Report of Independent Auditors
and Consolidated Financial Statements

Bethpage Federal Credit Union and Subsidiaries

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors and Supervisory Committee
Bethpage Federal Credit Union and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bethpage Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) 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 Bethpage Federal Credit Union and Subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, Bethpage Federal Credit Union and Subsidiaries adopted new accounting guidance, Accounting Standards Codification Topic 842 *Leases.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bethpage Federal Credit Union and Subsidiaries' 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 Bethpage Federal Credit Union and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

Portland, Oregon
March 31, 2023

Consolidated Financial Statements

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Financial Condition
(dollars in thousands)
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 82,214	$ 67,141
Mutual fund, at fair value	1,000	340,004
Investments:		
Available-for-sale, at fair value	3,361,490	3,955,578
Other	45,346	53,585
Loans held for sale	3,706	118,003
Loans receivable, net	8,059,462	6,610,300
Accrued interest receivable	39,843	29,508
Servicing rights, net	34,050	35,130
Property and equipment, net	57,889	60,475
Goodwill	56,788	56,788
Other intangibles and core deposit	19,188	19,366
National Credit Union Share Insurance Fund deposit	94,090	88,452
Other assets	87,957	40,029
Total assets	$ 11,943,023	$ 11,474,359
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' shares	$ 10,573,003	$ 10,071,424
Borrowed funds	429,000	270,200
Accrued expenses and other liabilities	180,659	140,559
Total liabilities	11,182,662	10,482,183
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 9, and 10)		
MEMBERS' EQUITY		
Retained earnings	1,111,838	1,020,099
Equity acquired in merger	5,304	5,304
Accumulated other comprehensive loss	(356,781)	(33,227)
Total members' equity	760,361	992,176
Total liabilities and members' equity	$ 11,943,023	$ 11,474,359

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Income
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Interest and fees on loans receivable	$ 282,734	$ 227,184
Interest and dividends on mutual fund, investments, and cash equivalents	65,136	56,639
Total interest income	347,870	283,823
INTEREST EXPENSE		
Dividends on members' shares	82,826	48,909
Interest on borrowed funds	6,108	924
Total interest expense	88,934	49,833
Net interest income	258,936	233,990
PROVISION FOR (RECAPTURE OF) LOAN LOSSES	16,769	(14,320)
Net interest income after provision for (recapture of) loan losses	242,167	248,310
NON-INTEREST INCOME		
Members' shares service charges and other fees	24,188	29,584
Mortgage servicing and loan fees	15,589	16,185
Gain on sale of mortgage loans	8,758	53,348
Investment services and insurance fees – commissions	7,327	9,860
Other non-interest income	3,383	7,437
Total non-interest income	59,245	116,414
NON-INTEREST EXPENSES		
Salaries and benefits	78,336	80,788
Operations	63,991	48,504
Data processing	34,585	29,948
Occupancy	12,913	12,059
Education and promotional	12,506	10,591
Professional services	7,342	6,285
Total non-interest expenses	209,673	188,175
NET INCOME	$ 91,739	$ 176,549

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
NET INCOME	$ 91,739	$ 176,549
OTHER COMPREHENSIVE (LOSS) INCOME		
Investments available-for-sale:		
Net unrealized losses on securities available-for-sale arising during the period	(341,224)	(84,002)
Reclassification adjustment for realized gains from sales included in other non-interest income	-	(470)
Defined benefit pension plans:		
Net gain arising during the period	16,199	13,389
Reclassification adjustment for amortization of prior service cost and net losses included in salaries and benefits	1,471	5,212
Total other comprehensive loss	(323,554)	(65,871)
COMPREHENSIVE (LOSS) INCOME	$ (231,815)	$ 110,678

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Changes in Members' Equity
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	Retained Earnings				
	Undivided Earnings	Other Reserves	Total Retained Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive (Loss) Income
BALANCE, December 31, 2020	$ 822,166	$ 21,384	$ 843,550	$ 5,304	$ 32,644
Net income	176,549	-	176,549	-	
Other comprehensive loss	-	-	-	-	(65,871)
BALANCE, December 31, 2021	998,715	21,384	1,020,099	5,304	(33,227)
Transfer of reserves	21,384	(21,384)	-	-	-
Net income	91,739	-	91,739	-	-
Other comprehensive loss	-	-	-	-	(323,554)
BALANCE, December 31, 2022	$ 1,111,838	$ -	$ 1,111,838	$ 5,304	$ (356,781)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 91,739	$ 176,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	5,436	6,589
Impairment of mortgage servicing rights	-	94
Amortization of commercial servicing rights	1,627	1,809
Impairment of commercial servicing rights	28	140
Amortization of net premium on investments	66,834	58,454
Provision for (recapture of) loan losses	16,769	(14,320)
Gain on sales of investments available-for-sale	-	(470)
Gain on sales of mortgage loans	(8,758)	(53,348)
Mortgage loans originated for sale	(341,218)	(1,380,145)
Proceeds from sale of mortgage loans	460,485	1,462,620
Depreciation and amortization	6,165	6,369
Non cash lease expense	3,450	-
Repayment of operating lease liabilities	(1,794)	-
Amortization of core deposit intangible	178	178
Write down of foreclosed and repossessed assets	-	189
Gain on sales of foreclosed and repossessed assets	(725)	(92)
Increase in accrued interest receivable	(10,335)	(946)
(Increase) decrease in other assets	(10,007)	5,022
Increase (decrease) in accrued expenses and other liabilities	31,042	(28,463)
Net cash provided by operating activities	310,916	240,229
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of mutual fund	339,004	60,000
Purchases of investments available-for-sale	(587,516)	(1,648,183)
Proceeds from maturities of investments available-for-sale	759,343	655,612
Proceeds from sales of investments available-for-sale	-	46,384
Proceeds from sales of foreclosed and repossessed assets	2,389	693
Net decrease (increase) in other investments	8,239	(10,417)
Net increase in loans receivable	(1,468,464)	(353,630)
Increase in the National Credit Union Share Insurance Fund deposit	(5,638)	(7,181)
Purchases of property and equipment	(3,579)	(6,932)
Net cash used in investing activities	(956,222)	(1,263,654)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowed funds	$ 158,800	$ 130,000
Net increase in members' shares	501,579	887,343
Net cash provided by financing activities	660,379	1,017,343
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,073	(6,082)
CASH AND CASH EQUIVALENTS, beginning of year	67,141	73,223
CASH AND CASH EQUIVALENTS, end of year	$ 82,214	$ 67,141
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for		
Dividends on members' shares	$ 82,826	$ 48,972
Interest on borrowed funds	$ 6,015	$ 911
Schedule of noncash investment activities		
Transfer of loans receivable to foreclosed and repossessed assets	$ 2,533	$ 554
Security purchases settled in (current) subsequent period	$ (14,203)	$ 14,203
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ 42,725	$ -

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – Bethpage Federal Credit Union (the “Credit Union”) is a cooperative association holding an open charter under the provisions of the Federal Credit Union Act. The National Credit Union Administration (NCUA) is the regulatory agency that ensures the powers and privileges conferred on the Credit Union are used properly.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, Bethpage Management Services, LLC (“BMS”). BMS owns 100% of Bethpage Risk Management, LLC and Bethpage Commercial, LLC, and 51% of Land Bound Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Amounts included in the consolidated financial statements and related footnote disclosures are presented in thousands.

Use of estimates in the preparation of financial statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. 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.

The principal estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses, fair value of impaired loans, other-than-temporary impairment of investment securities, servicing rights, net realizable value of foreclosed and repossessed assets, fair value of derivatives and other financial instruments, impairment of goodwill and other intangibles and projected benefit obligations of defined benefit plans.

Acquisition accounting – Credit union business combinations are accounted for using the acquisition method of accounting pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*. Under the acquisition method of accounting, assets acquired, including identifiable intangibles, and liabilities assumed are recorded at the estimated fair value at the date of acquisition. Any difference in purchase consideration over the fair value of assets acquired and liabilities assumed results in the recognition of goodwill should purchase consideration exceed net estimated fair values, or bargain purchase gain, should estimated net fair values exceed purchase consideration. With credit union acquisitions, purchase consideration is often referred to as estimated fair value of equity acquired. Expenses incurred in connection with an acquisition are expensed as incurred.

Equity method investments – The Credit Union has certain investments which are accounted for under the equity method of accounting, whereby the Credit Union’s net investment is increased or decreased by allocated profits and losses, respectively. Additional investments increase the Credit Union’s investment while distributions decrease the Credit Union’s net investment. See Note 14.

Cash, cash equivalents, and cash flows – Cash and cash equivalents consist of cash on hand, demand deposits with other financial institutions, and overnight investments. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase. For purposes of reporting cash flows, loans receivable, other investments, members' shares and borrowed funds are reported net. Amounts due from financial institutions may exceed federally insured limits. At December 31, 2022 and 2021, there were approximately $8,363 and $8,079, respectively, in credit union and bank demand deposits with individual balances in excess of the insured limit.

Mutual fund – The Credit Union owns shares of a mutual fund invested in short term financial instruments. The shares are stated at fair value and changes in fair value are included in "Other non-interest income" in the Consolidated Statements of Income.

Investments – Investment securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive loss. Realized gains and losses on the sale of investments available-for-sale are determined using the specific identification method. Amortization of premiums and discounts, including fair value adjustments from business combinations, are recognized in interest income over the period to maturity.

Declines in the fair value of individual investments available-for-sale below their respective carrying value that are other than temporary will result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Federal Home Loan Bank stock – The Credit Union is a member of Federal Home Loan Bank of New York ("FHLBNY"). As a member of the FHLBNY, the Credit Union is required to acquire and hold shares of its capital stock. At December 31, 2022 and 2021, the Credit Union held FHLBNY stock with par value of $17,915 and $29,099, respectively.

No ready market exists for the FHLBNY stock, and it has no quoted market value. Therefore, the Credit Union's investment in FHLBNY stock is carried at cost and tested for impairment. At December 31, 2022 and 2021, management did not believe the stock was impaired.

Central Liquidity Facility stock – The Credit Union is a member of the Central Liquidity Facility (CLF), a mixed ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions. Member credit unions own the CLF which exists within the NCUA. Membership is voluntary and open to all credit unions that purchase a prescribed amount of CLF stock.

Stock in the CLF is classified as restricted stock and is periodically evaluated for impairment. The determination of whether the investment is impaired is based on the Credit Union's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the CLF as compared to the capital stock amount for the CLF and the length of time this situation has persisted, (2) commitments by the CLF to make payments required by law or regulation and the level of such payments in relation to the operating performance of the CLF, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the CLF, and (4) the liquidity position of the CLF.

As of December 31, 2022, the Credit Union held $26,677 of CLF capital stock. The remainder is held on call by the Credit Union in cash or investment securities. The amount of the capital stock subscription is adjusted at the close of each calendar year in accordance with the level of the unimpaired capital and surplus of the Credit Union over a period specified by regulation. The Credit Union may withdraw from membership six months after notifying the NCUA Board of its intention to do so if its subscription amount is less than five percent of required subscriptions outstanding, or 24 months after notification if its subscription amount is five percent or more of required subscriptions outstanding. Dividends are paid on the paid-in portion of the Credit Union's capital stock from available earnings of the CLF at rates determined by the NCUA Board.

Other investments – In order to utilize various service offerings, the Credit Union maintains a member capital account with a corporate credit union and the member capital account is an uninsured equity capital account with the corporate credit union. No ready market exists for the equity capital, and there is no quoted market value. The Credit Union's investment in the corporate credit union is carried at cost and tested for impairment. At December 31, 2022 and 2021, management did not believe the investment was impaired.

Loans held for sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Credit Union.

Acquired loans and leases – Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the acquisition date in accordance with FASB ASC Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, all acquired loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan and lease losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, prepayment speed and other relevant assumptions are periodically reassessed and the estimate of future payments is adjusted accordingly.

In the case of PCI loans, the difference between expected cash flows and the contractual cash flows from principal and interest is considered credit deterioration and is not accreted into income (nonaccretable difference). The difference between the expected cash flows from each loan and the recorded fair value is accreted into interest income over the life of each loan (accretable yield). Interest income recognition is discontinued on a loan if management determines sufficient uncertainty exists about the timing and amount of expected future cash flows. In such instances, all cash flows received are applied against the carrying value of the loan on a cost-recovery basis. Periodically, management reassesses the expected future cash flows for all PCI loans.

Increases in cash flows will cause increases in interest income over the remaining life of a loan. Cash flow declines will typically result in recognition of impairment of a loan through establishment of an allowance for loan and lease losses and charge to the provision for loan losses.

Acquired loans that are not PCI loans are referred to as purchased non-credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables – Nonrefundable Fees and Other Costs*, in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that the fair value of loans acquired and all contractual cash flows will be collected, and no allowance for loan and lease losses is established at the time of acquisition. Post-acquisition date, an allowance for loan and lease losses may need to be established for acquired loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the probable shortfall in relation to the contractual note requirements, consistent with the allowance for loan and lease loss methodology for similar loans.

Originated loans receivable, net of allowance for loan and lease losses and deferred net loan origination fees and costs – Loans are stated at the amount of unpaid principal, reduced by an allowance for loan and lease losses and adjusted by deferred net loan origination costs. Interest on loans receivable is recognized over the term of the loans and is calculated using the effective 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.

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.

The allowance for loan and lease losses is an estimate for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of all or part of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using, among other factors, past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Allocations to the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The Credit Union maintains its allowance for loan and lease losses in accordance with FASB ASC Topic 450, *Contingencies*, and FASB ASC 310, *Receivables*. Both statements require the Credit Union to evaluate the collectability of interest and principal loan payments. The accrual of a loss is required when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Impaired loans are measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral.

A loan is defined under FASB ASC 310 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the impairment provisions of FASB ASC 310, the Credit Union considers its investment in consumer loans to be homogeneous and therefore they are excluded from individual identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 450.

With respect to the Credit Union's investment in residential, commercial, and other loans, and its evaluation of impairment thereof, management believes such loans are collateral dependent and, as a result, impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

A troubled debt restructuring occurs when, due to a member's financial difficulty, the Credit Union grants a more than insignificant concession that it would not otherwise consider. The concession can take the form of an interest rate or principal reduction or an extension of payments of principal or interest, or a combination of concessions. As a result of these concessions, restructured loans are impaired as the Credit Union will not collect all amounts due, both principal and interest, in accordance with the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. The estimated value of the concession for these loans is included in the allowance for loan and lease loss estimate. Restructured loans performing in accordance with their new terms are not included in nonaccrual loans unless there is uncertainty as to the ultimate collection of principal or interest.

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in 2020 and amended by the Consolidated Appropriations Act in 2021, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). To be eligible for CARES Act exemptions, modifications of loans must be due to the direct financial effects of the Pandemic on the borrower, the modification granted between March 1, 2020 and the end of the applicable period (January 1, 2022, or 60 days after the COVID-19 national emergency is terminated), and the borrower was not more than 30 days past due as of December 31, 2019. As a result, the Credit Union has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Credit Union accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates.

For consumer and commercial loans, when payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. For residential mortgages, borrowers will pay scheduled principal and interest payments according to the loan amortization schedule with deferred principal and interest repaid in a balloon payment at original scheduled maturity. Accrued interest balances are assessed for collectability on a periodic basis.

The allowance for loan and lease losses is adjusted by a provision for loan losses recorded as an expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan and lease losses when management believes that collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated incurred losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. 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. Additionally, state and federal regulations, upon examination, may require the Credit Union to make additional provisions or adjustments to its allowance.

It is the Credit Union's policy to charge-off unsecured loans that are more than 150 days delinquent. Non-homogeneous collateral-dependent loans which are more than 90 days delinquent are considered to constitute more than a minimum delay in repayment and are individually evaluated for impairment under FASB ASC 310 at that time.

Accrued interest on loans – Interest is accrued as earned unless the collectability of the loan is in doubt. Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of principal and interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent or if the collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged off is 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 has returned to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

The Credit Union's policy is that loans placed on nonaccrual will typically remain on nonaccrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appear relatively certain. The Credit Union's policy for commercial troubled debt restructurings generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

Transfers and servicing of financial assets – FASB ASC 860, *Transfers and Servicing*, requires the Credit Union to recognize as a separate asset the right to service mortgage and commercial loans for others. An institution that acquires loan servicing rights through either the purchase or the origination of mortgage and commercial loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the servicing rights. Under FASB ASC 860, the Credit Union could elect to either amortize the servicing rights over the life of the loan or carry the servicing rights at fair value. Under both methodologies, the servicing rights would be tested for impairment. Management has elected to amortize the servicing rights in proportion to and over the period of estimated net servicing income.

Servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights are stratified by one or more predominant risk characteristics of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

The servicing rights for mortgage and commercial loans recorded by the Credit Union were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, interest rate, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic value of the pool, i.e., the net realizable present value to a potential acquirer of the servicing rights.

The valuation of servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management's assumptions regarding mortgage and commercial prepayment speeds, interest rates and servicing costs. Management also utilizes periodic third-party valuations by market professionals to evaluate the fair value of its capitalized servicing rights asset.

Property and equipment – Land is carried at cost. Buildings, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to compute depreciation and amortization are as follows:

Buildings	10 – 40 years
Furniture and equipment	3 – 15 years
Data processing	2 – 5 years
Automobiles	5 years

The cost of leasehold improvements is amortized using the straight-line method over the shorter of the terms of related leases or the useful lives of the improvements.

Leases – On January 1, 2022, the Credit Union adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* (Topic 842), to those leases that were not completed as of January 1, 2022. Results for reporting periods beginning after January 1, 2022, will be presented under Topic 842, while prior period amounts will not be adjusted and continue to be reported under the accounting standards in effect for the prior period. On January 1, 2022, the Credit Union recorded the initial right-of-use (ROU) asset and lease liability for $42.7 million. Refer to Note 6 – Leases for further discussion.

Under Topic 842, the Credit Union determines whether the arrangement is or contains a lease at inception. Operating and finance leases will be recognized on the consolidated balance sheets as ROU assets and lease liabilities. ROU assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. For this purpose, the Credit Union considers only payments that are fixed and determinable at the time of commencement. The lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Credit Union will utilize their incremental borrowing rate as permitted by Topic 842. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option.

The Credit Union leases office space under agreements classified as operating leases that expire on various dates through 2043. Such leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Certain of the Credit Union's leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right of use assets unless the Credit Union is reasonably certain to be exercising the options. Variable expenses generally represent the Credit Unions share of the landlord's operating expenses. The Credit Union has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized.

Goodwill – Goodwill represents the excess of the acquisition price over the fair value of the net liabilities assumed in the Montauk Credit Union acquisition in 2016. Goodwill is not amortized and is periodically assessed for impairment, in accordance with FASB ASC 350-20, *Intangibles – Goodwill and Other*.

The Credit Union performs a goodwill impairment analysis on an annual basis as of December 31. Additionally, the Credit Union performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in the Credit Union's expected future cash flows; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

When assessing goodwill for impairment, the Credit Union assesses qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The quantitative impairment test involves a two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Credit Union would be required to proceed to the second step. In the second step the Credit Union calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities, including any unrecognized identifiable intangible assets, as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment.

No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

As of December 31, 2022 and 2021, the Credit Union concluded goodwill was not impaired.

Other intangibles – Other intangibles is comprised of the credit union charter acquired in the Montauk Credit Union business combination in 2016, which is an indefinite life intangible asset. Intangible assets with indefinite useful lives are not amortized and are reviewed for impairment at least annually, similar to goodwill impairment or, more frequently if impairment indicators arise. As of December 31, 2022 and 2021, the Credit Union concluded the intangible asset was not impaired.

Core deposit intangibles – Core deposit intangibles (CDI) are acquired in business combinations and initially recorded at fair value. The fair value is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding and is included in “Other Intangibles” in the statements of financial condition. The CDI is amortized over an estimated useful life that approximates the existing deposit relationships acquired, and are periodically reviewed for impairment. The CDI is being amortized using the straight-line method over an estimated useful life of seven years. Amortization of intangible assets is included in dividends on members’ shares in the consolidated statements of income. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

National Credit Union Share Insurance Fund deposit – The deposit in the National Credit Union Share Insurance Fund (“NCUSIF”) is in accordance with 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.

Foreclosed and repossessed assets – Foreclosed and repossessed assets acquired through foreclosure or other proceedings are carried at fair value on the date of acquisition plus certain capitalized costs, net of estimated disposal costs. When these assets are acquired, any excess of the loan balance over the estimated fair value is charged to the allowance for loan and lease losses. Carrying costs such as maintenance, interest and taxes are charged to expense as incurred. Subsequent impairments are recognized in non-interest income. Because of changing market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of foreclosed and repossessed assets. Because of these inherent uncertainties, the amount ultimately realized from foreclosed and repossessed assets may differ from the amounts reflected in the consolidated financial statements.

Derivative financial instruments

Mortgage loan commitments – Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Credit Union enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Credit Union to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Credit Union to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, generally the value of these loan commitments decreases. Conversely, if interest rates decrease, generally the value of these loan commitments increases. Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in fair values recorded in gain on sale of mortgage loans.

The Credit Union records no value for a loan commitment at inception (at the time the commitment is issued to a borrower) and does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in the fair value of loan commitments are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised and the passage of time. In estimating fair value, the Credit Union assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

Forward loan sale commitments – The Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that might result from the exercise of the derivative loan commitments. With a forward loan sale contract, the Credit Union commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded.

The Credit Union’s forward sale contracts generally meet the definition of derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in their fair values recorded in gain on sale of mortgage loans. The Credit Union estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Members' shares – Members' shares are the 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 amount 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 management.

Income taxes – The Credit Union is federally chartered under the Federal Credit Union Act; therefore, no income tax returns are required to be filed. The Credit Union's wholly-owned subsidiaries are disregarded entities for tax purposes and, therefore, operations of the subsidiaries resulted in no income taxes for the years ended December 31, 2022 and 2021.

The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended December 31, 2022 and 2021, the Credit Union recognized no interest or penalties. Additionally, the Credit Union had no unrecognized tax benefits as of December 31, 2022 and 2021.

Employee pension plan benefits – The Credit Union has a qualified, noncontributory defined benefit pension plan covering employees hired before March 1, 2012. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act ("ERISA"). The Credit Union accounts for the pension plan in accordance with FASB ASC 715, *Compensation*.

FASB ASC 715 requires an employer to (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end statement of financial condition; and (c) recognize as a component of other comprehensive income (loss) the actuarial gains and losses and the prior service costs and credits that arise during the period.

Members' equity – The Credit Union historically was required by regulation to maintain a statutory reserve referred to as "regular reserves", which represented a regulatory restriction on accumulated earnings and was not available for the payment of dividends. Due to regulatory changes in 2022, this category of equity was renamed "other reserves" and amounts were transferred into undivided earnings.

Comprehensive (loss) income – Comprehensive (loss) income consists of net income and other comprehensive (loss) income. Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized or realized gains and losses on investments available-for-sale and pension liability adjustments, are reported as a separate component of the members' equity section of the consolidated statement of financial condition under the caption "Accumulated other comprehensive loss," and in the consolidated statements of comprehensive (loss) income.

(dollars in thousands)

The following are changes in accumulated other comprehensive loss by component for the years ending December 31, 2022 and 2021:

	Unrealized (Losses) Gains on Investments Available-for-Sale	Defined Benefit Pension Items	Total
December 31, 2021			
Beginning balance	$ 75,799	$ (43,155)	$ 32,644
Other comprehensive (loss) income before reclassification	(84,002)	13,389	(70,613)
Amounts reclassified from accumulated other comprehensive income	(470)	5,212	4,742
Net current period other comprehensive (loss) income	(84,472)	18,601	(65,871)
Ending balance	$ (8,673)	$ (24,554)	$ (33,227)
December 31, 2022			
Beginning balance	$ (8,673)	$ (24,554)	$ (33,227)
Other comprehensive (loss) income before reclassification	(341,224)	16,199	(325,025)
Amounts reclassified from accumulated other comprehensive loss	-	1,471	1,471
Net current period other comprehensive (loss) income	(341,224)	17,670	(323,554)
Ending balance	$ (349,897)	$ (6,884)	$ (356,781)

Revenue from contracts with customers – The Credit Union accounts for revenue arising through contracts with customers under the guidance of FASB ASC 606 *Revenue from Contracts with Customers,* which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned (OREO). To determine revenue recognition for arrangements that an entity determines are within the scope of FASB ASC 606, the Credit Union performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Credit Union satisfies a performance obligation.

A significant portion of the Credit Union's revenues come from interest income on financial instruments, such as loans and investments, which are outside of the scope of FASB ASC 606, as are certain other streams such as mortgage banking income. The Credit Union's services that fall within the scope of FASB ASC 606 are recognized as revenue as the Credit Union satisfies its obligation to the customer. The Credit Union recognizes revenue from non-interest income subject to FASB ASC 606 as follows:

Deposit account service fees – The Credit Union earns fees from its deposit members for account maintenance and transaction-based activity. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees are charged for specific services provided including non-sufficient funds, overdraft transfers, and wire services. The performance obligation is satisfied as the transaction completes resulting in the immediate recognition of the income.

Debit card and interchange income and expenses – Debit card interchange income is earned when a debit card issued by the Credit Union is used to purchase goods or services at a merchant. The income earned on each transaction is determined by a combination of the transaction amount, merchant type, and other factors. The performance obligation is satisfied and the resulting income is earned when the transaction completes and is charged to the cardholders' card. Accordingly, the income is recognized in the period in which the performance obligation is satisfied. Certain expenses directly associated with debit cards including transaction processing and reward program costs are netted against interchange income.

Credit card and interchange income and expenses – Credit card interchange income represent fees earned when a credit card issued by the Credit Union is used. Similar to the debit card interchange, the Credit Union earns an interchange fee for each transaction made with the Credit Union's branded credit cards. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' credit card. Certain expenses and rewards directly related to the credit card interchange contract are recorded net to the interchange income.

Non-interest expense – Non-interest expense consists of employee compensation and related benefits, professional and outside services rendered, facilities and office operations, and other miscellaneous expenses. Non-interest expense is recognized as incurred.

Fair value of financial instruments – The Credit Union generally holds its earning assets, other than investments available-for-sale and loans held for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include property and equipment, leases, and equity. Further, fair value disclosure does not attempt to value future income or business. These items may be material and, accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Credit Union.

The Credit Union accounts for and discloses fair value using the guidance of FASB ASC 820, *Fair Value Measurement and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy includes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Investments available-for-sale and the mutual fund are reported using Level 1, Level 2 and Level 3 inputs. Level 1 instruments generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include agency issued securities, municipal bonds, mortgage-backed securities, collateralized mortgage obligations and certain auction rate securities. For these securities, the Credit Union obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are collateral dependent secured by real estate. Market value is determined using the value of the collateral securing the loans and is therefore classified as Level 3. The value of the real estate is determined by independent licensed appraisers contracted by the Credit Union to perform the assessment. The appraised value is then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions.

Fair values for impaired loans are based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the underlying collateral, if the loan is collateral dependent. These values are then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions. Impaired loans are classified as Level 3.

Fair values of foreclosed and repossessed assets, primarily real estate, automobiles and taxi medallions, are measured based on the assets' observable market price. For real estate, prices are derived from independent appraisals, while automobiles are based on observable market prices for comparable vehicles. For taxi medallions, prices are derived from published sales of medallions less liquidation expenses. Foreclosed and repossessed assets are classified within Level 3 of the fair value hierarchy.

Reclassifications – Certain account reclassifications have been made to the financial statements of the prior year in order to conform to the current year's presentation. These reclassifications have no effect on previously reported net income or members' equity.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated statements of financial condition but before consolidated financial statements are issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements.

The Credit Union has evaluated subsequent events through March 31, 2023, which is the date the consolidated financial statements became available for issuance.

(dollars in thousands)

Note 2 – Investments

Investments classified as available-for-sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022				
Agency issued securities	$ 208,135	$ 324	$ (3,743)	$ 204,716
Agency issued MBS/CMOs*	2,778,763	772	(282,298)	2,497,237
Municipal bonds	724,489	-	(64,952)	659,537
	$ 3,711,387	$ 1,096	$ (350,993)	$ 3,361,490
December 31, 2021				
Agency issued securities	$ 264,437	$ 608	$ (1,477)	$ 263,568
Agency issued MBS/CMOs*	2,973,165	29,058	(43,812)	2,958,411
Municipal bonds	726,649	10,822	(3,872)	733,599
	$ 3,964,251	$ 40,488	$ (49,161)	$ 3,955,578

*MBS and CMO represent Mortgage-Backed Securities and Collateralized Mortgage Obligations, respectively.

There were no proceeds from sales of available-for-sale securities and no gross realized gains or losses from sales of available-for-sale securities for the year ended December 31, 2022. Proceeds from sales of available-for-sale securities totaled $46,384 and gross realized gains from sales of available-for-sale securities totaled $470 for the year ended December 31, 2021. No losses were realized in 2021.

(dollars in thousands)

Gross unrealized losses and fair value by length of time that the individual investments available-for-sale have been in a continuous unrealized loss position at December 31, 2022 and 2021 are as follows:

	Less than 12 Months		Equal to or more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Agency issued securities	$ 28,297	$ (294)	$ 102,446	$ (3,449)	$ 130,743	$ (3,743)
Agency issued MBS/CMOs	952,517	(75,408)	1,467,212	(206,890)	2,419,729	(282,298)
Municipal bonds	314,220	(18,603)	331,431	(46,349)	645,651	(64,952)
	$ 1,295,034	$ (94,305)	$ 1,901,089	$ (256,688)	$ 3,196,123	$ (350,993)
December 31, 2021						
Agency issued securities	$ 31,799	$ (34)	$ 146,411	$ (1,443)	$ 178,210	$ (1,477)
Agency issued MBS/CMOs	1,547,902	(32,368)	342,779	(11,444)	1,890,681	(43,812)
Municipal bonds	286,701	(3,806)	1,989	(66)	288,690	(3,872)
	$ 1,866,402	$ (36,208)	$ 491,179	$ (12,953)	$ 2,357,581	$ (49,161)

There were a total of 535 investments available-for-sale in an unrealized loss position less than 12 months and a total of 588 investments available-for-sale in an unrealized loss position equal to or greater than 12 months at December 31, 2022. There were a total of 408 investments available-for-sale in an unrealized loss position less than 12 months and a total of 150 investments available-for-sale in an unrealized loss position equal to or greater than 12 months at December 31, 2021.

The unrealized losses associated with these investments are considered temporary as the Credit Union does not have the intention to sell nor does it expect to be required to sell the investments prior to recovery or maturity. Management believes that the temporary unrealized loss is due to the interest rate and liquidity environment. Such determination was based upon an evaluation of the creditworthiness of the issuers and/or guarantors, the underlying collateral, if applicable, as well as the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. These include, but are not limited to, an evaluation of the type of security and length of time and extent to which the fair value has been less than cost, as well as certain collateral related characteristics. Based upon the impairment testing completed as of December 31, 2022 and 2021, the Credit Union determined that there were no investments that were other-than-temporarily impaired.

There was no realized gain or loss during the years ended December 31, 2022 and 2021 from the mutual fund.

(dollars in thousands)

Other investments consist of the following:

	December 31, 2022	December 31, 2021
Certificates of deposit in banks and savings institutions	$ 250	$ 250
FHLBNY stock	17,915	29,099
Central Liquidity Facility (CLF)	26,677	23,732
Member capital account in Corporate Credit Union	504	504
	$ 45,346	$ 53,585

Investments by contractual maturity as of December 31, 2022, are summarized as follows:

	Amortized Cost	Fair Value	Other Investments
No contractual maturity – FHLBNY stock, CLF, and member capital in Corporate Credit Union	$ -	$ -	$ 45,096
Less than 1 year maturity	256,862	255,281	250
1–5 years maturity	532,220	487,312	-
5–10 years maturity	143,542	121,660	-
Mortgage-backed securities and CMOs	2,778,763	2,497,237	-
	$ 3,711,387	$ 3,361,490	$ 45,346

Expected maturities of mortgage-backed securities and CMOs may differ from contractual maturities because borrowers may have the right to prepay the obligations and are, therefore, classified separately with no specific maturity date.

Investments pledged for available and outstanding borrowings are summarized below:

	December 31, 2022	December 31, 2021
Investments available-for-sale	$ 1,268,439	$ 946,755
Federal Home Loan Bank stock	17,915	29,099

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality

Loans receivable consist of the following at December 31:

	Past Due					Purchased Credit Impaired Loans	2022 Total
	1 Month	2 Months	3 Months or More	Total	Current		
Real estate loans:							
Residential fixed rate mortgages	$ 1,535	$ 629	$ 10,450	$ 12,614	$ 562,316	$ -	$ 574,930
Residential non-owner occupied	-	-	-	-	11,559	-	11,559
Hybrid/balloon mortgages	6,389	-	20,370	26,759	2,356,142	-	2,382,901
Home equity line of credit, variable rate	9,644	2,546	7,084	19,274	549,380	-	568,654
Home equity masterlines	8,877	1,759	1,664	12,300	1,439,034	-	1,451,334
Home equity loans	4,251	789	9,201	14,241	131,951	-	146,192
Commercial real estate including participations	821	1,133	9,884	11,838	1,578,539	-	1,590,377
Vehicle loans	6,018	1,397	796	8,211	1,075,687	-	1,083,898
Consumer loans	578	266	537	1,381	163,484	-	164,865
Commercial including participations	-	-	351	351	19,277	3,679	23,307
Consumer credit cards	943	485	999	2,427	90,071	-	92,498
	$ 39,056	$ 9,004	$ 61,336	$ 109,396	$ 7,977,440	$ 3,679	8,090,515
Allowance for loan loss							(81,842)
Net deferred origination fees and costs							50,789
Total							$ 8,059,462

	Past Due					Purchased Credit Impaired Loans	2021 Total
	1 Month	2 Months	3 Months or More	Total	Current		
Real estate loans:							
Residential fixed rate mortgages	$ 193	$ 382	$ 13,234	$ 13,809	$ 583,482	$ -	$ 597,291
Residential non-owner occupied	-	-	-	-	14,328	-	14,328
Hybrid/balloon mortgages	1,426	2,081	20,467	23,974	1,633,057	-	1,657,031
Home equity line of credit, variable rate	3,033	1,988	8,587	13,608	700,346	-	713,954
Home equity masterlines	1,292	557	1,463	3,312	923,496	-	926,808
Home equity loans	1,727	347	10,275	12,349	156,919	-	169,268
Commercial real estate including participations	106	1,300	16,638	18,044	1,257,975	-	1,276,019
Vehicle loans	4,828	956	1,011	6,795	1,107,501	-	1,114,296
Consumer loans	380	233	327	940	56,322	-	57,262
Commercial including participations	166	511	1,884	2,561	23,315	10,003	35,879
Consumer credit cards	549	422	880	1,851	91,928	-	93,779
	$ 13,700	$ 8,777	$ 74,766	$ 97,243	$ 6,548,669	$ 10,003	6,655,915
Allowance for loan loss							(77,625)
Net deferred origination fees and costs							32,010
Total							$ 6,610,300

The Credit Union has purchased commercial loan participations originated by other financial institutions. All of these loan participations were purchased without recourse and are collateralized by real property.

As of December 31, 2022, there were no loans pledged to secure outstanding or available borrowings.

The Credit Union offers hybrid/balloon mortgage loans to its members. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment increase to the borrower.

The Credit Union offers home equity masterlines to its members. Masterlines consist of a variable line of credit and, if selected, fixed loans with terms of five, ten, or twenty years. The line of credit has a draw period of ten years and then converts to a variable loan for twenty years.

The Credit Union categorizes commercial and real estate loans into risk categories based on numerous factors. Some of those factors include, but are not limited to, financial strength, industry/economic trends, and credit history. Each loan is assessed individually and grouped into a sub-category such as commercial, commercial real estate, commercial loan participations – real estate, residential, home equity masterlines, home equity and home equity lines of credit. An analysis of loans categorized and rated for risk is performed at least semi-annually. The Credit Union used five levels of grading based on the underlying characteristics of the loan. The risk rating grades (“Grades”) listed below are used when each loan is analyzed:

Pass – The borrower is considered creditworthy and has the ability to repay the debt in the normal course of business.

Special Mention – A special mention loan has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union’s credit position at some future date. Special mention assets are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful – A doubtful loan has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss – A loss loan is considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

(dollars in thousands)

The following is a summary of the credit risk profile of the commercial and real estate loans (principal balance only) and includes PCI loans:

	December 31, 2022			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 12,294	$ 1,493,637	$ 2,937,714	$ 2,143,136
Special Mention	149	19,735	7,425	6,571
Substandard	8,101	36,999	7,189	4,196
Doubtful	2,763	40,006	17,062	12,277
Total	$ 23,307	$ 1,590,377	$ 2,969,390	$ 2,166,180

	December 31, 2021			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 14,571	$ 1,131,189	$ 2,209,625	$ 1,773,071
Special Mention	365	130,603	18,626	15,070
Substandard	9,731	8,311	7,080	4,202
Doubtful	11,212	5,916	33,319	17,687
Total	$ 35,879	$ 1,276,019	$ 2,268,650	$ 1,810,030

(dollars in thousands)

For consumer loans, the Credit Union evaluates credit quality based on payment activity. Those loans that are 90 days or more past due are considered non-performing, while all remaining loans are evaluated as performing. The following is a summary of the credit risk profile of loans (principal balance only) by payment activity:

	December 31, 2022		
	Consumer Credit Cards	Consumer Loans	Vehicle Loans
Performing	$ 91,499	$ 164,328	$ 1,083,091
Non-performing	999	537	807
Total	$ 92,498	$ 164,865	$ 1,083,898

	December 31, 2021		
	Consumer Credit Cards	Consumer Loans	Vehicle Loans
Performing	$ 92,899	$ 56,908	$ 1,113,275
Non-performing	880	354	1,021
Total	$ 93,779	$ 57,262	$ 1,114,296

(dollars in thousands)

The following tables summarize loans that were individually evaluated for impairment at December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 545	$ 676	$ -	$ 725	$ 24
Commercial real estate including participations	13,477	13,480	-	14,092	374
Residential mortgages	30,247	30,983	-	30,580	945
Home equity masterlines, loans, and lines of credit	24,738	24,873	-	24,668	1,124
Total	69,007	70,012	-	70,065	2,467
With an allowance recorded					
Commercial including participations	7,326	10,139	4,056	7,427	290
Commercial real estate including participations	94,354	94,557	28,231	94,822	4,206
Residential mortgages	16,173	16,659	1,942	16,498	365
Home equity masterlines, loans, and lines of credit	10,780	11,135	5,177	11,033	322
Total	128,633	132,490	39,406	129,780	5,183
Total impaired loans	$ 197,640	$ 202,502	$ 39,406	$ 199,845	$ 7,650

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial including participations	$ 235	$ 236	$ -	$ 248	$ 7
Residential mortgages	32,535	33,119	-	32,815	923
Home equity masterlines, loans, and lines of credit	30,112	30,367	-	30,577	900
Total	62,882	63,722	-	63,640	1,830
With an allowance recorded					
Commercial including participations	16,989	29,743	12,163	13,521	303
Commercial real estate including participation loans	104,547	104,944	19,336	109,407	4,467
Residential mortgages	15,529	15,778	1,618	15,580	331
Home equity masterlines, loans, and lines of credit	6,530	6,570	2,725	6,566	172
Total	143,595	157,035	35,842	145,074	5,273
Total impaired loans	$ 206,477	$ 220,757	$ 35,842	$ 208,714	$ 7,103

Recorded investment as of December 31, 2022 and 2021 includes fair value adjustments and deferred net loan origination fees and costs.

As of December 31, 2022 and 2021, the Credit Union's investment in residential mortgage loans collateralized by residential real estate property in process of foreclosure was $21,476 and $19,734, respectively.

(dollars in thousands)

The following table presents data regarding the allowance for loan and lease losses and loans evaluated for impairment by class of loan. Loan balances include deferred net loan origination costs.

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2022
Allowance for loan losses						
Beginning balance	$ 14,329	$ 32,969	$ 7,497	$ 7,757	$ 15,073	$ 77,625
Charge-offs	(6,332)	(605)	(8,931)	-	(342)	(16,210)
Recoveries	93	-	3,112	-	453	3,658
Provision (recapture of) for loan losses	(3,086)	11,194	4,858	1,176	2,627	16,769
Ending balance	$ 5,004	$ 43,558	$ 6,536	$ 8,933	$ 17,811	$ 81,842
Ending balance Individually evaluated for impairment	$ 4,056	$ 28,231	$ -	$ 1,942	$ 5,177	$ 39,406
Ending balance Collectively evaluated for impairment	$ 948	$ 15,327	$ 6,536	$ 6,991	$ 12,634	$ 42,436
Loans receivable						
Ending balance	$ 21,957	$ 1,584,505	$ 1,346,822	$ 2,979,464	$ 2,208,556	$ 8,141,304
Ending balance Individually evaluated for impairment	$ 7,871	$ 107,831	$ -	$ 46,420	$ 35,518	$ 197,640
Ending balance Collectively evaluated for impairment	$ 14,086	$ 1,476,674	$ 1,346,822	$ 2,933,044	$ 2,173,038	$ 7,943,664

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2021
Allowance for loan losses						
Beginning balance	$ 17,230	$ 37,789	$ 18,890	$ 8,789	$ 17,475	$ 100,173
Charge-offs	(2,582)	-	(9,423)	(302)	(268)	(12,575)
Recoveries	7	-	3,600	-	740	4,347
Recapture of loan losses	(326)	(4,820)	(5,570)	(730)	(2,874)	(14,320)
Ending balance	$ 14,329	$ 32,969	$ 7,497	$ 7,757	$ 15,073	$ 77,625
Ending balance Individually evaluated for impairment	$ 12,163	$ 19,336	$ -	$ 1,618	$ 2,725	$ 35,842
Ending balance Collectively evaluated for impairment	$ 2,166	$ 13,633	$ 7,497	$ 6,139	$ 12,348	$ 41,783
Loans receivable						
Ending balance	$ 34,242	$ 1,272,523	$ 1,267,263	$ 2,269,279	$ 1,844,618	$ 6,687,925
Ending balance Individually evaluated for impairment	$ 17,224	$ 104,547	$ -	$ 48,064	$ 36,642	$ 206,477
Ending balance Collectively evaluated for impairment	$ 17,018	$ 1,167,976	$ 1,267,263	$ 2,221,215	$ 1,807,976	$ 6,481,448

(dollars in thousands)

The following table presents troubled debt restructurings that occurred during the years ended December 31, 2022 and 2021. The post-modification outstanding recorded investment presented below reflects the balance at the end of the period.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2022			
Residential mortgages	5	$ 5,020	$ 5,214
Home equity masterlines, loans and lines of credit	9	1,539	1,491
Commercial real estate	4	49,532	49,532
Commercial including participations	9	1,412	1,280
Total	27	$ 57,503	$ 57,517
December 31, 2021			
Residential mortgages	6	$ 3,108	$ 3,108
Home equity masterlines, loans and lines of credit	19	1,784	1,683
Commercial including participations	20	2,542	2,226
Total	45	$ 7,434	$ 7,017

The nature of the modifications includes a combination of interest rate changes, interest only payment arrangements and/or extensions of term. The financial effects of the modifications were immaterial to the financial statements for the years ended December 31, 2022 and 2021.

There were no troubled debt restructured loans that defaulted during the period ended December 31, 2022 for which a default occurred within 12 months of the modification date.

The following table summarizes troubled debt restructured loans that defaulted during the periods ended December 31, 2021 and for which the default occurred within 12 months of the modification date. The recorded investment reflects the balance at the end of the period.

December 31, 2021		
Home equity masterlines, loans and lines of credit	1	$ 38
Commercial including participations	8	690
Total	9	$ 728

(dollars in thousands)

The following table summarizes loan balances in nonaccrual status:

	December 31, 2022	December 31, 2021
Commercial including participations	$ 951	$ 3,202
Commercial real estate including participations	60,988	18,232
Consumer		
Consumer – auto	807	1,021
Consumer – other	537	354
Consumer – credit cards	999	880
Residential mortgages	31,143	45,956
Home equity masterlines, loans and lines of credit	17,815	22,375
Total	$ 113,240	$ 92,020

Loan balances in nonaccrual status include troubled debt restructurings of $60,163 and $13,809 as of December 31, 2022 and 2021, respectively. No loans 90 days or more past due accrue interest.

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 these loans at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Federal National Mortgage Association	$ 4,683,794	$ 4,738,923
Federal Home Loan Mortgage Corporation	316,909	342,064
Federal Home Loan Bank of New York	160,739	162,494
Government National Mortgage Association	145,616	143,043
Charlie Mac, LLC	358	358
Conventional (other)	6,688	7,934
	$ 5,314,104	$ 5,394,816

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were $34,736 and $33,727 at December 31, 2022 and 2021, respectively.

(dollars in thousands)

The following table presents a summary of the changes in the balance of mortgage servicing rights:

	Years Ended December 31, 2022	Years Ended December 31, 2021
Balance, beginning of year	$ 33,190	$ 26,377
Servicing assets recognized during the year	4,547	13,496
Amortization of servicing assets	(5,436)	(6,589)
Impairment of servicing assets	-	(94)
Balance, end of year	$ 32,301	$ 33,190
Fair value of mortgage servicing rights	$ 60,645	$ 47,038

The key assumptions used in determining the fair value of mortgage servicing rights are as a follows as of December 31:

	Range of Assumptions 2022	Range of Assumptions 2021
Constant prepayment rate	8.72%	12.06%
Internal rate of return	9.15%-11.15%	8.15%–10.15%
Weighted average life (years)	8.03	6.18

The commercial loans serviced for others, primarily commercial real estate, was $1,087,730 and $964,501 for the years ended December 31, 2022 and 2021, respectively. The following table presents a summary of the changes in the balance of commercial servicing rights:

	Years Ended December 31, 2022	Years Ended December 31, 2021
Balance, beginning of year	$ 1,940	$ 2,433
Servicing assets recognized during the year	1,464	1,456
Amortization of servicing assets	(1,627)	(1,809)
Impairment of servicing assets	(28)	(140)
Balance, end of year	$ 1,749	$ 1,940
Fair value of commercial servicing rights	$ 6,953	$ 4,180

(dollars in thousands)

The key assumptions used in determining the fair value of commercial servicing rights are as follows as of December 31, 2022:

	Range of Assumptions	
	2022	2021
Constant prepayment rate	10.57%	24.28%
Internal rate of return	20.00%–22.00%	20.00%–22.00%
Weighted average life (years)	6.67	6.83

Note 5 – Property and Equipment, Net

Property and equipment are summarized as follows:

	Property and Equipment	Accumulated Depreciation and Amortization	Property and Equipment, net
December 31, 2022			
Land and improvements	$ 7,173	$ (760)	$ 6,413
Building	57,201	(19,297)	37,904
Furniture and equipment	25,798	(20,191)	5,607
Data processing	37,466	(35,140)	2,326
Automobile	60	(60)	-
Leasehold improvements	26,365	(20,726)	5,639
	$ 154,063	$ (96,174)	$ 57,889
December 31, 2021			
Land and improvements	$ 7,120	$ (670)	$ 6,450
Building	51,346	(17,732)	33,614
Furniture and equipment	28,935	(18,676)	10,259
Data processing	36,672	(33,445)	3,227
Automobile	60	(56)	4
Leasehold improvements	26,583	(19,662)	6,921
	$ 150,716	$ (90,241)	$ 60,475

Note 6 – Leases

The Credit Union leases administrative office and branch space under noncancelable operating leases with varying terms, including options to renew expiring through 2043.

Operating lease right-of-use assets, operating lease liabilities and the associated balance sheet classifications are as follows:

	December 31, 2022
Right-of-use assets:	
Other assets	$ 39,275
Lease liabilities:	
Accrued expenses and other liabilities	$ 40,931

The components of lease cost included in occupancy expense on the Consolidated Statements of Income are as follows for the year ended December 31 (in thousands):

	2022	2021
Lease cost		
Minimum rent payments	$ 4,416	$ 3,947

The future undiscounted lease payments for operating leases with intial terms of one year or more as of December 31, 2022 are as follows:

2023	$ 3,977
2024	4,096
2025	3,964
2026	3,864
2027	3,981
thereafter	29,869
Total undiscounted lease payments	49,751
Less: imputed interest	(8,820)
Net lease liabilities	$ 40,931

The following table provides the supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31 (dollars in thousands):

	2022
Operating cash flows from operating leases	$ 3,952
Weighted average remaining lease term (years)	13.2
Weighted average discount rate	2.7%

(dollars in thousands)

Note 7 – Members' Shares

Members' shares are summarized as follows:

	December 31, 2022	December 31, 2021
Money market accounts	$ 4,272,515	$ 4,610,596
Certificates	2,713,079	1,770,653
Regular shares	1,957,484	1,990,575
Share draft accounts	1,456,858	1,519,696
Individual retirement accounts – money market	173,067	179,904
	$ 10,573,003	$ 10,071,424

Certificates by maturity as of December 31, 2022 are summarized as follows:

0–1 year maturity	$ 1,770,555
1–2 years maturity	454,647
2–3 years maturity	291,478
3–4 years maturity	99,493
4–6 years maturity	96,906
	$ 2,713,079

The National Credit Union Share Insurance Fund insures members' shares up to $250. The aggregate amount of certificates in denominations of $250 or more at December 31, 2022 and 2021 was $579,862 and $254,446, respectively.

At December 31, 2022 and 2021, overdraft demand shares reclassified as loans totaled $701 and $905, respectively.

Note 8 – Borrowed Funds

The Credit Union has lines of credits with various financial institutions. The terms of the agreements call for pledging assets as security for any and all obligations taken by the Credit Union. The agreements provide for a total borrowing capacity at December 31, 2022 of $3,098,132 subject to certain collateral requirements, with interest charged at a rate determined by the lenders on a periodic basis. The agreements are reviewed for continuation by the lenders and the Credit Union annually. At December 31, 2022, the Credit Union had outstanding borrowings of $429,000 at a rate of 4.5% from the Federal Reserve Bank which matured in January 2023.

At December 31, 2021, the Credit Union had outstanding borrowings of $270,200 at a weighted average rate of 0.32% from the Federal Home Loan Bank with $220,200 maturing in January 2022 and $50,000 maturing in May 2022.

(dollars in thousands)

Note 9 – Concentrations of Credit Risk

The Credit Union has an open federal charter and there are no geographic or group affiliation field of membership restrictions. The open charter was approved during 2016 by the NCUA. The majority of members are primarily located in New York. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which the majority of borrowers reside.

Note 10 – Commitments and Contingent Liabilities

The Credit Union is a party to various legal actions normally associated with collection of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the consolidated financial condition or results of operations of the Credit Union.

Outstanding loan commitments are summarized as follows:

	December 31,	
	2022	2021
Home equity masterlines, loans and lines of credit	$ 2,167,568	$ 1,758,568
Mortgage loan commitments	40,935	468,146
Consumer – credit card	462,483	478,038
Consumer – other	215,349	210,240
Commercial	2,091	7,927
Commercial – real estate	3,866	6,626
	$ 2,892,292	$ 2,929,545

Commitments may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the consolidated financial statements.

In the ordinary course of business, the Credit Union is exposed to potential claims and/or litigation under representations and warranties made to purchasers and insurers of mortgage loans as well as the purchasers of servicing rights. Under certain circumstances, the Credit Union may be required to repurchase mortgage loans or indemnify the purchasers of loans or servicing rights for losses if there has been a breach of representations or warranties. Any resulting liabilities would be recorded at the date the loss is probable and could be reasonably estimated. There were no repurchase or indemnification liabilities at December 31, 2022 and 2021.

(dollars in thousands)

Note 11 – Derivative Financial Instruments

Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized in other assets and other liabilities on the consolidated statements of financial condition at fair value, with changes in fair value recorded in gain on sale of mortgage loans.

Derivatives outstanding at the end of each year, and gains (losses) recognized during the years then ended, are summarized as follows:

	December 31, 2022			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 14,293	$ -	$ (89)	$ (534)
Mortgage loan commitments	26,533	74	-	(1,689)

	December 31, 2021			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 232,319	$ 445	$ -	$ 3,294
Mortgage loan commitments	235,737	1,763	-	(7,716)

Note 12 – Employee Benefits

The Credit Union sponsors a funded, noncontributory defined benefit pension plan. The Credit Union also sponsors an unfunded, noncontributory, nonqualified defined benefit supplemental executive retirement plan. The plans call for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plans reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist primarily of equity securities.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee age, years to retirement, and years to Medicare benefits. Other assumptions include the portion of the health care premium for the retirees to be paid by the plan, and a factor of the health care cost trend rate.

(dollars in thousands)

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2022 and 2021 are as follows:

	Pension Plans		Postretirement Benefit	
	2022	2021	2022	2021
Change in benefit obligation				
Projected benefit obligation at beginning of year	$ 123,788	$ 123,224	$ 13,940	$ 14,125
Service cost	3,289	3,486	310	384
Interest cost	3,557	3,202	411	389
Benefits paid	(2,957)	(2,881)	(186)	(99)
Actuarial gain	(37,339)	(3,243)	(3,080)	(859)
Projected benefit obligation at end of year	90,338	123,788	11,395	13,940
Change in plan assets				
Fair value of plan assets at beginning of year	116,495	98,102	-	-
Actual return on plan assets	(16,162)	16,210	-	-
Employer contributions	352	5,064	186	99
Benefits paid	(2,957)	(2,881)	(186)	(99)
Fair value of plan assets at end of year	97,728	116,495	-	-
Funded (unfunded) projected status at end of year	$ 7,390	$ (7,293)	$ (11,395)	$ (13,940)
Accumulated benefit obligation	$ 82,661	$ 111,419	$ -	$ -
Amounts recognized in the consolidated statements of financial condition consist of				
Accrued benefit asset (liability)	$ 7,390	$ (7,293)	$ (11,395)	$ (13,940)
Accumulated other comprehensive gain (loss)	$ (6,676)	$ (21,054)	$ (208)	$ (3,500)
Amounts recognized in accumulated other comprehensive loss consist of				
Net actuarial loss	$ 6,676	$ 21,017	$ 212	$ 3,524
Prior service credit (cost)	-	37	(4)	(24)
Total	$ 6,676	$ 21,054	$ 208	$ 3,500

Included in accumulated other comprehensive loss at December 31, 2022 for the pension plans are unrecognized actuarial gains of $14,378 that have not yet been recognized in net periodic benefit cost.

(dollars in thousands)

The following table sets forth the actuarial assumptions related to the Credit Union's employee benefit plans as of December 31:

	Pension Plans		Postretirement Benefit	
	2022	2021	2022	2021
Weighted-average assumptions used to determine benefit obligation				
Discount rate	5.26%	2.89%	5.28%	2.91%
Rate of compensation increase	3.40%	3.40%	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost				
Discount rate	2.89%	2.61%	2.91%	2.61%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	3.40%	3.40%	N/A	N/A
Inflation	3.00%	3.00%	N/A	N/A
Health care inflation				
Medical trend rates			5.07% - 7.00%	4.50%–6.25%
Year of ultimate achievement			2042	2029
Dental trend rates			5.00%	5.00%
Year of ultimate achievement			2042	2029

Net periodic pension cost for the Credit Union's pension plans include the following components for the years ended December 31:

	2022	2021
Service cost	$ 3,599	$ 3,486
Interest cost	3,968	3,202
Expected return on assets	(8,059)	(6,923)
Amortization of net loss	1,455	4,959
Amortization of prior year cost	17	40
Net periodic benefit cost	$ 980	$ 4,764

The funded, noncontributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

The Credit Union's pension plans' approximate weighted-average asset allocations by asset category are as follows:

	December 31,	
	2022	2021
Equity securities (Level 1)	64%	82%
Debt securities (Level 2)	36%	18%
	100%	100%

(dollars in thousands)

The Credit Union's pension investment strategies are targeted to produce a total return that, when combined with the Credit Union's contributions to the plans, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash.

The minimum contribution requirement is approximately $508 for the pension plans and approximately $282 to the postretirement benefit plan in 2022.

The following pension and postretirement benefit payments for the next ten years, which reflect expected future service, as appropriate, are expected to be paid as follows:

		Pension/ Postretirement Benefit Payments
Years Ending December 31,	2023	$ 3,840
	2024	4,278
	2025	4,652
	2026	5,045
	2027	5,438
	2028–2031	32,268
		$ 55,521

The noncontributory defined benefit pension plan is closed to new hires on or after March 1, 2012.

The Credit Union also has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage contributions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately $3,254 and $3,077, respectively, to the 401(k) plan for the years ended December 31, 2022 and 2021.

Note 13 – 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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

(dollars in thousands)

Quantitative measures, established by regulation to ensure capital adequacy, require the Credit Union to maintain minimum amounts and ratios (set forth in the table following) of net worth to total assets. Further, due to regulatory capital changes effective January 1, 2022, credit unions with over $500 million in assets are also required to calculate a Risk-Based Capital Ratio (RBCR) or a Complex Credit Union Leverage Ratio (CCULR), to determine the net worth classification. Credit unions with a net worth ratio of 9% or better may elect the CCULR option. At December 31, 2022, the Credit Union elected the CCULR option and the CCULR was 9.55%.

As of December 31, 2022, the most recent regulatory reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets. Management believes, as of December 31, 2022, that the Credit Union meets all capital adequacy requirements to which it is subject. In addition, there are no conditions or events since that notification that management believes have changed the Credit Union’s category.

As of December 31, 2021, the Credit Union was required to calculate a risk-based net worth (RBNW) that established whether the Credit Union would be considered “complex” under the regulatory framework. A credit union was defined as “complex” if the credit union’s quarter-end total assets exceed $500 million and its RBNW requirements exceeded 6%. The Credit Union’s RBNW requirement as of December 31, 2021 was 6.46% and it was considered complex. As of December 31, 2021, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework.

The Credit Union’s actual capital amounts and ratios are presented in the following table:

	December 31, 2022		December 31, 2021	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	$ 703,496	6.0%	$ 670,024	6.0%
Amount needed to be classified as "well capitalized"	820,746	7.0%	781,695	7.0%
Actual net worth	1,119,643	9.5%	1,027,904	9.2%

Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

(dollars in thousands)

The following table presents a reconciliation of the Credit Union's total members' equity to regulatory net worth as summarized below:

	December 31, 2022	December 31, 2021
Total members' equity	$ 760,361	$ 992,176
Accumulated other comprehensive loss	356,781	33,227
Acquisition date retained earnings of acquirees	12,966	12,966
Acquisition date enterprise fair values of acquirees	(5,304)	(5,304)
Bargain purchase gain recognized	(5,161)	(5,161)
Regulatory net worth	$ 1,119,643	$ 1,027,904

Note 14 – Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2022 and 2021 were $5,121 and $5,248, respectively. Deposits from related parties at December 31, 2022 and 2021 amounted to $3,670 and $4,423, respectively.

The Credit Union holds equity method investments in certain credit union service organizations ("CUSOs"). These CUSOs provide back-office and other operational services to the Credit Union.

The Credit Union owns a one-third interest in S3 Shared Service Solutions, LLC ("S3") which provides various administrative services to the Credit Union. Two other credit unions ("CUs") also each own one-third interests in S3. The investment is included in other assets on the consolidated statements of financial condition and totaled $3,804 at December 31, 2022 and 2021. Net expenses for services provided by S3 were $34,678 and $32,053 during the years ended December 31, 2022 and 2021, respectively, and are included in operations expenses on the consolidated statements of income. The investment in S3 is recorded using the equity method of accounting.

On May 31, 2013, the Credit Union entered into a Contracted Employees and Cost Sharing Agreement with S3 in which the Credit Union leases employees and office space to S3 to perform administrative services for the CUs. The agreement may be unilaterally terminated by either party after a notice period of up to one year. In addition, the Credit Union and the CUs entered into a correspondent service agreement ("CSA") on May 31, 2013 which establishes that the Credit Union will be paid directly by the CUs on a monthly basis for costs of services provided by S3. These payments amounted to $45,954 and $39,966 for the years ended December 31, 2022 and 2021, respectively. These payments are netted in the consolidated financial statements and had no effect on net income.

(dollars in thousands)

The Credit Union owns a one-third interest in Open Technology Solutions, LLC (“OTS”) which provides data support services to the Credit Union. The Credit Unions own one-third interests in OTS. The investment, included in other assets on the consolidated statements of financial condition, totaled $2,542 at December 31, 2022 and 2021. Expenses for services provided by OTS were $12,259 and $9,860 for the years ended December 31, 2022 and 2021, respectively, and are included in operations expense on the consolidated statements of income. The investment in OTS is recorded using the equity method of accounting. In addition, the Credit Union and the CUs extended an operating line of credit to OTS during 2014 which had an interest rate of 3.25% a maturity date of December 31, 2020 which was renewed with a new maturity date of October 20, 2023. The portion of the loan to OTS recorded as a receivable to the Credit Union was $783 and $1,833 as of December 31, 2022 and 2021, respectively, and is included in loans receivable in the consolidated statement of financial condition.

Note 15 – Fair Value of Financial Instruments

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

	Fair Value Measurement at December 31, 2022			
	Level 1	Level 2	Level 3	Fair Value
Mutual fund	$ 1,000	$ -	$ -	$ 1,000
Investments available-for-sale				
Agency issued securities	-	204,716	-	204,716
Agency issued MBS/CMOs	-	2,497,237	-	2,497,237
Municipal bonds	-	659,537	-	659,537
Mortgage loan commitments	-	74	-	74
Total assets	$ 1,000	$ 3,361,564	$ -	$ 3,362,564
Forward loan sales commitment	$ -	$ 89	$ -	$ 89
Total liabilities	$ -	$ 89	$ -	$ 89

	Fair Value Measurement at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets/Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance December 31, Fair Value
Mutual fund	$ 340,004	$ -	$ -	$ 340,004
Investments available-for-sale				
Agency issued securities	-	263,568	-	263,568
Agency issued MBS/CMOs	-	2,958,411	-	2,958,411
Municipal bonds	-	733,599	-	733,599
Forward loan sales commitment	-	445	-	445
Mortgage loan commitments	-	1,763	-	1,763
Total assets	$ 340,004	$ 3,957,786	$ -	$ 4,297,790

(dollars in thousands)

Assets measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurement at December 31, 2022			
	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 158,234	$ 158,234
Foreclosed and repossessed assets	-	-	2,496	2,496
Total	$ -	$ -	$ 160,730	$ 160,730

	Fair Value Measurement at December 31, 2021			
	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 170,635	$ 170,635
Foreclosed and repossessed assets	-	-	1,627	1,627
Total	$ -	$ -	$ 172,262	$ 172,262

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Note 16 – Securitizations

The Credit Union securitizes loans as a source of funding. In a securitization, debt securities are issued and are generally collateralized by a single class of transferred assets, such as residential mortgages. The Credit Union had $146,936 and $146,237 outstanding as of December 31, 2022 and 2021, respectively, of GNMA guaranteed Residential Mortgage Backed Securities (RMBS) while retaining the rights to servicing.

Under the provisions of the RMBS program, the Credit Union, as the issuer and servicer, in specific instances is obligated to collect certain “defaulted” mortgages that are subject to a specific collection process under Federal Housing Administration (FHA) and Department of Housing and Urban Development (HUD) guidelines. Management has determined that under certain circumstances it is possible that the Credit Union might, in some instances, collect amounts that are less than the HUD guaranteed amount. Additionally, if a borrower prepays a loan at any time during any month other than at the end of the month the Credit Union cannot charge a prepayment penalty and must pay the bondholders’ interest as if the loan were outstanding all month.

As part of the securitization process, the Credit Union enters into forward delivery contracts. At December 31, 2022 and 2021, outstanding forward delivery contracts were $1,500 and $9,000, respectively. The forward delivery contracts are included within the forward loan sale commitments in Note 10. These agreements are matched to the dollar amount of each securitization trade.

(dollars in thousands)

Note 17 – Revenue from Contracts with Customers

The Credit Union's non-interest income, including revenue from contracts with customers in the scope of ASC 606, is presented for the years ended December 31:

	2022	2021
Non-interest income:		
Members' shares service charges and other fees		
Deposit account service fees (1)	$ 13,307	$ 11,629
Debit card interchange income (1)	10,434	17,558
Other fee income (1)	447	397
Total fee income	24,188	29,584
Mortgage servicing and loan fees		
Credit card interchange income (1)	2,194	1,977
Mortgage servicing rights (2)	9,491	7,736
Other loan fees (2)	3,904	6,472
Total mortgage servicing and loan fees	15,589	16,185
Gain on sale of mortgage loans (2)	8,758	53,348
Investment services and insurance fees – commissions (2)	7,327	9,860
Other non-interest income (loss) (2)	3,383	7,437
Total non-interest income	$ 59,245	$ 116,414

(1) Within the scope of ASC 606
(2) Outside the scope of ASC 606