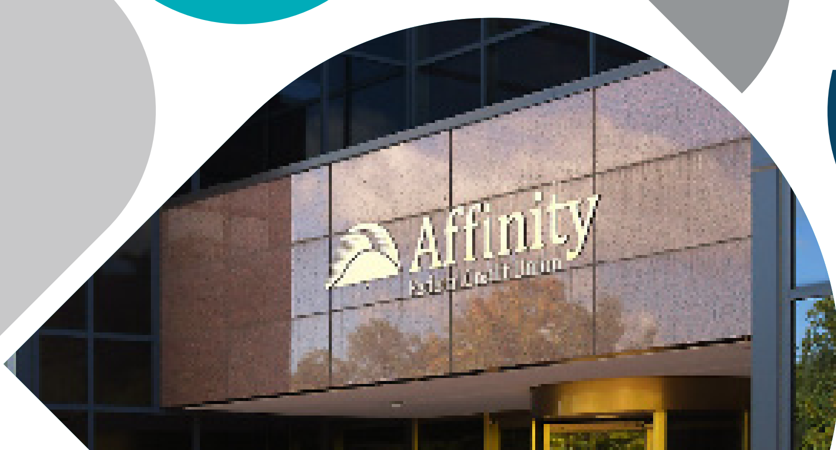
Affinity Annual Report

90 years serving our community



24

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

Hearing a member proudly say, ***"That's my credit union!"*** is one of the greatest compliments we can receive. Whether it's at a community event, a Financial Reality Fair, or simply in conversation with our frontline team, those words remind us of the deep connections we share. Affinity is more than just your local financial institution – we are woven into the fabric of our communities. We shop at the same stores, our children attend the same schools, and together, we build something greater than financial services alone.

Our commitment to you goes beyond being your credit union – it's about strengthening the communities we call home. Thanks to your continued trust and engagement, we're proud to report that 2024 was a banner year as we look back at the support that we provided our communities. We navigated the year from a position of strength, entering 2025 with stability and renewed momentum.

Reflecting on the past year and looking ahead to an even brighter future, we are filled with immense gratitude for our members and our Affinity team. Your support fuels our innovation, growth, and ability to serve you better every day. Together, we will continue building a stronger, more connected community – because at Affinity, your success is our success.

1. Source: NCUA.gov. Using the "Credit Union and Corporate Call Report Data" found here: https://www.ncua.gov/analysis/credit-union-corporate-call-report-data

A Stable Foundation

Despite a dynamic and evolving financial landscape in 2024, our commitment to serving you and supporting our communities has generated substantial deposit and membership growth, helping us maintain a strong financial position. We significantly exceeded our deposit growth expectations, achieving a 7% increase and bringing our year-over-year growth to 9%. These results highlight that doing well by doing good pays dividends, and that providing the resources our members need to achieve financial wellbeing while also making a significant impact in the broader community drives meaningful growth and stability.

We expanded our reach with the opening of our new branch in Lawrence Township, New Jersey, and reopened our branch located within St. Clare's Hospital in Denville, New Jersey, allowing us to serve even more members in our now larger community footprint. Whether you've recently joined us or have been with Affinity from the beginning, every one of our 231,052 members matters – ***you matter.***

Our growth is a testament to your trust and support, reflecting the value you see in our credit union. We are deeply grateful for your confidence in us, which we feel in every interaction between our team and our community. One of the key indicators of our progress comes from our member surveys. With over 6,300 responses in the last year, you've expressed to us that we're on the right path – improving financial lives while also exceeding your expectations. Our industry-leading Net Promoter Score (NPS) of 61.8 shows that more members recognize the value we provide and would recommend to their loved ones. Nearly 90% of respondents expressed satisfaction with Affinity, with notable gains in pride of membership, commitment to financial wellbeing, and trust in our ability to deliver on our promises.

This is what stability looks like.

At a high level, it means lower risk on our books and a solid foundation for offering competitive loan rates, complimentary services, and financial assistance support programs. It enables us to invest in new programs and technologies. Most importantly, these numbers translate to greater access to mortgages and small business financing for all of our members.

Sally C.
15-Year Affinity Member

I trust Affinity. I became a member at a very young age – I have my mortgage and accounts with the credit union. Affinity has been a huge part of my life for a very long time. The tellers are so sweet and accurate! I would never use another banking facility!

★★★★★

Carol F.
35-Year Affinity Member

Every one at Affinity is always so helpful. When closing on the sale of our home, we lost the buyers 2 days before, which was only 2 weeks before buying our new home. Our Affinity mortgage representative was so helpful in guiding us that we were still able to make the purchase of our new home happen. I will forever praise Affinity and encourage people to join.

★★★★★

Adrianne C.
6-Year Affinity Member

Being an Affinity member has had a positive impact on my credit. I was able to consolidate my credit card debt and now I am now debt FREE. My son was also awarded a scholarship last year for college. I'm grateful for all these blessings Affinity has afforded me.

★★★★★

Transparency in Action

We aim to show you the value of being an Affinity member firsthand. Our goal in 2024 was to make that value as clear as possible, in every interaction and every initiative. We don't just say we are about ***people helping people***; we demonstrate it through real action. Internally, we embrace transparent and open lines of communication to enhance collaboration with one another and better serve you. Externally, we dedicated team members to focus on education, programs, and digital resources, ensuring the benefits of being an Affinity member are easy to see, understand, and utilize.

Every year, our unwavering commitment grows to strengthen the financial stability and wellbeing of our members. We take immense pride in being a trusted lifelong partner in your financial journey – offering support not just in times of success, but especially during moments of hardship. With a proactive and strategic approach, we have taken steps to assist our members facing financial challenges. This year, we launched several key initiatives that we are especially proud of, each designed to provide meaningful relief and long-term financial empowerment.

> "
>
> While assisting a member with her auto loan, she shared concerns about her credit. We were happy to reassure her—her credit was excellent. Relieved, she opened up about a time years ago when, as a young single mother, she received kindness and support from one of our loan officers, Joan G. That moment, she said, changed her life. "Having worked with Joan, I've seen firsthand the compassion she brings to every member interaction. This conversation reminded me of the lasting impact empathy and exceptional service can have—it truly makes a difference."

Linda S.
Senior Underwriter, Commerical Lending

To demonstrate our commitment to supporting teens and young adults, we introduced Financial Reality Fairs. We hosted these financial education events at local high schools, community colleges, and even for employees' children as part of Take Your Child to Work Day, reaching hundreds of community members. These fairs provide young people with a hands-on experience in navigating real-world financial scenarios, empowering them with the confidence and knowledge needed to effectively budget, save, and spend responsibly.

Last year, we made an even stronger commitment to community wellbeing, recognizing that our impact goes far beyond financial services. Volunteerism has always been at the heart of Affinity's mission, and with the help of our Foundation, our employees dedicated over 1,300 hours to giving back to the communities where we live, work, and serve. 2024 marked another year of our annual Impact Day, with over 315 employees giving back an additional 1,000 hours of service to communities in New Jersey, New York, Connecticut, and remote locations at nearly 20 different organizations, including Elijah's Promise, Market Street Mission, Meals on Wheels, and Connecticut Foodshare, among others.

> "
>
> On December 19, the Lawrenceville, NJ Branch welcomed twenty youth from Trenton for a festive holiday party, hosted in partnership with the Trenton United Family Foundation (TUFF). TUFF supports youth through after-school care, summer camp, and mentoring programs. The event featured a hot chocolate bar, cookie decorating, games, coloring, and a video on smart savings. Each child left with a snowman goody bag—and a strong message about saving. After a great chat about spending vs. saving, I was thrilled to hear them all say they'd choose to save if they received money this season!

Habeeba L.
Branch Manager, Lawrenceville, NJ

We often look to the principles of cooperatives for inspiration, and we found an example of these guiding pillars in our collaboration with First Harvest Credit Union and EdiFi Credit Union to launch the New Jersey Credit Union Food Cooperative, which highlights the way our organizations can make a difference in our communities.

In addition to our team's direct community efforts, we also held our inaugural annual Wellbeing Awards, celebrating the individuals and organizations that make our local New Jersey communities stronger. These awards honored those who drive meaningful change in financial, physical, and community wellbeing, recognizing the everyday difference makers who help our communities thrive.

The Affinity Foundation continued its important work across the tri-state area, awarding over $195,000 in grants to local charities and student scholarships last year alone, and $2,548,738 since inception in 2005.

Our work with members and throughout the community has not gone unnoticed, and we are thrilled to share that Affinity received several notable awards and accolades in 2024. We were once again named as a Forbes Best-in-State Credit Union for New Jersey and New York. We were also recognized as Best Credit Union by Central Jersey's Community Choice Awards. Our SmartStart Savings was named best for high-yield savings by WSJ BuySide for the third year in a row. Our Cash Reward Visa Signature Card was named "Best for Amazon purchases" by CNBC Select.

We also made significant strides in advancing our technology. While most of our members have more pressing financial priorities than the back-end infrastructure of their credit union, the investments we made in our technological foundation have already enhanced your experience. Our use of generative artificial intelligence (AI) allowed us to rapidly deploy Spanish translations on our website, making us more accessible to a broader community. We also now deploy important event-based notifications via email, increasing your awareness about updates to variable APR changes, upcoming loan payments, and other critical information exactly when you need it most. We will continue to invest in our digital platforms, ensuring they are user-friendly, secure, and feature rich. Our goal is to offer innovative tools and resources that enable members to manage their finances effortlessly, from tracking savings and budgeting, to accessing loans and investment opportunities.

Every time we expand our capabilities as a credit union, our guiding star is, ***"How will this make a difference in our members' lives?"***. We know you want to save more, which is why we introduced our Debit Card Round-Up feature – automatically setting aside savings with every transaction. Since its launch, enrollment has exceeded all expectations, with over 1,000 members taking advantage of this new feature in just a few short months. These incremental savings add up over time, helping more members build emergency funds or make progress toward long-term financial goals.

The best part? ***We're just getting started.***

> On June 28, 2024, Affinity member Cynthia came into the branch distressed—her mother's social security payment hadn't arrived, and she was down to her last $6. Moved by her situation, our team came together to give her $40 to help through the weekend. We referred her to the Affinity Foundation's Member Relief Fund, which provided a $500 emergency grant. On her next visit, we shared our Community Resource Guide to help her access local food banks and other support services to reduce food insecurity in the future.

Kelly Watts
Executive Director, Affinity Foundation

Look Ahead to 2025

As we chart the course for 2025, Affinity remains dedicated to putting our members at the heart of everything we do. We are committed to member wellbeing, balanced growth, and our community's prosperity. This year marks our 90th year of service and dedication to our members. As we celebrate this milestone, we are committed to building on the strong foundation of last year's achievements.

Financial Literacy Programs: We have scheduled over a dozen additional Financial Reality Fairs for 2025, giving even more community members the chance to participate and learn.

Financial Wellbeing For Parents & Kids: We've recently launched our partnership with Greenlight, a financial wellbeing program for parents and their kids, offering even more opportunities for financial knowledge to bridge across generations. Education is one of our core pillars, and in 2025, we will expand our programs both in person and digitally to reach more members than ever before.

Expanding Our Footprint: We're excited to bring our in-person presence to new communities, with plans to open numerous branches in the coming years. In early 2025, we opened our newest branch in White Plains, New York, bringing our services closer to you.

Flexible Lending Options: Expanding lending services is another key component of our growth strategy. We aim to offer competitive and flexible lending options that cater to the diverse needs of our members, whether you are looking to buy a home, start a business, or invest in your future. Through personalized offerings tailored to your unique financial goals, we provide accessible and member-focused lending solutions designed to support your aspirations and contribute to your long-term financial success.

None of this would be possible without the continued support and dedication of our members. Your recognition of what we've accomplished together and our vision for the future continues to drive our success. No matter your financial goals – big or small – we're here to help you achieve them. The entire Affinity team is excited to build on the success of 2024 and carry that momentum forward. Thank you for being an essential part of our journey.

And if you see us out in your community, please come by and say hello. We'd love to see you.

Sincerely,

Kevin Brauer | President & CEO
Affinity Federal Credit Union

Richard Meene | Board Chair
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] Members can access their accounts 24/7 with free Online and Mobile Banking, including Mobile Deposit, bill pay, Zelle, and Payments to Loans and Credit Cards. With the help of our digital assistant, Wes, members have 24/7 self-service assistance for general inquiries. We are also available Monday through Friday 7AM to 7PM, and Saturday 8AM to 5PM via phone.

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 assist with timely approvals. We offer loans to support a wide range of financial needs.[3]

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

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, positive pay, 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. Great Rates. No Surprises.

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 mortgages in all 50 states.

Financial Wellbeing & Education

A firm sense of social purpose drives everything we do at Affinity, and our goal is to work toward a future in which everyone can achieve their financial dreams. 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 provide the individualized and personalized advice and guidance you need to build a healthy relationship with your finances, both today and in the future. With over 40 new Certified Wellbeing Coaches graduating in 2024, over 36 percent of Affinity's front-line and support staff have now obtained the certification. These team members are now even better equipped to help you achieve your short- and long-term financial goals.

Our members and community continue to actively seek to improve their financial knowledge each and every year, engaging in our wellbeing and education content in record numbers. Our network of learners benefited from nearly 240 financial education events last year, with over 7,500 joining us to boost their financial acumen. Hundreds of students benefitted from the launch of our new Financial Reality Fair program. We also saw hundreds of our members newly sign up to join us to learn at their own pace through Enrich, our online education portal. Nearly 10,000 self-service educational sessions were logged, with over 25,000 pieces of content viewed. Also, many of you improved your financial wellbeing by listening to the Wellbeing and Your Wallet Podcast with over 1,000 hours of listening. Across all of these channels, over 11,000 hours of educational content was delivered, making last year our most educationally impactful year to date.

Auto Solutions

At Affinity, we make the car-buying process easy by offering everything you need in one place—from finding the perfect vehicle to securing financing and protecting your investment.

Auto Buying Solutions: We've partnered with industry-leading companies like Enterprise Car Sales and Costco Auto Program to give our members access to trusted resources, allowing them to shop with confidence, compare vehicles effortlessly, and make informed decisions.

Flexible Financing & Leasing Options: Affinity provides a full suite of auto financing solutions, including Auto Loans and Leases, through our network of 200+ dealership partners to help you drive away with ease. Whether you're looking to buy or lease, we offer competitive rates, flexible payment options and a seamless financing experience—so you can get behind the wheel faster and with less hassle.

Protection Options for the Road Ahead: We go beyond financing by offering valuable protection plans to safeguard your vehicle and your wallet. Our Guaranteed Asset Protection (GAP) helps cover the difference between your loan balance and your vehicle's depreciated value in case of a total loss. Plus, our Mechanical Breakdown Protection ensures you're covered for unexpected repair costs due to mechanical or electrical failures—so you can drive with peace of mind.

Property & Casualty Insurance: Through our affiliate, Members Alliance Insurance, Affinity members can receive competitive insurance policies to protect a home, vehicle, business and more from the unexpected.

Community

At Affinity Federal Credit Union, we believe that our strength lies in the communities we serve. As a member-owned, not-for-profit financial institution, we are committed to giving back and making a positive impact where it matters most—right here in our local communities. Our dedication to community service is woven into the fabric of who we are, and we're proud to partner with you in making a difference. Each year, Affinity supports local charities and organizes volunteer events to uplift our communities' needs.

Life & Health Insurance

Affinity Investment Advisors are available to assist members with reviewing existing policies to ensure they are performing as intended, review original benefits, premiums and beneficiary elections are still appropriate and provide alternatives when needed.

Affinity Investment Services

Investments & Retirement Planning

Affinity Investment Advisors are ready to help credit union members plan for their life goals. Whether preparing for retirement, college tuition, or estate planning and wealth transfer our advisors can help members pursue their goals completing personalized financial plans and practicing a member needs-based wealth management approach.

Securities and advisory services are offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. Affinity Federal Credit Union and Affinity Investment Services are not registered as a broker-dealer or investment advisor. Registered representatives of LPL offer products and services using Affinity Federal Credit Union and may also be employees of Affinity. These products and services are being offered through LPL or its affiliates, which are separate entities from, and not affiliates of, Affinity Federal Credit Union or Affinity Investment Services. Securities and insurance offered through LPL or its affiliates are:

Not Insured by NCUA or Any Other Government Agency	**Not Credit Union Guaranteed**
Not Credit Union Deposits or Obligations	**May Lose Value**

The LPL Financial registered representatives associated with this report may discuss and/or transact business only with residents of the states in which they are properly registered or licensed. No offers may be made or accepted from any resident of any other state.

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. All loans are subject to credit review and approval.
4. All loans are subject to credit review and approval.

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

$2.5 Million
Awarded through Grants, Scholarships, and Donations

575
Charities and Members Supported

Our Impact in 2024

$180,000
Community Grants and Donations to 36 Charities

$50,965
Member Relief Grants to 75 Members

$15,000
Scholarships to 6 Student Members

Our Member Giving

$28,005
By Participating in Our Fundraising Events or Making a Donation

Our Employees Giving Back

$29,448
Donated by Credit Union Employees to Support Our Mission

498
Hours to Support Our Foundation's Programs, Fundraising Events, and Community Partners

70
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 performing 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, 2024, and for the years then ended. Their opinion is included in this annual report on page 15.

Supervisory Committee

Michael Rec | Chair

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

Crowe

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, 2024 and 2023, and the related consolidated statements of operations, comprehensive income (loss), members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2024 and 2023, 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 the 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 the 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.

(Continued)

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 the Credit Union’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union’s ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP
Crowe LLP

Livingston, New Jersey
March 28, 2025

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
ASSETS		
Cash on hand	$ 14,354	$ 18,254
Interest-bearing deposits	209,359	50,645
Cash and cash equivalents	223,713	68,899
Investments		
Available for sale	164,428	180,504
FHLB	10,605	23,818
Other	3,739	3,052
Loans, net	3,553,627	3,782,395
Accrued interest receivable	15,267	17,406
Property and equipment, net	9,539	8,811
National Credit Union Share Insurance Fund deposit	32,197	30,172
Credit union-owned life insurance	45,262	70,253
Other assets	84,817	87,708
	$ 4,143,194	$ 4,273,018
LIABILITIES AND MEMBERS’ EQUITY		
Liabilities		
Members’ shares	$ 3,564,736	$ 3,403,262
Borrowed funds	170,430	460,499
Allowance for credit losses on off-balance sheet credit exposure	120	-
Accrued expenses and other liabilities	91,691	96,114
Total liabilities	3,826,977	3,959,875
Commitments and contingent liabilities		
Members’ equity		
Retained earnings, substantially restricted	333,777	328,142
Acquired equity from merger	2,096	2,096
Accumulated other comprehensive loss	(23,555)	(21,163
Non-controlling interest	3,899	4,068
Total equity	316,217	313,143
	$ 4,143,194	$ 4,273,018

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Interest income		
Loans	$ 191,766	$ 190,503
Investments and other	10,759	11,812
Total interest income	202,525	202,315
Interest expense		
Members' shares	90,026	57,772
Borrowed funds	7,622	32,467
Total interest expense	97,648	90,239
Net interest income	104,877	112,076
Credit loss expense	12,527	53,593
Net interest income after credit loss expense	92,350	58,483
Noninterest income		
Service charges and other fees	25,399	25,237
Loan servicing and loan production fees	1,464	1,416
Mortgage servicing rights, net	(135)	(90)
Credit union-owned life insurance income	1,699	2,722
Gain (loss) on sale of property and equipment	227	5
Gain (loss) on sale of loans	330	314
Other noninterest income	14,915	9,067
Total noninterest income	43,899	38,671
Noninterest expenses		
Salaries and benefits	62,369	59,352
Occupancy and operations (Note 15)	68,414	68,731
Total noninterest expenses	130,783	128,083
Net income (loss)	$ 5,466	$ (30,929)

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Net (loss) income	$ 5,466	$ (30,929)
Other comprehensive income:		
Unrealized gains (losses) on securities available for sale		
Unrealized holding gains (losses) arising during the period	819	2,249
Reclassification adjustment for net gains included in net income	-	-
Net change	819	2,249
Unrealized (losses) gains on cash flow hedge derivatives		
Unrealized holding (losses) gains	(8,475)	(10,276)
Reclassification adjustment for gains included in net income	5,264	7,752
Net change	(3,211)	(2,524)
Total other comprehensive Income (loss)	(2,392)	(275)
Comprehensive income (loss)	$ 3,074	$ (31,204)

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the years ended December 31, 2024 and 2023
(dollars in thousands)

	Retained Earnings						
	Regular Reserve	Acquired Equity in Merger	Unappropriated	Total	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Members' Equity
Balance January 1, 2023	$ 40,374	$ 2,096	$ 324,988	$ 367,458	$ (20,888)	$ 5,652	$ 352,222
Cumulative adjustment for CECL Standard adoption (ASC 326)	-	-	(6,383)	(6,383)	-	-	(6,383)
Net loss	-	-	(30,837)	(30,837)	-	(92)	(30,929)
NJCC disassociation distribution	-	-	-	-	-	(1,492)	(1,492)
Other comprehensive loss	-	-	-	-	(275)	-	(275)
Balance December 31, 2023	40,374	2,096	287,768	330,238	(21,163)	4,068	313,143
Net Profit			5,635	5,635		(169)	5,466
Other comprehensive loss	-	-	-	-	(2,392)	-	(2,392)
Balance December 31, 2024	$ 40,374	$ 2,096	$ 293,403	$ 335,873	$ (23,555)	$ 3,899	$ 316,217

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Cash from operating activities		
Net income (loss)	$ 5,466	$ (30,929)
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	2,385	2,141
Credit Loss Expense	12,527	53,593
Net amortization of available-for-sale investments	600	613
Fair value adjustment for equity security	(680)	(569)
Amortization of purchase accounting adjustments	18	38
Amortization of intangibles	57	73
Capitalization of mortgage servicing rights	(400)	(441)
Amortization of servicing rights	534	531
Gain on sale of loans	(330)	(314)
Gain on sale of property and equipment	(227)	(5)
Loss on call of investments	5	-
Increase in carrying value of credit union life insurance	(1,699)	(2,722)
Amortization of lease liability	2,833	1,791
Amortization of right of use asset	2,122	2,521
Net change in		
Accrued interest receivable	2,139	(2,403)
National Credit Union Administration deposit	(2,025)	(1,132)
Other assets	696	(630)
Accrued expenses and other liabilities	(10,355)	(10,762)
Net cash provided by operating activities	13,666	11,394
Cash flows from investing activities		
Repayments of available-for-sale investments	17,467	26,077
Purchase of available-for-sale investments	(1,250)	(750)
Net change in FHLB and other investments	13,206	11,990
Net change in loans	216,553	56,180
Purchases of property and equipment	(3,366)	(3,137)
Proceeds from credit union life insurance	26,581	12,057
Proceeds from maturity/sales/calls of AFS investments	72	-
Proceeds from sale of property and equipment	480	43
Net cash provided by investing activities	269,743	102,460
Cash flows from financing activities		
Net increase in members' shares	161,474	103,642
Proceeds from borrowed funds	1,160,000	6,500,000
Repayment of borrowed funds	(1,450,069)	(6,758,000)
CUMAnet Partner Disassociation (NJCC)	-	(1,492)
Net cash (used in) financing activities	(128,595)	(155,850)
Change in cash and cash equivalents	154,814	(41,996)
Cash and cash equivalents at beginning of year	68,899	110,895
Cash and cash equivalents at end of year	$ 223,713	$ 68,899

(Continued)

(dollars in thousands)

	2024	2023
Supplemental cash flow information		
Dividends paid on members' shares and interest paid on borrowed funds	$ 100,019	$ 90,675
Cash paid on leases	5,011	4,614
Supplemental noncash disclosures		
Adoption of ASC 326 - Current Expected Credit Loss	$ -	$ 6,383
New leases entered into during the year under ASC 842 - Leases	2,226	3,712

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 80% of CUMAnet. Minority interest, representing the remaining ownership interest of CUMAnet's partners, is shown as non-controlling interest. During 2023, one of the minority interest owners, NJCC, exited its ownership of CUMAnet. 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.

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 28, 2025, 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 loans, shares, and FHLB and other investments.

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 noninterest income on the consolidated statements of operations.

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 operations.

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. For available-for-sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the collectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Based on the nature of the Securities no allowance for credit losses has been recorded. Accrued interest is included in the evaluation of the allowance for loan losses of available for sale securities.

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 management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, and deferred loan fees and costs. Accrued interest receivable totaled $13.7 million as of December 31, 2024 and $14.8 million as of December 31, 2023, and was reported in Accrued interest receivable on the consolidated statements of financial condition and is included in the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating repayments.

Interest income on loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage and consumer loans are generally charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. 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 collection of principal or interest is considered doubtful.

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

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. In addition, in 2024, the Credit Union originated mortgage loans for sale totaling $22.9 million . These loans were sold at a gain of $330,000 and were sold with servicing retained, compared with $24.6 million and $314,000, respectively, in 2023. There were no loans held for sale as of December 31, 2024 or December 31, 2023. The value of these loans are included in the net change in loans in the statement of cash flows.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

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

The reasonable and supportable forecast period is two years followed by an immediate reversion to historical averages. The Credit Union uses various macroeconomic indicators which differ for each segment.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments:

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, market conditions, and changes in value of autos 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.

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The methodology used to measure the allowance for credit losses varies based on the portfolio segment. The Credit Union utilizes Discounted Cash Flow ("DCF"), Life Cycle Probability of Dollar Default ("PD") / Loss Given Default ("LGD") and Weighted Average Remaining Maturity ("WARM"). The following table illustrates the methodologies utilized by Segment as of December 31, 2024:

Portfolio Segment	Methodology	Forecast Variables
Commercial:	PD/LGD	Inflation Other macroeconomic indicators
Residential:	WARM	Inflation Regional employment National housing prices Other macroeconomic indictors
Consumer:		
Indirect Auto	PD/LGD (Segregated by credit score)	Regional unemployment National employment Inflation Other macroeconomic indicators
Direct Auto	DCF	Inflation National unemployment Other macroeconomic indicators
Auto Leasing	PD/LGD	Inflation Other macroeconomic indicators
Student loan and other	DCF	Regional and national employment Inflation Treasury yield
Credit Cards	PD/LGD (Segregated by credit score)	National employment Regional and national unemployment Other macroeconomic indictors

The PD/LGD approach is determined using loan level and macroeconomic variables, and calculates the allowance based on the current amortized cost basis or a future cashflow stream. The PD risk parameter is used to estimate the likelihood that a borrower will cease making payments as agreed. The PD definition of default includes loans that are 90 days past due. The LGD component calculates the loss severity for defaulted accounts relative to their exposure at the time of default and is based on cumulative historical loss activity. For PD/LGD models the current amortized cost basis calculates the allowance based on the historical reversion rate for the periods selected. The current future cash flow stream calculates the reserve using the highest forecasted rate, regardless of whether it is the historical reversion rate, or the forecasted rate calculated using a 24 month reasonable and supportable forecast rate.

The WARM approach utilizes average historical loss rates and prepayment speeds to calculate an overall historical loss rate which is applied to current loan balances to arrive at the quantitative baseline portion of the allowance.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The DCF method is determined using a cohort method. This method pools loans into groups or "cohorts" sharing similar risk characteristics and tracks each cohort's historical net charge offs to calculate a historical loss rate. The historical loss rates are then averaged to calculate an overall historical loss rate which is applied to current loan balances to arrive at the quantitative baseline portion of the allowance.

Credit card receivables do not have stated maturities. In determining the estimated life of a credit card receivable, management first estimates the future cash flows expected to be received and then applies those expected future cash flows to the credit card balance. Expected credit losses for credit cards are determined by estimating the amount and timing of principal payments expected to be received as payment for the balance outstanding as of the reporting period and applying those principal payments against the balance outstanding as of the reporting period until the expected payments have been fully allocated. The allowance for credit loss is recorded for the excess of the balance outstanding as of the reporting period over the expected principal payments.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Any loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Credit Union (as such credit cards). The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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 statements 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 consolidated statements of operations.

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, building improvements, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation, and amortization. Land improvements, buildings, 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, 2024 and 2023, there was no balance of OREO. At December 31, 2024 and 2023, the recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $1,858,447 and $1,069,899, 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. In 2023, the Credit Union made the decision to surrender some of the policies and had accordingly notified the applicable insurance companies. During 2024, $22.6 million of policies were surrendered compared to $12.0 million in 2023. No gain or loss has been recorded as a result of the decision to surrender the policies. During the year ended December 31, 2024, the credit union received a death benefit payment of $6.6 million due to the death of a former executive. The Credit Union recognized a gain of $2.6 million to other noninterest income in 2024.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 consolidated statements of financial condition 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 2024 and 2023, the NCUA determined that Credit Unions did not have to pay a premium.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Pricing Committee.

Marketing Costs: Marketing costs are expensed as incurred.

Comprehensive Income (loss): 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.

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, 2024 and 2023, goodwill totaled $5,760,000. The Core deposit intangible totaled $78,000 and $135,000 as of December 31, 2024 and 2023. 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 $57,000 and $73,000 for 2024 and 2023 and was included with occupancy and operations on the consolidated statements of operations.

(Continued)

NOTE 2 - INVESTMENTS

Investments classified as available-for-sale as of December 31, 2024 and 2023, consist of the following (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2024				
U.S. Government - sponsored agency securities	$ 4,994	$ -	$ (274)	$ 4,720
Mortgage-backed securities - residential	73,289	21	(8,942)	64,368
Collateralized mortgage obligations ("CMOs")	84,630	-	(14,565)	70,065
Municipal Bonds	4,880	-	(306)	4,574
Corporate Bonds	10,006	-	(29)	9,977
Charitable Donation Account - Corp Bonds	11,220	17	(513)	10,724
Total available-for-sale investments	$ 189,019	$ 38	$ (24,629)	$ 164,428
December 31, 2023				
U.S. Government - sponsored agency securities	$ 4,991	$ -	$ (370)	$ 4,621
Mortgage-backed securities - residential	82,278	15	(8,768)	73,525
Collateralized mortgage obligations ("CMOs")	93,229	-	(14,750)	78,479
Municipal Bonds	4,843	-	(365)	4,478
Corporate Bonds	10,045	-	(316)	9,729
Charitable Donation Account - Corp Bonds	10,528	-	(856)	9,672
Total available-for-sale investments	$ 205,914	$ 15	$ (25,425)	$ 180,504

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	$ 10,006	$ 9,977
One to five years	9,874	9,294
Five to ten years	-	-
Over ten years	-	-
Mortgage-backed securities - residential	73,289	64,368
CMOs	84,630	70,065
Charitable Donation Account - Corp Bonds	11,220	10,724
Total	$ 189,019	$ 164,428

(Continued)

NOTE 2 - INVESTMENTS (Continued)

The following tables summarize securities with unrealized losses greater than 12 months at December 31, 2024 and 2023, aggregated by major security type in a continuous unrealized loss position (dollars in thousands):

	Unrealized Losses	Fair Value
December 31, 2024		
U.S. Government - sponsored agency securities	$ (274)	$ 4,720
Mortgage-backed securities - residential	(8,942)	57,131
CMOs	(14,565)	70,065
Municipal Bonds	(306)	4,574
Corporate Bonds	(29)	9,977
Charitable Donation Account - Corp Bonds	(513)	9,750
Total available-for-sale investments	$ (24,629)	$ 156,217
December 31, 2023		
U.S. Government - sponsored agency securities	$ (370)	$ 4,621
Mortgage-backed securities - residential	(8,768)	68,516
CMOs	(14,750)	78,479
Municipal Bonds	(365)	4,478
Corporate Bonds	(316)	9,729
Charitable Donation Account - Corp Bonds	(856)	9,672
Total available-for-sale investments	$ (25,425)	$ 175,495

There were no securities in an unrealized loss position for less than 12 months at December 31, 2024 or 2023.

At December 31, 2024 and 2023, 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, 2024 and 2023.

As of December 31, 2024, there was no allowance of credit losses on securities available for sale. In addition, all securities were performing and there were no securities available for sale on non-accrual status.

(Continued)

NOTE 2 - INVESTMENTS (Continued)

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

	2024	2023
FHLB of New York stock	$ 10,605	$ 23,818
Certificates of deposit in financial institutions	148	141
Charitable Donation Account Equity Security, at fair value	3,591	2,911
	$ 14,344	$ 26,870

Securities pledged for borrowings had a fair value of $116 million and $143 million at December 31, 2024 and 2023, respectively.

NOTE 3 - LOANS

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

	2024	2023
Commercial:		
Commercial	$ 43,267	$ 46,248
Commercial real estate	270,781	286,192
Residential:		
Residential real estate	1,902,708	2,024,639
Residential home equity	300,536	281,358
Consumer:		
Auto	552,317	740,846
Auto leasing	277,453	178,794
Credit card	158,590	166,175
Student loan and other	85,553	102,237
	3,591,205	3,826,489
Net deferred loan costs	7,547	14,696
Allowance for credit losses	(45,125)	(58,790)
Loans, net	$ 3,553,627	$ 3,782,395

Included with commercial loans above are Payroll Payment Protection ("PPP") loans totaling $122 thousand and $279 thousand as of December 31, 2024 and December 31, 2023, respectively.

Residential mortgage loans totaling $1.5 billion as of December 31, 2024 and $1.6 billion as of December 31, 2023 were pledged under a blanket collateral agreement for the Credit Union's line of credit with the FHLBNY.

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2024 (dollars in thousands):

	Commercial	Residential	Consumer	Total
December 31, 2024				
Allowance for loan losses:				
Beginning balance	$ 3,691	$ 13,893	$ 41,206	$ 58,790
Provision (credit) for loan losses	(318)	(1,323)	14,048	12,407
Loans charged off	(502)	(64)	(46,293)	(46,859)
Recoveries	17	62	20,708	20,787
Total ending allowance balance	$ 2,888	$ 12,568	$ 29,669	$ 45,125

The difference in Provision for loan losses from the income statement is due to the Off-Balance Sheet allowance, which was $120k and $0 for the years ended December 31, 2024 and 2023, respectively.

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2023 (dollars in thousands):

	Commercial	Residential	Consumer	Total
December 31, 2023				
Allowance for loan losses:				
Beginning balance	$ 5,902	$ 8,670	$ 22,862	$ 37,434
Impact of adopting ASC 326	(1,659)	4,671	3,371	6,383
Provision (credit) for loan losses	(186)	453	53,326	53,593
Loans charged off	(394)	(42)	(48,041)	(48,477)
Recoveries	28	141	9,688	9,857
Total ending allowance balance	$ 3,691	$ 13,893	$ 41,206	$ 58,790

The following tables present the amortized cost in nonaccrual status as of December 31, 2024 (dollars in thousands). There were no loans past due over 89 days that were still accruing:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Total Nonaccrual
Commercial:			
Commercial	$ -	$ 309	$ 309
Commercial real estate	8,981	2,591	11,572
Residential:			
Residential real estate	1,546	12,660	14,206
Residential home equity	99	1,994	2,093
Consumer:			
Auto	-	33,634	33,634
Auto leasing	-	279	279
Credit card	-	3,481	3,481
Student loan and other	1	2,455	2,456
Total	$ 10,627	$ 57,403	$ 68,030

(Continued)

NOTE 3 - LOANS (Continued)

Interest income recognized on nonaccrual loans during the year ended December 31, 2024 was not material. The nonaccrual loans with no allowance for loan losses were collateral dependent loans secured by real estate. These loans were individually evaluated for impairment.

The following tables present the amortized cost in nonaccrual status as of December 31, 2023 (dollars in thousands). There were no loans past due over 89 days that were still accruing:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Total Nonaccrual
Commercial:			
Commercial	$ 5,876	$ 182	$ 6,058
Commercial real estate	-	1,255	1,255
Residential:			
Residential real estate	839	11,167	12,006
Residential home equity	-	2,237	2,237
Consumer:			
Auto	-	59,476	59,476
Auto leasing	-	209	209
Credit card	-	2,679	2,679
Student loan and other	-	3,314	3,314
Total	$ 6,715	$ 80,519	$ 87,234

(Continued)

NOTE 3 - LOANS (Continued)

The following tables present the aging of the amortized cost in past due loans by class of loans as of December 31, 2024 and 2023 (dollars in thousands). The past dues are shown based on contractual payment status (ignoring non-accrual status).

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2024						
Commercial:						
Commercial	$ 472	$ 182	$ 281	$ 935	$ 42,332	$ 43,267
Commercial real estate	715	1,875	1,354	3,944	266,837	270,781
Residential:						
Residential real estate	24,591	2,557	5,041	32,189	1,870,519	1,902,708
Residential home equity	2,889	855	1,183	4,927	295,609	300,536
Consumer:						
Auto	28,333	6,036	15,473	49,842	502,475	552,317
Auto leasing	1,112	196	207	1,515	275,938	277,453
Credit card	2,383	1,111	3,481	6,975	151,615	158,590
Student loan and other	1,196	618	1,767	3,581	81,972	85,553
Total	$ 61,691	$ 13,430	$ 28,787	$ 103,908	$ 3,487,297	$ 3,591,205
December 31, 2023						
Commercial:						
Commercial	$ 47	$ 148	$ 135	$ 330	$ 45,918	$ 46,248
Commercial real estate	-	-	1,255	1,255	284,937	286,192
Residential:						
Residential real estate	28,231	3,645	2,511	34,387	1,990,252	2,024,639
Residential home equity	2,390	417	1,110	3,917	277,441	281,358
Consumer:						
Auto	47,690	16,562	32,971	97,223	643,623	740,846
Auto leasing	1,511	29	123	1,663	177,131	178,794
Credit card	2,751	1,128	2,679	6,558	159,617	166,175
Student loan and other	2,357	942	2,359	5,658	96,579	102,237
Total	$ 84,977	$ 22,871	$ 43,143	$ 150,991	$ 3,675,498	$ 3,826,489

(Continued)

NOTE 3 - LOANS (Continued)

Occasionally, the Credit Union modifies loans to borrowers in financial distress by providing a term extension, an other-than-insignificant payment delay or interest rate reduction.

In some cases, the Credit Union provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession may be granted. For the loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, an other-than-insignificant payment delay and/or an interest rate reduction.

The following table presents the amortized cost basis of loans during the years ended December 31, 2024 and 2023 that were both experiencing financial difficulty and were modified, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below (dollars in thousands):

December 31, 2024	Term Extension	Interest Rate Reduction	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial				
Commercial	$ 4	$ -	$ -	0.01%
Consumer:				
Auto	68	99	163	0.06%
Student Loan and other	51	369	103	0.61%
Total	$ 123	$ 468	$ 266	0.02%

December 31, 2023	Term Extension	Interest Rate Reduction	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial				
Commercial	$ -	$ 47	$ -	0.10%
Consumer:				
Auto	41	-	52	0.01%
Student Loan and other	-	-	27	0.03%
Total	$ 41	$ 47	$ 79	0.00%

(Continued)

NOTE 3 - LOANS (Continued)

The Credit Union has not committed to lend additional amounts to the borrowers included in the previous table.

The Credit Union closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
December 31, 2024						
Commercial:						
Commercial	$ -	$ -	$ -	$ -	$ 4	$ 4
Consumer:						
Auto	34	-	-	34	296	330
Student loan and other	-	69	-	69	454	523
Total	$ 34	$ 69	$ -	$ 103	$ 754	$ 857

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
December 31, 2023						
Commercial:						
Commercial	$ -	$ -	$ -	$ -	$ 47	$ 47
Consumer:						
Auto	-	42	-	42	51	93
Student loan and other	-	-	-	-	27	27
Total	$ -	$ 42	$ -	$ 42	$ 125	$ 167

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the years ended December 31, 2024 and December 31, 2023:

December 31, 2024	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension
Commercial		
Commercial	0.00%	29
Consumer:		
Auto	5.90%	22
Student loan and other	5.33%	54
Total	5.53%	35 months

December 31, 2023	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension
Commercial		
Commercial	10.25%	-
Consumer:		
Auto	4.20%	12
Student loan and other	2.00%	39
Total	5.97%	18 months

During the years ended December 31, 2024 and December 31, 2023, there were no defaults of loans modified within the last 12 months.

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.

Upon the Credit Union's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

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.

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 - LOANS (Continued)

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.

Loans not meeting the criteria above 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 is as follows (dollars in thousands):

	Pass	Criticized and Classified
December 31, 2024		
Commercial	$ 32,962	$ 10,305
Commercial real estate	248,698	22,083
Total	$ 281,660	$ 32,388
December 31, 2023		
Commercial	$ 33,857	$ 12,391
Commercial real estate	263,174	23,018
Total	$ 297,031	$ 35,409

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.

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, 2024 and 2023 (dollars in thousands):

	2024	2023
FNMA	$ 198,294	$ 194,673
FHLMC	17,644	20,509
Credit Union of New Jersey	90,707	84,807
Greater Alliance Federal Credit Union	71,445	75,375
Others	78,007	81,106
	$ 456,097	$ 456,470

(Continued)

NOTE 4 - LOAN SERVICING (Continued)

Custodial escrow accounts maintained in connection with the foregoing loan servicing are summarized as follows as of December 31, 2024 and 2023 (dollars in thousands):

	2024	2023
FNMA	$ 2,442	$ 2,381
FHLMC	330	371
Credit Union of New Jersey	947	893
Greater Alliance Federal Credit Union	691	626
Others	683	707
	$ 5,093	$ 4,978

A summary of the changes in the balance of mortgage servicing rights for first mortgages in 2024 and 2023 were as follows (dollars in thousands):

	2024	2023
Balance at beginning of year	$ 1,791	$ 1,881
Servicing assets recognized during the year	400	441
Amortization of servicing assets	(534)	(531)
Balance at end of year	$ 1,657	$ 1,791
Fair value of mortgage servicing rights	$ 5,554	$ 5,838

There was no valuation allowance on the servicing rights asset as of December 31, 2024 and 2023.

Fair value at year-end 2024 and 2023 was determined using discount rates at 15% and 15%,respectively and prepayment speeds ranging from 4.50% to 20% in 2024 and 5% to 20% in 2023, depending on the stratification of the specific pool.

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:

	2024	2023
Prepayment speed per year	8.40%	7.70%
Weighted average life	7 years	7 years
Weighted average discount rate	15%	15%

(Continued)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows for December 31, 2024 and 2023 (dollars in thousands):

	2024	2023
Land	$ 1,936	$ 1,936
Buildings	4,550	4,813
Leasehold improvements	11,988	11,350
Furniture and equipment	33,134	31,898
	51,608	49,997
Accumulated depreciation and amortization	(42,069)	(41,186)
	$ 9,539	$ 8,811

Depreciation expense for the years ended 2024 and 2023 was $2.4 million and $2.1 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 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, 2024, the weighted average remaining lease terms was 15.9 years and the weighted average discount rate was 5.75%

As of December 31, 2024 the right of use assets totaled approximately $49.9 million and was included with other assets on the consolidated statements of condition compared to $48.6 million as of December 31, 2023. The lease liability totaled approximately $52.5 million compared to $50.4 million as of December 31, 2023 and was included with accrued expenses and other liabilities on the consolidated statements of financial condition.

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

2025	$ 5,258
2026	5,137
2027	5,139
2028	5,179
2029	4,762
Subsequent years	58,462
Total undiscounted lease payments	83,937
Less: imputed interest	(31,446)
Net lease liabilities	$ 52,491

Rental expense for all facilities leased under operating leases totaled $5.9 million and $5.8 million for the years ended December 31, 2024 and 2023, respectively, and was included with occupancy and operations expense on the consolidated statements of operations.

(Continued)

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, 2024 and 2023, are approximately $4.4 million and $4.2 million, respectively. Deposits from related parties at December 31, 2024 and 2023, amounted to approximately $2.1 million and $3.0 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, certain executives own 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 either monthly or annually as other income with a corresponding increase to the asset. The balance of the loans to the executives under these arrangements was approximate $13.6 million and $10.2 million at December 31, 2024 and 2023, respectively, and are included with other assets on the statements of financial condition.

NOTE 7 - MEMBERS’ SHARES

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

	2024	2023
Regular shares	$ 1,527,722	$ 1,434,037
Share draft accounts	674,420	697,606
Money market accounts	174,179	198,015
Individual retirement shares and money market accounts	16,720	17,443
Individual retirement certificates	91,130	87,532
Share certificates	1,080,565	968,629
	$ 3,564,736	$ 3,403,262

Shares by maturity as of December 31, 2024, are summarized as follows (dollars in thousands):

No contractual maturity	$ 2,393,041
0 - 1 year maturity	1,070,714
1 - 2 years maturity	82,735
2 - 3 years maturity	12,526
3 - 4 years maturity	3,646
4 - 5 years maturity	1,725
Over 5 years maturity	349
	$ 3,564,736

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, 2024 and 2023, is approximately $237.86 million and $297.56 million, respectively.

Brokered deposits included in members’ shares above were $0 and $137.1 million as of December 31, 2024 and 2023, respectively.

(Continued)

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024 and 2023, were $170.4 million and $460.5 million, respectively. The weighted average rate of outstanding borrowings at December 31, 2024 and 2023, were 4.80% and 5.62%, respectively. Rates range from 1.65% to 4.81% in 2024 and 1.33% to 5.65% in 2023.

There were no borrowings tied to the variable SOFR rate advances as of December 31, 2024.

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. At December 31, 2024 the FHLB NY total borrowing capacity was $1.135 billion. Outstanding borrowings were $170 million leaving a $960 million remaining borrowing capacity through FHLB. There were no outstanding overnight borrowings as of December 31, 2024 and 2023.

The Credit Union has the ability to borrow from the FRB discount window in the amount of $500 million. There were no outstanding borrowings through the FRB discount window as of December 31, 2024 and 2023.

The outstanding FHLB borrowings by maturity on December 31, 2024 and 2023 are as follows (dollars in thousands):

	2024	2023
Less than 1 year maturity	$ 170,000	$ 460,069
1 - 2 years maturity	430	-
2 - 3 years maturity	-	430
3 - 4 years maturity	-	-
	$ 170,430	$ 460,499

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.

(Continued)

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

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

Outstanding mortgage loan commitments at December 31, 2024 and 2023, total approximately $1.5 million and $2.1 million, respectively.

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

	2024	2023
Home equity	$ 369,964	$ 350,599
Credit card	561,641	551,308
Other	45,527	46,387
Commercial	22,971	51,492
	$ 1,000,103	$ 999,786

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, 2024 and 2023, the Credit Union had two interest rate swap agreements. 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 assets and liabilities. In February 2024, the Credit Union terminated a cash flow swap tied to FHLB advances with a notional of $250 million and executed a fair value swap tied to fixed rate mortgages with a notional of $250 million.

The derivative agreements were entered into with Goldman Sachs 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.

(Continued)

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

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 the daily SOFR (Secured Overnight Financing Rate), 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):

	2024	2023
Notional amounts	$ 420,000	$ 420,000
Weighted average pay rates	3.38%	3.06%
Weighted average receive rates	4.37%	5.38%
Weighted average remaining maturity	3.42 years	2.99 years
Derivative liability (included in other liabilities)	$ -	$ (176)
Derivative asset (included in other assets)	$ 1,017	$ 4,423

Summary information about the interest rate swaps for the year ending is as follows (dollars in thousands):

	2024	2023
Unrealized gains/losses	$ 1,036	$ 4,247

Cash Flow Hedges: Interest rate swaps with notional amounts totaling $170 million and $420 million as of December 31, 2024 and 2023, were designated as cash flow hedges of certain FHLB advances and were determined to be effective during all periods presented. In February 2024, the Credit Union terminated one of the swaps with a notional of $250 million and recorded a gain of $2.6 million. This gain is included in the income statement other noninterest income line. The Credit Union expects the remaining hedge to remain effective during the remaining term of the swap which has a maturity date of April 30, 2025.

The following table presents the amounts recorded on the balance sheet for the cash flow hedge as of December 31:

Interest Rate Swap FHLB Advances Notional	$ 170,000	$ 420,000
Derivative asset (included in other assets)	$ 1,036	$ 4,423
Derivative liability (included in other liabilities)	$ -	$ (176)

The effect of cash flow hedge accounting on accumulated other comprehensive income for the years ended December 31 are as follows:

	2024	2023
Amount of (loss)/gain recognized in OCI (effective portion)	$ 1,036	$ 4,247
Amount of (loss)/gain reclassified from OCI to interest expense	5,265	7,752
Amount of loss recognized in interest expense (ineffective portion)	-	-

(Continued)

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

Fair Value Hedges: Interest rate swaps with notional amounts totaling $250 million and $0 million as of December 31, 2024 and 2023, were designated as fair value portfolio layer hedges of certain fixed rate mortgage loans. The hedge was determined to be effective during all periods presented. The Credit Union expects the hedge to remain effective during the remaining terms of the swap which has a maturity date of February 8, 2028.

The following table presents the amounts recorded on the balance sheet and the related values for the fair value hedge as of December 31:

	2024	2023
Interest Rate Swap Fixed Rate Mortgages Principal	$ 250,000	$ -
Derivative asset (included in other assets)	$ 692	$ -
Derivative asset contra (included in other assets)	$ (711)	$ -
Net Derivative asset (included in other assets)	$ (19)	$ -
Interest Rate Swap Carrying Value	$ 249,289	$ -

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 employees that meet the eligibility guidelines set forth in the Summary Plan Document. There was no employer-defined contribution in 2024 or 2023.

The Credit Union contributed approximately $2.2 million and $2.4 million, respectively, to the plan for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, were approximately $125,000 and $125,000, respectively, and are included in Other Assets. There was no expense associated with this plan in 2024 and 2023. The total liability, which represent vested amounts, as of December 31, 2024 and 2023, under the plan was $125,000 and $125,000, respectively and is included with accrued expenses and other liabilities.

(Continued)

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.

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.

As of December 31, 2024 and 2023, 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, 2024 and 2023 was 12.04% and 11.5%.

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

	2024		2023	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as adequately capitalized	$ 248,718	6.00%	$ 256,638	6.00%
Amount needed to be classified as well-capitalized	290,171	7.00%	299,411	7.00%
Actual net worth	339,522	8.19%	336,056	7.86%

(Continued)

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).

Individually Evaluated Loans: The fair value of individually evaluated loans with specific allocations of the allowance for credit 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.

(Continued)

NOTE 14 - FAIR VALUE (Continued)

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, 2024				
Securities Available for Sale				
U.S. Government-sponsored agency securities	$ 4,720	$ -	$ 4,720	$ -
Mortgage-backed securities - residential	64,368	-	64,368	-
CMOs	70,065	-	70,065	-
Municipal bonds	4,574	-	4,574	-
Corporate Bonds	9,977	-	9,977	-
Charitable Donation Account-Corp Bonds	10,724	-	10,724	-
Total securities available for sale	164,428	-	164,428	-
Charitable Donation Acct.-Equity Security	3,591	-	3,591	-
Total investment securities	$ 168,019	$ -	$ 168,019	$ -
December 31, 2023				
Securities Available for Sale				
U.S. Government-sponsored agency securities	$ 4,621	$ -	$ 4,621	$ -
Mortgage-backed securities - residential	73,525	-	73,525	-
CMOs	78,479	-	78,479	-
Municipal bonds	4,478	-	4,478	-
Corporate Bonds	9,729	-	9,729	-
Charitable Donation Account-Corp Bonds	9,672	-	9,672	-
Total securities available for sale	180,504	-	180,504	-
Charitable Donation Acct.-Equity Security	2,911	-	2,911	-
Total investment securities	$ 183,415	$ -	$ 183,415	$ -
December 31, 2024				
Derivative asset	$ 1,017	$ -	$ 1,017	$ -
Derivative liability	$ -	$ -	$ -	$ -
December 31, 2023				
Derivative asset	$ 4,423	$ -	$ 4,423	$ -
Derivative liability	$ 176	$ -	$ 176	$ -

At December 31, 2024 and 2023, there were no individually evaluated loans reported at fair value.

(Continued)

NOTE 15 - OCCUPANCY AND OPERATIONS

The following table presents the major components of occupancy and operations expenses for the years ended December 31, 2024 and 2023 (dollars in thousands):

	2024	2023
Professional services	$ 27,930	$ 31,787
Depreciation & office operations	15,587	14,534
Marketing	3,521	4,037
Office occupancy	8,512	8,213
Loan fulfillment & servicing	7,506	5,877
Other operating expenses	5,358	4,283
	$ 68,414	$ 68,731

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE GAIN/LOSS

The following is a summary of the accumulated other comprehensive gain/loss balances for the years ended December 31, 2024 and 2023 (dollars in thousands):

	Balance at December 31, 2023	Current Year Change	Balance at December 31, 2024
December 31, 2024			
Unrealized losses on securities, available for sale	$ (25,410)	$ 819	$ (24,591)
Unrealized gains on derivatives	4,247	(3,211)	1,036
Total	$ (21,163)	$ (2,392)	$ (23,555)

	Balance at December 31, 2022	Current Year Change	Balance at December 31, 2023
December 31, 2023			
Unrealized losses on securities, available for sale	$ (27,659)	$ 2,249	$ (25,410)
Unrealized gains on derivatives	6,771	(2,524)	4,247
Total	$ (20,888)	$ (275)	$ (21,163)

Affinity
90 years serving our community

73 Mountainview Blvd,
Basking Ridge 07920

affinityfcu.com

"Our commitment to you goes beyond being your credit union – it's about strengthening the communities we call home."