Affinity®
Federal Credit Union

2022 ANNUAL REPORT

Achieving Wellbeing Together

Contents

About Affinity

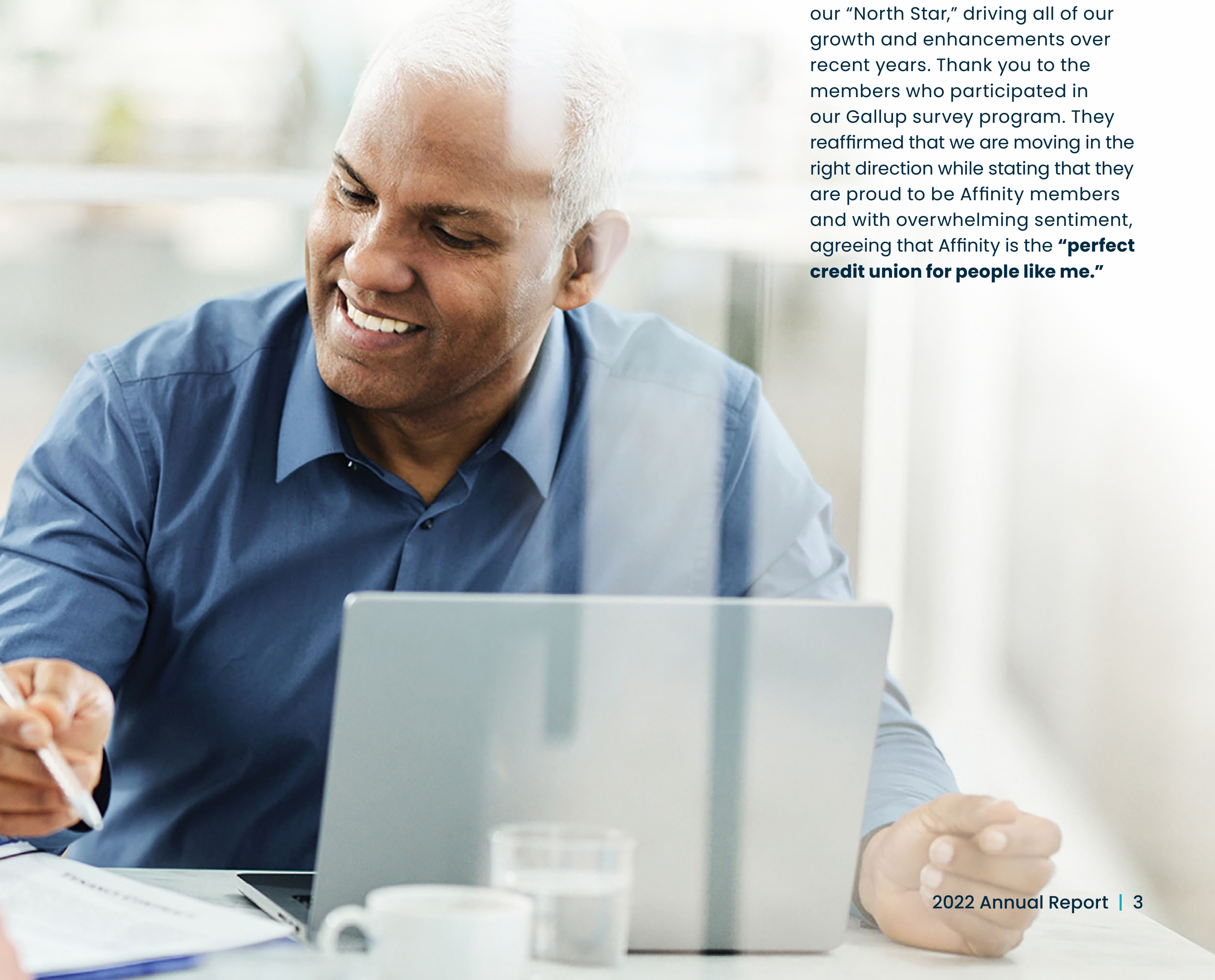
Affinity is a full-service financial institution, member owned and community focused, with a mission to nurture your financial wellbeing. With more than 20 branches across the tri-state area, Affinity is the largest credit union headquartered in the state of New Jersey, proudly ranking in the top 2% of all credit unions in terms of asset size.[1] The Affinity difference is about people helping people, going above and beyond, always here to serve you better, and understand what **YOU** need to make your unique dreams a reality.

To our fellow and valued members,

Making a difference. Our success is measured in the difference we make in our members' lives and the unique dreams that we make possible. Improving member financial wellbeing is critical to the bond we have with our membership, but making a real impact in our communities is also deeply embedded in our DNA. Over the past year, we have increased our organizational capabilities to support our members as they continue to face a challenging economic environment, one where inflation has materially impacted them at both the pump and grocery store.

As we grow as an organization, now over 229,000 members strong, we remain committed to the founding credit union principle of **"people helping people."** By listening to the shared voice of our members, combined with this guiding principle, our credit union continually evolves to meet the needs of the membership. We fulfill these needs in many ways, but the most impactful improvements focus on training our team, volunteering in our communities and providing the financial tools, advice and guidance to those who need it most. As we continue to grow, the benefit to our communities keeps pace, mutually strengthening as your family, friends and neighbors join as well.

Member financial wellbeing remains our "North Star," driving all of our growth and enhancements over recent years. Thank you to the members who participated in our Gallup survey program. They reaffirmed that we are moving in the right direction while stating that they are proud to be Affinity members and with overwhelming sentiment, agreeing that Affinity is the **"perfect credit union for people like me."**



Making Dreams

Being a **difference maker** is core to what drives our every interaction, and we remain committed to continually improving the skills and knowledge of teammates who are the dream makers for our members. It is paramount to ensure that our teammates are best equipped to understand and support the invaluable trusting relationship that has been built through supporting member financial wellbeing.

Many of our frontline teammates have completed training over the last year that helps them engage in more effective conversations—asking the right questions that lead to thriving member outcomes. We are also conducting a financial consultant development program for teammates that will further support the needs of members and our mission.

These are essential steps to understanding our members' financial goals and motivations. We envision a future where your unique financial dreams are realized, and we have measurably improved your financial wellbeing by being a part of that journey. Expertly trained and certified staff represent just one of the cornerstones we are laying to achieve this vision.

We also believe that financial education is critical to the long-term financial health and wellbeing of our members. We have continued to offer a wide range of educational resources, including seminars, webinars and online courses, with an unprecedented number of members utilizing these tools and participating in these events in 2022. We have also made it easier to find the information needed to make sound financial choices by redesigning our website—providing an online experience that now mirrors the best-in-class interactions our members are used to from their transactions and conversations with our team in person, over the phone and digitally.

Ensuring your financial journey remains focused on your goals is another way that we continue to support member financial wellbeing. The member experience is still a top priority as we improve our systems and capabilities. A few examples of this include real-time contact preference updates, as well as a new frequently-asked-questions section and secure email system within Online Banking.

In addition, many members have asked for an easier way to manage their card disputes. We listened, and now members can easily track the progress of their dispute online all the way through resolution. This enhancement, combined with improvements to our fraud notification and handling capabilities, has resulted in two-thirds of members reporting that they are extremely satisfied with the outcomes of their fraud-related resolution efforts.

We have also enhanced the account-opening process to streamline ID verification capabilities, ensuring that applying for membership, additional accounts and loans can now happen in record time, all without compromising security.

Providing the support our members need, when and how they need it, continues to be a focus as we build and expand our branch network. We are proud of our new branch in Madison, New Jersey, and the relocation of our Oradell, New Jersey, location this year. We remain open to and appreciative of the feedback you share with us about potential new branch locations, and Affinity is committed to the ongoing growth of our community and impact through these new locations.

Making Community

We are especially proud of how we continue to improve the communities in which our members live, work and play. Our 2022 culminated with over 225 employees participating in the first Impact Day, our "people helping people" event at a local farm. These volunteers harvested squash and packaged potatoes, setting a record for the largest harvest in a single day at the farm, with 239,600 pounds of produce that correlated to 938,000 servings to communities in need throughout the footprint of local nonprofit America's Grow-a-Row!

This single day of service is a shining example of what we can all achieve when we work together as members, but it is not the whole story of Affinity's volunteerism. As an organization, Affinity volunteers donated nearly 1,000 hours of their time in 2022, with a value of almost $30,000 given back to our communities, supporting dozens of organizations and impacting countless lives.

239,600

pounds of produce harvested in a single day, a record set by our volunteers.

938,000

servings to communities in need from our harvest.

1,000

volunteer hours supporting and serving countless lives in need.

Making Moments

Affinity helps communities throughout New Jersey, New York and Connecticut, as well as across the nation, through the independent Affinity Foundation, a 501(c)(3) nonprofit charitable organization. Through the Foundation, we invest in local organizations that deliver programs aimed at eliminating the cycle of poverty in our communities. We believe financial independence empowers all people in pursuit of educational, employment and individual goals, and provides peace of mind for financially disadvantaged individuals and their families.

"One day, you are a fully functioning employee making a significant contribution to your employer, and then the next day you are dismissed because of a disability [due to cancer]. Being on disability leave was financially challenging because it only compensated me for a portion of my income. After learning about the Member Relief Fund, my wife and I both started crying like babies over how wonderful and charitable people are. [After multiple medical bills] the grants that were given to us helped to alleviate the stress on our home equity loan... and we were able to buy a few more Christmas presents for our children. Without that grant, our Christmas would have been pretty meager. It's making a lot of difference in the lives of me and my family members."

Kris K., Member Relief Fund grant recipient, member since 2022

In 2022, as part of the Foundation's ongoing commitment to support local programs that serve disadvantaged populations and align with its three pillars of focus (education, financial wellbeing and healthcare), the Foundation launched its multiyear grants program. The Foundation has committed $360,000 to six organizations—America's Grow-a-Row, Community Hope, Homeless Solutions, The Midland Foundation, Norwescap, and Rutgers University Foundation—which is its biggest contribution since being founded in 2005.

This new program is in addition to our Foundation's heritage programs, which continue to support a variety of populations within the community. Its community grants program—granting more than $100,000 to organizations to support our communities—and Member Relief Fund sustained support last year for those members most in need, giving out almost $40,000. The annual scholarship program, which provides scholarships to deserving credit union student members who need financial help to reach their educational goals, issued $15,000 in scholarships as well. All of this was made possible by generous donors and ongoing fundraising efforts, including another successful Affinity Golf Invitational and the inaugural Rise and Inspire Gala.

Refer a Friend Program

$500,000

in new deposits

$800,000

in new loans

500

new members

800

new accounts

1,300

members emphasized their trust and belief in the cooperative spirit by successfully referring their friends and family

Making Strides

Our strength and ability to support the membership scales with our financial success—and, in turn, our members' success. Affinity saw one of the highest levels of member growth in our history in 2022, an increase of slightly more than 13% year over year.

Part of this growth was due to the launch of our automated incentive-based Refer a Friend program, designed to drive growth and reward member loyalty. In just four months, this program generated roughly $500,000 in new deposits, $800,000 in new loans, 500 new members and 800 new accounts. More than 1,300 members emphasized their trust and belief in the cooperative spirit by successfully referring their friendsand family. There is no stronger testimonial than referring those who are closest to you, and we are proud that our members choose to live the "people helping people" mantra by sharing the benefits of membership with friends and family.

We continue to look for opportunities to improve our connection to the community through our Foundation and by improving our products, services and rates based on how you want and need to partner with us. Whether you are sending a question to the Wellbeing and Your Wallet Podcast's #MemberMailbag, sharing your favorite wellbeing tips or connecting with us through our social communities, we want to hear from you!

Facebook

Instagram

LinkedIn

Twitter

All of these channels, plus our mobile and digital banking sites, represent the broader reach and community of the Affinity team. We are only a click away and remain poised to meet you where you need us most. Our sights are set on delivering best-in-class service at each and every opportunity.

The financial security and soundness of our organization remain unwavering thanks to our rigorously tested risk management protocols. We exceed the National Credit Union Administration's (NCUA) definition of "well capitalized" and remain fully compliant with all NCUA regulations. Affinity is prudent in our investment and credit decisions and follows a prescribed investment and risk management philosophy that assists in protecting your money. In addition, all members have insurance on deposits up to $250,000 through the National Credit Union Share Insurance Fund (NCUSIF), providing extra protection and peace of mind to you and your deposits here at Affinity. You can learn more about the financial state of Affinity in the "Consolidated Financial Statements" section of this annual report.

Looking back, we would like to thank all who have been supportive and welcoming during our leadership transition. Our former CEO, John T. Fenton, served Affinity for 27 years and was a critical proponent of the credit union movement during his tenure. We are humbled by the opportunity to build on all that was achieved over the past quarter-century plus and truly appreciate John's dedication and years of service.

Looking ahead, we remain committed to building on our successes and finding new ways to make a difference in our communities and in the lives of our members. In closing, we want to express our deepest gratitude to our members for your ongoing trust and cooperative spirit. It is an honor to serve you, and we are committed to continue working tirelessly on your behalf.

Sincerely,

Kevin Brauer | President & CEO
Affinity Federal Credit Union

Richard Meene | Board Chairman
Affinity Federal Credit Union

Products & Services from Affinity

PERSONAL AND BUSINESS ACCOUNTS
We offer a wide variety of checking and savings accounts to meet members' needs. This includes accounts that provide cash back and competitive rates.

CONVENIENT ACCOUNT ACCESS
Affinity offers over 20 convenient branch locations and nearly 30,000 fee-free ATMs you can use to make an unlimited number of withdrawals in our surcharge-free CO-OP Network.[2] With the help of our digital assistant, Wes, members have 24/7 self-service assistance for general inquiries, as well as Monday through Friday 7AM to 7PM, and Saturday 8AM to 5PM. Plus, members can access their accounts 24/7 with free[3] Online and Mobile Banking, including Mobile Deposit.

BUSINESS SOLUTIONS
Affinity offers a full line of products and services to support a member's business—often with better rates and lower fees than a bank. Affinity makes it easy for members to manage their business accounts online with a secure cash management platform, online and mobile check deposit, ACH payments, wire transfers and more. We provide commercial loans and lines of credit, commercial real estate loans and small business loans to assist our business members. Affinity's Business Banking Specialists and Commercial Loan Officers take the time to understand a business's goals and provide flexible borrowing options at competitive rates with a commitment to help business members meet cash flow needs and finance growth.

AFFINITY MORTGAGES
We provide guidance to help members find the best mortgage for their needs. At Affinity, we value building a long-term, trusted relationship that is created through our mortgages. Whether you are buying a home or looking to refinance, Affinity offers competitive rates on many types of mortgages in all 50 states.

INSURANCE
Through our affiliate, Members Alliance Insurance,[5] Affinity members can receive competitive insurance policies to protect a home, vehicle, business and more from the unexpected.

LOANS FOR EVERY NEED
Borrowing from Affinity is always the smart choice. We offer competitive rates, flexible repayment terms and knowledgeable staff to answer members' questions and timely approvals. We offer loans to meet every borrowing need.[4]

- Mortgages
- Home Equity
- Auto Loans
- Credit Cards
- Debt Consolidation
- Education
- Personal
- Business
- Line of Credit
- And More

1. Source: CUDATA.com
2. When you use an ATM not owned by us or part of our network, you may be charged a fee by the ATM operator, or any network used (and you may be charged a fee for a balance inquiry even if you do not complete a fund transfer.
3. There is no charge from Affinity, but message and data rates may apply from your wireless provider.
4. All loans are subject to credit review and approval.
5. Members Alliance Insurance, LLC (MAI) is an affiliate of Affinity Federal Credit Union. MAI is a fully licensed insurance broker. Policies may be provided by and underwritten by MAI or other licensed providers.

Our Members Matter

AUTO SOLUTIONS

We are your one-stop auto shop and have everything you need to find, finance and protect your vehicle.

Auto Buying Solutions: Affinity has partnered with industry-leading companies such as Enterprise Car Sales and Costco Auto Program to provide our members with reliable information to help them shop, compare vehicles and make the right decisions.

Protection Options for the Road Ahead: Affinity offers Guaranteed Asset Protection, a low-cost coverage option to protect against potential depreciated vehicle value as well as Mechanical Breakdown protection options, which protect you from paying out of pocket for unexpected expenses resulting from covered mechanical or electrical failures.

FINANCIAL WELLBEING & LEARNING

A firm sense of social purpose drives everything we do at Affinity, and our goal is to work toward a future in which everyone is in control of their own financial destiny. Strengthening the financial wellbeing of the membership is a cornerstone to achieving this goal and is brought to life by our impassioned team members. We are focused on providing the best advice and guidance to build a healthy relationship with your finances, both today and in the future.

Despite the challenges we all face balancing our busy schedules with our finances, countless members continue to prioritize their financial wellbeing annually by joining our financial education events. With almost 200 events and webinars held, and nearly 14,000 lives touched, our financial education program continues to be a significant driver of improving our community's financial wellbeing. Our weekly webinar series continues to reach more lives than ever before, ensuring that financial services are understood and accessible. Our home buying education events support the needs of future homeowners throughout our communities, including partnership with nonprofit organizations and schools to educate their constituents. With the home buying process and market changing more than ever before, these programs are continually updated to ensure our members are best equipped to focus on finding their dream home, instead of paperwork and applications. We continue to see a growing interest in our education programs, with a 40% increase in attendance year over year.

Affinity
Investment Services

INVESTMENTS & RETIREMENT PLANNING

Affinity Investment Advisors are ready to help credit union members plan for their life goals. Whether preparing for a big college bill, retirement or building a nest egg, our advisors can help members pursue their goals.

Transforming Lives Empowering Communities

Founded in 2005, the Affinity Foundation was created to transform and empower the lives of the individuals and communities we serve. It is our core belief that everyone deserves equal access to financial wellbeing, education and healthcare. We are committed to persevering until we live in a world where everyone can leave poverty behind.

OUR MISSION

is to provide Affinity's members and our communities with solutions to improve financial wellness, educational programs that enable self-sufficiency and support that ensures access to essential healthcare services.

OUR VISION

is to end the cycle of poverty for those we serve.

OUR IMPACT SINCE FOUNDING

$2.2 Million
Awarded through Grants, Scholarships and Donations

288
Charities and Members Supported

OUR IMPACT IN 2022

$112,500
Community Grants and Donations to 36 Charities

$39,200
Member Relief Grants to 75 Members

$15,000
Scholarships to 6 Student Members

OUR EMPLOYEES GIVING BACK

$45,325
Donated by Credit Union Employees to Support Our Mission

224
Hours to Support Our Foundation's Programs, Fundraising Events and Community Partners

52
Employees Volunteered

DONATE NOW

AffinityGives.org
AFCU_Foundation@AffinityFCU.com

Affinity Foundation
PO Box 430, Martinsville, NJ 08836
908.860.3902

Affinity FOUNDATION

Supervisory Committee Report

The Supervisory Committee, composed of members who are non-employees appointed by the Board of Directors, meets periodically with management, internal auditors and independent auditors to review the manner in which these groups of individuals are preforming their responsibilities, as well as to carry out the Supervisory Committee's oversight roles with respect to auditing internal controls and financial reporting. Crowe LLP, an independent certified public accounting firm, has audited the consolidated financial statements of the Credit Union as of December 31, 2022, and for the years then ended. The firm's opinion is included in this annual report on page 15.

SUPERVISORY COMMITTEE

Doug McCrea | Chairman

G. Christopher Haskell | Committee Member
Melanie Fosmire | Committee Member
Deepak Vazirani | Committee Member

Crowe LLP
Independent Member Crowe Global

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Affinity Federal Credit Union and Subsidiaries
Basking Ridge, New Jersey

Opinion

We have audited the consolidated financial statements of Affinity Federal Credit Union and Subsidiaries (the "Credit Union") which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2022 and 2021, 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 Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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

New York, New York
March 29, 2023

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2022 and 2021
(dollars in thousands)

	2022	2021
ASSETS		
Cash on hand	$ 16,113	$ 14,411
Interest-bearing deposits	94,782	237,119
Cash and cash equivalents	110,895	251,530
Investments		
Available for sale	204,195	240,185
FHLB	35,315	11,106
Other	2,976	3,295
Loans, net	3,898,275	3,060,801
Accrued interest receivable	15,003	11,058
Property and equipment, net	7,853	36,610
National Credit Union Share Insurance Fund deposit	29,040	27,361
Credit union-owned life insurance	79,588	78,290
Other assets	88,399	39,138
	$ 4,471,539	$ 3,759,374
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,299,620	$ 3,203,952
Borrowed funds	718,499	180,499
Accrued expenses and other liabilities	101,198	52,204
Total liabilities	4,119,317	3,436,655
Commitments and contingent liabilities		
Members' equity		
Retained earnings, substantially restricted	365,362	326,114
Acquired equity from merger	2,096	1,806
Accumulated other comprehensive loss	(20,888)	(11,283)
Non-controlling interest	5,652	6,082
Total equity	352,222	322,719
	$ 4,471,539	$ 3,759,374

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2022 and 2021
(dollars in thousands)

	2022	2021
Interest income		
Loans	$ 140,644	$ 124,649
Investments and other	6,520	3,700
Total interest income	147,164	128,349
Interest expense		
Members' shares	17,497	10,105
Borrowed funds	11,398	5,412
Total interest expense	28,895	15,517
Net interest income	118,269	112,832
Provision for loan losses	19,340	9,350
Net interest income after provision for loan losses	98,929	103,482
Noninterest income		
Service charges and other fees	23,112	20,752
Gain on sale of available for sale securities	-	118
Loan servicing and loan production fees	1,464	1,976
Mortgage servicing rights, net	(267)	(434)
Credit union-owned life insurance income	2,701	3,131
Gain (loss) on sale of property and equipment	25,047	(107)
Other noninterest income	8,843	9,310
Total noninterest income	60,900	34,746
Noninterest expenses		
Salaries and benefits	57,563	55,023
Occupancy and operations (Note 15)	61,677	53,768
Total noninterest expenses	119,240	108,791
Net income	$ 40,589	$ 29,437

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021
(dollars in thousands)

	2022	2021
Net income	$ 40,589	$ 29,437
Other comprehensive income:		
Unrealized (losses) gains on securities available for sale		
Unrealized holding (losses) gains arising during the period	(24,846)	(4,389)
Reclassification adjustment for net gains included in net income	-	(118)
Net change	(24,846)	(4,507)
Unrealized gains (losses) on cash flow hedge derivatives		
Unrealized holding gains (losses)	16,627	13,599
Reclassification adjustment for losses included in net income	(1,386)	(4,526)
Net change	15,241	9,073
Total other comprehensive (loss) Income	(9,605)	4,566
Comprehensive income	$ 30,984	$ 34,003

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the years ended December 31, 2022 and 2021
(dollars in thousands)

	Retained Earni	
	Regular Reserve	Acquired Equity in Merger
Balance January 1, 2021	$ 40,374	$ 1,806
Net income	-	-
Other comprehensive income	-	-
Balance December 31, 2021	40,374	1,806
Net income	-	-
Cumulative adjustment for Lease Standard adoption (ASC 842)	-	-
Equity acquired in merger	-	290
Capital distribution	-	-
Other comprehensive loss	-	-
Balance December 31, 2022	$ 40,374	$ 2,096

See accompanying notes to consolidated financial statements.

ngs				
Unappropriated	Total	Accumulated Other Comprehensive (Loss)	Non-Controlling Interest	Total Members' Equity
$ 256,657	$ 298,837	$ (15,849)	$ 5,728	$ 288,716
29,083	29,083	-	354	29,437
-	-	4,566	-	4,566
285,740	327,920	(11,283)	6,082	322,719
40,406	40,406	-	183	40,589
(1,158)	(1,158)	-	-	(1,158)
-	290	-	-	290
-	-	-	(613)	(613)
-	-	(9,605)	-	(9,605)
$ 324,988	$ 367,458	$ (20,888)	$ 5,652	$ 352,222

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
(dollars in thousands)

	2022	2021
Cash flows from operating activities		
Net income	$ 40,589	$ 29,437
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,304	4,011
Provision for loan losses	19,340	9,350
Net amortization (accretion) of available-for-sale investments	266	(524)
Fair value adjustment for equity security	568	(210)
Amortization of purchase accounting adjustments	60	64
Amortization of intangibles	89	104
Capitalization of mortgage servicing rights	(307)	(526)
Amortization of servicing rights	574	960
(Gain) on sale of available-for-sale securities	-	(118)
(Gain) loss on sale of property and equipment	(25,047)	107
Increase in carrying value of credit union life insurance	(2,701)	(3,131)
Net loss on sale of other real estate owned, net of write-downs	25	69
Amortization of lease liability	1,232	-
Amortization of right of use asset	1,064	-
Net change in		
Accrued interest receivable	(3,945)	1,033
National Credit Union Administration deposit	(1,664)	(1,158)
Other assets	4,263	(26)
Accrued expenses and other liabilities	6,580	5,595
Net cash provided by operating activities	44,290	45,037
Cash flows from investing activities		
Proceeds from maturities, call and sales of available-for-sale investments	-	9,571
Repayments of available-for-sale investments	50,330	64,332
Purchase of available-for-sale investments	(39,452)	(70,445)
Net change in other investments	(23,150)	1,293
Net change in loans	(856,262)	(29,759)
Purchases of property and equipment	(49)	(1,252)
Proceeds from sale of other real estate owned	296	1,218
Proceeds from credit union life insurance	1,403	-
Proceeds from sale of property and equipment	50,549	-
Net cash used in investing activities	(816,335)	(25,042)
Cash flows from financing activities		
Net increase in members' shares	94,023	245,420
Proceeds from borrowed funds	718,000	826,507
Repayment of borrowed funds	(180,000)	(968,011)
Capital distribution	(613)	-
Net cash provided by financing activities	631,410	103,916
Increase in cash and cash equivalents	(140,635)	123,911
Cash and cash equivalents at beginning of year	251,530	127,619
Cash and cash equivalents at end of year	$ 110,895	$ 251,530

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
(dollars in thousands)

	2022	2021
Supplemental cash flow information		
Dividends paid on members' shares and interest paid on borrowed funds	$ 25,540	$ 15,636
Cash paid on leases	1,444	-
Supplemental noncash disclosures		
Transfers from loans to real estate owned	$ -	$ 304
Adoption on ASC 842	3,693	-
New leases entered into during the year	44,801	-
Acquisition of PTEFCU	290	-

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Affinity Federal Credit Union (the "Credit Union") is a cooperative association holding a federal charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Affinity Financial Services, LLC ("AFS").

AFS is the parent company of majority-owned subsidiary, CUMAnet, LLC ("CUMAnet"); and the wholly owned subsidiaries Members Alliance Insurance Agency, LLC ("MAI"), Members Alliance Title Agency, LLC ("MATA"), Real Property Solutions Group, LLC ("RPSG") and Collaborative Commercial Lending Group, LLC ("CCLG"). CUMAnet is engaged in facilitating originations and servicing mortgages to members of the Credit Union as well as members of other participating entities. CUMAnet is consolidated into AFS, as AFS owns more than 70% of CUMAnet. Minority interest, representing the remaining ownership interest of CUMAnet's partners, is shown as non-controlling interest. MAI is engaged in selling insurance products. MATA provides title insurance products. RPSG is engaged in buying collateral that has been repossessed by the Credit Union for the purpose of maintaining and marketing the collateral for resale. CCLG is engaged in providing business loan services to commercial members.

During 2022, the Credit Union completed the acquisition of Piscataway Township Employees Federal Credit Union ("PTEFCU"). Total equity acquired in merger was $290,000.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events: Management of the Credit Union has evaluated the effects of subsequent events that have occurred subsequent to the period through March 29, 2023, which is the date the financial statements were available to be issued.

Concentrations of Credit Risk: Most of the Credit Union's business activity is with its members who reside in or are employed in New Jersey. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in New Jersey. A significant concentration of real estate loans are secured by properties located in New Jersey.

Fair Value: Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1: Unadjusted quoted prices 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 reporting entity's own assumptions about the assumptions that market participants would be used in pricing an asset or liability.

Cash and Cash Equivalents, and Cash Flows: For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from financial institutions. Net cash flows are reported for member loan and share transactions.

Investments: Debt securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses reported in other comprehensive income (loss). Gains and losses on sales are recorded on the trade date and determined using the specific identification method. Change in fair value of equities securities are reported in other non interest income on the consolidated statements of income.

Some of the Credit Union's debt and equity securities are held in a charitable donation account which is a hybrid charitable and investment vehicle that is funded as a means to provide contributions to qualified charities. The value of the charitable donation account cannot exceed 5% of the Credit Union's net worth and the Credit Union is required to distribute a minimum of 51% of the total return on assets no less frequently than every five years or upon termination of the charitable donation account. The charitable donation account is owned by the Credit Union and may be terminated at the sole discretion of the Credit Union. Debt securities are classified as available-for-sale. Equity securities are carried at fair value with change in fair value recognized through other income on the consolidated statements of income.

Amortization of purchase premiums and discounts on debt securities are recognized in interest income using the level yield method over the terms of the securities without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. In determining whether OTTI exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Credit Union intends to sell, or more likely than not will be required to sell a security that is in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank ("FHLB") Stock: The Credit Union, as a member of the FHLB of New York, is required to maintain an investment in capital stock of the FHLB of New York in an amount equal to the sum of a percentage of specific Credit Union assets as designated by the FHLB of New York plus 4.5% of advances from the FHLB of New York. No ready market exists for the FHLB of New York stock, and it has no quoted market value. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Dividends are reported as income.

Loans, Net: The Credit Union grants mortgage, commercial and consumer loans. The ability of the members and nonmembers to honor their contracts is dependent upon the general economic conditions of the area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of the allowance for loan losses and net of deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The accrual of interest income on loans is discontinued at the time the loan is 90 days past due. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these 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 of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the level yield method over the contractual life of the loans without anticipating prepayments.

From time to time, the Credit Union sells loans from its portfolio as a part of its asset liability management strategy and to manage interest rate risk. When a determination is made to sell loans, such loans are reclassified from held for investment to held for sale.

Purchased Credit Impaired Loans: The Credit Union acquired loans as a part of an acquisition that have evidence of credit deterioration. These purchased credit impaired loans are recorded at estimated fair value at acquisition, such that there is no carryover of the acquiree's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses.

Such purchased credit impaired loans are accounted for individually. The Credit Union estimates the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of 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 allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and residential loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Consumer loans are collectively evaluated for impairment.

Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral-dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Credit Union determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In addition, due to additional risk associated with commercial loans that are graded as special mention or worse that are not classified as impaired, management allocates a higher allowance percentage compared to pass rated loans.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following portfolio segments have been identified:

Commercial: Includes commercial loans and commercial real estate loans and represent loans to business enterprises. Commercial loans are business loans and are collateralized by the underlying business assets. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service.

Residential: Primarily consists of home equities and residential loans to individuals. The portfolio is collateralized by first and/or second mortgages on primary residences. Risk characteristics include loss of income of the individual and significant decline in the fair value of the underlying properties, which may negatively impact the loan-to-value ratios.

Consumer: Primarily consists of auto loans, auto leases, credit cards and student loans and represent loans to individuals. Risk characteristics include loss of income, which may negatively impact the individual ability to repay and result in additional losses to the Credit Union. Certain auto loans include private insurance taken by the Credit Union. Premium for such private insurance is recorded as a reduction of interest income. Recoveries from the private insurance are recognized as recoveries when received.

Loan Servicing: Mortgage servicing rights assets are initially recorded at fair value for loans on which servicing is contractually retained. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized against mortgage servicing rights income over the estimated lives of the mortgages adjusted for actual prepayments. Mortgage servicing rights are included in other assets on the consolidated statement of financial condition.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported separately on the income statement.

Loan servicing fees represent fees earned for servicing mortgage loans owned by the Federal Home Loan Mortgage Corporation (“FHLMC”), the Federal National Mortgage Association (“FNMA”), Charlie Mac, and other financial institutions. The fees are generally calculated on the outstanding principal balances of the loans serviced and are recorded as income when earned. Related servicing expenses are recognized as incurred.

Loan production fees are recognized when the investors make the commitment to fund the loan and are obligated to pay the production fee to the Credit Union.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Premises and Equipment: Land is carried at cost. Land improvements, buildings and building improvements, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation, and amortization. Land improvements, buildings and building improvements, and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over lesser of the useful life of the assets or the expected terms of the related leases.

Other Real Estate Owned ("OREO"): OREO, acquired through foreclosure on loans secured by real estate, is initially recorded at fair value less costs to sell. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The assets are subsequently accounted for at the lower of cost or fair value, as established by a current appraisal, less estimated costs to sell, and are included in other assets. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, losses resulting from write-downs after the date of foreclosure, and realized gains and losses upon sale of the properties are included in other noninterest expense and other noninterest income, as appropriate.

At December 31, 2022 and 2021, the OREO balance of $0 and $271,000, respectively, represents residential real estate properties recorded as a result of obtaining physical possession of the property and is included in other assets on the Statements of Financial Condition. At December 31, 2022 and 2021, the recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $374,672 and $1,172,000, respectively.

Credit Union-Owned Life Insurance: The Credit Union owns credit union-owned life insurance to help offset the cost of employee benefits. Credit union-owned life insurance is recorded at its net realizable value, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. The change in the cash surrender value is included as a component of non-interest income.

Derivative Financial Instruments and Hedging Activities: 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 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"). All derivatives are recorded on the consolidated statements of financial condition at fair value as other assets or liabilities as appropriate.

If a derivative is designated and qualified as a cash flow hedge, the effective portion of the gain or loss on the derivative is recorded in other comprehensive income. Amounts recorded in other comprehensive income are subsequently reclassified into earnings during the same period in which the hedged item affects earnings.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are recorded in earnings and are offset by changes in the fair value of the hedged item attributable to the hedged risk. Any portion of the changes in the fair value of derivatives designated as a hedge that is deemed not highly effective is recorded in earnings. For cash flow hedges, the net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Credit Union formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Credit Union also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Credit Union discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods that the hedged transactions will affect earnings.

National Credit Union Share Insurance Fund ("NCUSIF") Deposit and Insurance Premium: The deposit in the 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. For 2022 and 2021, the NCUA determined that Credit Unions did not have to pay a premium.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other credit union 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 Markets Committee.

Marketing Costs: Marketing costs are expensed as incurred.

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 gains and losses on available-for-sale securities and unrealized gains and losses on derivatives, are reported as a separate component of the members' equity section of the statements of financial condition.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value assigned to the equity of the acquired institution, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. The Credit Union has selected December 31 as the date to perform the annual impairment test. The core deposit intangible arising from the merger is amortized using an accelerated method over the estimated useful life of ten years. As of December 31, 2022 and 2021, goodwill totaled $5,760,000. The Core deposit intangible totaled $208,000 and $298,000 as of December 31, 2022 and December 31, 2021. Both goodwill and core deposit intangible are included with other assets on the consolidated statements of financial condition.

Amortization of the core deposit intangible totaled $89,000 and $104,000 for 2022 and 2021 and was included with occupancy and operations on the consolidated statements of income.

Adoption of New Accounting Standards: On January 1, 2022, the Credit Union adopted ASU No. 2016-02 “Leases (Topic 842)” and subsequent amendments thereto, which requires the Credit Union to recognize most leases on the Statements of Financial Condition. The Credit Union adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Accounting for lease and non-lease components in contracts in which the Credit Union is a lessee as a single lease component
- Exclusion of any short-term lease
- Exclusion of renewal terms where the Credit Union was not certain we would exercise

Adoption of the leasing standard resulted in the recognition of operation right-of-use assets of approximately $4 million and operating lease liabilities of approximately $5 million as of January 1, 2022 with the difference recorded through adjustment to opening retained earnings. These amounts were determined based on the present value of remaining lease payments, discounted using the Credit Union’s incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company’s Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company’s leasing activities are presented in Note 5 – Property and Equipment.

NOTE 2 – INVESTMENTS

Investments classified as available-for-sale as of December 31, 2022 and 2021, consist of the following (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022				
U.S. Government-sponsored agency securities	$ 4,987	$ -	$ (522)	$ 4,465
Mortgage-backed securities - residential	99,552	-	(10,406)	89,146
Collateralized mortgage obligations (“CMOs”)	102,246	-	(14,512)	87,734
Municipal Bonds	4,808	-	(566)	4,242
Corporate Bonds	10,082	-	(470)	9,612
Charitable Donation Account-Corp Bonds	10,179	-	(1,183)	8,996
Total available-for-sale investments	$ 231,854	$ -	$ (27,659)	$ 204,195

(Continued)

NOTE 2 – INVESTMENTS (Continued)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2021				
U.S. Government-sponsored agency securities	$ 4,984	$ -	$ (4)	$ 4,980
Mortgage-backed securities - residential	131,989	312	(1,461)	130,840
Collateralized mortgage obligations ("CMOs")	90,628	180	(1,852)	88,956
Municipal Bonds	4,773	182	-	4,955
Negotiable CDs	-	-	-	-
Charitable Donation Account-Corp Bonds	10,624	-	(170)	10,454
Total available-for-sale investments	$ 242,998	$ 674	$ (3,487)	$ 240,185

The amortized cost and fair value of the investment securities portfolio are shown by expected maturity (dollars in thousands). Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Available-for-sale investments		
Less than one year	$ -	$ -
One to five years	15,069	14,077
Five to ten years	4,808	4,242
Over ten years	-	-
Mortgage-backed securities - residential	99,552	89,146
CMOs	102,246	87,734
Charitable Donation Account-Corp. Bonds	10,179	8,996
Total	$ 231,854	$ 204,195

The following tables summarize securities with unrealized losses greater than 12 months at December 31, 2022 and 2021, aggregated by major security type in a continuous unrealized loss position (dollars in thousands):

	Unrealized Losses	Fair Value
December 31, 2022		
U.S. Government-sponsored agency securities	$ (522)	$ 4,465
Mortgage-backed securities - residential	(9,878)	63,358
CMOs	(11,002)	52,100
Municipal Bonds	-	-
Corporate Bonds	-	-
Charitable Donation Account – Corp Bonds	(1,183)	8,996
Total available-for-sale investments	$ (22,585)	$ 128,919

(Continued)

NOTE 2 – INVESTMENTS (Continued)

		Unrealized Losses		Fair Value
December 31, 2021				
U.S. Government-sponsored agency securities	$	(4)	$	4,980
Mortgage-backed securities - residential		(1,461)		94,184
CMOs		(1,852)		73,189
Municipal Bonds		-		-
Negotiable CDs		-		-
Charitable Donation Account – Corp Bonds		-		-
Total available-for-sale investments	$	(3,317)	$	172,353

Securities in an unrealized loss position for less than twelve months at December 31, 2022 included Mortgage-backed securities – residential, Collateralized mortgage obligations, Municipal and Corporate bonds with fair value of $25,788,000, $35,634,000, $4,242,000 and $9,612,000 and related unrealized loss of $528,000, $3,510,000, $566,000 and $470,000, respectively. The only securities in unrealized loss position for less than 12 months at December 31, 2021 was the Charitable Donation Account Corporate bonds with unrealized loss of $170,000 and fair value of $10,624,000.

At December 31, 2022 and 2021, the debt securities in unrealized loss position primarily included securities issued by U.S. Government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions that the government has affirmed its commitment to support. There is no credit deterioration in the issuers of the corporate or municipal bonds owned by the Credit Union.

Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Credit Union does not consider these securities to be other-than-temporarily impaired at December 31, 2022 and 2021.

The proceeds from sales and calls of securities and the associated gains and losses are listed below (dollars in thousands):

		2022		2021
Proceeds	$	-	$	9,453
Gross gains		-		118
Gross losses		-		-

Other investments consist of the following (dollars in thousands):

		2022		2021
FHLB of New York stock	$	35,315	$	11,106
Certificates of deposit in financial institutions		634		385
Charitable Donation Account Equity Security, at fair value		2,342		2,910
	$	38,291	$	14,401

As of December 31, 2022 the credit union held two nonnegotiable certificates. This may incur substantial penalties for withdrawal prior to maturity.

Securities pledged for borrowings had a fair value of $166 million and $198 million at December 31, 2022 and 2021, respectively.

(Continued)

NOTE 3 – LOANS

The composition of the loan portfolio at December 31 (dollars in thousands):

	2022	2021
Commercial:		
Commercial	$ 50,053	$ 66,588
Commercial real estate	285,989	282,164
Residential:		
Residential real estate	1,982,559	1,649,309
Residential home equity	278,322	189,971
Consumer:		
Auto	951,760	632,180
Auto leasing	104,135	14,875
Credit card	153,325	126,192
Student loan and other	105,978	111,669
	3,912,121	3,072,948
Net deferred loan costs	23,588	17,174
Allowance for loan losses	(37,434)	(29,321)
Loans, net	$ 3,898,275	$ 3,060,801

Included with commercial loans above are Payroll Payment Protection ("PPP") loans totaled $568 thousand as of December 31, 2022.

The following tables present the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022 and 2021 (dollars in thousands):

	Commercial	Residential	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Beginning balance	$ 7,060	$ 7,571	$ 14,690	$ 29,321
Provision (credit) for loan losses	(1,304)	950	19,694	19,340
Loans charged off	(1)	(60)	(15,363)	(15,424)
Recoveries	147	209	3,841	4,197
Total ending allowance balance	$ 5,902	$ 8,670	$ 22,862	$ 37,434
December 31, 2021				
Allowance for loan losses:				
Beginning balance	$ 6,293	$ 8,441	$ 14,555	$ 29,289
Provision (credit) for loan losses	1,917	(753)	8,186	9,350
Loans charged off	(1,280)	(171)	(13,019)	(14,470)
Recoveries	130	54	4,968	5,152
Total ending allowance balance	$ 7,060	$ 7,571	$ 14,690	$ 29,321

(Continued)

NOTE 3 – LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021 (dollars in thousands):

	Commercial	Residential	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 969	$ 559	$ 8	$ 1,536
Collectively evaluated	4,933	8,111	22,854	35,898
Total ending allowance balance	$ 5,902	$ 8,670	$ 22,862	$ 37,434
Loans:				
Loans individually evaluated for impairment	$ 18,484	$ 21,918	$ 59	$ 40,461
Loans collectively evaluated	317,558	2,238,963	1,315,139	3,871,660
Total ending loans balance	$ 336,042	$ 2,260,881	$ 1,315,198	$ 3,912,121
December 31, 2021				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 979	$ 1,195	$ -	$ 2,174
Collectively evaluated	6,081	6,376	14,690	27,147
Total ending allowance balance	$ 7,060	$ 7,571	$ 14,690	$ 29,321
Loans:				
Loans individually evaluated for impairment	$ 19,115	$ 20,001	$ -	$ 39,116
Loans collectively evaluated	329,637	1,819,279	884,916	3,033,832
Total ending loans balance	$ 348,752	$ 1,839,280	$ 884,916	$ 3,072,948

(Continued)

NOTE 3 – LOANS (Continued)

The following tables present information related to loans individually evaluated for impairment by class of loans as of and for the year ended December 31, 2022 and 2021 (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With no related allowance recorded:					
Commercial:					
Commercial	$ 3,579	$ 3,579	$ -	$ 3,615	$ 144
Commercial real estate	8,834	8,834	-	8,897	505
Residential:					
Residential real estate	15,579	14,421	-	11,508	477
Residential home equity	1,762	1,762	-	1,322	66
With an allowance recorded:					
Commercial:					
Commercial	6,071	6,071	969	6,057	256
Commercial real estate	-	-	-	-	-
Residential:					
Residential real estate	5,735	5,735	559	7,329	212
Residential home equity	-	-	-	-	-
Consumer:					
Unsecured	59	59	8	25	2
Total	$ 41,619	$ 40,461	$ 1,536	$ 38,753	$ 1,662
December 31, 2021					
With no related allowance recorded:					
Commercial:					
Commercial	$ 3,663	$ 3,663	$ -	$ 5,500	$ 156
Commercial real estate	9,373	9,373	-	9,099	381
Residential:					
Residential real estate	10,906	9,748	-	11,497	298
Residential home equity	1,020	1,020	-	1,109	47
With an allowance recorded:					
Commercial:					
Commercial	6,081	6,081	979	4,650	103
Commercial real estate	-	-	-	2,968	-
Residential:					
Residential real estate	8,931	8,931	988	10,125	299
Residential home equity	300	300	207	507	17
Total	$ 40,274	$ 39,116	$ 2,174	$ 45,455	$ 1,301

(Continued)

NOTE 3 – LOANS (Continued)

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Cash basis interest income approximated interest income recognized for 2022 and 2021.

The following tables present the recorded investment in nonaccrual by class of loans as of December 31 (dollars in thousands):

	2022	2021
Commercial:		
Commercial	$ 6,024	$ 6,024
Commercial real estate	-	435
Residential:		
Residential real estate	11,469	8,865
Residential home equity	1,227	1,110
Consumer:		
Auto	46,657	13,260
Auto leasing	175	234
Credit card	1,952	925
Student loan and other	2,116	1,453
Total	$ 69,620	$ 32,306

NOTE 3 – LOANS (Continued)

The following tables present the aging of the recorded investment in past due loans by class of

	30 - 59 Days Past Due	60 - 89 Days Past Due
December 31, 2022		
Commercial:		
Commercial	$ 115	$ 21
Commercial real estate	1,262	-
Residential:-		
Residential real estate	19,125	3,003
Residential home equity	1,233	1,045
Consumer:		
Auto	44,087	18,154
Auto leasing	865	-
Credit card	1,219	937
Student loan and other	1,653	820
Total	$ 69,559	$ 23,980
December 31, 2021		
Commercial:		
Commercial	$ 144	$ 1
Commercial real estate	-	-
Residential:-		
Residential real estate	10,384	537
Residential home equity	842	223
Consumer:		
Auto	21,310	6,555
Auto leasing	388	28
Credit card	606	350
Student loan and other	1,323	739
Total	$ 34,997	$ 8,433

loans as of December 31, 2022 and 2021 (dollars in thousands):

Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
$ 6,024	$ 6,160	$ 43,893	$ 50,053
-	1,262	284,727	285,989
11,469	33,597	1,948,962	1,982,559
1,227	3,505	274,817	278,322
46,657	108,898	842,862	951,760
175	1,040	103,095	104,135
1,952	4,108	149,217	153,325
2,116	4,589	101,389	105,978
$ 69,620	$ 163,159	$ 3,748,962	$ 3,912,121
$ 6,024	$ 6,169	$ 60,419	$ 66,588
435	435	281,729	282,164
8,865	19,786	1,629,523	1,649,309
1,110	2,175	187,796	189,971
13,260	41,125	591,055	632,180
234	650	14,225	14,875
925	1,881	124,311	126,192
1,453	3,515	108,154	111,669
$ 32,306	$ 75,736	$ 2,997,212	$ 3,072,948

NOTE 3 – LOANS (Continued)

Troubled Debt Restructurings ("TDRs")

The Credit Union has allocated $1.4 million and $1.8 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021, respectively. There were no commitments to lend additional funds to members whose loans were classified as troubled debt restructurings as of December 31, 2022 and 2021.

During the year ended December 31, 2022 and 2021, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans include a reduction of the stated interest rate of the loan or an extension of the maturity date at a rate of interest lower than the current market rate for new debt with similar risk. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from three months to one year.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2022 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer:			
Unsecured	2	$ 59	$ 59
Residential:			
Residential home equity	1	177	177
Total	3	$ 236	$ 236

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2021 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Personal	2	$ 9,629	$ 9,629
Residential:			
Residential real estate	3	1,602	1,602
Total	5	$ 11,231	$ 11,231

The troubled debt restructurings described above did not have a material impact on the allowance for loan losses for the year ended December 31, 2022 and 2021.

During 2022 and 2021, there were no loans that defaulted within 12 months of modification.

(Continued)

NOTE 3 – LOANS (Continued)

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Credit Union's internal underwriting policy.

Credit Quality Indicators

The Credit Union analyzes the commercial and commercial real estate loans individually by classifying them as to credit risk based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. This analysis is performed on a quarterly basis. The Credit Union uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Commercial and commercial real estate loans meeting the above criteria are disclosed as criticized and classified and commercial and commercial real estate loans not meeting the above criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (dollars in thousands):

	Pass	Criticized and Classified
December 31, 2022		
Commercial	$ 34,984	$ 15,069
Commercial real estate	264,074	21,915
Total	$ 299,058	$ 36,984

	Pass	Criticized and Classified
December 31, 2021		
Commercial	$ 49,830	$ 16,758
Commercial real estate	256,206	25,958
Total	$ 306,036	$ 42,716

For residential and consumer loan classes, the Credit Union also evaluates credit quality based on the delinquency status of the loan, which was previously presented.

(Continued)

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others by CUMAnet that are not included in the accompanying consolidated statements of financial condition are summarized as follows as of December 31, 2022 and 2021 (dollars in thousands):

	2022	2021
FNMA	$ 184,117	$ 207,618
FHLMC	23,095	27,906
Credit Union of New Jersey	89,907	94,375
Greater Alliance Federal Credit Union	71,742	66,181
Others	87,275	89,035
	$ 456,136	$ 485,115

Custodial escrow accounts maintained in connection with the foregoing loan servicing are summarized as follows as of December 31, 2022 and 2021 (dollars in thousands):

	2022	2021
FNMA	$ 2,387	$ 2,589
FHLMC	441	548
Credit Union of New Jersey	964	1,064
Greater Alliance Federal Credit Union	658	678
Others	782	970
	$ 5,232	$ 5,849

A summary of the changes in the balance of mortgage servicing rights for first mortgages in 2022 and 2021 were as follows (dollars in thousands):

	2022	2021
Balance at beginning of year	$ 2,148	$ 2,582
Servicing assets recognized during the year	307	526
Amortization of servicing assets	(574)	(960)
Balance at end of year	$ 1,881	$ 2,148
Fair value of mortgage servicing rights	$ 5,514	$ 3,746

There was no valuation allowance on the servicing rights asset as of December 31, 2022 and 2021.

Fair value at year-end 2022 and 2021 was determined using discount rates at 15% and ranging from 12% to 15%, respectively and prepayment speeds ranging from 5% to 22% in 2022 and 8% to 50% in 2021, depending on the stratification of the specific pool.

(Continued)

NOTE 4 – LOAN SERVICING (Continued)

The weighted average market assumption used in determining the fair value of mortgage servicing rights of first mortgages were as follows as of December 31:

	2022	2021
Prepayment speed per year	6.9%	17.52%
Weighted average life	8 years	4.38 years
Weighted average discount rate	15%	14.3%

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows for December 31, 2022 and 2021 (dollars in thousands):

	2022	2021
Land	$ 1,936	$ 9,348
Buildings	4,753	37,968
Leasehold improvements	10,753	16,062
Furniture and equipment	32,135	31,663
	49,577	95,041
Accumulated depreciation and amortization	(41,724)	(58,431)
	$ 7,853	$ 36,610

Depreciation expense for the years ended 2022 and 2021 was $3.3 million and $4.0 million, respectively.

Lessee Arrangements

The Credit Union enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers, and information technology equipment. The Credit Union’s leases have remaining terms ranging from 1 to 20 years, some of which include renewal or termination options to extend the lease for up to 15 years. Renewals options are not generally not included in determining lease term unless the Credit Union is reasonably certain that the renewal option will be exercised. In addition, non-lease component cost such as common area maintenance, real estate taxes etc. are not included in the determination of the lease liability and are expenses as incurred. As of December 31, 2022, the weighted average remaining lease terms was 18.8 years and the weighted average discount rate was 5.7%.

In December of 2022, the Credit Union sold their headquarters building and concurrently entered into a sale-leaseback agreement to lease back the property for a 20 year lease term. The lease terms were at market with third-parties and will result in $3.99 million of operating lease expense in 2023. Net proceeds received by the Credit Union on sale of the building were $50.5 million (net of selling cost), resulting in a gain on sale of $25 million.

As of December 31, 2022 the right of use assets totaled approximately $47 million and was included with other assets on the consolidated statements of condition. The lease liability totaled approximately $49 million and was included with accrued expenses and other liabilities on the consolidated statement of condition.

(Continued)

NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Present Value Discount of Future Payments on the Credit Union's operating leases are as follows (dollars in thousands):

2023	$ 5,196
2024	4,710
2025	4,453
2026	4,370
2027	4,338
Subsequent years	60,189
Total undiscounted lease payments	83,256
Less: imputed interest	(34,722)
Net lease liabilities	$ 48,534

Rental expense for all facilities leased under operating leases totaled $1.8 million and $1.7 million for the years ended December 31, 2022 and 2021, respectively, and was included with occupancy and operations expense on the consolidated statements of income.

NOTE 6 – 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, 2022 and 2021, are approximately $4.8 million and $3.2 million, respectively. Deposits from related parties at December 31, 2022 and 2021, amounted to approximately $4.4 million and $3.6 million, respectively.

Included in other assets are loans to executives under a split dollar collateral assignment life insurance arrangement between the Credit Union and the executives. Under the arrangement, each executive owns the life insurance policy and the Credit Union provides a loan to the executive to fund the premiums on the policy. The loans are interest-bearing at a market rate and are secured by the lesser of the premiums paid or cash surrender value. In accordance with Accounting Standard Codification ("ASC") 715-60, the loans are recorded at lower of cash surrender value of the policies or the cumulative premium paid. Interest earned on the loans is recorded annually as other income with a corresponding increase to the asset. The balance of the loans to the executives under these arrangements was approximately $16.2 million and $15.9 million at December 31, 2022 and 2021, respectively, and are included with other assets on the statements of financial condition.

In addition, the Credit Union is the owner and beneficiary of a variable universal life insurance policy. The policy provides for investments in various unit investment trusts. These are recorded at cash surrender value and included with other assets on the statements of financial condition. The balance of this life insurance policy is approximately $2.4 million and $2.9 million at December 31, 2022 and 2021, respectively.

(Continued)

NOTE 7 – MEMBERS' SHARES

Members' shares are summarized as follows (dollars in thousands):

	2022	2021
Regular shares	$ 1,613,514	$ 1,553,208
Share draft accounts	791,939	840,228
Money market accounts	256,416	318,140
Individual retirement shares and money market accounts	23,154	25,221
Individual retirement certificates	77,107	75,355
Share certificates	537,490	391,800
	$ 3,299,620	$ 3,203,952

Shares by maturity as of December 31, 2022, are summarized as follows (dollars in thousands):

No contractual maturity	$ 2,685,024
0 – 1 year maturity	360,166
1 – 2 years maturity	226,170
2 – 3 years maturity	10,257
3 – 4 years maturity	5,847
4 – 5 years maturity	12,147
Over 5 years maturity	9
	$ 3,299,620

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have contractual maturity.

The aggregate amount of certificates in denominations of $250,000 or more at December 31, 2022 and 2021, is approximately $158.0 million and $69.3 million, respectively.

Brokered deposits included in members' shares above were $66.2 million as of December 31, 2022. There were no brokered deposits outstanding as of December 31, 2021.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections 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 financial condition or results of operations of the Credit Union.

NOTE 9 – BORROWED FUNDS

The Credit Union has a collateralized borrowing arrangements with FHLB of New York secured by first mortgage loans on residential properties, FHLB of New York stock for Fixed Term and Floating Rate advances, and pledged securities for Repo advances. The total outstanding advances as of December 31, 2022 and 2021, were $718 million and $180 million, respectively. The weighted average rate of outstanding borrowings at December 31, 2022 and 2021, were 4.58% and .37%, respectively. Rates range from 1.33% to 4.95% in 2022 and .36% to .56% in 2021.

(Continued)

NOTE 9 – BORROWED FUNDS (Continued)

At December 31, 2022 and 2021, repo advances totaling $0 million and $10 million, respectively, are variable rate advances with a weighted average rate of 0% and .56%, respectively.

There are prepayment penalties associated with these borrowings.

The Credit Union can borrow up to the adjusted amount of pledged assets at FHLB of New York. There were no outstanding overnight borrowings as of December 31, 2022 and 2021.

The outstanding borrowings by maturity on December 31, 2022 and 2021 are as follows (dollars in thousands):

	2022	2021
Less than 1 year maturity	$ 718,000	$ 180,000
1 – 2 years maturity	69	-
2 – 3 years maturity	-	69
3 – 4 years maturity	430	430
4 – 5 years maturity	-	-
	$ 718,499	$ 180,499

NOTE 10 – 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, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

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 consolidated financial statements.

Outstanding mortgage loan commitments at December 31, 2022 and 2021, total approximately $9 million and $30 million, respectively.

Unfunded loan commitments under lines of credit are summarized as follows (dollars in thousands):

	2022	2021
Home equity	$ 336,770	$ 291,598
Credit card	528,639	472,896
Other	47,042	46,568
Commercial	45,293	39,178
	$ 957,744	$ 850,240

(Continued)

NOTE 10 – OFF-BALANCE-SHEET ACTIVITIES (Continued)

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 extensions of credit to existing customers. These lines of credit are uncollateralized and 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 11 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

At December 31, 2022 and December 31, 2021, the Credit Union had one and two interest rate swap agreements, respectively. As part of its program to manage interest rate risk, the Credit Union entered into the derivative instrument agreements to modify the repricing characteristics of certain portions of the Credit Union's portfolios of interest-bearing liabilities.

The derivative agreements were entered into with Wells Fargo and JP Morgan. The Credit Union is exposed to credit risk on derivative instruments if the counterparty should fail to perform under the terms of the contract. The Credit Union manages credit risk through the use of comprehensive credit-approval processes, the selection of only creditworthy counterparties and effective collateral administration. In addition, the Credit Union requires legally enforceable netting arrangements, which permit netting of transactions with the same counterparty. The amount of credit exposure is limited to the interest receivable and the fair market value of the derivative contracts in gain positions reduced by the value of any collateral pledged by the counterparty.

Under the terms of the agreements, the Credit Union receives settlement amounts at a contractually determined variable rate and pays settlement amounts at a contractually determined fixed rate. The interest rate swap agreements specify that the Credit Union will receive interest payments equal to either one-month or three-month LIBOR, reset monthly or quarterly, from the contract inception date to maturity date.

Summary information about the interest rate swaps as of year-end is as follows (dollars in thousands):

	2022	2021
Notional amounts	$ 170,000	$ 180,000
Weighted average pay rates	2.68%	2.32%
Weighted average receive rates	4.68%	0.19%
Weighted average remaining maturity	2.33 years	1.71 years
Unrealized gains/losses	$ 6,771	$ (8,470)
Derivative liability (included in other liabilities)	$ -	$ (8,470)
Derivative asset (included in other assets)	$ 6,771	$ -

(Continued)

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

The following table presents the net losses recorded in accumulated other comprehensive income ("OCI") for all derivative instruments for the year ended December 31 (dollars in thousands):

	2022	2021
Amount of (loss)/gain recognized in OCI (effective portion)	$ 6,771	$ (8,470)
Amount of loss reclassified from OCI to interest expense	(1,386)	(4,526)
Amount of loss recognized in interest expense (ineffective portion)	-	-

NOTE 12 – EMPLOYEE BENEFITS

The Credit Union has a 401(k) qualified plan, which allows for pretax employee deferrals, an employer match of those deferrals, and a discretionary employer-defined contribution allocation. Participation is limited to certain employees who meet specific length of service and age limitations.

The total expense related to the employer-defined contribution allocation was $0 and $2.1 million, respectively, for the years ended December 31, 2022 and 2021. The Credit Union's policy is to fund the accrued contribution in the year following the accrual.

The Credit Union contributed $2.2 million and $2.0 million, respectively, to the plan for the years ended December 31, 2022 and 2021, related to the discretionary employer match of employee deferrals. The employer match is accrued and funded on a current basis.

The Credit Union sponsors defined contribution plans (the "Plans") which qualify under Section 457(b) of the Internal Revenue Code. The Plans cover certain members of the executive management team. Contributions for each plan are defined by individual contracts, with specified amount and dates of contributions. Likewise, vesting amounts and vesting periods are also established by contract.

The fair value of assets in the plan as of December 31, 2022 and 2021, were approximately $125,000 and $316,000, respectively, and are included in Other Assets. There was no expense associated with this plan in 2022 and 2021. The total liability, which represent vested amounts, as of December 31, 2022 and 2021, under the plan was $125,000 and $316,000, respectfully, and is included with accrued expenses and other liabilities.

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 consolidated 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 generally accepted accounting principles. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

(Continued)

NOTE 13 – 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 table below, of net worth to total assets.

On December 17, 2019, the NCUA published final changes to their capital adequacy regulations. These changes became effective for the Credit Union on January 1, 2022. The final rule restructured the NCUA's capital adequacy regulations and made various revisions, including amending the agency's risk-based net worth requirement by replacing a credit union's risk-based net worth ratio with a risk-based capital ratio. A credit union is defined as "complex" if its total assets exceed $500,000,000. A complex credit union must calculate its capital adequacy by evaluating its net worth ratio and by using either the risk-based capital ratio or the complex credit union leverage ratio, a simplified framework that is calculated in the same manner as the net worth ratio if certain minimum qualifying criteria are met. The Credit Union has elected to use the risk-based capital ratio. For the risk-based capital ratio, the required for well capitalized are 10% or greater and adequately capitalized are 8% or greater.

To be categorized as well-capitalized, the Credit Union must maintain a minimum net worth ratio of 7% of assets and risk-based capital ratio of 10% of risk-weighted assets.

Prior to 2022, Credit unions were required to calculate a risk-based net worth ratio (RBNW) that establishes whether the Credit Union will be considered "complex" under the regulatory framework. Management believes as of December 31, 2021, that the Credit Union met all of the capital adequacy requirements to which it was subject.

As of December 31, 2022 and 2021, the most recent call reporting period, the NCUA categorized the Credit Union as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. The Credit Union's risk-based capital ratio as of December 31, 2022 was 11.82%.

The Credit Union's capital amounts and ratios for net worth are presented in the following table (dollars in thousands):

	2022		2021	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as adequately capitalized	$ 245,766	6.00%	$ 219,954	6.00%
Amount needed to be classified as well-capitalized	286,727	7.00	256,614	7.00
Actual net worth	369,000	9.01	329,462	8.99

NOTE 14 – FAIR VALUE

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

Investment Securities: 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).

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

(Continued)

NOTE 14 – FAIR VALUE (Continued)

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals completed by certified appraisers.

Generally, the appraisals on commercial properties may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. When obtained, non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification.

For residential properties, the appraisals generally utilize a single valuation approach, sales comparison approach. For collateral-dependent residential loans, the Credit Union process to determine fair value of the collateral involves considering the appraised value based on the sales comparison approach and then adjusting the appraised value for other factors to arrive at the fair value of the collateral. These factors include the additional discount necessary for aging of the appraisals, and for location and condition of the property. To determine the discount, industry wide statistics and other market indicators are considered.

OREO: Nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Fair Value on a Recurring Basis: The tables below presents the balances of assets measured and presented in the consolidated statement of condition at fair value on a recurring basis (dollars in thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2022				
Securities Available for Sale				
U.S. Government-sponsored agency securities	$ 4,465	$ -	$ 4,465	$ -
Mortgage-backed securities – residential	89,146	-	89,146	-
CMOs	87,734	-	87,734	-
Municipal bonds	4,242	-	4,242	-
Corporate Bonds	9,612		9,612	-
Charitable Donation Account-Corp Bonds	8,996	-	8,996	-
Negotiable CDs		-	-	-
Total Securities Available for Sale	204,195	-	204,195	-
Charitable Donation Acct.-Equity Security	2,342	-	2,342	-
Total investment securities	$ 206,537	$ -	$ 206,537	$ -

(Continued)

NOTE 14 – FAIR VALUE (Continued)

	Total	Level 1	Level 2	Level 3
December 31, 2021				
Securities Available for Sale				
U.S. Government-sponsored agency securities	$ 4,980	$ -	$ 4,980	$ -
Mortgage-backed securities – residential	130,840	-	130,840	-
CMOs	88,956	-	88,956	-
Municipal bonds	4,955	-	4,955	-
Charitable Donation Account-Corp Bonds	10,454	-	10,454	-
Negotiable CDs	-	-	-	-
Total Securities Available for Sale	240,185	-	240,185	-
Charitable Donation Acct.-Equity Security	2,910	-	2,910	-
Total investment securities	$ 243,095	$ -	$ 243,095	$ -

	Total	Level 1	Level 2	Level 3
December 31, 2022				
Derivative asset	$ 6,771	$ -	$ 6,771	$ -
Derivative liability	$	$ -	$	$ -

	Total	Level 1	Level 2	Level 3
December 31, 2021				
Derivative asset	$ -	$ -	$ -	$ -
Derivative liability	$ 8,470	$ -	$ 8,470	$ -

Fair Value on a Nonrecurring Basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets carried on the statement of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded (dollars in thousands).

	Total	Level 1	Level 2	Level 3
December 31, 2022				
Impaired loans:				
Commercial	$ 5,102	$ -	$ -	$ 5,102
Commercial real estate	-	-	-	-
Consumer unsecured	51	-	-	51
Residential real estate	5,176	-	-	5,176
December 31, 2021				
Impaired loans:				
Commercial	$ 5,102	$ -	$ -	$ 5,102
Commercial real estate	-	-	-	-
Residential real estate	7,943	-	-	7,943
Residential home equity	93	-	-	93

(Continued)

NOTE 14 – FAIR VALUE (Continued)

At December 31, 2022, impaired loans measured at the fair value of the collateral had a recorded investment of approximately $12.0 million with a valuation allowance of $1.5 million. At December 31, 2021, impaired loans measured at the fair value of the collateral had a recorded investment of $15.3 million with a valuation allowance of $2.2 million. Provision for loan losses made during the periods was not material.

NOTE 15 – OCCUPANCY AND OPERATIONS

The following table presents the major components of occupancy and operations expenses for the years ended December 31, 2022 and December 31, 2021 (dollars in thousands):

	2022	2021
Professional services	$ 29,738	$ 23,928
Depreciation & office operations	14,278	13,959
Marketing	4,052	4,418
Office occupancy	4,063	3,962
Loan fulfillment & servicing	5,113	4,667
Other operating expenses	4,433	2,834
	$ 61,677	$ 53,768

NOTE 16 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of the accumulated other comprehensive loss balances for the years ended December 31, 2022 and December 31, 2021 (dollars in thousands):

	Balance at December 31, 2021	Current Year Change	Balance at December 31, 2022
December 31, 2022			
Unrealized losses on securities, available for sale	$ (2,813)	$ (24,846)	$ (27,659)
Unrealized losses on derivatives	(8,470)	15,241	6,771
Total	$ (11,283)	$ (9,605)	$ (20,888)

	Balance at December 31, 2020	Current Year Change	Balance at December 31, 2021
December 31, 2021			
Unrealized losses on securities, available for sale	$ 1,694	$ (4,507)	$ (2,813)
Unrealized losses on derivatives	(17,543)	9,073	(8,470)
Total	$ (15,849)	$ 4,566	$ (11,283)

2022 ANNUAL REPORT

"Being a difference maker is core to what drives our every interaction, and we remain committed to continually improving the skills and knowledge of teammates who are the dream makers for our members."

Co-authored by Kevin Brauer and Richard Meene
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