Consolidated Financial Statements and Independent Auditor's Report

Pennsylvania State Employees Credit Union

December 31, 2023 and 2022

Contents

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Independent Auditor's Report

To the Board of Directors and Members
Pennsylvania State Employees Credit Union

Opinion

We have audited the consolidated financial statements of Pennsylvania State Employees Credit Union and its subsidiary (collectively, the "Credit Union"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022 and the related consolidated statements of 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 financial position of the Credit Union as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, the Credit Union adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses*, as of January 1, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free 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 Audits of the Consolidated 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 audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Board of Directors and Members
Pennsylvania State Employees Credit Union

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the 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 audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

March 7, 2024

Pennsylvania State Employees Credit Union
Consolidated Balance Sheets
(in thousands)

	December 31	
	2023	**2022**
ASSETS		
Cash and due from financial institutions	$ 416,118	$ 568,977
Federal funds sold	6,473	4,777
Repurchase agreement	50,000	-
Available-for-sale investment securities (amortized cost of $1,131,264 and $1,254,496)	1,066,041	1,170,387
Held-to-maturity investment securities (fair value of $1,212 and $2,362)	1,229	2,426
Equity securities	25,422	21,395
Other investments	24,012	23,395
Loans, net of allowance of $126,993 and $58,648	6,399,593	6,087,094
Deposit for federal share insurance	68,249	68,079
Accrued interest receivable	26,417	21,451
Property and equipment, net	72,493	75,817
Operating lease right of use asset	894	1,329
Other assets, net	70,831	25,985
Total assets	$ 8,227,772	$ 8,071,112
LIABILITIES AND MEMBERS' EQUITY		
Members' share accounts	$ 7,422,037	$ 7,247,525
Accounts payable	10,828	31,860
Operating lease liability	828	1,242
Other liabilities	38,677	33,948
Total liabilities	7,472,370	7,314,575
Members' equity		
Additional paid-in capital	693	693
Retained earnings	817,983	836,724
Accumulated other comprehensive income/(loss)	(63,274)	(80,880)
Total members' equity	755,402	756,537
Total liabilities and members' equity	$ 8,227,772	$ 8,071,112

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

Pennsylvania State Employees Credit Union
Consolidated Statements of Comprehensive Income
(in thousands)

	Year ended December 31	
	2023	2022
Interest income		
Interest on loans, including fees	$ 349,899	$ 279,263
Interest on investments	63,666	31,674
Total interest income	413,565	310,937
Interest expense		
Dividends on members' share accounts	129,667	53,117
Net interest income	283,898	257,820
Provision for credit losses	133,831	46,449
Net interest income after provision for credit losses	150,067	211,371
Noninterest income		
Credit card interchange fees	9,534	9,634
Check card interchange fees	21,588	21,282
Checking account fees	4,842	4,072
ATM income	4,349	4,640
Gains (losses) recognized on equity securities	4,006	(4,979)
Other	10,788	10,977
Total noninterest income	55,107	45,626
Noninterest expenses		
Salaries and employee benefits	88,155	77,635
Office occupancy expenses	4,034	4,314
Office operation expenses	24,014	22,336
ATM expenses	10,214	11,582
Check card program expense	11,159	10,974
Loan servicing expenses	13,890	13,509
Depreciation and amortization	8,733	8,864
Other operating expenses	37,543	30,460
Total operating expenses	197,742	179,674
Net income	7,432	77,323
Other comprehensive income/(loss)		
Change in net unrealized gains/(losses) on investment securities during the year	18,886	(81,486)
Change in benefit plan liabilities	(1,280)	2,962
Total other comprehensive income/(loss)	17,606	(78,524)
Total comprehensive income (loss)	$ 25,038	$ (1,201)

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

Pennsylvania State Employees Credit Union
Consolidated Statements of Changes in Members' Equity
(in thousands)

	Additional Paid-in Capital	Appropriated Retained Earnings	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 693	$ 65,950	$ 693,451	$ (2,356)	$ 757,738
Net income	-	-	77,323	-	77,323
Other comprehensive income (loss), net of reclassification adjustments	-	-	-	(78,524)	(78,524)
Total comprehensive income (loss)					(1,201)
Transfers - net	-	(65,950)	65,950	-	-
Balance at December 31, 2022	693	-	836,724	(80,880)	756,537
Adoption of ASU 2016-13	-	-	(26,173)	-	(26,173)
Net income	-	-	7,432	-	7,432
Other comprehensive income (loss), net of reclassification adjustments	-	-	-	17,606	17,606
Total comprehensive income (loss)					25,038
Balance at December 31, 2023	$ 693	$ -	$ 817,983	$ (63,274)	$ 755,402

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

Pennsylvania State Employees Credit Union

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31	
	2023	**2022**
Operating activities:		
Net income	$ 7,432	$ 77,323
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	133,831	46,449
Depreciation and amortization	8,733	8,864
Amortization of deferred loan origination fees and costs, net	14,805	11,290
Amortization of securities, net	4,678	6,296
Amortization of mortgage servicing rights	-	125
Amortization of operating lease right of use assets	435	525
(Gain)/loss on equity securities	(4,006)	4,979
(Gain)/loss on foreclosed real estate	159	209
Originations of mortgage loans for sale	(1,530)	(1,159)
Proceeds from mortgage loan sales	1,530	1,159
Net change in:		
Accrued interest receivable	(4,966)	(6,842)
Accounts payable	(21,033)	15,167
Operating lease liability	(414)	(490)
Other, net	(5,413)	(5,957)
Net cash provided by operating activities	134,241	157,938
Investing activities:		
Proceeds from maturities/calls of held-to-maturity securities	1,197	1,167
Proceeds from maturities/calls of available-for-sale securities	185,994	281,381
Proceeds from sales of equity securities	2,016	2,296
Purchases of available-for-sale securities	(67,439)	(105,786)
Purchase of other investments	(617)	(3,326)
Purchase of equity securities	(1,995)	(2,366)
Net change in repurchase agreements	(50,000)	100,000
Purchase of life insurance	(35,845)	-
Increase in deposit for federal share insurance	(170)	(2,015)
Net change in loans to members	(487,906)	(708,182)
Purchases of property and equipment	(5,409)	(2,518)
Proceeds from sale of foreclosed real estate	258	1,041
Net cash used in investing activities	(459,916)	(438,308)
Financing activities:		
Net change in members' share accounts	174,512	(125,184)
Net cash provided by (used in) financing activities	174,512	(125,184)
Net change in cash and cash equivalents	(151,163)	(405,554)
Cash and cash equivalents at beginning of year	573,754	979,308
Cash and cash equivalents at end of year	$ 422,591	$ 573,754
Cash and due from financial institutions	$ 416,118	$ 568,977
Federal funds sold	6,473	4,777
Cash and cash equivalents at December 31	$ 422,591	$ 573,754
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	$ 129,667	$ 53,117
Schedule of non-cash transactions		
Transfer of loans to foreclosed real estate	$ 598	$ 616

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

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

For all periods presented, the accompanying consolidated financial statements include the accounts of Pennsylvania State Employees Credit Union (the "Credit Union") and its wholly-owned subsidiary, PSECU Protect, LLC which was established during 2021 to fulfill the insurance needs of both existing and potential members of the Credit Union. As of December 31, 2023, the accounts and activities of the wholly-owned subsidiary established in 2021 were not material to warrant separate disclosure. All material intercompany accounts and transactions have been eliminated in consolidation.

The Credit Union is a Pennsylvania State chartered credit union and a non-profit organization which strives to provide its members with high quality, convenient financial products and services. The Credit Union's operations are principally related to holding members' shares and making loans to eligible members. The field of membership generally include Pennsylvania groups, along with the prior approval of the Department of Banking, other occupational and associated groups as provided by law; and exclusively for share services, organizations composed principally of the same groups as the Credit Union membership.

The accounting and reporting policies of the Credit Union conform with accounting principles generally accepted in the United States of America ("GAAP"). The Credit Union recognizes revenues and expenses based on the accrual basis of accounting.

For purposes of comparability, certain prior period amounts may have been reclassified to conform to the 2023 presentation. Such reclassifications had no impact on net income or members' equity. The following is a description of the Credit Union's more significant accounting and reporting policies.

1. <u>Use of Estimates</u>

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

2. <u>Cash and Cash Equivalents</u>

The Credit Union considers all investments with a purchased maturity of three months or less when purchased to be cash equivalents. Balances include cash on hand, balances due from banks, interest-bearing deposits with banks, and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured amounts.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

3. Repurchase Agreement

The Credit Union enters into agreements under which it purchases securities subject to an obligation to sell the same or similar securities. Under these arrangements, the Credit Union may obtain legal control over the assets through an agreement that both entitles and obligates the Credit Union to sell the assets.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the counterparty be in default (e.g., fails to make an interest payment to the Credit Union). The collateral is held by a correspondent bank in the counterparty's custodial account. The Credit Union has the right to sell or repledge the investment securities. Interest is recorded on a monthly basis as it is received.

4. Investment Securities

All debt securities must be classified as held-to-maturity, trading, or available-for-sale. Management determines the appropriate classification of debt securities at the time of purchase. Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Securities bought and held primarily for the purpose of selling in the near term are classified as trading and recorded at fair value, which is based on quoted market prices. Changes in fair value would be recorded through the income statement. The Credit Union did not carry trading securities during 2023 or 2022.

Debt securities not classified as held-to-maturity or trading are classified as available for sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of members' equity. Purchase premiums and discounts are recognized in interest income using the interest method. Premiums are amortized into income over the earlier of the call date or the maturity date of the related security. Discounts are accreted into interest income over the estimated maturity of the related security.

At December 31, 2023 and 2022, the balance in accumulated other comprehensive income (loss) associated with unrealized gains and losses from available-for-sale investment securities totaled $(65,223) and $(84,109), respectively.

(Amounts in thousands, except as noted)

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

The Credit Union evaluates available-for-sale securities and held-to-maturity securities for impairment each reporting period. When evaluating investment securities for impairment, the Credit Union first considers if the fair value of the security is less than its amortized cost. If the fair value is less than the amortized cost, the Credit Union next evaluates whether it intends to sell, or if it is more likely than not it will be required to sell the security before it recovers its amortized cost basis. If either criteria is met, an impairment loss is recognized in earnings. If neither criteria is met, the Credit Union then assesses whether the decline in fair value is due to credit losses or other factors, including evaluation of bond credit ratings. If the Credit Union determines a credit loss exists, the Credit Union compares the present value of the cash flows expected to be collected to the amortized cost basis. An allowance for credit loss is recognized for the amount the amortized costs basis of the security exceeds the present value of the expected future cash flows, limited by the amount of the unrealized loss on the security at that date. There were no investment securities with an allowance for credit loss at December 31, 2023.

Prior to the implementation of ASC 326 on January 1, 2023, declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

The Credit Union has elected not to measure an allowance for credit losses for accrued interest receivable on its investment securities.

5. Equity Securities

The Credit Union holds equity securities, which are accounted for in accordance with ASU No. 2020-01, *Investment – Equity Securities (Topic 321).* Equity securities are carried at fair value, with changes in fair value reported in net income. The following table summarizes the portion of unrealized gains and losses for the period related to equity securities still held at December 31, 2023 and 2022:

	December 31	
	2023	**2022**
Net gains and (losses) recognized during the period on equity securities	**$** 4,006	$ (4,979)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	3,844	(4,416)
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	**$** 162	$ (563)

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

6. Other Investments

Other investments have no readily available markets and thus do not have a quoted market value. Therefore, other investments are carried at cost and tested annually for impairment. At December 31, 2023 and 2022, the Credit Union had investments of $1,000 in capital shares in corporate credit unions which have restrictions on redemption. The Credit Union invests in the NCUA's Central Liquidity Facility. At December 31, 2023 and 2022, this investment was $20,314 and $19,453, respectively. In addition, the Credit Union maintains a borrowing relationship with the Federal Home Loan Bank (FHLB). As a result of this relationship, at December 31, 2023 and 2022, the Credit Union held $2,698 and $2,942 in capital shares in the FHLB, respectively. At December 31, 2023 and 2022, other investments are not impaired.

In October 2007, Visa completed a reorganization in which Visa USA, Visa International, Visa Canada, and Inovant became Visa Inc in anticipation of its initial public offering, which occurred during March 2008. As a result, the Credit Union became a shareholder of Class B common stock of Visa Inc. The Credit Union does not have any value recognized in its consolidated financial statements for its ownership interest in this stock.

7. Loans and Allowance for Credit Losses

Loans which management intends to hold to maturity are stated at the amount of unpaid principal net of an allowance for credit losses and net deferred loan origination fees and costs. Deferred loan origination fees and costs are amortized on the interest method and straight-line basis, based on the loan type, over the term of the loan. Interest on loans is calculated using the simple-interest method on principal amounts outstanding.

Allowance for Credit Losses - Loans

On January 1, 2023, the Credit Union adopted ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applied to financial assets measured at amortized costs, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

The Credit Union adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $24,495, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $1,678, which is recorded within Other Liabilities. The Credit Union recorded a net decrease to retained earnings of $26,173 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (“Incurred Loss”).

The Credit Union elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Credit Union believes that the collection of interest is doubtful. The Credit Union has concluded that this policy results in the timely reversal of uncollectible interest.

The Credit Union's portfolio consists of pools of commercial and homogeneous consumer loans. These homogeneous pools are categorized by type and payment status, i.e. current or age of delinquency, for evaluation in management's allowance for credit loss analysis in accordance with GAAP. Generally, loans are charged-off when they are 180 days past due, or if in the opinion of management, collection becomes doubtful. Charge-offs are applied against the allowance for credit losses, and recoveries on previously charged-off loans are added to the allowance.

The allowance for credit losses represents management’s estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts.

The Credit Union measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Credit Union calculates the allowance for credit losses for its residential real estate and consumer loan segments using the weighted average remaining maturity method (WARM). WARM uses an average annual charge-off rate and includes historical loss experience over the weighted average life of the loan segment. The average annual charge-off rate is applied to the contractual term, adjusted for prepayment considerations, to arrive at the unadjusted historical charge-off rate for the remaining balance of the loan segment. The Credit Union then adjusts for current conditions and reasonable and supportable forecasts as deemed necessary to arrive at an estimate for expected credit losses.

Residential real estate loans consist of mortgage and real estate equity loans. These loans are subject to risk due primarily to general economic conditions and lien position.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Consumer loans may entail greater credit risk than consumer real estate loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The Credit Union calculates the allowance for credit losses for its commercial real estate loan segments using the discounted cash flow method (DCF). The DCF method projects future cash flows over the life of the loan, adjusted for certain assumptions (e.g., prepayments, expected loss, recovery timing, etc). Future cash flows are discounted to present value using a discount rate. The discount rate is used is the effective interest rate of the loan. The difference between the amortized cost basis of the loan and the present value of the adjusted future cash flows represents the estimate for expected credit losses.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.

Commercial real estate loans are risk rated. The borrower’s overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of watch, special mention, substandard, doubtful, and loss. Loans classified as watch have acceptable credit quality, but borrower is perceived to be experiencing a temporary setback or adverse information has been received. Loans criticized as special mention have potential weaknesses that deserve management’s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans classified doubtful have all the weaknesses inherent in loan classified substandard with the added characteristic that collection or liquidation in full, on the bases of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for credit losses. Any loans not classified as noted above are rated pass.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for external economic environment factors, lending management factors, internal policy factors, loan collateral factors, and charge-off and delinquency trends.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans to meet member financing needs. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Credit Union records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments to the Credit Union's income statement. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments is included in other liabilities on the Credit Union's balance sheet.

8. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to operating expense as incurred.

9. Leases

On January 1, 2022, the Credit Union adopted ASU No. 2016-02, *Leases* (Topic 842), and all subsequent ASUs that modified Topic 842, which primarily affected the accounting treatment for operating lease agreements in which the Credit Union is the lessee. Operating and finance lease right-of-use assets, as well as operating lease liabilities, are presented as separate line items on the Consolidated Balance Sheets, while finance lease liabilities are classified as a component of long-term debt. The Credit Union does not have any finance leases as of December 31, 2023. The Credit Union has elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheets.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Leases are classified as operating or finance leases at the lease commencement date. The Credit Union leases certain locations (ATMs and e-Centers). The Credit Union records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. At lease inception, the Credit Union determines the lease term by considering the minimum lease term and all optional renewal periods that the Credit Union is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Credit Union's leases do not contain residual value guarantees or material variable lease payments that will require the Credit Union to incur additional expenses. Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in office occupancy expense on the Credit Union's Consolidated Statements of Comprehensive Income. Rent expense was approximately $384 and $339 for the years ended December 31, 2023 and 2022, respectively. The Credit Union's variable lease expense include rent escalators that are based on market conditions.

10. Assets Held For Sale

Property acquired through foreclosure or other means is recorded at the fair value of the property at the transfer date less estimated selling costs and recorded in other assets. Subsequent to transfer, assets held for sale are recorded at the lower of cost or fair value of the property less estimated selling costs. Costs to maintain these assets are expensed as incurred. Assets held for sale are recorded at fair value on a non-recurring basis. Fair value is usually determined based on an independent appraised value of the supporting collateral and adjusted for necessary liquidation expenses. Total assets held for sale are $1,589 and $1,202 at December 31, 2023 and 2022, respectively and are included in Other assets, net, on the consolidated balance sheet.

11. Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies that were purchased during the year ended December 31, 2023. The policies are recorded at cash surrender value and increases or decreases in cash surrender values are included in other noninterest income. The total cash surrender value of the policies was $35,845 as of December 31, 2023 and is included in Other assets, net, on the consolidated balance sheet.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

12. Retained Earnings - Partially Restricted

As of December 31, 2021, the Credit Union was required by regulation to maintain a statutory reserve. This appropriated reserve amounted to approximately $66 million at December 31, 2021 and was not available for the payment of dividends. During 2022, the Credit Union transferred the reserve to unappropriated retained earnings based on change to regulation.

13. Dividends on Members' Shares

Dividends are calculated from date of deposit to date of withdrawal, are paid according to the terms of the original contract and are credited to members' shares on the last day of each month. Dividends on members' shares are determined monthly. Dividend rates are determined based on the current interest rate environment.

14. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $7,185 and $6,414 for 2023 and 2022, respectively.

15. Income Taxes

The Credit Union is exempt from federal income taxes under Internal Revenue Code Section 501(c)(14) and state income taxes under Pennsylvania state income tax laws. However, the Credit Union may be required to pay income taxes in the event the Credit Union generates unrelated business income.

16. Revenue from Contracts with Customers

The Credit Union receives a portion of its non-interest income from contracts with customers, which is accounted for in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606) ("ASC 606").* A portion of the Credit Union's non-interest income is derived from contracts with customers, and as such, the revenue recognized depicts the transfer of promised services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The Credit Union considers the terms of the contract and all relevant facts and circumstances when applying this guidance.

17. Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control of transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

18. Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements at December 31, 2023 and 2022.

19. Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities and changes in postretirement benefit plan obligations, are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net income, are considered components of comprehensive income.

(Amounts in thousands, except as noted)

NOTE B – LOANS TO MEMBERS

In conjunction with the adoption of ASC 326, the Credit Union made certain loan portfolio segment reclassifications to conform to the new allowance for credit loss methodology. Loans and these reclassifications, are summarized as follows:

	December 31, 2023	Post Adoption January 1, 2023	The Effect of Adoption	Pre Adoption December 31, 2022
Commercial real estate	$ 40,271	$ 46,182	$ -	$ 46,182
Residential mortgage				
Mortgage/Real estate equity	-	-	(2,281,747)	2,281,747
Mortgage	1,666,994	1,590,663	1,590,663	-
Real estate equity	242,013	166,794	166,794	-
HELOC	575,152	524,290	524,290	-
Total residential mortgage	2,484,159	2,281,747	-	2,281,747
Consumer				
Auto	-	-	(2,409,348)	2,409,348
Direct auto	836,208	879,700	879,700	-
Indirect auto	1,770,094	1,529,648	1,529,648	-
Visa	839,534	787,085	-	787,085
Share Secured	-	-	(1,608)	1,608
Other Secured	2,439	1,608	1,608	-
Other	-	-	(619,772)	619,772
Other Unsecured	553,881	619,772	619,772	-
Total consumer	4,002,156	3,817,813	-	3,817,813
Gross loans	6,526,586	6,145,742	-	6,145,742
Less allowance for credit losses	126,993	83,143	24,495	58,648
	$ 6,399,593	$ 6,062,599	$ (24,495)	$ 6,087,094

Gross loans include net deferred origination costs and fees. At December 31, 2023 and 2022 net deferred origination costs and fees totaled $35,002 and $26,178, respectively.

(Amounts in thousands, except as noted)

NOTE B – LOANS TO MEMBERS – Continued

The following table summarizes commercial real estate risk ratings as of December 31, 2023 and 2022:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
2023						
Commercial Real Estate	$ 25,084	$ -	$ 11,286	$ -	$ 3,901	$ 40,271
2022						
Commercial Real Estate	$ 31,564	$ 10,717	$ -	$ -	$ 3,901	$ 46,182

At December 31, 2023 and 2022, certain directors, officers and employees were indebted to the Credit Union in the aggregate amount of $17,848 and $17,172, respectively. Related party loans are made on the same terms, including interest rates and collateral, as those prevailing at the time of origination for comparable transactions with unrelated persons.

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the activity related to the allowance for credit losses (ACL) for the year ended December 31, 2023, under the CECL methodology.

	Commercial Real Estate	Residential Mortgage	Consumer	Total
December 31, 2022	$ 1,706	$ 1,195	$ 55,747	$ 58,648
Cumulative effect of change in accounting principle	250	3,936	20,309	24,495
Loans charged off	-	(179)	(103,075)	(103,254)
Loan recoveries	-	251	13,695	13,946
Net loans charged off	-	72	(89,380)	(89,308)
Provision charged to operations	253	(779)	133,684	133,158
December 31, 2023	$ 2,209	$ 4,424	$ 120,360	$ 126,993

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES - Continued

Prior to the adoption of ASC 326 on January 1, 2023, the Credit Union calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses for the year ended December 31, 2022.

	Commercial Real Estate	Residential Mortgage	Consumer	Total
Balance at beginning of year	$ 95	$ 1,886	$ 47,605	$ 49,586
Loans charged off	-	(355)	(46,693)	(47,048)
Loan recoveries	-	146	9,516	9,662
Net loans charged off	-	(209)	(37,177)	(37,386)
Provision charged to operations	1,611	(482)	45,320	46,449
Balance at end of year	$ 1,706	$ 1,195	$ 55,747	$ 58,648
Ending balance: Individually evaluated for impairment	1,706	99	1,200	3,005
Ending balance: Collectively evaluated for impairment	-	1,096	54,547	55,643
Total ending allowance balance	$ 1,706	$ 1,195	$ 55,747	$ 58,648
Ending balance: Individually evaluated for impairment	3,901	7,912	16,399	28,212
Ending balance: Collectively evaluated for impairment	42,281	2,273,835	3,801,414	6,117,530
Total ending loan balance	$ 46,182	$ 2,281,747	$ 3,817,813	$ 6,145,742

One of the key factors for determining the performing status of a loan is delinquency, based on the contractual terms of each loan. Loans that are more than 90 days past due in terms of payment are considered nonperforming and are placed on nonaccrual status.

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES – Continued

The delinquency status of loans at December 31, 2023 and 2022, is as follows:

2023	Nonaccrual & Greater than 90 days Balance	60-90 days Balance	Less than 60 days Balance	Total Balance
Commercial real estate	$ 3,901	$ -	$ 36,370	$ 40,271
Residential mortgage				
Mortgage	1,700	2,778	1,662,516	1,666,994
Real estate equity	163	145	241,705	242,013
HELOC	3,884	1,671	569,597	575,152
Total residential mortgage	5,747	4,594	2,473,818	2,484,159
Consumer				
Direct auto	1,732	1,288	833,188	836,208
Indirect auto	6,471	6,911	1,756,712	1,770,094
Visa	8,782	4,132	826,620	839,534
Other Secured	-	-	2,439	2,439
Other Unsecured	13,971	5,938	533,972	553,881
Total consumer	$ 30,956	$ 18,269	$ 3,952,931	$ 4,002,156

2022	Nonaccrual & Greater than 90 days Balance	60-90 days Balance	Less than 60 days Balance	Total Balance
Commercial real estate	$ -	$ -	$ 46,182	$ 46,182
Residential mortgage				
Mortgage	2,288	1,442	1,586,933	1,590,663
Real estate equity	285	161	166,348	166,794
HELOC	1,626	1,145	521,519	524,290
Total residential mortgage	4,199	2,748	2,274,800	2,281,747
Consumer				
Direct auto	1,651	1,209	876,840	879,700
Indirect auto	5,402	6,886	1,517,360	1,529,648
Visa	5,854	3,730	777,501	787,085
Other Secured	-	-	1,608	1,608
Other Unsecured	8,521	4,304	606,947	619,772
Total consumer	$ 21,428	$ 16,129	$ 3,780,256	$ 3,817,813

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES - Continued

The following table presents the amortized cost basis of nonaccrual loans by class of financing receivable.

	2023			
	Nonaccrual loans with individual ACL	**Nonaccrual loans with no individual ACL**	**Total nonaccrual loans**	**Interest income recognized on nonaccrual loans**
Commercial real estate	$ 3,901	$ -	$ 3,901	$ -
Residential mortgage				
Mortgage	445	1,255	1,700	56
Real estate equity	70	93	163	3
HELOC	1,699	2,185	3,884	178
Total residential mortgage	2,214	3,533	5,747	237
Consumer				
Direct auto	79	1,653	1,732	67
Indirect auto	328	6,143	6,471	291
Visa	-	8,782	8,782	585
Other Secured	-	-	-	-
Other Unsecured	-	13,971	13,971	1,037
Total consumer	407	30,549	30,956	1,980
Total	$ 6,522	$ 34,082	$ 40,604	$ 2,217

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES - Continued

Collateral dependent loans individually evaluated for purposes of ACL by collateral type were as follows at December 31, 2023:

2023

	Total
Commercial real estate	$ 3,901
Residential mortgage	
Mortgage	445
Real estate equity	70
HELOC	1,699
Total residential mortgage	2,214
Consumer	
Direct auto	79
Indirect auto	328
Total consumer	407
Total	$ 6,522

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES – Continued

Prior to the adoption of ASC 326 on January 1, 2023, modifications of a loan were classified as troubled debt restructuring if the borrower was granted a concession and it was deemed the borrowers were experiencing financial difficulty. Concessions granted under troubled debt restructuring generally involve an extension of a loan's stated maturity date. A loan was deemed impaired when categorized as a trouble debt restructured loan or when based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. For loans that were classified as impaired, an allowance was established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The following table summarizes information relative to impaired loans by loan portfolio class under the incurred loss methodology as of December 31, 2022.

	2022				
	Impaired Loans with Allowance			Impaired Loans with No Allowance	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
Auto	$ 8,620	$ 8,620	$ 305	$ -	$ -
Visa	4,257	4,257	445	-	-
Mortgage / Real Estate Equity	2,698	2,698	99	5,214	5,214
Other	3,522	3,522	450	-	-
Commercial Real Estate	3,901	3,901	1,706	-	-
Total	$ 22,998	$ 22,998	$ 3,005	$ 5,214	$ 5,214

(Amounts in thousands, except as noted)

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES – Continued

The following table summarizes average impaired loans and related interest income by loan portfolio class:

	2022			
	Impaired Loans with Allowance		Impaired Loans with No Allowance	
	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Commercial Real Estate	$ 3,934	$ 702	$ -	$ -
Auto	9,635	514	-	-
Visa	4,539	417	-	-
Mortgage / Real Estate Equity	2,760	140	5,337	218
Other	3,696	465	-	-
Total	$ 24,564	$ 2,238	$ 5,337	$ 218

Occasionally, the Credit Union will modify a certain loan by providing multiple types of concessions. Concessions may include a term extension, rate reduction, or principal forgiveness. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. The following table presents the amortized cost basis as of December 31, 2023, of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans.

	Amortized Cost Basis	% of Total Loan Type
Commercial Real Estate	-	0.00%
Residential Mortgage		
Mortgage	4,349	0.26%
Real Estate Equity	195	0.08%
HELOC	2,755	0.48%
Total residential mortgage	7,299	0.29%
Consumer		
Direct auto	2,280	0.27%
Indirect auto	5,993	0.34%
Visa	4,327	0.52%
Other Secured	-	0.00%
Other Unsecured	3,287	0.59%
Total consumer	15,887	0.40%
Total	$ 23,186	0.36%

(Amounts in thousands, except as noted)

NOTE D – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31, 2023 and 2022 are as follows:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity investment securities:				
State and political subdivision security	$ 1,229	$ -	$ (17)	$ 1,212
Total held-to-maturity investment securities	$ 1,229	$ -	$ (17)	$ 1,212
Available-for-sale investment securities:				
Agency residential mortgage backed securities	$ 202,432	$ 68	$ (19,072)	$ 183,428
Agency collateralized mortgage obligations	154,424	-	(8,305)	146,119
Agency commercial mortgage backed securities	674,938	410	(30,940)	644,408
Non agency residential mortgage backed securities	22,669	-	(2,081)	20,588
Certificate of deposits	1,865	2	(155)	1,712
Government securities	544	6	(1)	549
Corporate bonds	69,312	396	(4,186)	65,522
Corporate subordinated debts	5,080	-	(1,365)	3,715
Total available-for-sale investment securities	$ 1,131,264	$ 882	$ (66,105)	$ 1,066,041

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity investment securities:				
State and political subdivision security	$ 2,426	$ -	$ (64)	$ 2,362
Total held-to-maturity investment securities	$ 2,426	$ -	$ (64)	$ 2,362
Available-for-sale investment securities:				
Agency residential mortgage backed securities	$ 195,854	$ -	$ (23,290)	$ 172,564
Agency collateralized mortgage obligations	172,429	5	(5,198)	167,236
Agency commercial mortgage backed securities	800,175	-	(45,786)	754,389
Non agency residential mortgage backed securities	25,868	-	(2,777)	23,091
Certificate of deposits	2,109	1	(195)	1,915
Government securities	288	2	(2)	288
Corporate bonds	52,693	6	(6,191)	46,508
Corporate subordinated debts	5,080	-	(684)	4,396
Total available-for-sale investment securities	$ 1,254,496	$ 14	$ (84,123)	$ 1,170,387

(Amounts in thousands, except as noted)

NOTE D – INVESTMENT SECURITIES - Continued

The amortized cost and estimated fair value of investment securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are classified based on their final maturity date.

	2023	
	Amortized Cost	**Fair Value**
Held-to-maturity investment securities:		
Due within one year	$ 1,229	$ 1,212
Due after one year through five years	-	-
Due after five years through ten years	-	-
Total held-to-maturity investment securities	$ 1,229	$ 1,212
Available-for-sale investment securities:		
Due within one year	$ 31,311	$ 30,322
Due after one year through five years	312,447	295,253
Due after five years through ten years	365,388	354,717
Due after ten years	422,118	385,749
Total available-for-sale investment securities	$ 1,131,264	$ 1,066,041

(Amounts in thousands, except as noted)

NOTE D – INVESTMENT SECURITIES - Continued

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022:

	2023					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity investment securities:						
State and political subdivision security	$ -	-	1,212	(17)	1,212	(17)
Total held-to-maturity investment securities	$ -	$ -	$ 1,212	$ (17)	$ 1,212	$ (17)
Available-for-sale investment securities:						
Agency residential mortgage backed securities	$ -	$ -	$ 154,322	$ (19,072)	$ 154,322	$ (19,072)
Agency collateralized mortgage obligations	603	(5)	145,516	(8,300)	146,119	(8,305)
Agency commercial mortgage backed securities	2,165	(1)	618,419	(30,939)	620,584	(30,940)
Non agency residential mortgage backed securities	-	-	20,588	(2,081)	20,588	(2,081)
Certificate of deposits	1,712	(155)	-	-	1,712	(155)
Government securities	96	(1)			96	(1)
Corporate bonds	48,854	(4,186)	-	-	48,854	(4,186)
Corporate subordinated debts	3,715	(1,365)	-	-	3,715	(1,365)
Total available-for-sale investment securities	$ 57,145	$ (5,713)	$ 938,845	$ (60,392)	$ 995,990	$ (66,105)

	2022					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity investment securities:						
State and political subdivision security	$ 2,362	(64)	-	-	2,362	(64)
Total held-to-maturity investment securities	$ 2,362	$ (64)	$ -	$ -	$ 2,362	$ (64)
Available-for-sale investment securities:						
Agency residential mortgage backed securities	$ 36,686	$ (2,127)	$ 135,878	$ (21,163)	$ 172,564	$ (23,290)
Agency collateralized mortgage obligations	147,808	(4,027)	18,324	(1,171)	166,132	(5,198)
Agency commercial mortgage backed securities	449,498	(16,179)	304,891	(29,607)	754,389	(45,786)
Non agency residential mortgage backed securities	23,091	(2,777)	-	-	23,091	(2,777)
Certificate of deposits	1,915	(195)	-	-	1,915	(195)
Government securities	288	(2)	-	-	288	(2)
Corporate bonds	46,508	(6,191)	-	-	46,508	(6,191)
Corporate subordinated debts	4,396	(684)	-	-	4,396	(684)
Total available-for-sale investment securities	$ 710,190	$ (32,182)	$ 459,093	$ (51,941)	$ 1,169,283	$ (84,123)

Management does not believe that any individual unrealized loss as of December 31, 2023, represents a credit loss. Unrealized losses on securities have not been recognized in income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market rates. The fair value is expected to recover as the securities approach the maturity date. No allowance for credit losses on securities was recorded as of December 31, 2023.

(Amounts in thousands, except as noted)

NOTE E –REPURCHASE AGREEMENT

Repurchase agreements were $50,000 and $0 at December 31, 2023 and 2022, respectively. The aggregate amount of maturities of repurchase agreements at December 31, 2023 are as follows:

	2023 Remaining Contractual Maturity of Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
Treasury Securities	$ -	$ 3,901	$ -	$ -	$ 3,901
Mortgage Backed Securities	-	41,506	-	-	41,506
Collateralized Mortgage Obligations	-	4,593	-	-	4,593
	$ -	$ 50,000	$ -	$ -	$ 50,000

NOTE F – DEPOSIT FOR FEDERAL SHARE INSURANCE

Each federally insured credit union is required to maintain with the National Credit Union Share Insurance Fund ("NCUSIF") a refundable deposit equal to one percent of insured members' shares. Deposits will be returned to the Credit Union if insurance coverage is terminated or obtained elsewhere, or the operation of the fund is transferred to another source. The ultimate refundability of the deposit depends on continued favorable experience of the NCUSIF. Adjustments in the amount of $(2,037) and $2,207 were refunded and paid to the fund in April 2023 and October 2023. These adjustments were based on total insured members' shares as of December 31, 2022 and June 30, 2023, respectively. Adjustments in the amount of $851 and $1,164 were paid to the fund in April 2022 and October 2022. These adjustments were based on total insured members' shares as of December 31, 2021 and June 30, 2022, respectively. Members' shares are insured by the NCUSIF to a maximum of $250 for each member.

Individual Retirement Accounts ("IRAs") and Keogh accounts each carry an additional $250 of coverage.

(Amounts in thousands, except as noted)

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Estimated Useful Life	December 31 2023	December 31 2022
Land		$ 4,442	$ 4,442
Land Improvements	10 Years	4,795	4,795
Building and improvements	3 - 50 Years	74,165	73,901
Furniture and equipment	3 - 10 Years	38,405	34,704
Data processing software	3 - 10 Years	32,787	32,050
		154,594	149,892
Less accumulated depreciation and amortization		82,101	74,075
		$ 72,493	$ 75,817

Depreciation and amortization charged to income was $8,733 and $8,864 for 2023 and 2022, respectively.

NOTE H – MEMBERS' SHARE ACCOUNTS

A summary of members' shares accounts is as follows:

	December 31 2023	December 31 2022
Regular shares	$ 1,476,800	$ 1,729,751
IRA shares	61,048	72,153
Money handler/checking shares	1,644,646	1,766,159
Vacation/Christmas shares	163,822	193,472
Share certificates	2,269,092	1,709,737
Escrow shares	17,308	16,343
Money market shares	1,789,321	1,759,910
	$ 7,422,037	$ 7,247,525

(Amounts in thousands, except as noted)

NOTE H – MEMBERS' SHARE ACCOUNTS – Continued

At December 31, 2023 and 2022, the Credit Union held the deposits of certain directors, officers and employees in the aggregate amount of $18,656 and $18,354, respectively. Related party deposits are held on the same terms as those prevailing at the time for comparable transactions with unrelated persons.

All eligible accounts are insured at least up to $250 each. The aggregate amount of uninsured members' shares including time deposits was $635,904 and $643,386 at December 31, 2023 and 2022, respectively.

The aggregate amount of maturities of share certificates and IRA shares at December 31, 2023, were as follows:

2024	$ 1,939,132
2025	175,929
2026	57,445
2027	75,782
2028	58,392
Thereafter	23,460
	$ 2,330,140

NOTE I – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Credit Union is a party to financial instruments with off-balance sheet risk in meeting the financing needs of its members. These financial instruments, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet, consist primarily of unused portions of unsecured personal lines of credit.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the amount of unused lines of credit which totaled $1,275,141 and $1,259,604 and the Credit Union's estimate of commitments to extend credit which totaled $117,985 and $91,642 as of December 31, 2023 and 2022, respectively.

These financial instruments are agreements to lend money to a member as long as there is no violation of any conditions established in the contract. Total on-balance sheet loans cannot exceed 90% of total members' shares, according to the limit, as defined by the Credit Union, and it reserves the right to discontinue advances on personal lines of credit. Therefore, the amount of unused lines of credit does not necessarily represent future cash requirements.

The Credit Union uses the same credit policies in extending lines of credit as it does for making on-balance sheet loans. The amount of collateral obtained by the Credit Union is based on the type of loan requested by the member. Collateral, when required, primarily consists of single-family residences and motor vehicles.

(Amounts in thousands, except as noted)

NOTE I – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK – Continued

The Credit Union's lending activity is with its members who primarily reside in Pennsylvania. The loan portfolio is otherwise well diversified, and the Credit Union does not have any significant concentrations of credit risk, except unsecured loans which, by their nature, increase the risk of loss compared to those loans which are collateralized.

The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on historical funding data derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in Note A. The allowance for credit losses for unfunded loan commitments of $2,351 at December 31, 2023, is recorded within other liabilities on the consolidated balance sheet.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023.

	Total ACL Unfunded Commitments
Balance at beginning of the year	$ -
Cumulative effect of change in accounting principle	1,678
Provision for unfunded commitments	673
	$ 2,351

NOTE J – AVAILABLE LINES OF CREDIT

Available lines of credit at December 31, 2023, are as follows:

Federal Reserve Bank, Discount Window	$ 964,303
Vizo Financial Corporate Credit Union	75,000
Wells Fargo Bank, Federal Funds Line of Credit	25,000
Federal Home Loan Bank	1,493,639
	$ 2,557,942

NOTE J – AVAILABLE LINES OF CREDIT - Continued

The Credit Union maintains a discount window relationship with the Federal Reserve Bank in Philadelphia. The Credit Union has a line of credit with the FHLB. Maximum borrowing capacity with the FHLB is determined based on eligible qualifying collateral which is comprised of security interest in mortgage and real estate equity loans. The Credit Union has uncommitted lines of credit with Vizo Financial Corporate Credit Union and Wells Fargo Bank. No collateral was pledged for any of the above lines of credit at December 31, 2023 and 2022.

The Credit Union had no borrowings under these agreements at December 31, 2023 and 2022.

NOTE K – BENEFIT PLANS

1. Defined Contribution Plans

During 2022, the money purchase plans were consolidated in the respective 401(k) retirement plans, therefore the 2022 money purchase plans contributions are reflected in total in the 401(k) plans contributions. The Credit Union has contributory 401(k) retirement plans for both bargaining unit and management employees. The Credit Union made matching contributions to the bargaining unit 401(k) plan of $1,928 and $1,339 in 2023 and 2022, respectively, and made matching contributions to the management 401(k) plan of $4,792 and $4,236 in 2023 and 2022, respectively.

2. Defined Benefit Plans

The Credit Union also has a defined benefit pension plan (“pension plan”) and a defined benefit postretirement plan (“postretirement plan”). The pension plan is for bargaining unit employees who elected to remain in the pension plan rather than transfer to the money purchase plan when it was established in 2001.

These employees are not eligible to participate in the bargaining unit money purchase plan, and they are not eligible for the employer matching contribution in the bargaining unit 401(k) plan. At December 31, 2023, there are 11 active employees in the plan and 30 total participants.

The pension plan benefit formulas generally base payments to retired employees upon the length of service and a percentage of qualifying compensation. Contributions are intended to provide not only for benefits attributed to service but also for those expected to be earned in the future.

The weighted-average target and actual asset allocations for the pension plan at December 31, 2023 and 2022, by asset category are as follows:

(Amounts in thousands, except as noted)

NOTE K – BENEFIT PLANS - Continued

		Actual	
	Target	**2023**	**2022**
Asset category			
Equity securities	**50%**	46.00%	45.00%
Debt securities	**42%**	45.00%	45.00%
Real estate	**8%**	9.00%	10.00%
		100.00%	100.00%

Equity securities consist primarily of large cap stocks and debt securities consist primarily of federal agency, federal treasury, mortgage-backed and corporate securities of established companies.

The Credit Union's noncontributory postretirement plan is for employees who reached age 50 as of December 31, 2008, the Credit Union provides medical benefits to retirees at age 55 with at least 25 years of service or at age 60 with at least 15 years of service. Retirees contribute 50% of the medical and prescription drug premiums and 100% of the dental and vision premiums. Employees are also eligible for health benefits at age 55 with at least five years of service but must contribute 100% of the premiums. Future retirees who had not yet reached age 50 as of December 31, 2008, and retire with at least age 55 and 25 years of service are eligible for benefits but must contribute 50% of the medical and prescription drug premiums and 100% of the dental and vision premiums. A plan change was adopted as of May 1, 2012, such that participation in the plan ends once a retiree (and/or spouse) becomes Medicare eligible.

The components of projected and accumulated benefit obligation for the pension plan and the postretirement plan, respectively, and accrued costs as of December 31, 2023 and 2022, are as follows:

	Pension Plan		Postretirement Plan	
	2023	**2022**	**2023**	**2022**
Change in projected/accumulated benefit obligation				
Benefit obligation at beginning of year	$ 5,441	$ 8,664	$ 5,821	$ 8,129
Service cost	23	43	353	530
Interest cost	280	216	274	201
Net (gain) loss	158	13	(238)	(578)
Change in plan assumptions	182	(1,845)	218	(2,187)
Benefits paid	(348)	(1,650)	(205)	(274)
Benefit obligation at end of year	$ 5,736	$ 5,441	$ 6,223	$ 5,821
Funded status at end of year	$ (1,326)	$ (1,667)	$ (6,223)	$ (5,821)

(Amounts in thousands, except as noted)

NOTE K – BENEFIT PLANS – Continued

The funded status for the pension plan and the postretirement plan, respectively, is included in other liabilities on the consolidated balance sheet.

The accumulated benefit obligation for the pension plan was $5,560 and $5,223 at December 31, 2023 and 2022, respectively.

The components of net periodic cost recognized in other comprehensive income at December 31, 2023 and 2022, were as follows:

	Pension Plan		Postretirement Plan	
	2023	**2022**	**2023**	**2022**
Service cost	$ 23	$ 43	$ 353	$ 530
Interest cost	280	216	274	201
Expected return on plan assets	(311)	(448)	-	-
Amortization of prior service costs	-	-	(1,009)	(1,009)
Amortization of net loss	141	207	64	222
Net periodic benefit cost	$ 133	$ 18	$ (318)	$ (56)

The components of net periodic benefit cost are included in the line item salaries and employee benefits in the Consolidated Statements of Comprehensive Income.

The balance in accumulated other comprehensive income at December 31, 2023 and 2022, were as follows:

	Pension Plan		Postretirement Plan	
	2023	**2022**	**2023**	**2022**
Beginning accumulated other comprehensive income (loss)	$ (882)	$ (1,866)	$ 4,111	$ 2,133
Amortization of prior service cost	-	-	(1,009)	(1,009)
Amortization of net gain or (loss)	141	207	64	222
Asset (gain) or loss	(157)	(1,055)	-	-
Change in experience	(157)	(13)	238	578
Change in assumptions	(182)	1,845	(218)	2,187
Total recognized in other comprehensive income	(355)	984	(925)	1,978
Ending accumulated other comprehensive income (loss)	$ (1,237)	$ (882)	$ 3,186	$ 4,111

(Amounts in thousands, except as noted)

NOTE K – BENEFIT PLANS – Continued

The weighted-average discount rate used to calculate benefit obligations for the pension plan was 4.73% in 2023 and 4.93% in 2022. The weighted-average discount rate used to calculate benefit obligations for the postretirement plan was 4.83% in 2023 and 5.02% in 2022.

The Credit Union utilized a health care inflation trend rate for the postretirement plan of 7.0% in 2023, 6.5% in 2024, and 6.0% in 2025-2026. Rates gradually decrease from 5.4% in 2028 to 4.0% in 2075 and later.

The impact of a one percentage point increase and a one percentage point decrease in the assumed health care cost trend rates for the postretirement plan would be as follows:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	$ 128	$ 103
Effect on total postretirement benefit obligation	927	774

Estimated future benefit payments for the pension and postretirement plans over the course of the next ten years, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Plan	Postretirement Plan
2024	$ 630	$ 229
2025	1,010	265
2026	611	316
2027	658	295
2028	683	301
Years 2029-2033	1,244	1,886

An estimated net loss of $132 and $74 for the pension and postretirement plan, respectively, and prior service cost of $1,009 for the postretirement plan is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year.

(Amounts in thousands, except as noted)

NOTE L – OTHER COMMITMENTS

The university eCenter leases also include other commitments for scholarships, marketing, and donations to the various universities.

The aggregate amount of future other commitments is as follows:

	Other Commitments
2024	$ 355
2025	355
2026	269
2027	190
2028	-
Thereafter	-
	$ 1,169

NOTE M – COLLECTIVE BARGAINING AGREEMENT

A collective bargaining agreement covers approximately 46% of the Credit Union's workforce. The agreement expired on April 30, 2022 and was renewed through April 30, 2025.

NOTE N – FAIR VALUE DISCLOSURE

The Credit Union measures certain assets and liabilities at fair value in accordance with GAAP. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. In some cases, the inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following is a description of the Credit Union's valuation methodologies for assets carried at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting dates.

Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. If quoted prices are not available, securities are classified in Level 2. The Credit Union utilized market pricing from a third party vendor for securities in Level 2. The methodology used in the pricing includes institutional bond quotes, which are evaluations based on various market and industry inputs or quoted prices for identical or similar assets in markets that are not active.

(Amounts in thousands, except as noted)

NOTE N – FAIR VALUE DISCLOSURE – Continued

Assets Measured at Fair Value on a Recurring Basis

The following tables present the financial instruments carried at fair value at December 31, 2023 and 2022, on the consolidated balance sheet by GAAP valuation hierarchy.

	2023			
	Level 1	Level 2	Level 3	Total
Agency residential mortgage backed securities	$ -	$ 183,428	$ -	$ 183,428
Agency collateralized mortgage obligations	-	146,119	-	146,119
Agency commercial mortgage backed securities	-	644,408	-	644,408
Non agency residential mortgage backed securities		20,588		20,588
Certificate of deposit	-	1,712	-	1,712
Government securities		549		549
Corporate bonds	-	65,522	-	65,522
Corporate subordinated debts	-	3,715	-	3,715
Available-for-sale investment securities	$ -	$ 1,066,041	$ -	$ 1,066,041
Equity securities	$ 25,422	$ -	$ -	$ 25,422

	2022			
	Level 1	Level 2	Level 3	Total
Agency residential mortgage backed securities	$ -	$ 172,564	$ -	$ 172,564
Agency collateralized mortgage obligations	-	167,236	-	167,236
Agency commercial mortgage backed securities	-	754,389	-	754,389
Non agency residential mortgage backed securities		23,091		23,091
Certificate of deposit	-	1,915	-	1,915
Government securities		288		288
Corporate bonds	-	46,508	-	46,508
Corporate subordinated debts	-	4,396	-	4,396
Available-for-sale investment securities	$ -	$ 1,170,387	$ -	$ 1,170,387
Equity securities	$ 21,395	$ -	$ -	$ 21,395

(Amounts in thousands, except as noted)

NOTE N – FAIR VALUE DISCLOSURE – Continued

The Credit Union also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date and adjusted for selling costs as appropriate. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria including discounting of appraisals based on age or changes in property or market conditions. Collateral values are also discounted for estimated selling costs. Estimated cash flows are discounted considering the loan rate and current market rates. Due to the significance of the Level 3 inputs, individually evaluated loans fair values have been classified as Level 3. Through December 31, 2022, the fair value of impaired loans is estimated primarily using discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments exceed the recorded investments in such loans. Impaired loans are categorized as Level 3 assets because the values are based on customized discounting criteria, if deemed necessary. The change in fair value of impaired loans is accounted for in the allowance for loan losses.

Prior to the adoption of ASC 326 on January 1, 2023, the Credit Union presented impaired loans at fair value on a nonrecurring basis. The following table summarizes the fair value as of December 31, 2023 and 2022:

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans	$ -	$	$ 3,980	$ 3,980

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans	$ -	$	$ 25,207	$ 25,207

NOTE O – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration (NCUA). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components and other factors.

Under the regulations, a credit union is considered complex when it has more than $500 million in assets. Complex credit unions are required to calculate a risk-based capital (RBC) ratio which establishes whether or not the Credit Union will be considered well-capitalized under the regulatory framework. The RBC ratio became effective for the Credit Union on January 1, 2022. The NCUA issued a final rule that defines the complex credit union leverage ratio (CCULR) framework and provides an option for qualifying federally-insured credit unions to meet their risk-based net worth requirement without calculating an RBC ratio. The final rule became effective on January 1, 2022 and is applicable to all credit unions with more than $500 million in total assets when certain qualifying criteria are met. The final rule was elected by the Credit Union. The CCULR ratio removes the requirement to calculate and report risk-based capital under section 702.104(a)-(c) and, instead, only requires a net worth ratio.

The minimum CCULR ratio is 9 percent. If the minimum ratio is met, credit unions adopting the framework are considered well-capitalized for prompt corrective action purposes. A qualifying complex credit union may opt into and out of the CCULR ratio framework at the end of each calendar quarter. The final rule allows for a two-quarter grace period to correct a ratio that falls below the required amount and allows for the reversion back to the risk-weighting framework without restriction.

Management believes, as of December 31, 2023 and 2022, the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the NCUA categorized the Credit Union as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, a credit union must maintain minimum net worth ratio(s), as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Credit Union's category.

(Amounts in thousands, except as noted)

NOTE O – CAPITAL REQUIREMENTS – Continued

The Credit Union is eligible for the CECL transition provisions under NCUA rule 702.703 in determining its net worth category. The CECL transitional amount is equal to the difference between the Credit Union's retained earnings as of the end of the fiscal year in which the Credit Union adopts CECL and the Credit Union's retained earnings as of the beginning of its next fiscal year. In determining the net worth category of a credit union, the NCUA shall increase retained earnings and total assets as reported on the call report by sixty-seven percent of its CECL transitional amount. The Credit Union's retained earnings and total assets was increased by $17,535 as of December 31, 2023.

The Credit Union's capital amounts and ratios as of December 31, 2023 and 2022 are as follows:

	Actual		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Net Worth	**Ratio**	**Net Worth**	**Ratio**
2023	$ 836,211	10.14%	$ 740,500	9.00%
2022	$ 837,273	10.37%	$ 564,968	9.00%

NOTE P – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through March 7, 2024, the date the consolidated financial statements were available to be issued. The Credit Union is not aware of any other subsequent events which require recognition or disclosure in the audited consolidated financial statements.