TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(With Independent Auditor's Report Thereon)

DoerenMayhew

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee and Board of Directors
Tinker Federal Credit Union and Subsidiary

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tinker Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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 Tinker Federal Credit Union and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a significant change to the methodology for estimating the allowance for credit losses on loans. Our opinion is not modified with respect to this matter.

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 Tinker Federal Credit Union and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, 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 Tinker Federal Credit Union and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are 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 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 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 Tinker Federal Credit Union and Subsidiary'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 Tinker Federal Credit Union and Subsidiary'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.

Doeren Mayhew

Troy, Michigan
March 14, 2024

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2023 AND 2022
(In Thousands)

Assets	2023	2022
Cash and cash equivalents	$ 626,365	$ 444,043
Investments (Note 2)		
Equity	5,185	3,969
Available-for-sale debt securities	1,465,348	1,559,747
Time deposits with other institutions	2,856	1,853
Other, at cost	13,389	17,636
Loans to members, net of allowance for credit losses of $48,867 and $16,171 at December 31, 2023 and 2022, respectively (Note 3)	3,649,127	3,804,486
Interest receivable	18,387	16,753
Property and equipment, net (Note 5)	81,847	84,202
National Credit Union Share Insurance Fund (NCUSIF) deposit	45,690	46,266
Other assets	53,944	53,149
Total assets	$ 5,962,138	$ 6,032,104
Liabilities and Members' Equity		
Liabilities		
Members' shares and savings accounts (Note 6)	$ 5,015,417	$ 5,140,799
Borrowed funds (Note 8)	275,000	300,000
Accrued expenses and other liabilities	38,979	37,876
Total liabilities	5,329,396	5,478,675
Commitments and contingent liabilities		
Members' equity		
Total retained earnings	743,290	700,086
Accumulated other comprehensive loss	(110,548)	(146,657)
Total members' equity	632,742	553,429
Total liabilities and members' equity	$ 5,962,138	$ 6,032,104

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
Interest income		
Interest on loans to members	$ 210,730	$ 174,678
Interest on investments and cash equivalents	60,862	30,096
Total interest income	271,592	204,774
Interest expense		
Dividends on members' shares	65,719	32,641
Interest on borrowed funds	11,828	1,512
Total interest expense	77,547	34,153
Net interest income	194,045	170,621
Provision for credit losses (Note 3)	22,479	13,275
Net interest income after provision for credit losses	171,566	157,346
Non-interest income (expense)		
Interchange income	33,288	33,276
Service charges and other fees	28,853	31,270
Other non-interest income	8,098	5,544
Net loss on sales of available-for-sale investments	-	(11,107)
Total non-interest income	70,239	58,984
Income before general and administrative expenses	241,805	216,330
General and administrative expenses		
Salaries and benefits	93,357	72,675
Office operations	67,646	63,723
Occupancy	7,373	6,733
Total general and administrative expenses	168,376	143,131
Net income	$ 73,429	$ 73,199

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
Net income	$ 73,429	$ 73,199
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale investments	36,087	(151,316)
Reclassification adjustment for realized loss included in income	-	11,107
Change in defined benefit plan gains (losses) and prior service costs	22	(15)
Other comprehensive income (loss)	36,109	(140,224)
Comprehensive income (loss)	$ 109,538	$ (67,025)

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	Regular Reserve	Undivided Earnings	Total Retained Earnings	Accumulated Other Comprehensive Income/(Loss)
Balance, January 1, 2022	$ 36,343	$ 590,544	$ 626,887	$ (6,433)
Net income	-	73,199	73,199	-
Other comprehensive loss	-	-	-	(140,224)
Balance, December 31, 2022	36,343	663,743	700,086	(146,657)
ASC 326 implementation (Note 9)	-	(30,225)	(30,225)	-
Balance, January 1, 2023, restated	36,343	633,518	669,861	(146,657)
Net income	-	73,429	73,429	-
Transfer (Note 1)	(36,343)	36,343	-	-
Other comprehensive income	-	-	-	36,109
Balance, December 31, 2023	$ -	$ 743,290	$ 743,290	$ (110,548)

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
Cash flows from operating activities		
Net income	$ 73,429	$ 73,199
Items not requiring (providing) cash		
Provision for credit losses	22,479	13,275
Depreciation and amortization	7,124	6,788
Net amortization of premiums/discounts on investments	11,693	15,706
Net (gain) loss in fair value of equities	(1,216)	438
Net loss on sales of available-for-sale investments	-	11,107
Net loss on disposal of property and equipment	13	4
Net gain on sales of mortgage loans	(216)	(238)
Decrease/(increase) in assets		
Interest receivable	(1,634)	(2,407)
Other assets	(773)	1,463
Increase/(decrease) in liabilities		
Accrued expenses and other liabilities	1,103	4,389
Net cash provided by operating activities	112,002	123,725

See accompanying notes to consolidated financial statements

TINKER FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
Cash flows from investing activities		
Purchase of available-for-sale investments	$ -	$ (352,554)
Proceeds from maturities of available-for-sale investments	29,063	22,495
Proceeds from paydowns of available-for-sale investments	89,730	187,492
Proceeds from calls/sales of available-for-sale investments	-	268,891
Change in time deposits with other institutions	(1,003)	(1,752)
Transfer of trading securities	-	1,466
Change in other investments	4,247	(13,414)
Net change in loans to members	102,871	(352,550)
Investment in NCUSIF deposit	576	(1,875)
Purchase of property and equipment	(4,782)	(5,503)
Net cash provided by (used in) investing activities	220,702	(247,304)
Cash flows from financing activities		
Decrease in members' shares	(125,382)	(122,210)
Proceeds received from borrowed funds	75,000	300,000
Repayment of borrowed funds	(100,000)	-
Net cash (used in) provided by financing activities	(150,382)	177,790
Increase in cash and cash equivalents	182,322	54,211
Cash and cash equivalents, beginning of year	444,043	389,833
Cash and cash equivalents, end of year	$ 626,365	$ 444,043

Supplemental Cash Flows Information

	2023	2022
Interest and dividends paid	$ 77,547	$ 34,153
Adjustment to allowance for credit losses arising from change in accounting principle	$ 30,225	$ -
Assets acquired in settlement of debt	$ 4,002	$ 4,075
Purchase of cash and cash alternatives in equities	$ -	$ 284
Principal reductions from available-for-sale investments not yet received	$ 607	$ 616

See accompanying notes to consolidated financial statements

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Operations

Tinker Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's charter and bylaws.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Tinker Financial Services, LLC. The subsidiary is engaged primarily in insurance and financial service activities. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting and Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses (allowance) and fair values of financial instruments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and non-term share deposits in a corporate credit union. The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents. For purposes of reporting cash flows, loans to members, equity and other investments and members' shares are reported net.

At December 31, 2023, the Credit Union's cash accounts exceeded federally insured limits by approximately $54,000. For purposes of evaluating credit risk, the stability of the financial institutions conducting business with the Credit Union is periodically reviewed.

Restriction on Cash and Cash Equivalents

The Credit Union may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. No reserve was required by the Federal Reserve Bank at December 31, 2023 or 2022.

Investments

Management determines the appropriate classification of investments at the time of purchase. Investments the Credit Union intends to buy and sell for the purpose of taking advantage of market conditions are classified as equities and are carried at fair value. Gains and losses on investments classified as equities have been accounted for within the accompanying consolidated statements of income. Investments the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale investments are determined using the specific-identification method.

Purchase discounts and purchase premiums for debt securities without a call feature are recognized in interest income using the interest method over the terms of the securities. Purchase premiums on debt securities with a call feature are amortized and recognized in interest income to the earliest call date. The Credit Union held 5 and 7 debt securities with a call feature as of December 31, 2023 and 2022, respectively.

Time deposits with other institutions are carried at cost.

Other investments are classified separately and are stated at cost. Investments in membership shares of Federal Home Loan Bank of Topeka (FHLB) stock, Payment Systems for Credit Unions (PSCU) stock, Credit Union Service Centers, Inc. (CUSC) stock, Catalyst Corporate Federal Credit Union membership capital account and Credit Union House, LLC (CU House) stock are required to execute transactions with these organizations and are carried at cost.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB system, is required to maintain an investment in capital stock of FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from FHLB. No ready market exists for the FHLB stock and it has no quoted market value. The required investment in the common stock is carried at cost and evaluated for impairment.

Loans to Members

Loans are stated at the amount of unpaid principal, reduced by an allowance and increased by deferred net loan origination costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income over the expected life of the loan.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

Accrual of interest on loans is discontinued when management believes after considering economics, business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, which was $462 and $1,648 at December 31, 2023 and 2022, respectively. All sales are made without recourse. Gains and losses from sales of mortgage loans are recognized upon delivery to the investor. Loans held for sale are included in loans to members in the accompanying consolidated statements of financial condition.

Adoption of New Accounting Standards

Effective January 1, 2023, the Credit Union adopted Accounting Standards Update (ASU) 2022-02 "Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings (TDR) and Vintage Disclosures," which removed the existing measurement and disclosure requirements for TDR loans and added additional disclosure requirements related to modifications provided to borrowers experiencing financial difficulty. Prior to adoption of a change in contractual terms of a loan where a borrower was experiencing financial difficulty and received a concession not available through other sources, the loan was required to be disclosed as a TDR, whereas now a borrower that is experiencing financial difficulty and receives a modification in the form of principal forgiveness, interest rate reduction, an other-than-insignificant payment delay or a term extension in the current period needs to be disclosed as collateral-dependent. The Credit Union may modify loans to borrowers experiencing financial difficulty as a way of managing risk and mitigating credit loss from the borrower. The Credit Union may make various types of modifications and may in certain circumstances use a combination of modification types in order to mitigate future loss. The amount of defined modifications given to borrowers experiencing financial difficulty was deemed insignificant and intentionally omitted for disclosure purposes as of and for the year ended December 31, 2023.

The Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a change to the methodology for estimating the allowance. ASU No. 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the Current Expected Credit Losses (CECL) methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet exposures. The Credit Union adopted Accounting Standards Codification (ASC) Topic 326 using the modified retrospective method for all financial assets in scope of the standard. Upon adoption, the Credit Union recorded an increase to the allowance of approximately $30,225 and a corresponding decrease to retained earnings of the same amount.

Continued

Allowance for Credit Losses

The allowance is increased by a provision for credit losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance when management believes collectability of the principal is unlikely. Management estimates the allowance by utilizing models dependent upon loan risk characteristics and economic parameters. Consumer loan risk characteristics include but are not limited to collateral type, LTV and delinquency status. Commercial loan risk characteristics include but are not limited to risk ratings, collateral type and maturity type. The economic parameters are developed using available information relating to past events, current conditions and reasonable and supportable forecasts.

The Credit Union does not assign risk ratings or grades to individual loans. The Credit Union evaluates its allowance methodology on an ongoing basis.

The allowance is a material estimate that is particularly susceptible to significant changes. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions. The Credit Union is subject to periodic examinations by regulatory authorities. As an integral part of those examinations, the regulatory authorities review the Credit Union's allowance. Such agencies may require the Credit Union to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Past due credits are monitored at least monthly, and potentially more frequently, if specific circumstances warrant concerning collectability and potential charge-off. Unsecured loans are generally charged-off at 150 days past due. Mortgage loans, other collateral secured loans and credit card relationships are generally charged-off at 180 days past due. During ongoing collateral and financial reviews of delinquent loans information gained may lead to exceptions to stated timelines. The maximum delinquency permitted for charge-off exceptions for consumer secured loans is 270 days. Commercial loans are changed to non-accrual status at 90-days past due and are to be charged off when full recovery is doubtful.

The Credit Union has elected to exclude accrued interest receivable from the measurement of its allowance given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest through interest income.

As of December 31, 2023, the allowance totaled approximately $48,867, up approximately $32,696 compared to December 31, 2022. The day one impact of the adoption of CECL was an increase of approximately $30,225 to the allowance. The remaining net increase of approximately $2,471 was driven by changes in the macroeconomic forecasts, specifically the inflationary pressures leading to sharp increases in interest rates and a slow-down of prepayment activity leading to longer weighted average lives on the consolidated statements of financial condition. In addition, the increase reflects unfavorable market conditions in the used auto market as values have gone down driving up losses upon default.

Continued

Mortgage Servicing Rights

The Credit Union records servicing rights for mortgage loans serviced for others. These servicing rights are included in other assets in the accompanying consolidated statements of financial condition. The servicing rights are initially recorded at fair value as assets and are subsequently amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage servicing rights is assessed annually based on the estimated fair value of those servicing rights. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is a component of office operations expense on the consolidated statements of income. Residential mortgage loans serviced for others are subject to credit, prepayment and interest rate risks.

Property and Equipment

Land is carried at cost. Buildings, leasehold improvements and furniture and equipment are carried at cost less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of 39 years for buildings and 3 to 10 years for furniture and equipment. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

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

Members' Shares

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Members' shares are classified as liabilities as required by GAAP. However, the Federal Credit Union Act states that member deposit accounts represent ownership of a credit union, and should therefore, be classified as equity. Management concurs with the equity classification but has chosen to classify such member deposit accounts as liabilities since failure to do so would result in a departure from GAAP.

Continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Credit Union - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participation interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial assets, (2) from the date of transfer, all cash flows received, except any cash flows allocated as compensation or servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Revenue from Contracts with Customers

The Credit Union's revenue from contracts with customers in the scope of ASC 606, Revenue from Contracts with Customers, is recognized and disaggregated within non-interest income (expense) in the consolidated statements of income. A description of the Credit Union's revenue streams accounted for under ASC 606 are as follows.

Fees and Charges

Fees and service charges include charges related to depository accounts under standard service agreements (e.g., courtesy pay fees, insufficient funds charges, late fees, etc.). Transaction-based fees are recognized at the time of transaction which is the point in time the Credit Union fulfills the member's request. Other account maintenance fees are generally earned over the course of month which is the period the Credit Union satisfies it performance obligation.

Interchange Income

Interchange income includes interchange fees from credit and debit cards processed through card association networks. The Credit Union earns a percentage of the underlying value of each transaction. These fees are recognized daily when the processing service is provided to the member. The costs of related loyalty rewards programs are presented desperately in general and administrative expenses.

Regular Reserves

The Credit Union was required to maintain a statutory reserve (regular reserve) in accordance with the NCUA Statutes. This statutory reserve represented a regulatory restriction and was not available for the payment of interest. The regular reserve requirement was eliminated by NCUA on January 1, 2022. The balance of $36,343 was transferred to undivided earnings during the year ended December 31, 2022.

Continued

Income Taxes

The Credit Union is exempt, by statute Internal Revenue Code Section 501(c)(14), from federal and state income taxes.

Defined Contribution Plan

The Credit Union has a qualified, noncontributory defined contribution target benefit plan covering substantially all of its employees. The Credit Union's policy is to fund the minimum amount required under the *Employee Retirement Income Security Act of 1974*.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Accounting principles generally require recognized revenues, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as other comprehensive income (loss), which is a separate component of the members' equity section of the accompanying consolidated statements of financial condition. Other comprehensive income (loss) includes unrealized losses on available-for-sale investments, reclassification adjustment of realized (gains) losses included in income and change in defined benefit plan gains and losses and prior service costs.

Subsequent Events

Subsequent events have been evaluated through March 14, 2024, which is the date the consolidated financial statements were available to be issued.

Note 2 – Investments

The estimated fair values of equities were $5,185 and $3,969 at December 31, 2023 and 2022, respectively.

Realized gains (losses) on equity investments were $1,216 and ($438) during 2023 and 2022, respectively. These gains are included in other non-interest income in the accompanying consolidated statements of income.

Continued

(In Thousands)

	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 419,507	$ 26	$ (32,367)	$ 387,166
Mortgage-backed securities	984,413	106	(68,543)	915,976
Corporate bonds	21,160	-	(590)	20,570
Obligations of state and political subdivisions	150,721	-	(9,085)	141,636
	$ 1,575,801	$ 132	$ (110,585)	$ 1,465,348

	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 420,183	$ 59	$ (43,928)	$ 376,314
Mortgage-backed securities	1,088,311	-	(87,675)	1,000,636
Corporate bonds	25,079	-	(845)	24,234
Obligations of state and political subdivisions	172,714	-	(14,151)	158,563
	$ 1,706,287	$ 59	$ (146,599)	$ 1,559,747

Available-for-sale mortgage-backed securities as of December 31, 2023 and 2022, consisted of residential securities issued by government-sponsored enterprises.

	Continuous Unrealized Losses Existing for					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023						
Available-for-sale						
U.S. government obligations and federal agencies securities	$ -	$ -	$ 382,158	$ (32,367)	$ 382,158	$ (32,367)
Mortgage-backed securities	-	-	915,976	(68,543)	915,976	(68,543)
Obligations of state and political subdivisions	2,907	(94)	138,729	(8,991)	141,636	(9,085)
Corporate bonds	-	-	20,570	(590)	20,570	(590)
Total temporarily impaired investments	$ 2,907	$ (94)	$ 1,457,433	$ (110,491)	$ 1,460,340	$ (110,585)

Continued

(In Thousands)

	Continuous Unrealized Losses Existing for					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
Available-for-sale						
U.S. government obligations and federal agencies securities	$ -	$ -	$ 371,276	$ (43,928)	$ 371,276	$ (43,928)
Mortgage-backed securities	406,971	(18,515)	593,665	(69,160)	1,000,636	(87,675)
Obligations of state and political subdivisions	103,223	(5,875)	55,340	(8,276)	158,563	(14,151)
	24,235	(845)	-	-	24,235	(845)
Total temporarily impaired investments	$ 534,429	$ (25,235)	$ 1,020,281	$ (121,364)	$ 1,554,710	$ (146,599)

There are a total of 337 and 352 investments with unrealized losses as of December 31, 2023 and 2022, respectively. Total fair value of these investments at December 31, 2023 and 2022, was $1,460,340 and $1,554,710, respectively, which is 99.7% of the Credit Union's available-for-sale investments. The Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

There were no sales of investments classified as available-for-sale during the year ended December 31, 2023. Proceeds from the sale of investments classified as available-for-sale were $268,891 during the year ended December 31, 2022. Gross gains of $5,809 resulting from sales of available-for-sale investments were realized during 2022. Gross losses of $16,917 resulting from sales of available-for-sale investments were realized during 2022.

The carrying value of investments pledged as collateral to secure advances was $1,465,348 and $1,561,585 at December 31, 2023 and 2022, respectively. Refer to Note 8 for additional information.

Time deposits with other institutions are generally non-negotiable and non-transferable and may incur substantial penalties for withdrawal prior to maturity.

Other investments, at cost, consisted of the following:

	2023	2022
Member capital account in a corporate credit union	$ 751	$ 751
Investment in FHLB stock	9,813	14,075
Investment in PSCU stock	1,947	1,928
Investment in CUSC stock	300	300
Investment in CU House stock	578	582
	$ 13,389	$ 17,636

Member capital account is an uninsured equity capital account that may only be redeemed with the approval of the NCUA.

Continued

(In Thousands)

Investments by maturity as of December 31, 2023, are summarized as follows:

	Available-for-Sale		
	Amortized Cost	Fair Value	Other, at Cost
No contractual maturity	$ -	$ -	$ 13,389
Less than 1-year maturity	11,820	11,731	-
1–5 years maturity	575,267	533,879	-
5–10 years maturity	4,301	3,762	-
Mortgage-backed securities	984,413	915,976	-
	$ 1,575,801	$ 1,465,348	$ 13,389

Expected maturities of mortgage-backed and other asset-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. The member capital account and investments in FHLB stock, PSCU stock, CUSC stock and CU House stock have been classified with no contractual maturities.

The Credit Union invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such change could materially affect the amounts reported in the accompanying consolidated statements of financial condition.

Continued

(In Thousands)

Note 3 – Loans to Members

Loans to members at December 31 consisted of the following:

	2023	2022
Real estate loans	$ 385,983	$ 337,122
Commercial loans	190,897	175,659
Consumer loans		
Direct vehicle loans	735,651	842,271
Indirect loans	1,726,768	1,847,844
Home equity loans	144,378	111,758
Other consumer loans, primarily unsecured	300,642	297,592
Government-guaranteed student loans	13,256	14,729
Loan participations	12,649	12,879
Credit card loans, unsecured	180,929	170,613
Gross loans	3,691,153	3,810,467
Deferred net loan origination costs	6,841	10,190
Allowance for credit losses	(48,867)	(16,171)
	$ 3,649,127	$ 3,804,486

The recorded balance of real estate and home equity loans pledged as collateral to secure the Credit Union's line of credit with FHLB was $542,238 and $344,381 at December 31, 2023 and 2022, respectively. Refer to Note 8 for additional information. The risk characteristics of each loan portfolio segment are as follows:

Real Estate

The real estate segment of the Credit Union's loan portfolio consists of conventional and Veterans Affairs (VA) mortgages secured by 1-4 family residences located in the state of Oklahoma, which are typically owner-occupied. Generally, all conventional and VA mortgage applications are processed as if they will be sold and are underwritten in accordance with Fannie Mae guidelines. Mortgage insurance is required on loans in which the loan-to-value exceeds 80%. Risk is mitigated by the Credit Union's underwriting guidelines and mortgage insurance requirements. Oklahoma's real estate property values have not experienced significant swings and historically, values have remained stable even during periods of economic decline.

Consumer

The short-term mortgage segment of the portfolio is comprised of closed-end equity mortgage loans and home equity lines of credit secured by a first or second lien on 1-4 family residences, which are typically owner-occupied. Vehicle loans are secured by assets, such as vehicles, motorcycles, recreational vehicles, and watercraft funded through a direct branch. Indirect loans are secured by assets, such as vehicles, motorcycles, recreational vehicles, and watercraft funded through an indirect dealer, which contain recourse provisions in accordance with the Credit Union's Motor Vehicle Retail Finance Agreement. The other secured segment contains some loans secured by chattel collateral, deposits, and unsecured loans. Payday loans and courtesy pay loans are unsecured. Repayment is dependent on personal income of the borrower(s), which can be impacted by economic conditions. Risk is mitigated by the Credit Union's underwriting guidelines, the collateral pledged as security and the fact that the unsecured loans are typically smaller loan amounts.

Commercial

The commercial loan segment of the Credit Union's portfolio primarily consists of commercial real estate loans, commercial real estate and 1-4 family RE secured construction loans, 1-4 family investment loans and commercial and industrial loans. Other loan types such as commercial equipment & capital asset loans, commercial working capital lines of credits, loan secured by farmland and development loans make up the remaining portfolio. Repayment methods vary and are dependent on the type of loan and business. Risk is mitigated by the commercial underwriting guidelines, the assessment of all guarantors, Cash-flow analysis, risk ratings and in some cases guarantees from USDA/SBA.

Credit Card

The credit card segment of the portfolio is generally unsecured credit lines. A relatively small portion of the segment is credit lines secured by deposits.

Repayment is dependent on personal income of the borrower(s), which can be impacted by economic conditions. Risk is mitigated by the Credit Union's underwriting guidelines.

Government-Guaranteed Student Loans

The student loan segment of the portfolio is comprised of Federal Stafford and Federal Plus loans funded under the Federal Family Education Loan Program (FFELP) and are federally guaranteed. The Credit Union has not participated in the FFELP since 2009; thus, no additional loans are being funded in this segment.

Continued

(In Thousands)

Non-Accrual Loans

The following table presents the Credit Union's non-accrual loans:

	2023	2022
Real estate loans	$ 299	$ 523
Commercial loans	8,717	-
Consumer loans		
Direct vehicle loans	3,202	1,623
Indirect loans	7,057	5,171
Other consumer loans, primarily unsecured	1,972	1,954
Credit card loans, unsecured	1,730	1,749
	$ 22,977	$ 11,020

Allowance for Credit Losses

The following presents by loan portfolio segment the activity in the allowance for the years ended December 31:

	Real Estate Loans	Commercial Loans	Consumer Loans	Credit Card Loans	Unallocated	Total
2023						
Balance, beginning of year	$ 93	$ -	$ 8,728	$ 4,007	$ 3,343	$ 16,171
Impact of adopting ASC 326	42	112	29,966	2,125	-	32,245
Balance, restated beginning of year	135	112	38,694	6,132	3,343	48,416
Provision for credit losses	3,267	3,269	10,550	5,314	-	22,400
Losses charged off	(207)	(4)	(27,952)	(6,320)	-	(34,483)
Recoveries	-	-	11,107	1,427	-	12,534
Balance, end of year	$ 3,195	$ 3,377	$ 32,399	$ 6,553	$ 3,343	$ 48,867

As of December 31, 2022, the Credit Union's allowance for unfunded lending commitments had a zero balance. As a result of the adoption and implementation of CECL on January 1, 2023, a liability, referred to as the allowance for unfunded lending commitments, in the amount of approximately $1,216 was recorded through a reduction to undivided earnings. During the year ended December 31, 2023, the aggregation of adjustments to the allowance for unfunded lending commitments resulted in a net increase in the balance. This increase or provision for credit losses was approximately $79 for the year ended December 31, 2023. The ending balance of the allowance for unfunded lending commitments as of December 31, 2023, was approximately $1,295 and is reported as a component of other liabilities in the consolidated statement of financial condition.

Continued

(In Thousands)

	Real Estate Loans	Commercial Loans	Consumer Loans	Credit Card Loans	Unallocated	Total
2022						
Balance, beginning of year	$ 59	$ -	$ 10,505	$ 3,906	$ 3,726	$ 18,196
Provision for credit losses	90	-	10,266	3,302	(383)	13,275
Losses charged off	(56)	-	(22,336)	(4,538)	-	(26,930)
Recoveries	-	-	10,293	1,337	-	11,630
Balance, end of year	$ 93	$ -	$ 8,728	$ 4,007	$ 3,343	$ 16,171

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Under GAAP, the unallocated portion of the allowance should be recaptured through income; however, the Credit Union believes that the unallocated portion is necessary to account for any margin of error resulting from the allowance calculation.

The following table presents the Credit Union's loan portfolio aging analysis as of December 31:

	15–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans >90 Days and Accruing
2023							
Real estate loans	$ 1,734	$ -	$ 299	$ 2,033	$ 383,950	$ 385,983	$ -
Commercial loans	3,751	1,435	8,717	13,903	176,994	190,897	-
Consumer loans	63,047	7,333	12,231	82,611	2,824,828	2,907,439	-
Government-guaranteed student loans	-	398	1,279	1,677	11,579	13,256	1,279
Loan participations	-	-	-	-	12,649	12,649	-
Credit card loans	1,437	895	1,730	4,062	176,867	180,929	-
Total	$ 69,969	$ 10,061	$ 24,256	$ 104,286	$ 3,586,867	$ 3,691,153	$ 1,279

	15–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans >90 Days and Accruing
2022							
Real estate loans	$ 176	$ 6	$ 523	$ 705	$ 336,417	$ 337,122	$ -
Commercial loans	24	-	-	24	175,635	175,659	-
Consumer loans	63,842	6,519	8,748	79,109	3,020,356	3,099,465	-
Government-guaranteed student loans	-	393	1,744	2,137	12,592	14,729	1,744
Loan participations	-	-	-	-	12,879	12,879	-
Credit card loans	-	903	1,749	2,652	167,961	170,613	-
Total	$ 64,042	$ 7,821	$ 12,764	$ 84,627	$ 3,725,840	$ 3,810,467	$ 1,744

Government-guaranteed student loans greater than 90 days past due continue to accrue interest in accordance with contractual terms of the loan agreement and are not considered to be impaired and are not classified as non-accrual loans.

Continued

(In Thousands)

Loan Modifications

Restructured loans are considered to be modified loans. A modification occurs when a creditor grants a modification of terms to the debtor and the debtor is having financial difficulties. The modification of terms of such loans includes one or a combination of the following: an extension of maturity, a reduction of the stated interest rate, or a permanent reduction of the recorded investment in the loan. Loan modifications were not material for disclosure as of December 31, 2023. The following table presents the recorded balances of loan modifications by class of loans as of December 31, 2022:

	2022
Real estate loans	$ 10
Consumer loans	
Direct vehicle loans	396
Indirect loans	366
Other consumer loans, primarily unsecured	43
Total	$ 815

The following tables present the activity for loan modifications occurring during the year ended December 31, 2022:

	Number of Loans	Pre-Modification Balance	Post-Modification Balance
2022			
Interest rate modifications			
Consumer loans			
Direct vehicle loans	4	$ 81,173	$ 81,173
Indirect loans	1	19,042	19,042
Interest rate modifications and balance reductions			
Consumer loans			
Indirect loans	1	30,368	25,515
Interest rate modifications and term extensions			
Consumer loans			
Direct vehicle loans	8	96,342	96,342
Indirect loans	3	49,199	49,199
Other consumer loans, primarily unsecured	1	14,593	14,593
Total restructured loans	18	$ 290,717	$ 285,864

Continued

(In Thousands)

Note 4 – Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others at December 31, 2023 and 2022 were approximately $218,077 and $256,045, respectively.

The following summarizes the activity pertaining to mortgage servicing rights measured using the amortization method:

	2023	2022
Carrying amount, beginning of year	$ 1,737	$ 2,132
Additions	102	116
Amortization	(468)	(511)
Carrying amount, end of year	$ 1,371	$ 1,737

At December 31, 2023 and 2022, no allowance for impairment of the Credit Union's mortgage servicing rights was necessary as carrying value approximated fair value. Mortgage servicing rights are included in other assets in the accompanying consolidated statements of financial condition.

Fees earned for servicing mortgage loans for others were $569 and $621 for the years ended December 31, 2023 and 2022, respectively. Additions to mortgage servicing rights are included in net gain on sales of mortgage loans in the accompanying consolidated statements of income.

Note 5 – Property and Equipment

Property and equipment at December 31 are summarized as follows:

	2023	2022
Land	$ 15,820	$ 15,820
Buildings	92,568	92,216
Leasehold improvements	4,049	4,049
Furniture and equipment	68,861	65,322
	181,298	177,407
Accumulated depreciation and amortization	(99,451)	(93,205)
Net book value	$ 81,847	$ 84,202

Depreciation expense on property and equipment was $7,124 and $6,788 during the years ended December 31, 2023 and 2022, respectively.

Continued

(In Thousands)

Note 6 – Members' Shares

Members' shares at December 31 are summarized as follows:

	2023	2022
Regular shares	$ 1,009,694	$ 1,087,518
Share draft accounts	1,069,642	1,091,094
Money market accounts	1,656,142	1,971,265
Individual retirement accounts	60,285	66,647
Share certificates	1,219,654	924,275
Total	$ 5,015,417	$ 5,140,799

Share certificates by maturity as of December 31, 2023 are summarized as follows:

0–1 year	$ 937,405
1–2 years	241,117
2–3 years	25,847
3–4 years	13,946
4–5 years	1,339
Total	$ 1,219,654

Regular shares, share draft accounts, money market accounts and individual retirement accounts have no contractual maturity. Share certificates have maturities of four years or less. The aggregate amount of certificates in denominations of $250 or more at December 31, 2023 and 2022, was $200,044 and $128,872, respectively.

At December 31, 2023 and 2022, overdraft demand shares reclassified to loans were $2,228 and $2,194, respectively.

Continued

(In Thousands)

Note 7 – Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in members' equity, are as follows:

	Unrealized Gain (Loss) on Available-for-Sale Investments	Defined Benefit Plan	Total
Balance - January 1, 2022	$ (6,331)	$ (102)	$ (6,433)
Other comprehensive loss	(151,316)	(15)	(151,331)
Amounts reclassified to income statement	11,107	-	11,107
Balance - December 31, 2022	(146,540)	(117)	(146,657)
Other comprehensive income	36,087	22	36,109
Balance - December 31, 2023	$ (110,453)	$ (95)	$ (110,548)

Note 8 – Borrowings

The Credit Union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all investments as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of $61.8 million with interest charged at a rate determined by the lender on a periodic basis. There are no outstanding borrowings under this agreement at December 31, 2023 and 2022. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also has a line of credit available with FHLB with the capacity to borrow up to a certain percentage of its eligible mortgage loans, as defined in the FHLB Statement of Credit Policy. At December 31, 2023 and 2022, the Credit Union pledged approximately $300 million, for both years in mortgage loans with the FHLB. The Credit Union's borrowing capacity was $551 million and $344 million at December 31, 2023 and 2022, respectively. As of December 31, 2023, there was $200 million borrowings outstanding under this agreement. As of December 31, 2022, there was $300 million borrowings outstanding under this agreement.

During the year ended December 31, 2023, the Credit Union has entered into a Bank Term Funding Program Agreement with the Federal Reserve Bank. Under the terms of the agreement, the Credit Union has access to a line of credit with the capacity to borrow up to a certain percentage of its qualified collateral, as defined in the Bank Term Funding Program Agreement. Total credit availability, based on the assets pledged as of December 31, 2023 was $214,000. The advance under the agreement aggregated to $75,000 as of December 31, 2023 and mature within one year. The advance has a fixed rate of interest and weighted-average rate of borrowing was 4.70% as of December 31, 2023.

Continued

(In Thousands)

Note 9 – Members' Equity

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

Effective January 1, 2022, federally insured, natural-person credit unions defined as "complex" must comply with the NCUA's risk-based capital (RBC) final rule which amends NCUA's PCA regulations, part 702, or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as "complex" if the credit union's quarter-end total assets exceed $500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA's current regulations to establish an RBC ratio measure that is the percentage of a credit union's capital divided by the credit union's defined risk weighted asset base. This RBC rule more closely aligns NCUA's risk weights with those assigned by other banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for "well capitalized" credit unions, and an 8 percent RBC ratio level for "adequately capitalized" credit unions.

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule are required to have a minimum 9 percent leverage ratio. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA's PCA regulations, part 702. Management has selected CCULR for calculating its RBC as of December 31, 2023 and 2022.

As of December 31, 2023, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the regulatory framework for PCA. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth and ratios are as follows:

	As of December 31, 2023		As of December 31, 2022	
	Amount	Ratio Requirement	Amount	Ratio Requirement
Actual net worth	$ 743,290	12.47%	$ 700,086	11.61%
Amount needed to be classified as "well capitalized"	$ 536,592	9.00%	$ 542,889	9.00%

Continued

In performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation. As of December 31, 2023, total assets and net worth were increased by 67% of CECL transition provision amount of $20,150 as required by regulation.

Note 10 – Employee Benefits

401(k) Plan

The Credit Union and its subsidiary allow their employees to participate in a contributory 401(k) retirement plan (the 401(k) Plan). All employees who have completed 30 days of service and agree to make contributions are eligible for the 401(k) Plan. The Credit Union matches employee contributions up to 5% of employees' annual salaries after one year of service. The Credit Union's contributions were $2,299 and $1,786 during 2023 and 2022, respectively, and are included in salaries and benefits in the accompanying consolidated statements of income.

Target Benefit Plan

The Credit Union has a target benefit plan (the Target Plan) for all eligible employees. Under the Target Plan, the Credit Union will contribute an amount on behalf of each employee, such that the accumulated contribution and related earnings will approximate a target percentage of the employee's annual salary at retirement. Annual contributions of $1,167 and $1,155 were accrued at December 31, 2023 and 2022, respectively, and are included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition.

Collateral Assigned Split Dollar Plan

The Credit Union has entered into collateral assignment split dollar life insurance arrangements with certain credit union executives as part of an executive benefit program. Loan benefits were established and the proceeds were used to fund premium payments for the purchase of the executives' life insurance policies. The Credit Union has made loans of approximately $3,900 related to the arrangements. The notes receivable require repayment to the Credit Union upon the death of the executives (and/or spouse) as specified in the policy. In accordance with Internal Revenue Service regulations, interest on the notes receivable is fixed and charged at the long-term applicable federal rate commencing on the date of execution.

The notes receivable proceeds are maintained in premium deposit accounts at the insurance carrier. These accounts are owned by the executives and have been assigned to the Credit Union as collateral for the notes receivable. Premiums are swept from the premium deposit accounts on an annual basis. The Credit Union records the lower of the outstanding loan balances or the policy surrender value and premium deposit accounts as of the reporting date. The balance of the policy surrender value and the premium deposit accounts was $3,802 and $3,922 as of December 31, 2023 and 2022, respectively, and is included in other assets in the accompanying consolidated statements of financial condition.

Continued

Deferred Compensation Plan

The Credit Union has entered into deferred compensation agreements with certain current members of the executive management team that accrue benefits payable to these employees during the time of employment by the Credit Union. The benefits are subject to forfeiture if the employee willfully leaves employment or employment is terminated for cause, as defined in the agreement. Benefits are payable upon retirement or at the end of certain vesting requirements. The estimated liability under the agreements is being accrued based on the earnings of established annuities. The accrued liability at December 31, 2023 and 2022, was $1,036 and $938, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition.

Note 11 – Concentrations of Credit Risk

Credit Union Membership

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. Approximately one-third of the Credit Union's members are affiliated with Tinker Air Force Base. Included in the field of membership are employees of other military organizations and a large number of Select Employee Groups. A significant concentration of members resides in the Oklahoma City area. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the military organizations or the overall geographic region in which borrowers reside.

Note 12 – Fair Value Measurements

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

Continued

(In Thousands)

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023				
Equities				
Mutual funds	$ 5,185	$ 5,185	$ -	$ -
Available-for-sale investments				
U.S. government obligations and federal agencies securities	387,166	-	387,166	-
Mortgage-backed securities	915,976	-	915,976	-
Corporate bonds	20,570	-	20,570	-
Obligations of state and political subdivisions	141,636	-	141,636	-

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2022				
Equities				
Mutual funds	$ 3,969	$ 3,969	$ -	$ -
Available-for-sale investments				
U.S. government obligations and federal agencies securities	376,314	-	376,314	-
Mortgage-backed securities	1,000,636	-	1,000,636	-
Corporate bonds	24,234	-	24,234	-
Obligations of state and political subdivisions	158,563	-	158,563	-

Continued

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

There have been no significant changes in valuation techniques during 2023 or 2022.

Equities

Where quoted market prices are available in an active market, equities are classified within Level 1 of the valuation hierarchy. Level 1 equities include mutual funds, equity securities and debt securities.

Available-for-Sale Investments

Fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 available-for-sale investments include U.S. government obligations and federal agencies securities, mortgage-backed securities, corporate securities and obligations of state and political subdivisions. The values of these securities are determined through third-party vendors who compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities. Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark-quoted investment securities.