAM

James Schenck,
President & CEO

Since James Schenck became president and CEO in April 2014, PenFed has grown assets from $17.8 billion to nearly $35.5 billion and increased membership from 1.3 million to 2.8 million. During his 20-year tenure serving in PenFed leadership, James led nearly every operating division, as well as PenFed Realty and the PenFed Foundation. James is a graduate of the U.S. Military Academy and Harvard Business School. During 13 years of service in the U.S. Army, James flew Black Hawk helicopters, trained other Army aviators, and taught economics and finance at West Point. During his assignment at the Pentagon, James received the Legion of Merit for his contribution to the Army. Always moving PenFed forward in driving our mission for our members, James is continually motivated to hire, inspire, and retain the best and brightest financial professionals.

Shashi Vohra,
Senior EVP & President, Affiliated Businesses

Shashi Vohra joined PenFed in 1980 and has held various positions. In his current role, Shashi oversees PenFed's commercial banking efforts, a line of business that he started and developed at PenFed. He also leads all PenFed insurance products and serves as President and CEO of PenFed Title, LLC and its subsidiaries and as CEO of PenFed Realty, LLC and DigMed, LLC (dba White64). Shashi oversees all merger and acquisition efforts including the merger with Progressive Credit Union that gave PenFed its "universal charter." Shashi also oversees the development and implementation of new products, business ventures and expansions of related businesses through acquisitions and partnerships. Shashi serves as president of the PenFed Foundation. He also serves on the board of directors of Mortgage Harmony Corp. (dba Rate Reset). Shashi earned his bachelor's and master's degrees in commerce in India. He is also a certified public accountant (CPA).

Ricardo Chamorro
EVP, Consumer Banking & Strategy

Ricardo Chamorro joined PenFed in 2014 and currently leads PenFed's consumer banking and corporate strategy efforts, which includes retail deposits, payments, and consumer loans. In his current leadership role, Ricardo also oversees PenFed's marketing and consumer banking technology teams, both of which are focused on improving PenFed's "go to market" strategy and ongoing digital transformation efforts. Additionally, Ricardo works closely with the PenFed executive leadership team in monitoring and understanding the competitive landscape so that PenFed is prudently poised to develop, communicate, execute, and sustain strategic initiatives that help drive PenFed business growth and profitability. During his tenure at PenFed, Ricardo has delivered numerous merger partnerships, including the merger with Progressive Credit Union that gave PenFed its "universal charter." Ricardo has nearly 20 years of experience in financial services and investment banking, including leadership roles at UBS Investment Bank and Lazard. Previously, Ricardo served as a military intelligence officer in the U.S. Army and was awarded the Joint Service Commendation Medal and Bronze Star. Ricardo is a graduate of West Point (B.S.) and Harvard Business School (MBA). Ricardo is also a board member of the Armed Forces YMCA and the Washington Hispanic Chamber of Commerce.

Brent Dann,
SVP, Chief Accounting Officer & Interim CFO

Brent Dann joined PenFed in 2017 and served as its Chief Accounting Officer since 2019. Brent has more than 25 years' experience in the financial services industry including senior leadership roles with a national advisory firm serving multinational and domestic banking clients and over a decade experience providing accounting advisory solution services as a small business owner to Fortune 500 financial services, specialty finance, and national banking clients. Brent's experience also includes leading multidisciplinary teams that develop solutions to address complex financial accounting matters. Brent's early career experience includes financial planning and analyst at Freddie Mac and assurance and advisory experience at Deloitte & Touche, LLP. Brent graduated from Indiana University Kelley School of Business and is a certified public accountant.

Jamie Gayton

EVP, Member Operations & Global Fixed Assets

Jamie Gayton currently serves as PenFed's executive vice president of member operations. Jamie oversees PenFed service centers and financial centers, phone operations, collections, and buying, leasing, selling and maintaining of all PenFed's facilities. After leading teams in the U.S. military for 30 years with combat deployments to Iraq for Desert Shield/Storm in 1990-1991, and Operation Iraqi Freedom in 2005-2006, he joined PenFed in 2017. Jamie earned degrees from West Point (B.S.), MIT Sloan (MBA) and Pardee RAND (Ph.D.). He previously taught economics at West Point and culminated his military career by teaching economics at the National Defense University's Eisenhower School from 2015 to 2017. He also developed West Point's course in personal finance, oversaw the Investment Club and authored the book, "Guide to Personal Financial Planning for the Armed Forces (seventh edition)."

Scott Lind,

EVP, General Counsel

Scott Lind joined the executive team at PenFed in 2014, serving as executive vice president and general counsel, with responsibility for all legal, compliance, and procurement matters. Scott also serves on numerous outside boards and committees. Following law school, Scott served in the active-duty U.S. Army Judge Advocate General's Corps from 1986 to 2009 and retired in the rank of Colonel. He served in numerous leadership roles, to include serving as the Staff Judge Advocate of the Army's largest unit and serving as the general counsel of the U.S. Army Contracting Command. Scott is the recipient of three Legions of Merit and the Bronze Star. Upon leaving active duty, Scott continued his service to our country as a senior attorney with the Army, where he excelled in providing legal support in the complex arena of government procurement law, while serving in the capacity of senior supervisory attorney. Scott is a graduate of Clarkson College, Albany Law School, and the George Washington University. In addition to his Juris Doctor, Scott has two Masters of Laws degrees.

Russell Rau,

Chief Audit Executive/Audit Services

Russell Rau is PenFed's chief audit executive, a position he has held since 2015. In that capacity, he serves and protects PenFed's membership by providing leadership and direction to the audit services department in fulfilling its independent oversight of PenFed's programs and activities. Previously, Russell served as the senior audit executive at the Federal Deposit Insurance Corporation during the banking crisis and at the Federal Housing Finance Agency overseeing Fannie Mae and Freddie Mac conservatorships during the housing crisis. Russell started his career and held progressively responsible audit positions at the Department of Defense, rising to the Senior Executive Service (SES). He is a certified public accountant, certified information systems auditor and certified internal auditor and completed the Stonier Graduate School of Banking sponsored by the American Bankers Association at the University of Pennsylvania.

Joseph Thomas,

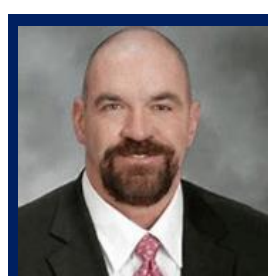
EVP, Chief Information Officer

Joseph Thomas joined PenFed in March 2015 as its chief information officer. Prior to PenFed, Joseph led banking technology at USAA for 15 years. Joseph is a graduate of the University of Manchester in England where he earned a Bachelor of Science in computer science and accounting. He is also a graduate of the BAI Graduate School of Retail Bank Management.

Maura Watson,

EVP, Talent, Risk and Communications

Maura Watson joined PenFed in early 2021. In her current position as executive vice president of talent, risk, and communications, Maura is responsible for leading enterprise risk management, enterprise data, talent recruitment and development, and corporate communications. Prior to joining PenFed, she spent 28 years as a Central Intelligence Agency Officer, with operational work spanning five continents. During that time, Watson worked and led complex human intelligence, cyber and counterintelligence operations within the Directorate of Operations and the Directorate of Digital Innovation. She holds a bachelor's and a master's degree in history from the University of Scranton, an executive MBA from Northwestern University's Kellogg School of Management and an Information Security Certificate from Harvard University.



Winston Wilkinson,

EVP & President, Mortgage Banking

Winston Wilkinson joined PenFed in 2018 as executive vice president and president of mortgage banking. Winston brings more than 34 years of experience in large financial services firms. Prior to PenFed, Winston served as USAA Federal Savings Bank's president of mortgage and consumer real estate for five years. The majority of Winston's career was spent at Wachovia, where he served as executive vice president in various roles, including mortgage, wealth management and retail and commercial banking. He has served on the board of directors and in leadership roles of numerous charitable and nonprofit community organizations across the country.

SUPPORTING OUR COMMUNITY

In 2022, PenFed donated:

$2.2 MILLION to more than **100** ORGANIZATIONS

Founded in 2001 by the PenFed Credit Union, the **PenFed Foundation is a national non-profit organization** committed to empowering military service members, veterans and their communities with the skills and resources to realize financial stability and opportunity.

The PenFed Foundation **supports 48 Afghan women** and their families through our Afghan Rescue and Resettlement Program (ARRP).

The women fought alongside our American troops, and we have assisted these brave women and their families in safely resettling here in the United States.

We broke ground on the **PenFed Grand Lodge at the Warrior Retreat** in Haymarket, Virginia, to help the Willing Warriors organization expand their retreat programs for military families and veterans.

The retreats provide a place of respite for wounded veterans and families as they heal and recover.

HELPING IS WHAT WE DO

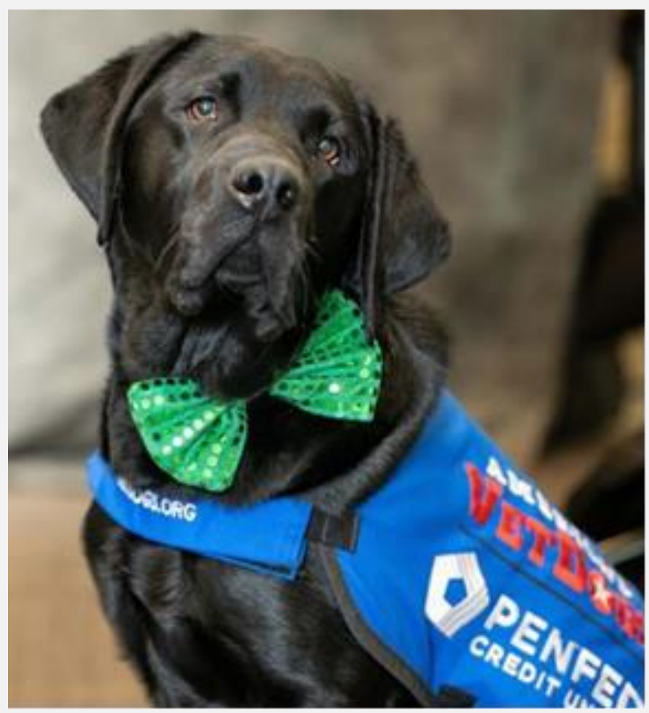
Incredible ways PenFed gave back in 2022.

PenFed gave back to the Northern Virginia community by **donating over 700 items** to Mobile Hope an organization that provides support and emergency shelter to youth up to age 24 who are at-risk, precariously housed, or homeless and empowers them to become self-sufficient.

Through our partnership with organizations such as **America's Vet Dogs, Willing Warriors, and Armed Services Arts Partnership,** PenFed is empowering our military service members, veterans, and their communities with the support they need to succeed.

PenFed supported veterans and first responders with disabilities with a $50,000 donation to America's VetDogs at the Washington Nationals game.

To date, PenFed has raised eight puppies, four of which have gone on to successfully become service dogs for veterans.



2022 AUDITED
FINANCIAL STATEMENTS

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

TABLE OF CONTENTS

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Philadelphia, PA 19103

Independent Auditor's Report

Supervisory Committee and Members of
Pentagon Federal Credit Union
McLean, Virginia

Opinion

We have audited the consolidated financial statements of Pentagon Federal Credit Union (a federally chartered credit union) and its subsidiaries (the Credit Union), which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as of December 31, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the 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 from 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 the Credit Union's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

BDO USA, LLP

Philadelphia, Pennsylvania
March 31, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December 31,	
(Dollars in thousands)	**2022**	**2021**
ASSETS		
Cash and cash equivalents	$ 774,890	$ 544,358
Restricted cash	3,810	10,445
Investment securities		
Available-for-sale (cost $2,821,064 and $2,119,200)	2,551,947	2,102,897
Other investments	187,734	245,535
Loans held for sale	98,259	3,910,277
Loans held for investment		
Loans, net of allowance of $280,785 and $251,355	29,207,566	23,350,213
Loans, at fair value	243,143	147,072
Accrued interest receivable	124,133	100,576
National Credit Union Share Insurance Fund deposit	231,498	184,809
Credit Union Life Insurance	367,298	354,663
Charitable Donation Account	146,966	141,259
Goodwill	31,094	25,087
Other intangible assets, net	115,837	118,746
Property and equipment, net	576,604	536,518
Other assets	865,581	730,797
Total assets	**$ 35,526,360**	**$ 32,503,252**
LIABILITIES AND MEMBERS' EQUITY		
Members' accounts	$ 27,716,601	$ 23,087,982
Borrowed funds	3,823,023	5,838,821
Other liabilities	524,160	475,607
Total liabilities	32,063,784	29,402,410
Members' equity:		
Additional paid-in capital	1,150	1,175
Undivided earnings	3,383,835	3,138,568
Accumulated other comprehensive income/(loss)	76,478	(40,489)
Total Pentagon Federal Credit Union members' equity	3,461,463	3,099,254
Non-controlling interests	1,113	1,588
Total members' equity	3,462,576	3,100,842
Total liabilities and members' equity	**$ 35,526,360**	**$ 32,503,252**

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
(Dollars in thousands)	**2022**	**2021**
Interest income		
Loans	$ 1,396,258	$ 1,020,422
Investment securities	65,899	35,360
Total interest income	1,462,157	1,055,782
Interest expense		
Members' accounts	279,152	174,200
Borrowed funds	97,530	72,298
Total interest expense	376,682	246,498
Net interest income	1,085,475	809,284
Provision for loan losses	272,814	135,107
Net interest income after provision for loan losses	812,661	674,177
Non-interest income		
Fees and charges	169,675	52,995
Gains on debt extinguishments	76,368	-
Credit card and debit card interchange	31,227	26,581
(Losses)/gains on sales of loans and other, net	(104,412)	199,404
Losses on sales of investment securities, net	(121)	-
Mortgage banking activities	90,742	110,572
Other	106,721	94,138
Total non-interest income	370,200	483,690
Non-interest expense		
Compensation and benefits	444,833	381,951
Office operations	151,901	142,554
Loan servicing	100,892	113,643
Occupancy	32,560	30,640
Education and promotional	67,357	65,281
Professional and outside services	78,426	75,655
Other	63,425	52,265
Total non-interest expense	939,394	861,989
Net income	243,467	295,878
Less: net income attributable to non-controlling interests	(190)	(358)
Net income attributable to Pentagon Federal Credit Union	**$ 243,277**	**$ 295,520**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
(Dollars in thousands)	**2022**	**2021**
Net income	$ 243,467	$ 295,878
Other comprehensive income:		
Change in net unrealized losses on investment securities during the year	(252,693)	(45,084)
Adjustment for realized losses on investment securities included in consolidated statements of income	(121)	-
Change in unrealized net gains on cash flow hedges	360,963	39,024
Amounts reclassified into interest expense on the consolidated statements of income	(2,477)	18,942
Change in unrealized pension and postretirement liabilities recorded to compensation and benefits on the consolidated statements of income	3,520	4,882
Adjustment for realized pension and postretirement costs	7,775	6,388
Other comprehensive income, net of reclassification adjustments	116,967	24,152
Comprehensive income	**$ 360,434**	**$ 320,030**

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(Dollars in thousands)	Additional Paid-In Capital	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Credit Union Members' Equity	Non-Controlling Interests	Total Members' Equity
Balance, January 1, 2021	**$ 1,000**	**$ 2,840,981**	**$ (64,641)**	**$ 2,777,340**	**$ 750**	**$ 2,778,090**
Net income	-	295,520	-	**295,520**	358	**295,878**
Equity from mergers	-	2,067	-	**2,067**	-	**2,067**
Sale of controlling interest	175	-	-	**175**	480	**655**
Other comprehensive loss, net of reclassification adjustments	-	-	24,152	**24,152**	-	**24,152**
Balance, December 31, 2021	**$ 1,175**	**$ 3,138,568**	**$ (40,489)**	**$ 3,099,254**	**$ 1,588**	**$ 3,100,842**
Net income	-	243,277	-	**243,277**	190	**243,467**
Equity from mergers	-	1,990	-	**1,990**	-	**1,990**
Sale of controlling interest	(175)	-	-	**(175)**	(423)	**(598)**
Capital contributions from non-controlling interests	150	-	-	**150**	-	**150**
Distributions to non-controlling interests	-	-	-	**-**	(242)	**(242)**
Other comprehensive income, net of reclassification adjustments	-	-	116,967	**116,967**	-	**116,967**
Balance, December 31, 2022	**$ 1,150**	**$ 3,383,835**	**$ 76,478**	**$ 3,461,463**	**$ 1,113**	**$ 3,462,576**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
(Dollars in thousands)	**2022**	**2021**
Operating activities		
Net income	$ 243,467	$ 295,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	272,814	135,107
Depreciation and amortization	93,780	80,356
Amortization of premium and discounts on investments, net	4,145	8,743
Amortization of borrowing costs	4,424	9,952
Amortization of derivative hedge gains	(2,477)	-
Increase in cash surrender value of Credit Union Life Insurance	(13,831)	(13,065)
Increase in cash surrender value of Charitable Donation Account	(5,707)	(9,230)
Losses/(gains) on sales of loans	104,412	(199,404)
Losses on sales of available for sale investment securities, net	121	-
Losses on sales of foreclosed assets	809	1,509
Gains on disposal of property and equipment	(1,609)	(1,360)
(Gains)/losses on valuation of servicing rights	(14,882)	13,111
Loans originated to be sold	(11,166,669)	(12,204,467)
Proceeds from sales of loans held for sale	9,572,707	11,600,365
Gains on debt extinguishments	(76,368)	-
Bargain gains from mergers	(6,116)	(8,332)
Net changes in:		
Accrued interest receivable	(23,557)	(9,503)
Other assets	320,067	17,881
Other liabilities	30,333	19,627
Operating lease liabilities	(7,513)	-
Net cash used in operating activities	**$ (671,650)**	**$ (262,832)**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Years Ended December 31,	
(Dollars in thousands)	**2022**	**2021**
Investing activities		
Proceeds from maturities of investment securities	$ 383,993	$ 690,287
Purchases of investment securities	(1,268,650)	(1,132,664)
Proceeds from sales of investment securities	178,527	-
Decrease/(increase) in other investments	57,801	(53,636)
Net change in Credit Union Life Insurance	1,196	-
Proceeds from sales of loans held for investment	1,495,842	857,439
Net increase in loans	(2,463,919)	(6,959,532)
Proceeds from sales of foreclosed assets	38	38
Proceeds from sale of minority interest	634	480
Cash from mergers	52,326	79,905
Purchase of property and equipment	(87,444)	(77,673)
Proceeds from disposal of property and equipment	9,173	9,215
Increase in National Credit Union Share Insurance deposit	(45,708)	(13,764)
Net cash used in investing activities	**$ (1,686,191)**	**$ (6,599,905)**
Financing activities		
Proceeds from borrowings	$ 14,847,736	$ 7,456,781
Repayment of borrowings	(16,791,590)	(5,371,781)
Payment for Federal Home Loan Bank debt prepayment costs	-	(14,404)
Capital contributions from non-controlling interests	150	175
Distributions to non-controlling interests	(242)	-
Increase in members' accounts, net	4,525,684	3,228,553
Net cash provided by financing activities	**$ 2,581,738**	**$ 5,299,324**
Net increase / (decrease) in cash and cash equivalents and restricted cash	223,897	(1,563,413)
Cash and cash equivalents and restricted cash at beginning of year	554,803	2,118,216
Cash and cash equivalents and restricted cash at end of year	**$ 778,700**	**$ 554,803**
Supplemental disclosure of cash flow information:		
Interest paid	$ 366,119	$ 226,643
Supplemental disclosures of non-cash information:		
Transfers of loans, net to other foreclosed assets	299	7,478
Transfers to loans held for sale	1,495,842	857,439
Entity value equity from mergers	2,729	2,067
Fair value of assets acquired in mergers	62,062	95,721
Fair value of liabilities assumed in mergers	105,543	165,227

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

a) Organization and Nature of Business

Pentagon Federal Credit Union (the "Credit Union" or "PenFed") is a federal credit union that was organized and chartered on March 25, 1935, under the Federal Credit Union Act of 1934. It exists to promote thrift among its members and to create a source of credit for productive purposes. PenFed wholly owns PenFed Realty, LLC, which provides real estate brokerage services to the Credit Union's members and the general public as well as PenFed Title, LLC, which provides real estate settlement title services to the Credit Union's members and the general public. During 2021 and 2022, PenFed Title, LLC, sold a 40% and the remaining 60% ownership interest, respectively, in its wholly owned subsidiary, Member's Title of California. PenFed also owns 75% of DigMed, LLC, which provides advertising services to the Credit Union and the general public. Unless the context indicates otherwise, all references to "PenFed," "the Credit Union," "we," "our," or "us" include PenFed and its respective subsidiaries. The Credit Union is regulated by the National Credit Union Administration (NCUA).

Our principal executive offices and headquarters are located at 7940 Jones Branch Drive, McLean, Virginia 22102, telephone (800) 247-5626. Our website address is www.PenFed.org. We make our annual reports, and all amendments to those reports, available free of charge on our website. Information on our website is not deemed to be incorporated by reference into these consolidated financial statements.

Membership in the Credit Union is open to any individual who qualifies as defined in its charter and bylaws. The Credit Union extends credit to its members through direct negotiation with a borrower, indirectly originating loans through third parties, or by purchase of loans from other lenders. Such extensions of credit may be in the form of promissory notes, advances, mortgages, lines of credit, letters of credit, vehicle loans, overdrafts, and similar obligations. The Credit Union generally services the loans it originates or purchases; however, the Credit Union may also buy loans that are serviced by other counterparties and in certain cases where we merge to minimize operational disruptions, we allow existing acquirees' servicers to continue servicing the acquired loans at the time of the merger - we refer to these loans as serviced by others (SBOs).

b) Income Taxes

The Credit Union is exempt from federal and state income taxes in accordance with Section 122 of the Federal Credit Union Act.

c) Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Where applicable, accounting policies conform with accounting and reporting guidelines prescribed by regulatory authorities. US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. The most significant of these estimates and assumptions include assessment of the fair value of certain assets and liabilities (e.g., available for sale securities) and the allowance for loan losses. Management evaluates its estimates on an ongoing basis using the most current and available information at the time the consolidated financial statements are issued. Actual results could materially differ from those estimates. Changes in estimates are recorded in the period in which they become known.

d) Principles of Consolidation

The consolidated financial statements include the accounts of PenFed and its subsidiaries. Upon consolidation, all material intercompany accounts and transactions are eliminated. The Credit Union does not consolidate any Variable Interest Entities or "VIEs" since it is not considered the primary beneficiary in any VIE that it participates in. An entity is deemed the primary beneficiary of a VIE if that entity has both (i) the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

e) Variable Interest Entities or "VIEs"

VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

In determining whether the Credit Union is the primary beneficiary of a VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE, such as its role in establishing the VIE and our ongoing rights and responsibilities; our economic interests, including debt and equity investments, servicing fees and other arrangements deemed to be variable interests in the VIE; the design of the VIE, including the capitalization structure, subordination of interests, payment priority, relative share of interests held across various classes within the VIE's capital structure and the reasons why the interests are held by us.

f) Reclassifications

Certain amounts reported in previous years have been reclassified to conform to current year presentation.

In 2022, the Credit Union changed its presentation of derivative assets and liabilities from a gross basis to a net basis, which is a permitted election. This election results in more comparable consolidated financial statements of the Credit Union to other credit unions and reflects the Credit Union's credit risk position with each of its counterparties. The effect of this change in accounting policy was applied to all consolidated statements of financial condition. As a result of this change, total assets decreased by $16,773 and total liabilities decreased by $16,773 as of December 31, 2021.

g) Business Combinations

We account for business combinations under the acquisition method of accounting. This method requires the recording of acquired assets and assumed liabilities at their acquisition date fair values. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. If the fair value of assets less the fair value of liabilities acquired exceeds the purchase price, the difference is recognized as a bargain purchase gain in non-interest income. Results of operations related to business combinations are included prospectively beginning on the date of acquisition. Determining the fair value of acquired intangibles requires significant judgment in selecting underlying assumptions, including projected revenue growth rates, profit margins, and discount rates. In some cases, we use discounted cash flow analyses, which are based on our best estimate of future earnings and cash flows after considering such factors as general market conditions, changes in working capital, long-term business plans and recent operating performance.

h) Goodwill and Intangibles

Goodwill represents the excess of purchase price over the net fair value of assets acquired and liabilities assumed. Intangible assets with finite useful lives are amortized. Goodwill and intangible assets with indefinite lives are not amortized but are evaluated, at least annually, for impairment. We evaluate goodwill and the indefinite lived intangible asset for impairment annually as of October 31st on a qualitative basis incorporating factors such as the general economic environment, industry, market considerations and our overall financial performance.

i) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash and due from other financial institutions, interest-bearing deposits and other short-term investments, all of which, if applicable, have original maturities of three months or less.

Funds included in restricted cash are unavailable for withdrawal or usage. Such cash primarily include legally restricted deposits, such as:

- Earnest money deposits to sellers while other home-buying activities (property, appraisal, inspections, etc.) continue
- Cash paid to our title companies to facilitate settlement and closing transactions
- Funds held in trust

j) Investment Securities

The Credit Union's investments in debt securities are classified as available-for-sale (AFS). Debt securities classified as AFS are measured at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (AOCI).

Purchase premiums and discounts are recognized in interest income using the effective interest method over the term of the securities purchased. Gains and losses on dispositions of investment securities are computed using the specific identification method and recognized as non-interest income.

Management evaluates each of its AFS debt securities in an unrealized loss position for other-than-temporary impairment (OTTI). Through this process, consideration is given to the length of time and the extent to which the fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer, our intent and likelihood to sell, our ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Declines in fair value that are other-than temporary (i.e., credit related) are recognized in earnings, whereas declines attributed to the interest rate environment are recognized in AOCI.

k) Other Investments

The Credit Union has stock in the Federal Home Loan Bank (FHLB) of Atlanta. We are required to hold this stock as a condition of our membership with the FHLB. Our total investment consists of two classes of stock: Class B2 membership stock and Class B1 activity stock. Each member of the FHLB is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. All stock that supports a member's activity stock requirement with the FHLB is classified as Class B1 activity stock. Any additional amount of stock necessary for the total amount of Class B stock held to equal a member's minimum investment amount will be classified as Class B2 membership stock. The Credit Union purchases Class B2 membership stock to satisfy its membership stock requirement with the FHLB. Both classes of stock are mandatorily redeemable after a 5-year notice period expires. This investment is a restricted investment and is carried at cost, which is par value less impairment, if any.

The Credit Union also holds certificates of deposit with various banks and credit unions that are held at cost as they are non-marketable and thus an appropriate measure of fair value. FHLB stock and certificates of deposit are evaluated for impairment annually. There was no impairment for the years ended December 31, 2022 and 2021.

l) Charitable Donation Account (CDA)

The Credit Union utilizes a Charitable Donation Account (CDA), in which any revenues and/or gains are used to support charities as allowed under credit union regulations. CDA is a restricted investment measured at the cash surrender value which approximates fair value.

m) Loans

The Credit Union's loan portfolio includes real estate (mortgage and equity), commercial, vehicle, credit cards, and other consumer loans. Other consumer loans consist of personal lines of credit and education loans. At the time of origination or acquisition, loans are classified as either held for investment, or held for sale, based on our intent and ability to hold for the foreseeable future or to maturity or sale.

Held for Investment

Loans are classified as held for investment when the Credit Union has both the intent and ability to hold the loan(s) for the foreseeable future, or until maturity or payoff. Our intent and view of the foreseeable future may change based on changes in business strategies, the economic environment, market conditions, and the availability of government programs.

The majority of held for investment loans are reported at their amortized cost basis, which is the loan's unpaid principal balance (UPB), adjusted for accretion, amortization, collection of cash, charge-offs and fair value hedge basis accounting adjustments. Loan fees and certain direct loan origination costs, which are included in amortized cost are deferred, and the net fee/cost is recognized as an adjustment to interest income over the term of the loans using the effective interest method, except for credit cards, which are amortized on a straight-line basis over twelve months.

The Credit Union elected the fair value option for taxi medallion loans and certain mortgage loans. Changes in fair value are recognized in non-interest income. Loan fees and certain direct loan origination costs and transaction costs are immediately recognized to non-interest income. Interest income represents the amount contractually due.

Past Due Loans

Past due loans are those where the borrower has failed to make a contractual payment on or before its due date. In determining a single-family mortgage loan's delinquency status, the Credit Union may use the paid through date, that is, credit is given for aggregate partial payments received.

Nonaccrual Loans

Interest accruals are discontinued on loans when management believes, after considering economic factors, business conditions, and collection efforts, that the collection of principal and interest is doubtful. We consider the following additional factors when determining the discontinuation of interest accruals:

- The loan is 90 days or more past due its contractual terms
- The loan has been modified in a troubled debt restructuring
- The borrower has filed for bankruptcy
- The borrower becomes deceased

Loans accounted for under the fair value option and loans held for sale are considered nonaccrual loans if the nonaccrual criteria are met. Excluded from nonaccrual accounting are loans insured or guaranteed by the Federal Housing Administration ("FHA") or Veterans Administration ("VA") since we expect to collect substantially all principal and interest. Credit card loans that are contractually 90 days or more past due have not been put on nonaccrual status as they are typically charged off at 180 days, which is consistent with industry practice and regulatory guidelines.

Uncollected interest is reversed against interest income the same month a loan is placed in nonaccrual status. All cash collections received while a loan is on nonaccrual status are applied to the loan's UPB until there is no longer any doubt regarding full collectability of the recorded investment of the loan. The loans are then returned to accrual status when the borrower demonstrates the ability to repay the obligation, which is generally after six consecutive timely payments.

Loans Held for Sale

Loans that we intend to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Real estate loans originated with the intent to sell to government-sponsored enterprises are accounted for under the fair value option. We elect the fair value option on these loans as part of our management of interest rate risk along with the corresponding forward sale commitments. All other loans classified as held for sale are recorded at the lower of cost or fair value.

Loan origination fees and direct loan origination costs related to loans for which the fair value option was elected are recognized as incurred and are reported in other non-interest income in the consolidated statements of income. Interest income is calculated based on the loan's stated rate of interest and is reported in interest income in the consolidated statements of income. Fair value adjustments attributable to loans held for sale or loans in which the fair value option has been elected are recorded in other non-interest income in the consolidated statements of income.

Loan origination fees, direct loan origination costs, and any discounts and premiums related to loans carried at the lower of cost or fair value are deferred until the loan is sold and are then recognized as part of the total gain or loss on sale. The fair value of loans held for sale is determined on an aggregate portfolio basis for each loan type. Fair value adjustments attributable to Loans held for sale or loan in which the fair value option has been elected are recorded in other non-interest income in the consolidated statements of income.

In the event that the Credit Union changes the intent that results in a reclassification of held for investment loans to loans held for sale, such reclassified loans are recorded at the lower of cost or fair value on the date of redesignation, unless the impacted loans are under the fair value option.

Loans held for sale are typically sold with the servicing rights retained and are generally sold without recourse, subject to customary representations and warranties. In accordance with ASC Topic 860, Transfers and Servicing, the Credit Union recognizes the sale of loans or other financial assets when the transferred assets are legally isolated from the Credit Union's creditors, the transferee has the right to pledge or exchange the assets, and the Credit Union no longer maintains effective control over the transferred assets.

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") is a loan for which the Credit Union grants a concession it would not have otherwise considered because a member is experiencing financial difficulties. The concession could either be an agreement between the Credit Union and the member or imposed by law or through a court order. Accordingly, loans where members received bankruptcy relief are classified as TDRs. Concessions we usually grant in a TDR include, but are not limited to, term extensions and/or interest rate reductions. TDRs are considered impaired loans.

We measure impairment on TDR loans where we cannot reasonably estimate expected future cash flows as the excess of the loan's recorded investment over the fair value of the collateral, less estimated selling costs. On all other TDR loans the impaired amount is generally measured as the excess of the loan's recorded balance over the present value of expected future cash flows discounted at the loan's effective interest rate. If both collateral values and discounted cash flows are not available, we use loan's observable market price to calculate impairment as the difference between the loan's recorded investment and the loan's observable market price. Costs incurred to complete a TDR are expensed as incurred.

n) Allowance for Loan Losses

The Credit Union accrues losses for loans held for investment which are both probable and estimable resulting from the inability of its members to pay amounts due in accordance with ASC Topic 450, Contingencies and ASC Topic 310, Receivables. The allowance for loan losses is a reserve against loans held for investment established through a provision for loan losses charged to consolidated statements of income. Loan losses are charged-off against the allowance when Management believes the collectability of the recorded investment is unlikely. Recoveries on previously charged-off loans are credited to the allowance.

The allowance is increased by a provision for loan losses (charged to expense) and the allowance is reduced by charge-offs, net of recoveries. Changes in the estimated allowance are charged to the provision for loan losses in the consolidated statements of income.

The allowance for loan losses is subject to judgment and uncertainty, including, but not limited to, assessment of changes in the economic environment, delinquency rates, the realizable value of collateral, regulatory risk and other risk factors. While all of these factors are important determinants of overall allowance levels, changes in the various factors may not occur at the same time or at the same rate, and changes in these factors would not necessarily be consistent across all product types. There is also uncertainty as to how changes in these factors would ultimately affect the probability of losses, the severity of losses, or both. Due to the nature of these uncertainties related to the estimation process, Management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of change that is reasonably possible cannot be estimated.

The Credit Union's allowance for loan losses includes a general component and an asset-specific component.

General Component

The Credit Union identifies pools of loans with similar risk characteristics. The allowance for loan losses for the general component is calculated by applying statistical loan loss factors based primarily on internal historical losses to the pools of loans over a loss emergence period to arrive at an estimate of incurred loan losses. Estimated loan loss emergence periods may vary by product.

Management evaluates the estimate on a quarterly basis and may apply qualitative adjustments after taking into account the aforementioned uncertainties.

Asset-Specific Component

The asset-specific component of the allowance relates to loans considered to be impaired, which includes loans that have been modified as TDRs. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan agreement.

The amount of the asset-specific allowance required to be recorded, if any, is dependent upon the recorded investment in the loan (including prior charge-offs), and either the expected cash flows, observable market prices, or fair value of the loan's underlying collateral. Collateral dependent loans are charged down to the fair value of collateral less estimated costs to sell. Subsequent changes in impairment are recognized as a provision for loan losses in consolidated statements of income.

Charge-offs and Recoveries

When available information confirms that specific loans, or portions of specific loans, are uncollectible, these amounts are charged-off against the allowance. Recoveries of previously charged-off amounts are recorded when principal and/or interest payments are received.

o) Servicing Rights

Servicing rights are recognized as separate assets (or liabilities) when loans are sold and we retain the right to service these sold loans, for a fee that provides more (or less) than adequate compensation. A servicing asset is recorded if the benefits of servicing are greater than adequate compensation while a servicing liability is recorded if the benefits of servicing are less than adequate compensation. No asset or liability is recognized if the benefits of servicing are equal to adequate compensation. The Credit Union accounts for its servicing rights at fair value.

p) Foreclosed and Repossessed Assets

Real Estate Owned

The Credit Union records real estate acquired through foreclosure ("real estate owned" or "REO") at fair value on the date of acquisition, net of estimated selling costs, resulting in a new cost basis. The difference between the loan's carrying amount and its fair value is recorded as a charge-off through the allowance for loan losses. Carrying costs such as real estate taxes and maintenance are expensed as incurred. After foreclosure, updated fair values are obtained, after which the real estate owned is carried at the lower of cost or fair value less estimated costs to sell. The balances of such assets are included in other assets in the consolidated statements of financial condition. A gain or loss is recognized in non-interest income upon disposition of the REO as the difference between cash proceeds received and the asset's net carrying amount.

Other Repossessed Assets

The Credit Union repossesses non-real estate collateral, which includes vehicles. Upon repossession, and when sufficient information is available on the collateral value, such repossessed collateral is measured at fair value on the date of acquisition, less estimated disposal costs.

Taxi Medallion Collateral

The Credit Union elected the fair value option for taxi medallion loans and recognizes changes in fair value as adjustments to non-interest income. Repossessed medallions, which the Credit Union intends to sell, are carried at fair value, less estimated costs to sell. Transaction costs are immediately recognized to non-interest income.

q) Property and Equipment, net

Property and Equipment

Property and equipment (excluding land) is stated at cost, which includes asset additions, improvements, betterments, and interest capitalized during the period of construction, less accumulated depreciation. The cost and related accumulated depreciation are eliminated from the accounts when assets are disposed. Any resulting gain or loss is reflected in the results of operations. Leasehold improvements are amortized over the lesser of the estimated economic life of the improvements or the remaining term of the lease. Depreciation and amortization are calculated based on the cost of the asset, reduced by the asset's estimated residual or salvage value, using the straight-line method. Ranges of estimated useful lives of depreciable and finite intangible assets used by the Credit Union are shown below. Land is stated at cost and is not depreciated.

Classification of property and equipment	Estimated useful life
Buildings and improvements	5 to 50 years
Furniture and fixtures	3 to 8 years
Computer equipment	3 to 10 years
Computer software	3 to 10 years
Leasehold improvements	1 to 5 years
Aircraft equipment	20 years

Internal-Use Software

The Credit Union purchases, and internally develops and customizes certain software to enhance or perform internal business functions. Qualifying software development costs are expensed, and other costs are capitalized and amortized using the straight-line method over its useful life. Costs related to purchased software, as well as internally developed software for the Credit Union's internal use, are capitalized during the application development stage for capitalizable costs, such as coding. Capitalization of internally developed software costs ends when the software is ready for its intended use. Significant improvements that add new functionality to internal-use software assets are capitalized and amortized when the software is placed into service, and expenditures for maintenance and repairs that do not add new functionality are immediately charged to non-interest expense.

Leases

Lease classification is determined at inception for all lease transactions with an initial term greater than one year. Operating leases are included as right-of-use ("ROU") assets within other assets, property and equipment and operating lease liabilities are classified as other liabilities on our consolidated statements of financial condition. The Credit Union does not have any finance leases. Operating lease expense is included in occupancy within non-interest expense in our consolidated statements of income.

r) National Credit Union Share Insurance Fund ("NCUSIF") Deposit

Per NCUA regulations, we are required to maintain a deposit in the NCUSIF equal to one percent of our insured shares. The deposit is refunded to us if: (1) the insurance coverage is terminated; (2) we convert to insurance coverage from another source; or (3) the operations of the fund are transferred from the NCUA Board.

s) Advertising Costs

Advertising costs are included in education and promotional expense and are expensed as incurred. Advertising expense for 2022 and 2021 was $67,357 and $65,281, respectively.

t) Comprehensive (Loss)/Income

Accounting principles generally require revenue, expenses, gains, and losses to be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities, gains and losses on cash flow hedge derivatives, and pension related adjustments are reported as a separate component of members' equity in the consolidated statements of financial condition.

u) Revenue Recognition

ASC Topic 606, Revenue from Contracts with Customers (hereinafter ASC Topic 606), requires an entity to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments past due, such as our loans, investment securities and mortgage lending income, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our significant revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

> *Commissions* - The Credit Union receives brokerage commission for realty services in selling, buying, or leasing a property. Each service is considered a distinct, stand-alone performance obligation, representing the bundled services that culminate when the sales (or lease) agreement is executed, representing the point in time when payments and title change hands, allowing the customer to obtain control.
>
> *Interchange Fees* - These fees are charged to the merchant for participation in the Credit Union's card network ecosystem. The Credit Union is the principal in providing this service, and interchange revenue will be recognized at a point in time on a gross basis as the Credit Union approves the transactions and transfers funds, while fees paid will be classified as an expense. Credit card rewards and rebate costs are consideration paid to the cardholder, not a merchant bank, and are considered separate expenses not recorded net of interchange fees.
>
> *Core Service Charges* - These represent fee revenue from membership services as a series where the Credit Union's only performance obligation is to serve as custodian, providing access to funds as necessary. This performance obligation is satisfied over time, utilizing the time-based output method.
>
> *Insurance Placement Fee* - The Credit Union engages with insurance companies to place its members in insurance products for which it receives a commission from the insurance policy issuer. The Credit Union does not recognize any revenue pertaining to renewal as commissions arising from member renewals is deemed to be fully constrained until uncertainty is resolved (e.g., member renews for ongoing commission income).
>
> *Sales of REO and Other assets* - The Credit Union defines an accounting sale with full gain or loss recognition, and related asset derecognition, if the transaction meets certain requirements.

v) Fair Value of Assets and Liabilities

Fair value represents the exit price that we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. Fair value measurements are disclosed by level within a fair value hierarchy that gives the highest priority to quoted prices in active markets.

We believe our estimated fair value amounts are reasonable; however, as outlined below, there are inherent limitations in any valuation estimate.

Our estimated fair value amounts are made as of the consolidated statements of financial condition date and are highly subjective in nature. We select assumptions and inputs from a market participant's perspective to use with any of our valuation estimates. Such assumptions and inputs include, but are not limited to, the amount and timing of future cash flows, expected interest rate volatility, possible distributions of future interest rates used to value options, and the selection of discount rates that appropriately reflect market and credit risks. Significant judgment is required when selecting such assumptions and inputs. Using different assumptions and inputs could have a material effect on our estimated fair value amounts. The estimated fair value amounts presented in our consolidated statements of financial condition and disclosed in the notes to the consolidated financial statements may not be indicative of the amounts that would be realized upon settlement in current market transactions.

We use various valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset/liability or unobservable, meaning those that reflect the entity's own assumptions developed based on the best information available in the circumstances.

The fair value hierarchy is as follows:

Level 1 - Valuations for assets and liabilities traded in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The Credit Union has cash as Level 1.

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

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

w) Derivative Instruments

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. These instruments include interest rate swaps (including swaptions), caps, floors, collars, forwards, futures contracts, and when-issued securities, as examples. All derivatives are reported at fair value.

Accounting Hedges

Derivative financial instruments which qualify for hedge accounting treatment are classified as either fair value hedges or cash flow hedges. A qualifying hedge accounting relationship exists when a derivative hedging instrument is expected to effectively offset changes in the fair values or cash flows of the hedged item during the term of the hedge relationship. We prepare contemporaneous documentation at inception of the hedge relationship to support that the hedge relationship qualifies for hedge accounting treatment and assess hedge effectiveness on an ongoing basis. This analysis includes techniques such as linear regression and the hypothetical derivative method to demonstrate that the hedging instrument has been, and is expected to be, highly effective in offsetting corresponding changes in the fair value or cash flows of the hedged item. The Credit Union employs both fair value and cash flow hedges.

Fair value hedges are used to protect against exposure to changes in the fair value of a recorded asset or liability. Changes in the fair value of the derivative instrument and hedged item in a fair value hedge are recorded in the same line item, either interest income or interest expense, in the consolidated statements of income.

Cash flow hedges are used to protect against exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction. If a cash flow hedge is highly effective, changes in the fair value of hedging instrument are recognized in accumulated other comprehensive income or loss until the related cash flows from the hedged item are recognized in earnings. If the cash flow hedge ceases to be highly effective, the Credit Union discontinues hedge accounting and recognizes the changes in fair value in current period earnings.

The Credit Union has master netting agreements within its derivatives counterparties and has elected to present derivative assets and liabilities on a net basis in the consolidated statements of financial condition. At inception and at least quarterly during the life of the hedge, the Credit Union documents its analysis of actual and expected hedge effectiveness.

If a derivative that qualifies as a fair value or cash flow hedge is terminated or de-designated, the realized or then unrealized gain or loss is recognized in income over the life of the hedged item (fair value hedge) or in the period in which the hedged item affects earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge).

Economic Hedges

Derivatives not designated as an accounting hedge are considered an economic hedge transferring economic risk away from the investor. The Credit Union enters into interest rate lock commitments (IRLCs) in connection with the funding of residential mortgage loans in the future. The IRLCs expose the Credit Union to the risk that the price of the loans underlying the commitment may decline between the inception of the IRLC and funding of the loan. Economic hedges mitigate the fair value risk associated with mortgage banking activities. The changes in fair value of economic hedges are included as non-interest income from mortgage banking activities.

x) Pension Accounting and Retirement Benefit Plans

The Credit Union has a defined benefit pension plan, 401(K) deferred contribution, postretirement medical plan, and non-qualified supplemental retirement plan.

The funding status of each defined benefit plan is reflected as an asset or liability in the consolidated statements of financial condition. GAAP requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans, measured solely as the difference between the fair value of plan assets and the projected benefit obligation, as an asset or liability in the consolidated statements of financial condition. Unrecognized actuarial gains and losses and unrecognized prior service costs are included as a component of accumulated other comprehensive income or loss.

Actuarial gains and losses and prior service costs and credits that arise during a period are included in other comprehensive income to the extent they are not included in net periodic pension cost (a component of compensation and benefits expense).

y) Borrowed Funds

The Credit Union is an active borrower with the Federal Home Loan Bank of Atlanta (FHLB). Borrowing from the FHLB takes the form of various types of advances, which vary in tenor (up to 30 years) and rate structure (fixed, floating). Each advance is separately negotiated and accounted for as a separate agreement and carried at the amount of proceeds received from the FHLB. From time-to-time, the Credit Union may restructure advances for the purpose of extending the term or obtaining a lower interest rate. Restructurings are accounted for as an extinguishment when the modified terms of the borrowing are substantially different than the original terms, otherwise they are treated as a modification. Substantially different meaning that the present value of the cash flows under the terms of the new borrowing are at least 10 percent different from the present value of the remaining cash flows under the terms of the original borrowing. In cases of a modification, all costs paid to the FHLB are deferred and amortized over the term of the modified borrowing. In cases of an extinguishment, all costs paid to the FHLB are expensed in the period. In other situations, the Credit Union holds a symmetrical prepayment option which allows prepayment of an advance at an amount lower than face value. These prepayments are treated as extinguishments when there is no contemporaneous new borrowing with the FHLB, and the amount of the discount is recorded as a gain in the consolidated statements of income.

z) Recently Adopted Accounting Pronouncements

Standard	Summary of Guidance	Effect on Consolidated Financial Statements
Intangibles – Goodwill and Other – Internal-Use Software (ASU 2018-15) Issued August 2018	• Aligns requirements to capitalize implementation costs incurred in a hosting arrangement considered a service contract with capitalization requirements for implementation costs incurred to develop, or obtain, internal-use software license. • Requires entities in service contracts hosting arrangements to apply Subtopic 350-40 to assess which implementation costs incurred should be capitalized or expensed.	• Required effective date: January 1, 2021 • The Credit Union has applied this new guidance to service contracts entered on or after January 1, 2021, the impact of which was not material to the Credit Union's consolidated financial statements.
Reference Rate Reform (ASU 2020-04) Issued March 2020	• In March of 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU): Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04). The amendments provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In January of 2021, the FASB issued ASU 2021-01 Reference Rate Reform (Topic 848) Scope, that refined the scope of Topic 848 and clarified some of its provisions. • In December of 2022, the FASB issued ASU 2022-06 Deferral of Sunset Date, which extended the sunset date to December 31, 2024.	• This ASU is effective from March 12, 2020, through December 31, 2024, with early adoption as of January 1, 2020, permitted. • The Credit Union adopted certain provisions related to derivative contract modifications and hedge accounting in this guidance in 2021. • The early adoption of the expedients in the guidance eased the administrative burden of accounting for London Interbank Offering Rate ("LIBOR") related contract modifications. Our adoption of this standard did not have a material impact on our consolidated financial statements.
Leases (ASU 2016-02) Issued February 2016	• Requires lessees to recognize assets and liabilities on financing and operating leases with terms exceeding 12 months. • Requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. • Guidance also eliminates real estate-specific provisions for all entities. • Allows entities to elect a simplified transition approach.	• The Credit Union adopted ASU 2016-02 on January 1, 2022. • Upon adoption the Credit Union recognized $39.4 million in lease liabilities and $37.8 million in right-of-use (ROU) assets on its consolidated statements of financial condition. • Prior period consolidated financial statements will not be restated as permitted under the transition guidance in ASU 2018-11.
Compensation-Retirement Benefits-Defined Benefit Plans-General (ASU 2018-14) Issued August 2018	• Modifies disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. • The ASU removes disclosures no longer considered cost beneficial. • Clarifies specific disclosures requirements and adds disclosure identified as relevant.	• Effective date: January 1, 2022 • The Credit Union applied this to its 2022 Annual Report footnote disclosure for defined benefit plans. Specifically, certain disclosures related to accrued benefits for the next period and plan asset allocation information were removed since they were no longer cost beneficial.
ASU 2022-1 Derivatives and Hedging Topic 815 Fair Value Hedging – Portfolio Layer Method	• The amendments in this Update codify the Credit Union's ability to have multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments. In applying hedge accounting to multiple hedged layers, the Credit Union has the flexibility to achieve hedge accounting using different types of derivatives and layering techniques that best align with its individual circumstances (for example, swaps, forward-starting swaps, or a combination of both). The amendments in ASU 2022-1 clarify the accounting for and promote consistency in the reporting of hedge basis adjustments applicable to both a single hedged layer and multiple hedged layers.	• The Credit Union adopted ASU 2022-01 early as of March 28, 2022 (the date that ASU 2022-1 was issued), on a prospective basis. Prior to the issuance of this new guidance, the Credit Union had been applying guidance included in ASU 2017-12 regarding last-of-layer hedging. • No cumulative-effect adjustment to the opening balance of retained earnings was required upon adoption of these amendments. The amendments related to disclosures were applied on a prospective basis.

aa) New Accounting Pronouncements Not Yet Adopted

Standard	Summary of Guidance	Effect on Consolidated Financial Statements
Financial Instruments – Credit Losses (ASU 2016-13) Issued June 2016	• Requires use of the current expected credit loss model that is based on expected losses (net of expected recoveries), rather than incurred losses, to determine our allowance for credit losses on financial assets measured at amortized cost, certain net investments in leases and certain off-balance sheet arrangements. • Replaces current accounting for purchased credit-impaired ("PCI") and impaired loans. • Amends the other-than-temporary impairment model for available for sale debt securities to require that credit losses be recorded through an allowance approach, rather than through permanent write-downs for credit losses and subsequent accretion of positive changes through interest income over time. Losses on AFS securities are limited to the fair value of the individual AFS security.	• Required effective date: January 1, 2023. • The Credit Union plans to adopt the standard on the effective date. We continue to assess the potential impact of this standard on our consolidated financial statements, related disclosures, and regulatory capital. The actual impact will depend on the characteristics of our financial instruments, economic conditions, and our economic and loss forecasts at the adoption date. • We have a company-wide, cross-functional governance structure for our implementation of this standard. We continue to evaluate industry accounting interpretations, data requirements and necessary changes to our credit loss estimation methods, processes, systems and controls. We have made significant progress in accounting policy documentation and model development. We continue to perform model validations, which have been completed. We also continue to perform parallel testing, including multiple tests of our full end-to-end allowance process.
Derivatives and Hedging: Inclusion of the SOFR Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16) Issued October 2018	• This ASU permits the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under ASC Topic 815 Derivatives and Hedging. • This will provide entities more lead time to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes.	• Required effective date: January 1, 2023 • The Credit Union does not expect any effect on its financial statements since this ASU is limited to disclosure requirements.
ASU 2022-02 Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures	• On March 31, 2022, the FASB issued Accounting Standards Update (ASU) 2022-2 which eliminates the accounting model for loans modified in a troubled debt restructuring (TDR) and, instead, enhances disclosure requirements related to loans modified to borrowers experiencing financial difficulty (former TDRs). • Accounting for loan modifications was based on two separate sources of US GAAP. If the modification was considered a concession and the borrower was experiencing financial difficulty, then the loan was deemed to be a TDR and would follow ASC Topic 310 Receivables which contains specific guidance regarding measuring impairment (i.e., the allowance). Under the ASU, CECL would be applied to determine the amount of the impairment. • Since the ASU eliminated the concept of a TDR (and TDR accounting), all modifications should be evaluated under ASC Topic 310 Receivables. Specifically, the Credit Union now will determine if there is 1) a continuation of the existing loan or 2) a new loan. Deferred loan origination fees and costs will continue to be amortized if it is determined that the original loan still exists but will be immediately recognized into non-interest income if it is determined that a new loan exists. A new loan would exist if there is a 10% change in cash flows resulting from the modification.	• Required effective date: January 1, 2023 • The Credit Union plans to adopt the standard on its effective date. We continue to assess the potential impact of this standard on our consolidated financial statements, related disclosures, and regulatory capital. The actual impact will depend on the characteristics of our financial instruments, economic conditions, and our economic and loss forecasts at the adoption date.

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial condition to the amounts shown in the consolidated statements of cash flows:

	December 31,			
	2022		2021	
Funds with Federal Reserve bank	$	478,797	$	367,398
Funds on hand and on deposit with other financial institutions		166,476		171,649
Deposits in transit		129,617		5,311
Cash and cash equivalents		**774,890**		**544,358**
Restricted cash		3,810		10,445
Total cash and cash equivalents and restricted cash	**$**	**778,700**	**$**	**554,803**

NOTE 3 – INVESTMENT SECURITIES

The Credit Union's AFS securities as of December 31, 2022 and 2021 were as follows:

	December 31, 2022							
	Amortized		Gross Unrealized				Fair	
	Cost		Gains		Losses		Value	
Available-for-sale debt securities								
Federal agency securities-bonds	$	209,758	$	-	$	(27,708)	$	182,050
Government agency bonds		204,508		174		(10,915)		193,767
Mortgage-backed securities		2,324,023		-		(226,661)		2,097,362
Retained asset-backed securities		20,143		-		(387)		19,756
Other		62,632		-		(3,620)		59,012
Total available-for-sale debt securities	**$**	**2,821,064**	**$**	**174**	**$**	**(269,291)**	**$**	**2,551,947**

	December 31, 2021							
	Amortized		Gross Unrealized				Fair	
	Cost		Gains		Losses		Value	
Available-for-sale debt securities								
Federal agency securities-bonds	$	214,755	$	5	$	(5,295)	$	209,465
Government agency bonds		169,505		2,596		(44)		172,057
Mortgage-backed securities		1,688,442		7,450		(22,011)		1,673,881
Other		46,498		996		-		47,494
Total available-for-sale debt securities	**$**	**2,119,200**	**$**	**11,047**	**$**	**(27,350)**	**$**	**2,102,897**

The Credit Union sold AFS securities for cash proceeds of $178,527 and $0 for the years ended December 31, 2022 and 2021, respectively. Gross realized gains of $327 and gross realized losses of $448 were included in earnings for the year ended December 31, 2022. Gross realized gains of $0 and gross realized losses of $0 were included in earnings for the year ended December 31, 2021.

The contractual maturities on December 31, 2022 and 2021 are detailed in the following table (actual maturities may differ from contractual maturities as certain security issuers have the right to prepay obligations without penalty):

	December 31, 2022	
	Amortized Cost	**Fair Value**
Available-for-sale debt securities		
Due in one year or less	$ 152,852	$ 150,949
Due after one year through five years	357,586	339,339
Due after five years through ten years	928,763	871,732
Due after ten years	1,381,863	1,189,927
Total available-for-sale debt securities	**$ 2,821,064**	**$ 2,551,947**

	December 31, 2021	
	Amortized Cost	**Fair Value**
Available-for-sale debt securities		
Due in one year or less	$ 12,395	$ 12,498
Due after one year through five years	227,300	227,426
Due after five years through ten years	466,863	463,015
Due after ten years	1,412,642	1,399,958
Total available-for-sale debt securities	**$ 2,119,200**	**$ 2,102,897**

All securities in an unrealized loss position were reviewed individually to determine whether those losses were caused by an other-than-temporary decline in fair value. The Credit Union makes a determination of whether unrealized losses are other-than-temporary based on the following factors: whether the Credit Union intends, or would be required, to sell or hold the security until its costs can be recovered; the nature of the security; the portion of unrealized losses that are attributable to credit losses; and the financial condition of the issuer of the security. The Credit Union does not intend to sell nor would the Credit Union be, more likely than not, required to sell these securities before recovering their amortized cost basis. The unrealized losses associated with these investments are not a result of changes in the credit quality of the issuers; rather, the losses are reflective of changing market interest rates. The Credit Union expects to recover the entire cost basis of these securities as there were no declines in the fair value that were considered other-than-temporary during the years ended December 31, 2022 and 2021.

The following table presents AFS securities in a gross unrealized loss position, and whether such securities have been in a gross unrealized loss position for less than 12 months, or 12 months or greater:

	December 31, 2022					
	Less than 12 Months			12 Months or Greater		
	Number of Investments	Fair Value	Gross Unrealized Losses	Number of Investments	Fair Value	Gross Unrealized Losses
Securities available for sale						
Federal agency securities-bonds	-	$ -	$ -	22	$ 182,050	$ (27,708)
Government agency bonds	26	173,359	(10,896)	1	2,083	(19)
Mortgage-backed securities	132	1,147,099	(52,353)	122	884,978	(174,308)
Retained asset-backed securities	9	19,756	(387)	-	-	-
Other	7	59,012	(3,620)	-	-	-
Total securities available for sale in a gross unrealized loss position	**174**	**$ 1,399,226**	**$ (67,256)**	**145**	**$ 1,069,111**	**$ (202,035)**

	December 31, 2021					
	Less than 12 Months			12 Months or Greater		
	Number of Investments	Fair Value	Gross Unrealized Losses	Number of Investments	Fair Value	Gross Unrealized Losses
Securities available for sale						
Federal agency securities-bonds	17	$ 154,044	$ (3,722)	5	$ 50,416	$ (1,573)
Government agency bonds	-	-	-	1	3,572	(44)
Mortgage-backed securities	114	1,167,289	(21,024)	16	43,745	(987)
Total securities available for sale in a gross unrealized loss position	**131**	**$ 1,321,333**	**$ (24,746)**	**22**	**$ 97,733**	**$ (2,604)**

Other investments

Other investments are summarized as follows:

	December 31,			
	2022		2021	
Paid-in Capital Account	$	6,076	$	5,783
FHLB Stock		178,441		234,208
Investments in CDs		3,217		5,544
Total	**$**	**187,734**	**$**	**245,535**

Paid-in Capital Account

The Credit Union maintains paid-in capital accounts with corporate credit unions. These investments are uninsured and are paid back to the Credit Union at the discretion of the corporate credit union.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta (FHLB). The amortized cost or par value represents fair value. This investment is carried at cost, which is par value less impairment, if any.

Investments in CDs

The Credit Union holds certificates of deposit with various banks and credit unions that are held at cost as they are non-marketable, thus an approximate measure of fair value.

NOTE 4 – LOANS, NET

The composition of the Credit Union's loans held for investment, gross of the allowance, by loan type and delinquency status are shown below.

	December 31, 2022						
	Current	30 - 89 Days Past Due	Nonaccrual	>89 Days Still Accruing	Total Delinquent Loans	Deferred Fees, Costs, and Other Basis Adjustments (1)	Total
Real estate	$ 15,453,178	$ 73,803	$ 97,198	$ 692	$ 171,693	$ (4,407)	$ 15,620,464
Commercial	1,639,903	872	1,642	-	2,514	(5,638)	1,636,779
Vehicle	4,911,571	168,390	134,449	571	303,410	34,041	5,249,022
Credit cards	2,037,766	32,410	-	41,090	73,500	1,259	2,112,525
Consumer and other	4,818,441	72,711	111,242	73	184,026	(132,906)	4,869,561
Total loans, at amortized cost	**28,860,859**	**348,186**	**344,531**	**42,426**	**735,143**	**(107,651)**	**29,488,351**
Real estate loans, at fair value	151,552	1,173	-	-	1,173	-	152,725
Taxi medallions, at fair value	3,714	2,031	84,673	-	86,704	-	90,418
Total loans, at fair value	**155,266**	**3,204**	**84,673**	**-**	**87,877**	**-**	**243,143**
Loans, gross	**29,016,125**	**351,390**	**429,204**	**42,426**	**823,020**	**(107,651)**	**29,731,494**
Allowance for loan losses							(280,785)
Loans	**$ 29,016,125**	**$ 351,390**	**$ 429,204**	**$ 42,426**	**$ 823,020**	**$ (107,651)**	**$ 29,450,709**

	December 31, 2021						
	Current	30 - 89 Days Past Due	Nonaccrual	>89 Days Still Accruing	Total Delinquent Loans	Deferred Fees, Costs, and Other Basis Adjustments (1)	Total
Real estate	$ 10,694,943	$ 82,731	$ 135,618	$ 524	$ 218,873	$ 178,615	$ 11,092,431
Commercial	1,068,105	187,468	13,742	-	201,210	(5,640)	1,263,675
Vehicle	5,089,481	65,994	27,564	-	93,558	28,502	5,211,541
Credit cards	1,768,971	19,347	-	20,867	40,214	(3,770)	1,805,415
Consumer and other	4,214,029	40,567	40,899	-	81,466	(66,989)	4,228,506
Total loans, at amortized cost	**22,835,529**	**396,107**	**217,823**	**21,391**	**635,321**	**130,718**	**23,601,568**
Real estate loans, at fair value	62,723	902	334	-	1,236	-	63,959
Taxi medallions, at fair value	7,199	12,694	63,220	-	75,914	-	83,113
Total loans, at fair value	**69,922**	**13,596**	**63,554**	**-**	**77,150**	**-**	**147,072**
Loans, gross	**22,905,451**	**409,703**	**281,377**	**21,391**	**712,471**	**130,718**	**23,748,640**
Allowance for loan losses							(251,355)
Loans	**$ 22,905,451**	**$ 409,703**	**$ 281,377**	**$ 21,391**	**$ 712,471**	**$ 130,718**	**$ 23,497,285**

(1) Includes cumulative basis adjustments related to fixed-rate mortgages designated in portfolio layer fair value hedges of $170,911 and $6,139 as of December 31, 2022 and 2021, respectively.

Credit Quality Indicators

The primary credit quality indicator used to monitor and assess risk for our loan portfolio is delinquency status. Loans that are more than 30 days past due provide an early warning of borrowers who may be experiencing financial difficulties and/or who may be unable or unwilling to repay the loan. As loans continue to age, it becomes clearer whether borrowers are likely either unable or unwilling to pay. Late-stage delinquencies are a strong indicator of loans that will ultimately result in a liquidation transaction.

The Credit Union closely monitors additional credit quality metrics on its loan portfolio based on economic conditions, loan performance trends, and other risk attributes, specific to its loan portfolio classifications:

Real Estate Loans

Additional risks that may affect the default experience on the Credit Union's loans portfolio include changes in home prices in various geographic locations.

The overall risk within the real estate portfolios is supported by the collateral held and thus these values are monitored within current market trends for real estate. The Credit Union holds deeds of trust/mortgages on underlying real estate to collateralize all first trust mortgage, term home equity, and equity line of credit loans.

Commercial

The Credit Union measures commercial credit risk by assigning an internal risk classification to each loan. This assessment evaluates the borrower's current financial condition and further ability to repay the loan in accordance with the underlying loan agreement. The risk rating is generally assigned using various methods including evaluating cash flows from the borrower and the loan's underlying collateral. The evaluation also considers key metrics such as debt service coverage and loan-to-value, and are also supported by credit history, appetite for debt, liquidity, and management/borrower capacity, along with additional qualitative factors where needed.

Loans with a "pass" rating are those that the Credit Union believes will be fully repaid in accordance with the contractual loan terms. Commercial loans that are "special mention," have potential weaknesses that, if left uncorrected, may result in deterioration of the Credit Union's credit position at some future date. "Substandard" loans are inadequately protected loans that have well-defined weaknesses that could hinder repayment of the debt. Doubtful loans have the same weaknesses as substandard, with the added possibility of a highly probable loss where collection of the full amount due is improbable.

The following table presents the commercial loans, by regulatory classification rating as of December 31, 2022, and 2021, respectively.

	December 31, 2022					
	Pass	Special Mention	Sub-standard	Doubtful	Net deferred loan fees	Total
Commercial	$ 1,606,831	$ 23,356	$ 11,392	$ 838	$ (5,638)	$ 1,636,779
Taxi medallions, at fair value	27,715	171	1,228	61,304	-	90,418
Total commercial loans	**$ 1,634,546**	**$ 23,527**	**$ 12,620**	**$ 62,142**	**$ (5,638)**	**$ 1,727,197**

	December 31, 2021					
	Pass	Special Mention	Sub-standard	Doubtful	Net deferred loan fees	Total
Commercial	$ 1,215,584	$ 22,985	$ 15,650	$ 15,096	$ (5,640)	$ 1,263,675
Taxi medallions, at fair value	118	305	101	82,589	-	83,113
Total commercial loans	**$ 1,215,702**	**$ 23,290**	**$ 15,751**	**$ 97,685**	**$ (5,640)**	**$ 1,346,788**

Vehicle and Other Secured Loans

Value is driven by the borrower's ability to generate cash flows. The Credit Union monitors loan-to-value ratios in addition to credit scores on an ongoing basis.

Consumer and Other Unsecured Loans

The risks within consumer and credit card loans correlate with broad economic trends such as unemployment, examined in conjunction with borrower risk attributes such as credit score, which is a general indicator of credit quality trends within the portfolio.

The Credit Union monitors performance of these portfolios against these trends and adjusts its lending strategies within established risk tolerance strategies. This information is utilized to evaluate the appropriateness of the allowance for loan losses.

Allowance for Loan Losses

Individually Impaired Loans

Generally, large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Those loans may include, but are not limited to, credit card and consumer and other loans. Therefore, the only time the Credit Union assesses individual loans for impairment is when there is evidence and doubt related to its ability to collect all amounts due according to the contractual terms of the loan.

Individually impaired loans include TDRs and all loans assessed as probable that the Credit Union will not collect all contractual amounts due, excluding loans classified as fair value option loans. The following tables display the total unpaid principal balance, recorded investment, related allowance, average recorded investment and interest income recognized for individually impaired loans:

	As of, and for the Year ended, December 31, 2022				
	Recorded Investment [1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 103,730	$ 104,756	$ -	$ 112,437	$ 974
Commercial	9,785	9,785	-	16,985	-
Vehicle	5,856	5,954	-	6,222	246
Credit cards	-	-	-	-	-
Consumer and other	4,638	4,633	-	4,594	238
With an allowance recorded:					
Real estate	40,613	40,793	(5,157)	38,096	626
Commercial	2,699	2,699	(557)	4,539	-
Vehicle	1,634	1,645	(184)	1,731	110
Credit cards	163	163	(163)	185	-
Consumer and other	1,261	1,245	(202)	1,743	166
Total Individually Impaired Loans					
Real estate	$ 144,343	$ 145,549	$ (5,157)	$ 150,533	$ 1,600
Commercial	12,484	12,484	(557)	21,524	-
Vehicle	7,490	7,599	(184)	7,953	356
Credit cards	163	163	(163)	185	-
Consumer and other	5,899	5,878	(202)	6,337	404

(1) Recorded investment is defined as the unpaid principal balance, net of unamortized fees, costs, premiums, discounts, or other basis adjustments, net of charge offs, and accrued interest receivable.

	As of, and for the Year ended, December 31, 2021				
	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 121,143	$ 122,829	$ -	$ 67,232	$ 174
Commercial	24,185	24,155	-	26,430	-
Vehicle	6,587	6,711	-	5,799	96
Credit cards	-	-	-	-	-
Consumer and other	4,549	4,556	-	2,466	108
With an allowance recorded:					
Real estate	35,579	35,643	(7,453)	33,720	608
Commercial	6,379	7,163	(2,280)	9,977	-
Vehicle	1,827	1,783	(90)	3,308	252
Credit cards	206	206	(206)	126	-
Consumer and other	2,225	2,180	(274)	5,235	529
Total Individually Impaired Loans					
Real estate	$ 156,722	$ 158,472	$ (7,453)	$ 100,952	$ 782
Commercial	30,564	31,318	(2,280)	36,407	-
Vehicle	8,414	8,494	(90)	9,107	348
Credit cards	206	206	(206)	126	-
Consumer and other	6,774	6,736	(274)	7,701	637

(2) Recorded investment is defined as the unpaid principal balance, net of unamortized fees, costs, premiums, discounts, or other basis adjustments, net of charge offs, and accrued interest receivable.

Rollforward of Allowance for Loan and Lease Losses

The following table displays changes in the allowance for loan losses for 2022 and 2021, excluding loans recorded using the fair value option:

	December 31, 2022					
	Real Estate	**Commercial**	**Vehicle**	**Credit Cards**	**Consumer and Other**	**Total**
Balance, beginning of year	$ 13,334	$ 10,234	$ 37,678	$ 49,118	$ 140,991	$ 251,355
Provision for loan loss	(4,307)	8,779	23,258	73,273	171,811	272,814
Charge-offs	(1,246)	(9,871)	(29,440)	(81,804)	(147,168)	(269,529)
Recoveries	806	5,941	4,098	8,295	7,005	26,145
Balance, end of year	**$ 8,587**	**$ 15,083**	**$ 35,594**	**$ 48,882**	**$ 172,639**	**$ 280,785**
End balance: Loans individually evaluated for impairment	5,157	557	184	163	202	6,263
End balance: Loans collectively evaluated for impairment	3,430	14,526	35,410	48,719	172,437	274,522
Loan amount (excluding ALL):						
End balance: Impaired loans with allowance	$ 40,613	$ 2,699	$ 1,634	$ 163	$ 1,261	$ 46,370
End balance: Impaired loans without an allowance	103,730	9,785	5,856	-	4,638	124,009
End balance: Loans collectively evaluated for impairment	15,476,121	1,624,295	5,241,532	2,112,362	4,863,662	29,317,972
Total loans amortized cost	**$ 15,620,464**	**$ 1,636,779**	**$ 5,249,022**	**$ 2,112,525**	**$ 4,869,561**	**$ 29,488,351**

	December 31, 2021					
	Real Estate	**Commercial**	**Vehicle**	**Credit Cards**	**Consumer and Other**	**Total**
Balance, beginning of year	$ 14,477	$ 10,617	$ 32,264	$ 57,631	$ 129,759	$ 244,748
Provision for loan loss	(895)	1,492	17,402	49,132	67,976	135,107
Charge-offs	(1,347)	(1,891)	(15,938)	(66,277)	(64,098)	(149,551)
Recoveries	1,099	16	3,950	8,632	7,354	21,051
Balance, end of year	**$ 13,334**	**$ 10,234**	**$ 37,678**	**$ 49,118**	**$ 140,991**	**$ 251,355**
End balance: Loans individually evaluated for impairment	7,453	2,280	90	206	274	10,303
End balance: Loans collectively evaluated for impairment	5,881	7,954	37,588	48,912	140,717	241,052
Loan amount (excluding ALL):						
End balance: Impaired loans with allowance	$ 35,579	$ 6,379	$ 1,827	$ 206	$ 2,225	$ 46,216
End balance: Impaired loans without an allowance	121,143	24,185	6,587	-	4,549	156,464
End balance: Loans collectively evaluated for impairment	10,935,709	1,233,111	5,203,127	1,805,209	4,221,732	23,398,888
Total loans amortized cost	**$ 11,092,431**	**$ 1,263,675**	**$ 5,211,541**	**$ 1,805,415**	**$ 4,228,506**	**$ 23,601,568**

Troubled Debt Restructurings

TDRs are considered impaired at the time of the restructuring. Impairment is measured as the difference between the net carrying amount of the loan and the modified future expected cash flows discounted at the loan's original effective interest rate. For real estate loans that are collateral dependent, impairment is measured by the difference between the recorded investment and the collateral value, net of costs to sell.

Subsequent to designation as a TDR, a loan is placed on nonaccrual. A TDR loan may be returned to accrual status if six consecutive months of payments are received. Additional impairment is recognized for TDRs that exhibit further credit deterioration after modification.

The majority of our modifications include term extensions and payment deferrals. The following table summarizes the recorded investment balances, by type of concession granted to borrowers, whose loans became TDRs during the years ended December 31, 2022 and 2021, which excludes loan modifications that do not meet the definition of a TDR and loans that received relief under the guidance issued by the Federal Banking Agencies and contained in the CARES Act in response to the COVID-19 pandemic:

	December 31, 2022				
	Number of Contracts	Term Extension	Payment Deferral	Other [(1)]	Total
Real estate	226	$ 33,948	$ 1,687	$ 5,419	$ 41,054
Commercial	-	-	-	-	-
Vehicle	88	-	2,445	-	2,445
Credit cards	2	-	16	-	16
Consumer and other	50	80	813	460	1,353
Total	**366**	**$ 34,028**	**$ 4,961**	**$ 5,879**	**$ 44,868**

	December 31, 2021				
	Number of Contracts	Term Extension	Payment Deferral	Other [(1)]	Total
Real estate	141	$ 7,795	$ 15,630	$ 7,084	$ 30,509
Commercial	-	-	-	-	-
Vehicle	50	-	1,078	-	1,078
Credit cards	18	-	160	-	160
Consumer and other	49	230	633	132	995
Total	**258**	**$ 8,025**	**$ 17,501**	**$ 7,216**	**$ 32,742**

(1) Other includes principal forgiveness, or other concessions that do fall into the stated categories.

The Credit Union considers loans to be in a payment default when the contractual payment due is at least two months delinquent (i.e., greater than 30 days past due), a foreclosure or repossession has occurred, or an event has occurred that is considered a default during the periods reported. The following table discloses the number and recorded investment balances for TDRs that subsequently defaulted within twelve months of restructure. The recorded investment balance disclosed is at the time of payment default:

	December 31, 2022			December 31, 2021		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
Troubled debt restructurings that subsequently defaulted:						
Real estate	80	$	10,792	85	$	19,035
Vehicle	29		762	18		324
Credit cards	-		-	5		53
Consumer and other	16		443	12		225
Total	**125**	**$**	**11,997**	**120**	**$**	**19,637**

NOTE 5 – LOAN SALES

In the normal course of business, the Credit Union may originate and transfer residential mortgage and consumer loans in a sales transaction in which it has continuing involvement through retained loan servicing. Mortgage loans are sold to the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC), collectively the Government Sponsored Enterprises (GSEs). The GSEs generally securitize loans into mortgage-backed securities that are sold to third-party investors in the secondary market. The Credit Union is also an issuer of Government National Mortgage Association (GNMA) securities. In these transactions, federally insured and/or guaranteed loans are pooled and sold as securities to third-party investors with a guarantee payment from GNMA. Mortgage loans are also sold to private third-party investors. Consumer loans are sold to private third-party investors and other credit unions.

At December 31, 2022 and 2021, the Credit Union had $98,259 and $3,910,277, respectively, of loans held for sale, which were committed for sale prior to the respective year-end periods. During 2022 and 2021, the Credit Union sold loans with proceeds from sales of loans totaling $11,068,549 and $12,457,804, respectively, and recognized net losses on sales of loans totaling $104,412 and gains on sale of $199,404, respectively, which were reported in non-interest income.

The Credit Union's continuing involvement in loans transferred includes ongoing servicing, repurchasing previously transferred loans under obligations related to standard representations and warranties. The Credit Union repurchased $44,075 and $17,943 of previously transferred loans in 2022 and 2021, respectively, and were accounted for as part of our loan portfolio. During 2022 and 2021, there have been no losses on loans in the portfolio of previously transferred loans repurchased.

Representation and Warranties

For mortgage and consumer loans transferred in sale transactions or securitizations to the GSEs, GNMA and other investors, the Credit Union has made representations and warranties that the loans meet specified requirements. These requirements typically relate to collateral, underwriting standards, validation of certain borrower representations in connection with the loan, and the use of standard legal documentation. In connection with the sale of loans to the GSEs, GNMA and other investors, the Credit Union may be required to repurchase the loan or indemnify the respective entity for losses due to breaches of these representations and warranties. The Credit Union does not currently recognize a liability for estimated losses related to these representations and warranties due to the fact that repurchase is not probable and estimable as evidenced by its significantly low repurchase history.

Servicing

The Credit Union retains servicing rights on loans transferred in sale transactions. Servicing rights assets are recognized at fair value on the date of sale and thereafter when the benefits of servicing the sold loans exceeds adequate compensation. Actual and expected loan constant prepayment rates (CPR), discount rates, servicing costs and other economic factors are considered in determining the servicing rights fair value. The servicing rights valuation is sensitive to interest rate and prepayment risk.

The table below discloses a sensitivity analysis of the hypothetical effect on fair value of servicing rights as a result of a 100-200 basis point decline/increase in the 10-year US Treasury:

	Weighted-Average Servicing Rights Assumptions	
	December 31, 2022	**December 31, 2021**
Prepayment speed (CPR)	8.6	10.5
Projected life (Years)	7.6	6.6
Discount rate	6.96%	8.39%

	Hypothetical Effect on Servicing Rights Fair Value	
	2022	**2021**
December 31 Servicing rights fair value	$ 273,196	$ 169,560
Change in fair value from:		
-100 bp decline in 10 year US Treasury	(13,140)	(33,692)
-200 bp decline in 10 year US Treasury	(34,454)	(85,276)
+100 bp increase in 10 year US Treasury	8,131	18,719
+200 bp increase in 10 year US Treasury	13,310	29,011

The Credit Union earns servicing and other ancillary fees for its role as servicer. The Credit Union's servicing revenue is included in fees and charges in the consolidated statements of income. During the years ended December 31, 2022 and 2021, the Credit Union received $12,505 and $5,335, respectively, of late charges, which are included in fees and charges in the consolidated statements of income.

The Credit Union's responsibilities as servicer typically include collecting and remitting monthly principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and in certain instances, funding servicing advances that have not yet been collected from the borrower. The Credit Union recognizes servicing advances, net of estimated uncollectible advances, in Other Assets on the consolidated statements of financial condition. Servicing advances, net of allowance, as of December 31, 2022 and 2021 totaled $14,625 and $2,961, respectively.

The following table provides the outstanding and delinquent mortgage loan balances of transferred loans for which the Credit Union retains servicing rights. These amounts are excluded from the consolidated statements of financial condition as they meet the definition of a sale under ASC Topic 860, Transfers and Servicing.

	December 31,	
	2022	**2021**
Principal balances of loans serviced	$ 21,677,524	$ 16,600,103
Principal balances of delinquent loans [(1)]	48,778	38,052

(1) Delinquency within the above table is identified as greater than 30 days past due.

In August 2022, the Credit Union completed a securitization of consumer automobile loans (the Transaction). The Transaction was executed as a two-step transfer in which the Credit Union, as Sponsor, first sold a portfolio of $519,816 of consumer auto loans to PenFed Auto Receivables Funding, LLC a wholly owned subsidiary of the Credit Union, who then sold the portfolio of receivables to PenFed Auto Receivables Owner Trust 2022-A (PAROT 2022-A), an asset-backed securities issuer trust (the Trust). PAROT 2022-A then used the purchased receivables as collateral for issuing $484,520 of notes and $24,883 of residual certificates in a private offering under Rule 144A of the Securities and Exchange Act of 1933. In exchange for the sale of the loans to the Trust, the Depositor received both cash proceeds of $477,119 and beneficial interests of $25,328 in the Trust.

The Credit Union has determined that the Trust is a variable interest entity (VIE) since it does not have sufficient equity at risk to finance its own activities. Additionally, the Credit Union considered the beneficial interests retained as part of the securitization to be variable interests. The Credit Union assessed the Trust for consolidation by determining if it was the primary beneficiary of the Trust. In performing this assessment, the Credit Union, as the sponsor of the securitization and servicer of the underlying collateral, has determined that it has the power to direct the activities that most significantly impact the Trust. However, the Credit Union has concluded that it does not have the obligation to absorb the expected losses (or right to residual returns) that could be potentially significant to the Trust and therefore does not report the Trust as a consolidated entity.

The retained beneficial interests consist of a 5% interest in each of the classes of notes and a 5% interest in the residual certificate. These assets are accounted for as debt securities and are included in the Credit Union's investment portfolio as AFS debt securities.

NOTE 6 – FORECLOSED ASSETS

Real Estate Owned

The Credit Union acquires REO assets through foreclosure proceedings or when a delinquent borrower chooses to transfer a mortgaged property in lieu of foreclosure. REO assets are recorded at fair value, less estimated costs to sell. The Credit Union generally expects to dispose of REO assets held within one year or less. Holding costs such as insurance, maintenance, taxes and utility are expensed as incurred.

As of December 31, 2022 and 2021, REO assets, which are recognized in other assets on the consolidated statements of financial condition, had carrying values totaling $0 and $548, net of valuation allowances of $0 and $46, respectively. Additions to the valuation allowance were $0 and $0 for 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the recorded investment of mortgage loans secured by residential mortgage real estate where formal foreclosure procedures were in process was $17,321 and $16,354, respectively.

Taxi Medallions

The Credit Union acquires taxi medallions through, or in lieu of, foreclosure proceedings. The Credit Union elected the fair value option for taxi medallions and as such are carried at fair value less estimated costs to sell. As of December 31, 2022 and 2021, medallions, which are recognized in other assets on the consolidated statements of financial condition, had values of $5,466 and $12,340, respectively.

NOTE 7 – GOODWILL AND OTHER INTANGIBLES

The Credit Union completed its annual goodwill and indefinite-lived intangible asset impairment assessment and concluded that no impairment existed at October 31, 2022. As a result, the Credit Union did not recognize any impairment charges for the years ended December 31, 2022 and 2021.

The table below presents changes in the carrying value of goodwill for the periods ended December 31, 2022 and 2021:

	Carrying Value Goodwill	
	December 31, 2022	**December 31, 2021**
Goodwill at beginning of year	$ 25,087	$ 24,226
Goodwill additions during the year	5,963	861
Other	44	-
Goodwill at end of year	**$ 31,094**	**$ 25,087**

The table below presents the rollforward of intangibles for the years ended December 31, 2022 and 2021:

	Carrying Value Intangibles	
	December 31, 2022	**December 31, 2021**
Intangibles at beginning of year (1)	$ 118,746	$ 122,079
Intangible additions during the year	751	384
Amortization and adjustments	(3,660)	(3,717)
Intangibles at end of year	**$ 115,837**	**$ 118,746**

(1) In 2019, PenFed acquired an indefinite lived intangible of $108,942 that removed limitations on its field of membership and core deposit intangibles.

Based on the current amount of intangibles subject to amortization, the estimated amortization expense over the next five years is as follows:

2023	$ 3,148
2024	1,878
2025	1,353
2026	401
2027 and thereafter	115

NOTE 8 – BUSINESS ACQUISITIONS AND DIVESTITURES

Acquisitions

allU.S. Federal Credit Union

On October 1, 2022, the Credit Union acquired allU.S. Federal Credit Union, a California based federally chartered credit union whereby the fair value of the identifiable assets acquired of $50,518 and liabilities assumed of $45,209 exceeded the fair value of the acquired credit union. This resulted in the Credit Union recognizing a bargain purchase gain of $3,498 associated with the acquisition. The gain was included within non-interest income in the consolidated statements of income. The measurement period, where the Credit Union, as acquirer, may adjust the valuation, is deemed closed as of December 31, 2022.

Gallo Realty, Inc.

On July 21, 2022, PenFed Realty acquired Gallo Realty, Inc., a real estate brokerage firm, whereby the fair value of the identifiable asset acquired of $17 and no liabilities were assumed that was less than the fair value of the consideration transferred of $3,800 The amount of contingent consideration received was $1,350. This resulted in the Credit Union recognizing goodwill of $3,783 associated with the acquisition.

NMA Federal Credit Union

On February 1, 2022, the Credit Union acquired NMA Federal Credit Union, a Virginia based federally chartered credit union whereby the fair value of the identifiable assets acquired of $61,630 and liabilities assumed of $58,094 exceeded the fair value of the acquired credit union. This resulted in the Credit Union recognizing a bargain purchase gain of $2,618 associated with the acquisition. The gain was included within non-interest income in the consolidated statement of income. The measurement period, where the Credit Union, as acquirer, may adjust the valuation, is deemed closed as of December 31, 2022.

Aspire Federal Credit Union

On April 1, 2021, the Credit Union acquired Aspire Federal Credit Union, a New York federally chartered credit union whereby the fair value of the identifiable assets acquired of $141,054 and liabilities assumed of $137,493 which exceeded the fair value of consideration transferred and entity value. This resulted in the Credit Union recognizing a bargain purchase gain of $3,561 associated with the acquisition. The gain was included within non-interest income in the consolidated statement of income. The measurement period, where an acquirer may adjust the valuation, is deemed closed as of December 31, 2021.

Post Office Federal Credit Union

On April 1, 2021, the Credit Union acquired Post Office Federal Credit Union, a Wisconsin federally chartered credit union whereby the fair value of the identifiable assets acquired of $34,572 and liabilities assumed of $27,734 which exceeded the fair value of consideration transferred and entity value. This resulted in the Credit Union recognizing a bargain purchase gain of $4,771 associated with the acquisition. The gain was included within non-interest income in the consolidated statement of income. The measurement period, where an acquirer may adjust the valuation, is deemed closed as of December 31, 2021.

The following table summarizes the assets acquired and liabilities assumed recognized at the respective acquisition date(s):

	December 31,							
	2022					2021		
	allU.S. Federal Credit Union	Gallo Realty	NMA Federal Credit Union	Others	2022 Total	Aspire Federal Credit Union	Post Office Federal Credit Union	2021 Total
Fair value of consideration [1]	$ -	$ 3,800	$ -	$ 2,184	**$ 5,984**	$ -	$ -	**$ -**
Enterprise value of acquiree	1,811	-	918	-	**2,729**	**-**	2,067	**2,067**
Fair value of assets acquired								
Cash and cash equivalents	$ 26,809	$ -	$ 29,261	$ -	**$ 56,070**	$ 67,088	$ 12,817	**$ 79,905**
Federal Home Loan Bank stock and other	-	-	-	-	**-**	674	1,249	**1,923**
Loans, net of allowance	18,088	-	27,558	-	**45,646**	58,199	15,579	**73,778**
Property and equipment, net	4,089	17	1,913	4	**6,023**	147	806	**953**
National Credit Union Share Insurance deposit	432	-	549	-	**981**	1,255	248	**1,503**
Accrued interest receivable	-	-	-	-	**-**	176	28	**204**
Credit Union Life Insurance	-	-	-	-	**-**	-	3,795	**3,795**
Other intangible assets, net	549	-	202	-	**751**	334	50	**384**
Other	551	-	2,147	-	**2,698**	13,181	-	**13,181**
Total fair value of assets acquired	**50,518**	**17**	**61,630**	**4**	**112,169**	**141,054**	**34,572**	**175,626**
Fair value of liabilities assumed								
Other liabilities	312	-	56	-	**368**	2,409	276	**2,685**
Member accounts	44,897	-	58,038	-	**102,935**	135,084	27,458	**162,542**
Total fair value of liabilities assumed	**45,209**	**-**	**58,094**	**-**	**103,303**	**137,493**	**27,734**	**165,227**
Fair value of net assets acquired	**$ 5,309**	**$ 17**	**$ 3,536**	**$ 4**	**$ 8,866**	**$ 3,561**	**$ 6,838**	**$ 10,399**
Bargain purchase gain	$ 3,498	$ -	$ 2,618	$ -	**$ 6,116**	$ 3,561	$ 4,771	**$ 8,332**
Goodwill	-	3,783	-	2,180	**5,963**	-	-	**-**

(1) Includes $2,240 of contingent consideration.

Divestitures

On September 15, 2021, PenFed Title, a wholly owned subsidiary of the Credit Union, sold a 40% ownership interest in its wholly owned subsidiary, Member's Title of California for $655. On December 7, 2022 the remaining 60% was sold for $634. The sale was not considered a strategic shift that will have a major effect on the Credit Union's operations or financial results.

NOTE 9 - PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

	December 31,			
	2022		2021	
Land	$	42,483	$	43,090
Buildings and improvements		328,652		335,899
Furniture and fixtures		56,356		54,461
Computer equipment		95,844		90,725
Aircraft equipment		10,540		10,540
Computer software		466,677		389,922
Leasehold improvements		20,772		15,601
Operating lease right of use assets		36,106		-
Property and equipment		**1,057,430**		**940,238**
Accumulated depreciation and amortization		(480,826)		(403,720)
Property and equipment, net	**$**	**576,604**	**$**	**536,518**

Depreciation and amortization expense related to property and equipment was $81,923 and $76,639 for the years ended December 31, 2022 and 2021, respectively, and is included in occupancy expense.

Software amortization expense was $56,215 and $49,542 for the years ended December 31, 2022 and 2021, respectively, and is a subset of depreciation and amortization expense.

Leases

Our primary involvement with leases is in the capacity as a lessee where we lease commercial real estate to support our business. A majority of our leases are operating leases of office space and financial centers. For real estate leases, we have elected to account for the lease and non-lease components together as a single lease component. Our operating leases expire at various dates through 2032 and many of them require variable lease payments by us for property taxes, insurance premiums, common area maintenance and other costs. Certain of these leases also have extension or termination options, and we assess the likelihood of exercising such options. If reasonably certain that we will exercise the options, then we include the impact in the measurement of our right-of-use assets and lease liabilities.

Our right-of-use assets and lease liabilities for operating leases are included in property and equipment, net and other liabilities on our consolidated statements of financial condition. None of our operating leases provide an implicit rate, and accordingly, we use our incremental borrowing rate in determining the present value of lease payments. Operating lease/rent expense was $10,825 and $9,569 for 2022 and 2021, respectively, and which is included in occupancy expense within non-interest expense. Total operating lease expense consists of total lease cost, which is recognized on a straight-line basis over the lease term, and variable lease cost, which is recognized based on actual amounts incurred. We also sublease certain premises, and sublease income is included in other non-interest income in our consolidated statements of income.

The following tables present information about our operating lease portfolio and the related lease costs as of and for the years ended December 31, 2022:

	December 31, 2022
Right-of-use assets	$ 36,106
Lease liabilities	36,255
Weighted-average remaining lease term	6.73
Weighted-average discount rate	1.80%

	December 31, 2022
Operating Lease Costs	
Operating lease cost	$ 8,882
Variable lease cost	1,943
Total lease cost	**$ 10,825**

Cash paid for amounts included in measurement of lease liabilities	$ 8,064

Maturities of Operating Leases and Reconciliation to Lease Liabilities	**December 31, 2022**
2023	$ 7,795
2024	5,906
2025	5,112
2026	4,367
2027	4,129
Thereafter	11,366
Total undiscounted lease payments	**38,675**
Less: Imputed Interest	(2,420)
Total lease liabilities	**$ 36,255**

NOTE 10 – MEMBERS' ACCOUNTS

Share and deposit amounts up to $250 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding $250 at December 31, 2022 and 2021, totaled $3,622,934 and $2,345,385, respectively.

Interest rates on member's accounts are set by the Board of Directors and are based on an evaluation of market conditions. Interest expense on members' accounts for the 2022 and 2021 year end are as follows:

	December 31, 2022		December 31, 2021	
	Balances	Interest Expense	Balances	Interest Expense
Regular shares	$ 7,797,155	$ 54,265	$ 8,371,028	$ 22,526
Pencheck	2,097,632	2,841	2,093,612	2,746
Money market shares	3,342,511	21,202	3,866,230	10,859
Share certificates	12,552,712	170,492	7,039,724	109,411
IRA shares	238,040	134	255,274	132
IRA certificates	1,688,551	30,218	1,462,114	28,526
Total	**$ 27,716,601**	**$ 279,152**	**$ 23,087,982**	**$ 174,200**

NOTE 11 – BORROWED FUNDS

Borrowed funds are summarized as follows:

	December 31, 2022						
	Coupon	Fixed/Variable	Payment	Maturities	Outstanding Balance	Unamortized Borrowing Costs	Carrying Amount
FHLB Borrowing	3.95% - 4.49%	Variable	Quarterly	2023	$ 3,155,000	$ -	$ 3,155,000
FHLB Borrowing	3.53%	Variable	Semi-annually	2023	290,000	-	290,000
FHLB Borrowing	5.80% - 6.05%	Fixed	Monthly	2023 - 2024	376,000	-	376,000
FHLB Borrowing	2.95% - 3.08%	Fixed	Quarterly	2023 - 2024	1,996	27	2,023
Total FHLB Borrowings					**$ 3,822,996**	**$ 27**	**$ 3,823,023**

	December 31, 2021						
	Coupon	Fixed/Variable	Payment	Maturities	Outstanding Balance	Unamortized Borrowing Costs	Carrying Amount
FHLB Borrowing	0.19% - 0.21%	Variable	Monthly	2022	$ 3,330,000	$ -	$ 3,330,000
FHLB Borrowing	0.19% - 6.05%	Fixed	Monthly	2022-2024	191,000	-	191,000
FHLB Borrowing	0.66% - 4.94%	Fixed	Quarterly	2022-2031	2,367,996	(50,175)	2,317,821
Total FHLB Borrowings					**$ 5,888,996**	**$ (50,175)**	**$ 5,838,821**

As of December 31, 2022 and 2021, the Credit Union had $9,579,823 and $9,888,233 of loans pledged as collateral for FHLB borrowings. Accrued interest payable on borrowings was $15,053 and $8,439 as of December 31, 2022 and 2021, respectively.

The Credit Union had the following unused lines of credit as of December 31, 2022 and December 31, 2021:

	December 31,			
	2022		2021	
Unused lines of Credit				
Federal Reserve Bank of Richmond	$	1,873,766	$	2,036,828
Federal Home Loan Bank		4,185,355		2,923,793
SunTrust Bank		25,000		25,000
JPMorgan Chase Bank		50,000		50,000
Wells Fargo Bank		125,000		125,000
PNC Bank		50,000		50,000
Alloya Corporate CU		1,500		1,500
Total	**$**	**6,310,621**	**$**	**5,212,121**

NOTE 12 – EMPLOYEE BENEFIT PLANS

The Credit Union Employee Pension Plan

The Credit Union sponsors a trustee, noncontributory, defined-benefit pension plan (the "Plan") covering eligible employees. Benefits under the Plan are primarily based on years of service and the employees' compensation during the last five years of employment. The Credit Union's policy is to make annual contributions to the Plan equal to the amount required to maintain the Plan in sound condition and to satisfy minimum funding requirements. Eligibility requirements of the Plan were modified in December 2006 to exclude employees hired or rehired after December 31, 2006 from participating in the Plan.

Retiree Medical Plan

The Credit Union also sponsors a defined benefit postretirement plan. Eligibility requirements of the defined benefit postretirement plan were modified in December 2012 to exclude employees hired or rehired on or after December 1, 2012 from participating. The plan covers eligible employees providing medical, life insurance and sick leave benefits. The plan is contributory for retirees who retired after January 1, 1995. For these retirees, effective April 1, 2006, retiree medical contributions were set at 70% for retirees age 65 or above, and 90% for retirees age 55 to 65. Effective April 1, 2007, the plan includes an increase in the contribution level for retirees age 65 and above to 90% of the premium. The 70% and 90% contribution provisions do not apply to employees who retired before January 1, 1995, for whom the Credit Union pays 100% of the premiums.

401(K) Plan

The Credit Union has a 401(k) plan that provides for contributions by employees and the employer, with the employer contributions consisting of a 100% matching of the employees' contributions up to the first 4% of the employees' salaries, subject to federal limitations. The Plan is available to substantially all employees of the Credit Union. The expense related to this plan for 2022 and 2021 was $10,580 and $8,179, respectively.

The following table provides key balances and transaction amounts of the pension and retiree medical plans:

	Retirement Plan		Postretirement Benefits	
Key Balances and Transaction Amounts	**2022**	**2021**	**2022**	**2021**
Accumulated benefit obligation at year end	$ 92,957	$ 138,024	$ N/A	$ N/A
Projected benefit obligation at year end	108,359	164,099	3,295	4,148
Fair value of plan assets at year end	91,312	142,425	-	-
Over/(under) funded	(17,047)	(21,674)	(3,295)	(4,148)
Employer contributions	-	-	248	275
Plan participants' contributions	-	-	360	317
Benefits paid	(11,908)	(15,331)	(608)	(592)
Net periodic benefit cost	5,805	6,990	258	228

The weighted-average assumptions used to determine the projected benefit obligation and net periodic benefit costs for the pension and retiree medical benefit plans were as follows:

	Retirement Plan		Postretirement Benefits	
Weighted Average Assumptions	**2022**	**2021**	**2022**	**2021**
Discount rate				
Projected benefit obligation	4.95%	2.60%	5.00%	2.80%
Net periodic benefit cost	2.60%	2.20%	2.80%	2.50%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Expected long-term rate of return on plan assets	5.00%	5.00%	N/A	N/A
Current year healthcare cost trend rate	N/A	N/A	7.50%	6.50%

The long-term rate of return assumption represents the expected average rate to be earned on plan assets and future plan contributions to meet benefit obligations. The assumption is based on several factors, including the anticipated long-term asset allocation of plan assets, historical market index and plan returns, and a forecast of future expected asset returns.

The amounts in AOCI that have not yet been recognized as components of net periodic benefit cost as of December 31 are as follows:

	Retirement Plan		Postretirement Benefits	
Amounts in Accumulated Other Comprehensive Income	**2022**	**2021**	**2022**	**2021**
Net prior service cost	$ -	$ -	$ 963	$ 1,065
Net loss/(gain)	19,534	29,964	(2,552)	(1,791)
Accumulated Other comprehensive loss/(income)	**$ 19,534**	**$ 29,964**	**$ (1,589)**	**$ (726)**

The amounts recognized in AOCI for the years ended December 31, 2022 and 2021, consist of:

	Retirement Plan		Postretirement Benefits	
Amounts Recognized in Accumulated Other Comprehensive Income	**2022**	**2021**	**2022**	**2021**
Amounts amortized during the year				
Net prior service cost	$ -	$ -	$ (102)	$ (102)
Net gain/(loss)	(3,503)	(4,882)	85	102
Amounts arising during the year				
Net loss/(gain)	(6,930)	(5,807)	(845)	(581)
Total recognized in other comprehensive income	**$ (10,433)**	**$ (10,689)**	**$ (862)**	**$ (581)**

NOTE 13 – REGULATORY MATTERS

Regulatory Net Worth Ratio

Quantitative measures established by the NCUA under its Prompt Corrective Action (PCA) framework to ensure capital adequacy require the Credit Union to maintain minimum amounts of net worth to total assets. Under this framework, the NCUA categorizes credit unions as "well capitalized", "adequately capitalized", or "undercapitalized" depending on a credit union's ratio of net worth to total assets. As of December 31, 2022 and December 31, 2021, the NCUA categorized the Credit Union as "well capitalized" under this regulatory framework. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets and comply with certain levels of risk-based capital.

The Credit Union's actual capital amounts and regulatory required ratios are presented below:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022						
Net Worth to Total Assets	$ 3,383,835	9.52%	≥ $2,131,582	≥ 6.0%	≥ $2,486,845	≥ 7.0%
December 31, 2021						
Net Worth to Total Assets	$ 3,138,568	9.65%	≥ $1,950,195	≥ 6.0%	≥ $2,275,228	≥ 7.0%

Risk-Based Capital

Credit Unions are also required to assess capital adequacy under a risk-based capital framework as a determinant to maintaining a regulatory categorization as "well capitalized". Until March 31, 2022, credit unions were required to calculate a risk-based net worth (RBNW) requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework was 6%. The Credit Union's RBNW ratio was 5.50% on December 31, 2021 and accordingly, the Credit Union maintained its categorization as, "well capitalized."

Beginning on March 31, 2022, credit unions were required to calculate a risk-based capital (RBC) ratio which assigns risk weights to all on-balance sheet assets as well as certain off-balance sheet items. In order for a credit union to maintain a regulatory categorization of "well capitalized," it must maintain an RBC ratio of greater than 10%. As of December 31, 2022, the credit union's RBC ratio was 12.62% and accordingly, maintains its categorization as "well capitalized" under the new guidance. In lieu of calculating RBC, credit unions can opt into the Complex Credit Union Leverage Ratio (CCULR) framework. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its regulatory net worth ratio. A qualifying credit union that has opted into the CCULR framework is considered to have met the capital ratio requirements to be categorized as, "well capitalized," if it has a CCULR of 9% or higher. In addition to a CCULR of 9% or higher, a qualifying credit union is a complex credit union that has met other requirements related to amount of off-balance sheet exposure, goodwill, and intangible assets. The Credit Union has not opted into the CCULR framework. A qualifying complex credit union can opt into the CCULR framework at the end of each calendar quarter.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Extension of Credit Commitments

In the normal course of business, the Credit Union is party to financial instruments with off-balance-sheet risk to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These commitments include financial instruments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk more than the amount recognized in the consolidated financial statements.

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 and as such, credit risk related to these commitments could be like existing loans, if they became funded.

A summary of the Credit Union's commitments at December 31, 2022 is as follows:

	Fixed Rate	Variable Rate	Total Contract or Notional Amount
Thrifty credit services lines of credit	$ 546,745	$ -	$ 546,745
Second trust mortgages	-	44,599	44,599
Credit cards	-	10,690,005	10,690,005
First trust mortgages	319,033	-	319,033
Commercial Real Estate	90,000	1,449,969	1,539,969
Total commitments	**$ 955,778**	**$ 12,184,573**	**$ 13,140,351**

Commitments to extend credit are agreements to lend to a member if 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.

Other Contractual Obligations

The following tables discloses the Credit Union's other contractual obligations and various other commitments as of December 31, 2022:

	Years ended December 31,						
	2023	2024	2025	2026	2027	There-after	Total
FHLB Borrowings (1)	$ 3,756,996	$ 66,000	$ -	$ -	$ -	$ -	$ 3,822,996
Certificates of deposit and IRAs (1)	6,039,528	4,684,963	1,720,586	338,586	1,149,324	308,276	14,241,263
Retirement obligations (2)	8,665	7,997	7,888	8,211	8,295	42,234	83,290
Total	**$ 9,805,189**	**$ 4,758,960**	**$ 1,728,474**	**$ 346,797**	**$ 1,157,619**	**$ 350,510**	**$ 18,147,549**

(1) Excludes contractual interest associated with the balances
(2) Thereafter includes amounts from 2028 through to 2032

Contingencies

The Credit Union is, and may in the future be, involved, in several pending and threatened judicial, regulatory, and arbitration proceedings, including investigations, examinations, and other actions brought by governmental and self-regulatory agencies. At any given time, the Credit Union may also be in the process of responding to requests for documents, data, testimony relating to such matters, or engaging in discussions to resolve such litigation matters. The Credit Union may also be subject to putative class action claims and similar broader claims and indemnification obligations.

Due to the inherent difficulty of predicting the outcome of litigation matters, especially when such matters are in early stages or where the claimants seek indeterminate damages, the Credit Union cannot state, with certainty, the eventual outcome of such litigation, including timing, loss, fines, or penalties associated with each pending matter, if any.

As of December 31, 2022, these legal proceedings are at varying stages of adjudication, arbitration, or investigation. In accordance with applicable accounting guidance, we establish accruals for matters when a loss is probable, and the amount of the loss can reasonably be estimated. For legal actions or proceedings where it is not reasonably possible that a loss may be incurred, or where the Credit Union is not currently able to estimate the reasonably possible loss, or range of loss, the Credit Union does not establish an accrual. Based on currently available information, the Credit Union believes that the outcome of pending litigation will not have a material adverse effect on its consolidated financial statements.

NOTE 15 – RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends loans and incurs expenses to, receives deposits and earns income from, related parties that include its affiliated entities (such as wholly owned subsidiaries), certain of its officers (such as members of the Board of Directors, Supervisory Committee, and other executive officers), and its employees.

The following table is a summary of interest income earned on loans, and interest expense incurred on member shares, by the Credit Union's related parties for the year ended December 31, 2022 and 2021:

	December 31, 2022		December 31, 2021	
	Interest income	Interest expense	Interest income	Interest expense
Executive Officers and Management	$ 46	$ 2	$ 165	$ 3

The following table is a summary of amounts due to, and from, the Credit Union's related parties as of December 31, 2022 and 2021:

	December 31, 2022		December 31, 2021	
	Unpaid Principal Balance	Members' accounts	Unpaid Principal Balance	Members' accounts
Executive Officers and Management	$ 1,796	$ 11,585	$ 1,962	$ 8,642

The Credit Union has an employee loan discount program that permits certain eligible Credit Union employees, including executive officers and management, interested in any of its loan products, to receive a discount that ranges between 0.25 to 0.5 basis points off the prevailing market rates for similar loans at the time of application. This includes loans that have been sold.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Credit Union measures certain financial assets and liabilities at fair value in accordance with ASC Topic 820, Fair Value Measurement, through various valuation approaches as described in Note 1 – Fair Value of Assets and Liabilities.

The carrying amounts are per the consolidated statements of condition. The net carrying value is net of any allowance for credit losses. Fair value estimates represent the exit prices that we would receive to sell assets or pay to transfer liabilities in an orderly transaction with market participants at the measurement date. They do not represent an estimate of our overall market value as a going concern, as they do not consider future business opportunities or profitability of assets and liabilities. We measure instrument-specific credit risk attributable to our consolidated obligations based on our nonperformance risk, see Note 14 – Commitments and Contingencies. As a result, we did not recognize any instrument-specific credit risk attributable to our consolidated obligations that are carried at fair value. See Note 1 - Summary of Significant Accounting Policies for our fair value policies and Note 17 – Derivative Instruments for more information on the Netting and Cash Collateral amounts.

The following table is a summary of the net carrying amounts, fair value estimates, related levels in the hierarchy, and netting and cash collateral amounts:

	As of December 31, 2022					
	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
Carried at fair value on a recurring basis						
Cash	$ 774,890	$ 774,890	$ 774,890	$ -	$ -	$ -
Available-for-sale debt securities	2,551,947	2,551,947	-	2,551,947	-	-
Loans held for investment	152,725	152,725	-	152,725	-	-
Loans held for sale	98,259	98,259	-	98,259	-	-
Servicing rights	273,196	273,196	-	-	273,196	-
Taxi medallion loans	90,418	90,418	-	-	90,418	-
Taxi medallion collateral	5,466	5,466	-	-	5,466	-
Derivative assets	13,690	13,690	-	478,120	432	(464,862)
Derivative liabilities	-	-	-	(1,979)	-	1,979
Carried at fair value on a nonrecurring basis						
Loans identified as impaired, net	40,107	40,107	-	-	40,107	-
Total	**$ 4,000,698**	**$ 4,000,698**	**$ 774,890**	**$ 3,279,072**	**$ 409,619**	**$ (462,883)**

	As of December 31, 2021					
	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
Carried at fair value on a recurring basis						
Cash	$ 544,358	$ 544,358	$ 544,358	$ -	$ -	$ -
Available-for-sale debt securities	2,102,897	2,102,897	-	2,102,897	-	-
Loans held for investment	63,959	63,959	-	63,959	-	-
Loans held for sale	661,167	661,167	-	661,167	-	-
Servicing rights	169,560	169,560	-	-	169,560	-
Taxi medallion loans	83,113	83,113	-	-	83,113	-
Taxi medallion collateral	12,340	12,340	-	-	12,340	-
Derivative assets	11,402	11,402	-	16,773	11,402	(16,773)
Derivative liabilities	(5,772)	(5,772)	-	(22,545)	-	16,773
Carried at fair value on a nonrecurring basis						
Loans held for sale	3,233,637	3,233,637	-	3,233,637	-	-
Loans identified as impaired, net	35,913	35,913	-	-	35,913	-
Other real estate owned, net	502	502	-	-	502	-
Total	**$ 6,913,076**	**$ 6,913,076**	**$ 544,358**	**$ 6,055,888**	**$ 312,830**	**$ -**

During 2022 and 2021 there were no transfers between levels. Transfers into or out of Level 3 are made if the significant inputs used in the pricing models measuring the fair values of the assets and liabilities became unobservable or observable, respectively.

Fair Value on a Recurring Basis

The following is a discussion of the valuation and inputs used by the Credit Union in estimating the fair value of assets and liabilities measured on a recurring basis.

Available for Sale Debt Securities

The Credit Union receives pricing for AFS debt securities from a third-party pricing provider. These financial instruments are valued based on similar assets in the marketplace or derived from model-based valuation techniques for which all significant assumptions are observable.

Loans Held for Sale

The Credit Union elects the fair value option for select HFS loans. The fair value of HFS loans is determined based on an evaluation of best execution forward sales contract prices sourced from the TBA market by government sponsored mortgage agency. Certain loans held for sale are measured at lower of cost or fair value where fair value is measured using indicative broker pricing.

Servicing Rights

Servicing assets do not trade in an active, open market with readily observable prices. The fair value of servicing rights is determined by whether or not adequate compensation is received. Servicing rights are recognized as separate assets (or liabilities) when loans are sold and we retain the right to service these sold loans, for a fee that provides more or less than adequate compensation. A servicing asset is recorded if the benefits of servicing are greater than adequate compensation while a servicing liability is recorded if the benefits of servicing are less than adequate compensation. No asset or liability is recognized if the benefits of servicing are equal to adequate compensation. Actual and expected loan prepayment, discount rate, servicing costs and other factors are considered in measurement. As the servicing rights valuation is based on unobservable inputs.

Loans Held for Investment

The Credit Union has elected the fair value option for taxi medallion loans and certain real estate loans. The fair value of taxi medallion loans is based on discounting expected cash flows that consider the term of the loan. The discount rates used reflect the Credit Union's required return on the taxi medallion loan investment. As the taxi medallion loans valuation is based on unobservable inputs. The fair value of real estate loans is based on a market approach using comparable sales of similar loans in the marketplace.

Taxi Medallion Collateral

The Credit Union elects the fair value option for medallions. Medallions acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated costs to sell. Fair value is based upon the estimated discounted cash flows generated by the collateral of the underlying medallions. These assets are included in Level 3 of the fair value hierarchy upon the lowest level of input that is significant to the fair value measurement.

Derivative Assets/Liabilities

Derivative assets/liabilities are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point. The Credit Union estimates the fair value of a derivative that is not transacted in such an active market using standard valuation techniques, such as discounted cash-flow analysis and comparisons to similar instruments. The Credit Union is subject to nonperformance risk in derivative transactions due to the potential default by its derivative counterparties or a DCO. To mitigate this risk, the Credit Union has entered into master netting agreements and credit support agreements with its derivative counterparties for its bilaterally executed derivative contracts that provide for the daily delivery of collateral.

The fair value of forward sales contracts are determined based on an evaluation of contract prices sourced from the TBA market by government sponsored mortgage agency.

The fair value of Interest Rate Lock Commitments (IRLC) are determined based on forward contract prices sourced from the TBA market, adjusted by the probability it will settle and become a loan.

Fair Value on a Non-Recurring Basis

The following is a discussion of the valuation of certain assets and liabilities that are measured at fair value on a non-recurring basis that are subject to fair value adjustments resulting from the application of the lower of cost or fair value accounting or the write-down of individual assets due to impairment.

Real Estate Owned and Impaired Loans

REO assets are recorded at the lower of cost or fair value less costs to sell. If an expectation of cash flows exist, impaired loans are recorded at the modified future expected cash flows discounted at the loan's original effective interest rate. Impaired loans that are collateral dependent are recorded at the collateral value, net of estimated costs to sell.

The Credit Union utilizes appraised values less estimated selling expenses to estimate the fair market value of the collateral. During the holding period, updated appraisals are obtained periodically to reflect changes in fair value. A home appraisal involves a certified, state-licensed professional determining the value of the property through an inspection and comparison to other home sales.

During 2022 and 2021, there were no transfers between fair value hierarchy levels. The following table below presents the reconciliation for the years ended December 31, 2022 and 2021, for all Level 3 assets that are measured at fair value on a recurring basis.

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2022	December 31, 2021
Servicing rights at beginning of year	$ 169,560	$ 92,080
Fair value adjustment	14,882	(51,047)
Issuances	88,754	128,527
Servicing rights at end of year	**$ 273,196**	**$ 169,560**

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2022	December 31, 2021
Taxi medallion loans at beginning of year	$ 83,113	$ 68,102
Acquisitions	1,598	28,098
Fair value adjustment	6,621	(4,915)
Principal paydown	(914)	(8,172)
Taxi medallion loans at end of year	**$ 90,418**	**$ 83,113**

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2022	December 31, 2021
Taxi medallion collateral at beginning of year	$ 12,340	$ 4,098
Acquisitions	-	1,596
Fair value adjustment	(1,703)	507
Transfers from loans	1,484	6,794
Sales	(6,655)	(655)
Taxi medallion collateral at end of year	**$ 5,466**	**$ 12,340**

NOTE 17 – DERIVATIVE INSTRUMENTS

The Credit Union utilizes derivative instruments to manage interest rate risk that affects its ongoing business operations. Interest rate swaps are used to hedge the variability in interest cash flows due to changes in a benchmark interest rate associated with fixed rate assets and floating rate liabilities. Similarly, interest rate caps are used to manage the maximum exposure to variable rate obligations that are tied to a benchmark interest rate.

The Credit Union has master netting agreements with its derivative counterparties. Under these agreements, the Credit Union may be required to post or receive cash collateral on a regular basis. As of December 31, 2022 and 2021, the Credit Union held $462,883 and $2,080 of posted cash collateral for its derivative positions, respectively. Cash collateral is presented within other assets in the consolidated statements of financial condition and have been offset against the Credit Union's derivative instrument provisions, excluding cash collateral related to TBA contracts totaling $7,731 and $1,048 as of December 31, 2022 and December 31, 2021, respectively.

The Credit Union recognizes all derivative instruments as either assets or liabilities at fair value in the consolidated statements of financial condition. The Credit Union designates derivatives into either cash flow hedges – a hedge of an exposure to changes in cash flows or a recognized asset, liability, or forecasted transaction or fair value hedges – a hedge of an exposure to changes in the fair value of a recorded asset or liability.

Cash Flow Hedges

Interest rate swaps with a total notional amount of $3,650,000 and $2,655,000 as of December 31, 2022 and 2021, respectively, are designated as cash flow hedges of FHLB borrowings and certain share deposit accounts and are highly effective. The Credit Union expects the interest rate swaps to remain highly effective during their remaining terms.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	
	2022	2021		2022	2021
Interest rate swaps	$ 360,963	$ 39,024	Interest Expense	$ 2,477	$ (18,942)
Total	**$ 360,963**	**$ 39,024**	**Total**	**$ 2,477**	**$ (18,942)**

Fair Value Hedges

Interest rate swaps are used as fair value hedges on designated closed mortgage portfolios under a portfolio layer hedging relationships expected to be remaining at the end of the hedging relationship. Gains and losses on these interest rate swaps as well as the offsetting loss or gain on the hedged closed mortgage portfolio are recognized in interest income. The Credit Union includes the gain or loss on the closed loan portfolio in the same consolidated financial statements line item – interest income, loans – as the offsetting loss or gain on the related interest rate swaps.

The following amounts were recorded on the consolidated statements of financial condition related to cumulative basis adjustments for fair value hedges as of December 31:

Line item in the consolidated statements of financial condition in which the hedged item is included	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	
	2022	2021	2022	2021
Loans receivable	$ 9,147,882	$ 237,941	$ (185,118)	$ 12,254
Total	**$ 9,147,882**	**$ 237,941**	**$ (185,118)**	**$ 12,254**

	2022	2021
Portfolio Layer Hedge Relationships		
Amortized cost basis of closed portfolios used in the portfolio layer designation (included in the totals above)	$ 9,147,882	$ 237,941
Cumulative basis adjustments associated with portfolio layer hedging relationships:		
Open hedge relationships	(170,911)	6,139
Discontinued hedge relationships	(14,206)	6,115
Total	**$ (185,117)**	**$ 12,254**
Amount of the designated hedged items	**$ 6,745,000**	**$ 105,000**

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. The Credit Union's practice is to enter forward commitments for the future delivery of residential mortgage backed securities when interest rate lock commitments are entered into to economically hedge the effect of changes in interest rates resulting from commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships. At December 31, 2022, the Credit Union had approximately $319,033 of interest rate lock commitments and $306,405 of forward commitments for the future delivery of mortgage backed securities. At December 31, 2021, the Credit Union had notional amounts of approximately $885,189 of interest rate lock commitments and $1,335,000 of forward commitments for the future delivery of residential mortgage backed securities. Changes in the fair value of these mortgage banking derivatives are included in non-interest income as mortgage banking activities.

Changes to the fair value of our servicing rights arise from changes in interest rates and are economically hedged using swaptions, floors, swaps, and forward commitments. The Credit Union had $550,000 and $69,000 notional amounts outstanding as of December 31, 2022 and 2021, respectively, to hedge the fair value of servicing rights. Changes in the fair value of these economic hedges are recognized in current earnings.

Offsetting Derivative Assets and Derivative Liabilities

The following table presents details regarding the offsetting of our bilateral derivatives on our consolidated statements of financial condition. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable.

	Derivative Assets		Derivative Liabilities	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	Bilateral	Bilateral	Bilateral	Bilateral
Derivatives with legal right of offset				
Gross recognized amount	$ 477,274	$ 16,773	$ (1,979)	$ (21,632)
Netting adjustments and cash collateral	(464,862)	(16,773)	1,979	16,773
Derivatives with legal right of offset, net	**$ 12,412**	**$ -**	**$ -**	**$ (4,859)**
Derivatives without legal right of offset	1,278	11,402	-	(913)
Derivatives on consolidated statements of financial condition	**13,690**	**11,402**	**-**	**(5,772)**
Derivative assets and liabilities, Net	**$ 13,690**	**$ 11,402**	**$ -**	**$ (5,772)**

At December 31, 2022 and 2021, we had no additional credit exposure due to pledging of noncash collateral to our counterparties, which exceeded our net derivative bilateral position.

NOTE 18 – CONCENTRATION OF RISK

The Credit Union originates and services different types of loans throughout the United States and its territories. It also extends loans to military personnel stationed outside the United States. For operational and strategic reasons, the Credit Union outsources servicing of some loans acquired through mergers and acquisitions.

Geographical Concentration

The geographical concentration risk for all loans we service is where the geographical distribution of total outstanding principal loan balances has a concentration of 10% or more in a state. As of December 31, 2022, this included California, with unpaid principal balances of $6,684,192 and a concentration percentage of 24%. As of December 31, 2021, this included California and Virginia, with unpaid principal balances of $4,057,971 and $2,161,425 as well as concentration percentages of 19% and 10%, respectively.

NOTE 19 – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through March 31, 2023, the date when these consolidated financial statements were issued. There were no events that have occurred that would require adjustments to our disclosures included in the financial statements for the period ended December 31, 2022.

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