CHEVRON FEDERAL CREDIT UNION
Concord, California

FINANCIAL STATEMENTS
December 31, 2023 and 2022

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CONTENTS

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Chevron Federal Credit Union
Concord, California

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 and Note 3 to the consolidated financial statements, the Credit Union changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that 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 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 Chevron Federal Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chevron Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Los Angeles, California
March 7, 2024

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 438,396	$ 215,658
Investments		
Available-for-sale	17,018	416,521
Equity securities	76,617	76,617
Restricted stock	16,153	16,153
Loans to members, net	4,008,993	4,002,434
Accrued interest receivable	7,779	8,815
National Credit Union Share Insurance Fund (NCUSIF) deposit	33,641	32,236
Derivative assets	43,300	61,442
Other assets	26,573	25,238
	$ 4,668,470	$ 4,855,114
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,983,563	$ 3,947,968
Derivative liabilities	4,103	-
Short term borrowings	-	153,000
Accrued expenses and other liabilities	74,687	96,396
Total liabilities	4,062,353	4,197,364
Commitments and contingent liabilities		
Members' equity		
Retained earnings	606,189	664,698
Accumulated other comprehensive income (loss)	(72)	(6,948)
Total members' equity	606,117	657,750
	$ 4,668,470	$ 4,855,114

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF OPERATIONS
For the years ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Interest income		
Interest on loans to members	$ 152,607	$ 127,820
Interest on investments and cash equivalents	20,473	5,185
	173,080	133,005
Interest expense		
Dividends on members' shares	118,753	42,035
Interest on borrowed funds	717	1,034
Derivative interest (income) expense	(22,202)	1,981
	97,268	45,050
Net interest income	75,812	87,955
Provision for credit losses	7,176	9,590
Net interest income after provision for credit losses	68,636	78,365
Non-interest income		
Change in fair value of derivatives	(21,195)	70,719
Other non-interest income	9,697	8,949
	(11,498)	79,668
Non-interest expenses		
Salaries and benefits	47,589	45,263
Operations	24,849	23,977
Occupancy	2,070	2,754
	74,508	71,994
Net income (loss)	$ (17,370)	$ 86,039

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Net income (loss)	$ (17,370)	$ 86,039
Other comprehensive income (loss)		
Unrealized holding gain (loss) on investments classified as available-for-sale arising during the year	6,876	(5,290)
Comprehensive income (loss)	$ (10,494)	$ 80,749

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
For the years ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, January 1, 2022	$ 578,659	(1,658)	577,001
Net income	86,039	-	86,039
Net change in unrealized gain (loss) on available-for-sale investments	-	(5,290)	(5,290)
Balance, December 31, 2022	664,698	(6,948)	657,750
Cumulative effect of the adoption of ASC 326	(44,339)	-	(44,339)
Adjusted January 1, 2023	620,359	(6,948)	613,411
Net income (loss)	(17,370)	-	(17,370)
Net change in unrealized gain (loss) on available-for-sale investments	-	6,876	6,876
Equity acquired in merger	3,200	-	3,200
Balance, December 31, 2023	$ 606,189	$ (72)	$ 606,117

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Cash flows from operating activities		
Net income (loss)	$ (17,370)	$ 86,039
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	7,176	9,590
Depreciation and amortization	5,737	12,551
Purchase of new derivatives	(489)	-
Change in fair value of derivatives	21,195	(70,719)
Change in collateral position	(21,610)	55,140
Net change in:		
Accrued interest receivable	1,036	(631)
Other assets	(1,162)	(10,228)
Accrued expenses and other liabilities	(175)	19,097
Net cash (used in) provided by operating activities	(5,662)	100,839
Cash flows from investing activities		
Cash acquired in merger	17,029	-
Proceeds from maturities and paydowns of available-for-sale investments	403,946	217,092
Net funding of loans to members	(53,771)	(614,423)
Increase in the National Credit Union Share Insurance Fund deposit	(1,405)	(1,160)
Purchases of property and equipment	(1,048)	(3,230)
Net cash provided by (used in) investing activities	364,751	(401,721)
Cash flows from financing activities		
Net increase in members' shares	16,649	93,722
Net (repayment of) proceeds from short term borrowings	(153,000)	153,000
Net cash (used in) provided by financing activities	(136,351)	246,722
Increase (decrease) in cash and cash equivalents	222,738	(54,160)
Cash and cash equivalents at beginning of year	215,658	269,818
Cash and cash equivalents at end of year	$ 438,396	$ 215,658
Supplemental cash flow information		
Dividends paid on members' shares	$ 118,753	$ 42,035

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Chevron Federal Credit Union (Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, including employees and retirees of Chevron Corporation, its wholly owned subsidiaries, selected affiliated companies of Chevron Corporation, and selected contractors of Chevron Corporation; employees of Bechtel Corporation, its wholly owned subsidiaries and affiliated companies; employees of other select companies; members of several non-profit associations; persons who live, work, worship or attend school in select areas of San Francisco, CA and Frederick County, MD; and family of Credit Union members. The field of membership is defined in the Credit Union's Charter.

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

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

Cash Flows: Cash and cash equivalents include cash, certificates of deposit, deposits with other financial institutions, and treasury securities with maturities of less than 90 days. Net cash flows are reported for member loan and share transactions.

Investments: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or accretion of discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses – Debt Securities Available-For-Sale: When the fair value of an AFS debt security falls below the amortized cost basis, it is evaluated to determine if any of the decline in value is attributable to credit loss. Decreases in fair value attributable to credit loss would be recorded directly to earnings with a corresponding allowance for credit losses, limited by the amount that the fair value is less than the amortized cost basis. If the credit quality subsequently improves the allowance would be reversed up to a maximum of the previously recorded credit losses.

If the Credit Union intends to sell an AFS debt security in an unrealized loss position, or if it is more likely than not that the Credit Union will be required to sell the security prior to recovering the amortized cost basis, the entire fair value adjustment would be immediately recognized in earnings with no corresponding allowance for credit losses. As of December 31, 2023 and 2022, the Credit Union has determined that the unrealized loss positions in AFS debt securities were not the result of credit losses, and therefore an allowance for credit losses was not recorded.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Securities: Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Equity investments include our Visa Class B share holdings, which do not have a readily determinable fair value. For equity investments without readily determinable fair values, when the Credit Union executes a transaction of these securities, we use valuation techniques permitted under ASC 820, *Fair Value Measurement,* to evaluate the observed transaction(s) and adjust the carrying value.

Restricted Stock: The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB Stock is carried at cost, classified as restricted stock, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Borrowings: The Credit Union may borrow from the Federal Home Loan Bank, on either a short-term or long-term basis, up to 25% of pledged assets provided that adequate collateral has been pledged. There were $0 and $153,000 in outstanding advances from the Federal Home Loan Bank of San Francisco at December 31, 2023 and 2022 respectively. The Credit Union had a total borrowing capacity at FHLB of $1,324,165 and $1,288,556 with pledged assets of $2,501,297 and $2,637,960, as of December 31, 2023 and 2022, respectively.

Additionally, the Credit Union has available lines of credit with the Federal Reserve Overnight Discount Window based on pledged investments and U.S. Treasury cash equivalents of $84,566 and $159,417 as of December 31, 2023 and 2022, Wells Fargo of $35,000 and JP Morgan Chase of $20,000 as of December 31, 2023 and 2022. There were no draws on these lines at either year end.

Loans to Members: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the principal balance outstanding less deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method based on contract terms.

Interest income accrual on loans is discontinued at the time the loan is 90 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not received, for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Credit Union's business activity is with its members who are or were employed by Chevron Corporation, Bechtel Corporation, or affiliated companies, and thus their business could be impacted by a sustained decrease in oil and gas prices. The majority of the Credit Union's loan portfolio is comprised of mortgage loans.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Loans: The allowance for credit losses (ACL), under ASC 326, is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged off. Prior to the adoption of ASC 326, the allowance was calculated under the incurred loss methodology as reflected in the figures reported as of December 31, 2022.

Management estimates the ACL using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as changes in environmental conditions, such as changes in property values, or other relevant factors.

When measuring the ACL on a collective basis, the Credit Union categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and the relevant risk characteristics are as follows:

Mortgage – Real estate loans consist of mortgage loans and home equity loans made to members using their primary residence or rental properties as collateral. Changes in real property values and the borrower's repayment capacity are key risk factors that may affect the collectability of these loans, along with the condition of the collateral if foreclosed. The ACL evaluation considers credit score, loan-to-value (LTV), collateral value, delinquency status. The Mortgage model utilizes a probability of default (PD), loss given default (LGD) and exposure at default (EAD) methodology, considering the value of real estate collateral obtained through the CU's automated valuation model (AVM) and comparing to Freddie Mac Home Price Index (FMHPI) long term historical trend line. The CU evaluated loss history by segment and applies that loss rate to the negative equity for each segment.

Solar – Solar loans are loans to members for the purchase and installation of solar products on residences, which are primarily sourced through specific installers or programs. The ACL evaluation considers the history with the installer and the related losses realized on associated loans, as well as delinquency status. The Solar model is a PD/LGD model utilizing the historical losses by vintage for each installer segment, and then forecasts the future loss periods based on the trend by installer. For installers with no loss history, an adjusted average rate is used.

Vehicle – Automobile loans include loans to members collateralized with new and used vehicles, including recreational vehicles. The borrower's repayment capacity is a key risk factor that may affect the collectability of these loans, along with the nature, value and condition of the collateral if repossessed. The ACL evaluation considers credit score, term, and delinquency status. The Vehicle model is a PD/LGD model which forecasts the historical loss rate over the average life of the loans, which is generated using historical CU data.

Other Consumer – These loans are mostly unsecured and typically have higher interest rates than secured loans to compensate for higher credit risk. The borrower's repayment capacity is the primary risk factor that affects the collectability of these loans due to the absence of collateral. These loans consist of personal lines of credit and other secured and unsecured loans. The ACL evaluation considers credit score and delinquency status. The Other Consumer model is a PD/LGD model which forecasts the historical loss rate over the average life of the loans, which is generated using historical CU data.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Unfunded Loan Commitments: The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Credit Union. The ACL on these off-balance sheet credit exposures is a component of other liabilities and adjusted through credit loss expense.

NCUSIF Deposit: The National Credit Union Share Insurance Fund (NCUSIF) deposit is in accordance with National Credit Union Administration (NCUA) regulations and requires the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. Generally, the NCUSIF deposit is non-interest bearing. However, a special dividend may be paid on the NCUSIF deposit if the NCUSIF maintains a predetermined amount of reserves.

NCUSIF Insurance Premiums: A credit union is required to pay an annual insurance premium expense equal to one-twelfth of 1% of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

Special assessments will be determined by the NCUA Board and will be expensed at the date they are assessed by the NCUA Board. No such premiums were assessed or paid during 2023 or 2022.

Property and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives of approximately 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to seven years.

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Credit Union leases certain locations and equipment. The Credit Union records leases on the statement of financial condition in the form of a lease liability for the present value of the future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. This discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. The Credit Union does not record leases that are classified as short term (less than one year).

Derivatives: At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union’s intentions and belief as to its likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) an instrument with no hedging designation (stand-alone derivative). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, is recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting or that have no hedging designation are reported in current earnings as non-interest income.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net cash settlements on interest rate cap and swap derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements and amortization of premium on interest rate cap and swap derivatives that do not qualify for hedge accounting are reported in interest expense. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged. Periodic market value adjustments are reported in non-interest income.

The Credit Union enters into economic derivative hedges that mitigate interest rate risk but do not qualify as fair value or cash flow hedges. Changes in the fair value of these instruments are recognized in earnings.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are recognized as separate components of members' equity.

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

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

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Credit Union recorded a net decrease to retained earnings of $44.3 million as of January 1, 2023 for the cumulative effect of adopting ASC 326. Refer to Note 3 for details.

Along with the adoption of ASC 326 on January 1, 2023, the Credit Union adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (TDR) and Vintage Disclosures*. The standard eliminates the accounting guidance for TDRs and requires determination of whether a modification results in a new loan or a continuation of an existing loan, as well as expands disclosures related to modifications. The Credit Union elected the option to apply a modified retrospective transition method.

The adoption of ASU 2022-02 did not have a material impact on the financial statements.

(Continued)

(Dollar amounts in thousands)

NOTE 2 – INVESTMENTS

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
2023				
Available-for-sale				
Adjustable rate mortgage-backed securities:				
Residential	$ 17,095	$ 29	$ (106)	$ 17,018
Total available-for-sale	$ 17,095	$ 29	$ (106)	$ 17,018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
2022				
Available-for-sale				
U.S. Treasury and federal agency	$ 402,424	$ -	$ (6,584)	$ 395,840
Adjustable rate mortgage-backed securities:				
Residential	21,037	21	(377)	20,681
Total available-for-sale	$ 423,461	$ 21	$ (6,961)	$ 416,521

All U.S. Treasury and Agency securities that are not classified as cash and cash equivalents and federal agency securities mature in one to five years. The Credit Union’s adjustable and fixed rate mortgage-backed securities have a variety of maturity dates. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalty.

There were no sales of available for sale investments during the years ending December 31, 2023 and 2022.

There were no investments pledged as collateral at December 31, 2023 and 2022.

At December 31, 2023, Mortgage-backed securities with a fair value of $11,710 were in an unrealized loss position of $106 that was outstanding greater than 12 months. At December 31, 2022, US Treasury and Agency securities with a fair value of $395,840 were in an unrealized loss position of $6,584 that was outstanding greater than 12 months. All other securities were in an unrealized loss position less than 12 months.

At December 31, 2023 and 2022, all of the available for sale investments held by the Credit Union were issued by the U.S. Treasury and U.S. government-sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae, Freddie Mac and FHLB. The Credit Union has the ability to hold and does not have the intent to sell and it is more likely than not that the Credit Union will not be required to sell a security in a net loss position. The decline in fair value is largely due to changes in interest rates and market conditions.

(Continued)

(Dollar amounts in thousands)

NOTE 2 – INVESTMENTS (Continued)

Equity securities consist of the Credit Union's Visa Class B shares acquired through participation in the Visa network. During the year ended December 31, 2023, there were no sales of Visa Class B shares. During the year ended December 31, 2020, the Credit Union sold 377 thousand shares of Visa Class B shares for $73,502, establishing observable transactions at which to value the Visa Class B holdings.

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans at year end were as follows:

	2023	2022
Mortgage loans		
First mortgage	$ 3,078,113	$ 3,063,802
Equity loans	126,065	98,836
	3,204,178	3,162,638
Solar loans	610,439	657,671
Vehicle loans	179,081	187,988
Other consumer loans	159,583	100,627
	4,153,281	4,108,924
Less: Net deferred loan fees	(73,301)	(83,336)
Allowance for credit losses	(70,987)	(23,154)
Loans, net	$ 4,008,993	$ 4,002,434

Activity in the allowance for credit losses by portfolio segment is summarized as follows for the years ended December 31, 2023 and 2022:

	Mortgage	Vehicle	Other Consumer	Solar	Total
Balance at January 1, 2022	$ 5,854	$ 2,140	$ 3,408	$ 6,100	$ 17,502
Provision for loan losses	704	-	1,138	7,748	9,590
Loans charged off	-	(318)	(1,102)	(3,080)	(4,500)
Recoveries	-	29	269	264	562
Balance at December 31, 2022	6,558	1,851	3,713	11,032	23,154
Impact of adopting ASC 326	12,953	312	5,171	25,903	44,339
Balance at January 1, 2023	19,511	2,163	8,884	36,935	67,493
Provision for credit losses on loans	541	141	6,013	481	7,176
ASC 326 reserves on PCD loans	1,652	52	53	-	1,757
Loans charged off	-	(259)	(2,637)	(3,574)	(6,470)
Recoveries	-	42	177	812	1,031
Balance at December 31, 2023	$ 21,704	$ 2,139	$ 12,490	$ 34,654	$ 70,987

(Continued)

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

In accordance with pre-ASC 326 guidance, the following table presents the balance in the allowance for loan losses and the recorded investment in loans based on impairment method as of December 31, 2022:

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
2022			
Allowance for loan losses attributable to:			
Mortgage loans			
First mortgage loans	$ 132	$ 6,224	$ 6,356
Equity loans	2	200	202
Total mortgage loans	134	6,424	6,558
Vehicle loans	-	1,851	1,851
Solar loans	-	11,032	11,032
Other consumer loans	-	3,713	3,713
Total allowance for loan losses	$ 134	$ 23,020	$ 23,154
Loans:			
Mortgage loans			
First mortgage loans	$ 5,206	$ 3,058,596	$ 3,063,802
Equity loans	119	98,717	98,836
Total mortgage loans	5,325	3,157,313	3,162,638
Vehicle loans	-	187,988	187,988
Solar loans	-	657,671	657,671
Other consumer loans	-	100,627	100,627
Total loans	$ 5,325	$ 4,103,599	$ 4,108,924

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

	Mortgage
Real estate:	
First Mortgage	$ 684
Total	$ 684

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

In accordance with pre-ASC 326 guidance, the following table presents information related to impaired loans by class of loans as of the year ended December 31, 2022:

	Average Impaired Loans	Monthly Unpaid Principal Balance	Recorded Investment	Allowance Allocated
2022				
With no related allowance recorded:				
Mortgage loans				
First mortgage loans	$ 3,126	$ 3,985	$ 3,980	$ -
Equity loans	201	89	91	-
Subtotal	3,327	4,074	4,071	-
With an allowance recorded:				
Mortgage loans				
First mortgage loans	1,222	1,221	1,220	132
Equity loans	38	30	31	2
Subtotal	1,260	1,251	1,251	134
Total	$ 4,587	$ 5,325	$ 5,322	$ 134

Recorded investment in loans is the unpaid principal balance less net deferred fees and expenses. Interest income on impaired loans was not material for the years ending December 31, 2022.

The following table presents the amortized cost and recorded investment of nonaccrual loans as of December 31, 2023 and 2022, respectively:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2023	2022	2023	2022
Mortgage loans				
First mortgage	$ 3,527	$ 1,883	$ -	$ -
Equity	-	26	-	-
Vehicle loans				
New	465	94	-	-
Used	301	297	-	-
Solar	3,542	2,972	-	-
Other Consumer loans				
Secured	959	484	-	-
Unsecured	830	522	-	-
Total	$ 9,624	$ 6,278	$ -	$ -

The Credit Union has allocated $134 of specific reserves to members whose loan terms have been modified in troubled debt restructurings (TDR's) as of December 31, 2022, respectively. Loans considered as TDR's at December 31, 2022 totaled $1,420, respectively. The Credit Union has not committed to lend additional amounts to members with outstanding loans that are classified as troubled debt restructurings. During the year ended December 31, 2022, there were 11 loans modified as troubled debt restructurings, respectively.

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Credit Union did not have any loans to borrowers that were experiencing financial difficulty and were modified during 2023.

The Credit Union uses a number of factors to measure credit quality for its loan portfolio, however, it predominantly relies upon payment performance to indicate credit quality.

The following table represents the aging of the amortized cost in past due loans as of December 31, 2023 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Mortgage loans						
First mortgage	$ 26,431	$ 5,059	$ 3,527	$ 35,017	$ 3,041,572	$ 3,076,589
Equity loans	573	191	-	764	128,553	129,317
Vehicle loans						
New	545	209	465	1,219	111,559	112,778
Used	638	331	301	1,270	65,436	66,706
Solar	4,044	1,494	3,542	9,080	524,488	533,568
Other consumer loans						
Secured	1,044	483	959	2,486	83,588	86,074
Unsecured	728	649	830	2,207	72,741	74,948
	$ 34,003	$ 8,416	$ 9,624	$ 52,043	$ 4,027,937	$ 4,079,980

The following table represents the aging of the recorded investment in past due loans as of December 31, 2022 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Mortgage loans						
First mortgage	$ 15,521	$ 1,589	$ 1,883	$ 18,993	$ 3,042,183	$ 3,061,176
Equity loans	588	227	26	841	100,670	101,511
Vehicle loans						
New	385	149	94	628	123,627	124,255
Used	466	31	297	794	63,276	64,070
Solar	3,720	1,955	2,972	8,647	564,722	573,369
Other consumer loans						
Secured	323	325	484	1,132	35,473	36,605
Unsecured	659	411	522	1,592	63,010	64,602
Total	$ 21,662	$ 4,687	$ 6,278	$ 32,627	$ 3,992,961	$ 4,025,588

(Continued)

(Dollar amounts in thousands)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Credit Union considers the performance of the consumer loan portfolio and its impact on the allowance for loan losses. For consumer loan classes, the Credit Union evaluates credit quality for members based on borrower activity. In accordance with pre-ASC 326 guidance, the following table presents the recorded investment in consumer loans based on payment activity as of December 31, 2022:

	Not Classified	Extensions	Workout	Bankruptcy	>90 Days Past Due	Total
2022						
Vehicle loans						
New	$ 119,090	$ 4,948	$ -	$ 123	$ 94	$ 124,255
Used	60,581	3,165	-	27	297	64,070
Solar	562,766	7,309	-	322	2,972	573,369
Other consumer loans						
Secured	33,533	2,435	-	154	484	36,606
Unsecured	61,277	2,710	20	73	522	64,602
Total	$ 837,247	$ 20,567	$ 20	$ 699	$ 4,369	$ 862,902

NOTE 4 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

> *Level 1* – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> *Level 2* – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> *Level 3* – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Equity Securities - The fair values for equity securities are determined based on observed transactions (Level 1).

Investments - The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

(Continued)

(Dollar amounts in thousands)

NOTE 4 – FAIR VALUE (Continued)

Collateral Dependent Loans - A collateral dependent loan is typically an individually evaluated loan for ACL purposes in which repayment is expected to be provided solely by the underlying collateral. The value of the underlying collateral is generally based on recent mortgage loan appraisals. These appraisals primarily utilize the comparable sales approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Collateral dependent loans are evaluated on a monthly basis and the related ACL adjusted accordingly. These fair values are obtained from external sources and are not generally adjusted by management except for costs to sell of 6 - 8%, and unobservable fair value inputs are not available to management.

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Credit Union has elected the fair value option, are summarized below:

		Fair Value Measurements at December 31 Using		
2023	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Investment securities available-for-sale				
Adjustable rate mortgage-backed securities:				
Residential	$ 17,018	$ -	$ 17,018	$ -
Equity securities	$ 76,617	$ 76,617	$ -	$ -
Derivative assets				
Caps	$ 9,827	$ -	$ 9,827	$ -
Swaps	33,473	-	33,473	-
Financial liabilities				
Derivative liabilities				
Swaps	$ 4,103	$ -	$ 4,103	$ -

(Continued)

(Dollar amounts in thousands)

NOTE 4 – FAIR VALUE (Continued)

		Fair Value Measurements at December 31 Using		
2022	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Investment securities available-for-sale				
U.S. Treasury and federal agency	$ 395,840	$ 395,840	$ -	$ -
Adjustable rate mortgage-backed securities:				
Residential	20,681	-	20,681	-
Fixed rate mortgage-backed Securities:				
Residential	-	-	-	-
Total investment securities available-for-sale	$ 416,521	$ 395,840	$ 20,681	$ -
Equity securities	$ 76,617	$ 76,617	$ -	$ -
Derivative assets				
Caps	$ 14,890	$ -	$ 14,890	$ -
Swaps	46,552	-	46,552	-
Financial liabilities				
Derivative liabilities				
Swaps	$ -	$ -	$ -	$ -

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

There were no loans measured for impairment using fair value of collateral at December 31, 2023 and 2022.

NOTE 5 – PROPERTY AND EQUIPMENT

Year-end property and equipment were as follows:

	2023	2022
Buildings	$ 871	$ 871
Leasehold improvements	1,632	1,680
Furniture and equipment	16,842	16,616
	19,345	19,167
Less accumulated depreciation	(16,051)	(15,155)
	$ 3,294	$ 4,012

Depreciation expense was $1,766 and $2,232 for 2023 and 2022, respectively.

(Continued)

(Dollar amounts in thousands)

NOTE 6 – MEMBERS' SHARES

Members' shares are summarized as follows:

	2023	2022
Regular shares	$ 316,897	$ 420,921
Share draft accounts	373,756	412,786
Money market accounts	1,791,345	2,125,185
Individual retirement accounts	24,571	30,548
Share certificates	1,407,469	900,708
Individual retirement certificates	69,525	57,820
	$ 3,983,563	$ 3,947,968

Share certificates and individual retirement certificates of $250 or more are $507,431 and $365,398 at December 31, 2023 and 2022, respectively.

Scheduled maturities of share certificates and individual retirement certificates for the next five years are as follows:

2024	$ 1,401,273
2025	30,980
2026	17,609
2027	18,337
2028	8,795
	$ 1,476,994

NOTE 7 – EMPLOYEE BENEFIT PLANS

The Credit Union has a 401(k) benefit plan which allows employee contributions. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Contributions for 2023 and 2022 were $2,553 and $2,259, respectively.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union originates and portfolios fixed rate mortgage loans with terms of 30, 20, 15, and 10 years, hybrid adjustable rate mortgages that first reprice in as long as 10 years, and solar loans with maturities ranging from 10 to 20 years. These are funded by deposits with short duration. The duration mismatch poses earnings exposure in rising interest rate environments. To mitigate the negative effects of rising interest rates, the Credit Union enters into interest rate caps and swaps to limit the impact of interest rate increases on its variable rate sources of funds. Counterparties have investment grade credit ratings. The Credit Union enters into cap contracts to receive payments in the event that interest rate exceeds the strike price and swap contracts to pay a fixed rate and receive a variable rate under terms as disclosed within the table below. There are collateral arrangements in place that serve to minimize counterparty risk. These derivative instruments do not meet hedge accounting requirements. The undersigned derivative instruments are recognized on the statement of financial condition at fair value, with changes in fair value recorded in earnings. Net cash settlements and amortization of premium on these derivatives are reported in interest expense.

(Continued)

(Dollar amounts in thousands)

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The outstanding balances of derivatives cap and swap instruments as of December 31, 2023 and 2022 are as follows:

Interest Rate Derivatives	Notional Amount	Fair Value	Weighted Average Rate	Weighted Average Years Remaining
2023				
Derivative Assets:				
Caps	$ 300,000	$ 9,827	SOFR strike rates from 1.17% to 7.00% for a weighted average rate of 3.32%	2.88
Swaps	525,000	33,473	Pay fixed rate range from 1.03% to 3.10% for a weighted average rate of 2.06%. Receive variable rate range from 5.38% to 5.63% for a weighted average rate 5.53% based on SOFR.	4.11
Total	$ 825,000	$ 43,300		3.66
Derivative Liabilities:				
Swaps	$ 125,000	$ 4,103	Pay fixed rate range from 4.07% to 4.47% for a Weighted average rate of 4.25%. Receive variable rate range from 5.38% to 5.38% for a weighted average rate 5.38% based on SOFR.	4.77
Total	$ 125,000	$ 4,103		4.77

(Dollar amounts in thousands)

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Interest Rate Derivatives	Notional Amount	Fair Value	Weighted Average Rate	Weighted Average Years Remaining
2022				
Derivative Assets:				
Caps	$ 225,000	$ 14,890	3-month LIBOR strike rates from 1.17% to 2.83% for a weighted average rate of 2.09%	3.21
Swaps	650,000	46,552	Pay fixed rate range from 1.03% to 3.10% for a weighted average rate of 1.97%. Receive variable rate range from 4.08% to 4.77% for a weighted average rate 4.54% based on 3-month LIBOR and SOFR.	4.25
Total	$ 875,000	$ 61,442		3.98
Derivative Liabilities:				
Swaps	$ -	$ -		-
Total	$ -	$ -		-

The fair value of the interest rate caps and swaps at December 31, 2023 and 2022 is reflected as a separate line item in the asset and liability sections of the statement of financial condition. The change in fair value resulted in $21,195 of expense and $70,719 of income for 2023 and 2022 respectively, and is included in non-interest income. The amortization of the interest rate cap premium totaled $1,539 and $1,553 for 2023 and 2022 respectively, and is included as a component of interest expense. Net interest rate swap cash flows totaled ($26,776) and ($479), for the years ended December 31, 2023 and 2022, respectively, and are included as a component of interest expense.

The Credit Union and its counterparty maintain a cash collateral account to secure their derivative positions, which is settled daily. At December 31, 2023, the Credit Union held cash deposits from its counterparty of $41,850, recorded within other liabilities. At December 31, 2022, the Credit Union held cash deposits from its counterparty of $63,460, recorded within other liabilities.

NOTE 9 – MEMBERS' EQUITY

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

(Continued)

NOTE 9 – MEMBERS' EQUITY (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate whether or not the Credit Union will be considered "complex" under the regulatory framework based on the asset size threshold exceeding $500 million, which the Credit Union exceeded at December 31, 2023 and 2022.

During 2022, the Credit Union adopted the new risk-based capital ratio (RBCR) Framework, as defined in 12 CFR 702.104 (d). Under this framework, credit unions must maintain a net worth ratio of at least 7% and a risk-based capital ratio of 10% to be categorized as "well capitalized." The Credit Union's RBCR ratios as of December 31, 2023 and 2022 were 20.46% and 21.42%, which exceeded its regulatory requirements for well-capitalized of 10.0% each year. Management believes, as of December 31, 2023, that the Credit Union meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent call reporting period, and December 31, 2022, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" during 2023 and 2022, the Credit Union must maintain a minimum net worth ratio of 7.0% of assets and exceed its RBCR, as applicable. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Actual and required capital amounts (in thousands) and ratios are presented below at year end:

	Actual		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio
2023				
Net worth to total assets	$ 635,896	13.53%	$ 326,793	7.0%
Risk-based capital ratio	641,070	20.46%	466,847	10.0%
2022				
Net worth to total assets	$ 664,784	13.69%	$ 339,858	7.0%
Risk-based capital ratio	653,684	21.42%	485,511	10.0%

NOTE 10 – RELATED-PARTY TRANSACTIONS

The Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022 are $3,330 and $5,451, respectively. Shares from related parties at December 31, 2023 and 2022 amounted to $6,901 and $6,641, respectively.

NOTE 11 – OFF-BALANCE SHEET ACTIVITIES

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

(Continued)

(Dollar amounts in thousands)

NOTE 11 – OFF-BALANCE SHEET ACTIVITIES (Continued)

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

Unfunded loan commitments under lines of credit are summarized as follows:

	2023	2022
Home equity	$ 162,064	$ 137,132
Other Consumer	111,990	113,190
	$ 274,054	$ 250,322

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future fundings to existing members. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 12 – LEASES

The Credit Union leases certain branch premises under operating lease agreements. The leases expire on various dates through 2034 and certain leases have renewal options for up to ten years. The Credit Union includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Credit Union will exercise the option. The Credit Union has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases). At December 31, 2023, minimum commitments under these non-cancellable leases with initial or remaining terms of one year or more are as follows:

2024	$ 1,168
2025	1,214
2026	1,243
2027	1,234
2028	1,224
Thereafter	6,056
Total undiscounted lease payments	12,139
Less: imputed interest	(4,180)
Net lease liabilities	$ 7,959

(Continued)

(Dollar amounts in thousands)

NOTE 12 – LEASES (Continued)

Leases are classified as operating at the lease commencement date. Lease expenses for operating leases are recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Rent expense under operating leases was $1,672 and $2,071 for the years ended December 31, 2023 and 2022, respectively.

The Credit Union has elected to use the FHLB standard credit program cost of borrowing for a like term at inception of the lease or adoption of ASC842.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications for the year ending December 31, 2023 are as follows:

Balance Sheet Classification	2023
Right-of-use assets:	
Operating lease - Accrued interest receivable and other assets	$ 6,814
Lease liabilities:	
Operating lease - Accrued interest payable and other liabilities	$ 7,959