Exclusively serving credit unions since 1979.

SCOTT CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 and 2022

45 YEARS
Nearman
Maynard • Vallez
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

Report on the Audit of the Financial Statements

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

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

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

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may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 these financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

Nearman, Maynard, Vallez, CPAs, P.A.

Nearman, Maynard, Vallez, CPAs, P.A.
Miami, Florida
February 28, 2024

SCOTT CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

ASSETS

Assets	December 31, 2023	December 31, 2022
Cash and cash equivalents	$ 19,142	$ 20,867
Equity securities	1,936	1,816
Available-for-sale debt securities, at fair value (amortized cost $162,674, net of allowance for credit losses $0 and amortized cost $179,657)	147,176	159,749
Held-to-maturity debt securities, net of allowance for credit losses of $0 (fair value $21,723 and $23,986)	22,407	25,199
Other investments	155,182	66,678
Federal Home Loan Bank (FHLB) stock	10,277	2,751
Loans held-for-sale	529	898
Loans receivable, net of allowance for loan losses	-	1,346,463
Loans receivable, net of allowance for credit losses of $13,812	1,252,729	-
Accrued interest receivable	4,500	4,151
Premises and equipment, net	33,977	35,251
National Credit Union Share Insurance Fund deposit	14,622	14,867
Assets acquired in liquidation	136	276
Goodwill	8,271	8,271
Right-of-use assets	3,335	4,423
Other assets	67,365	60,166
Total Assets	$ 1,741,584	$ 1,751,826

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2023	December 31, 2022
Liabilities		
Share and savings accounts	$ 1,544,495	$ 1,557,614
Borrowed funds	25,000	35,000
Interest payable	1,563	577
Lease liabilities	3,335	4,423
Accrued expenses and other liabilities	23,514	22,325
Total liabilities	1,597,907	1,619,939
Commitments and contingent liabilities		
Members' Equity		
Undivided earnings	155,173	147,792
Accumulated other comprehensive loss	(15,499)	(19,908)
Equity acquired from acquisitions	4,003	4,003
Total members' equity	143,677	131,887
Total Liabilities and Members' Equity	$ 1,741,584	$ 1,751,826

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

	December 31, 2023	December 31, 2022
Interest Income		
Interest on loans receivable	$ 67,547	$ 55,039
Interest on investments	14,972	6,685
Interest income	82,519	61,724
Interest Expense		
Dividends on share and savings accounts	14,843	5,945
Interest on borrowed funds	7,564	2,252
Interest expense	22,407	8,197
Net Interest Income	60,112	53,528
Provision for Credit/Loan Losses	14,030	7,657
Net Interest Income After Provision for Credit/Loan Losses	46,082	45,871
Non-Interest Income		
Service charges	10,693	10,559
Card income	9,714	10,308
Other non-interest income	2,025	1,771
Commission income	555	754
Equity/Trading securities profits, net	211	-
Gain on disposition of assets acquired in liquidation, net	195	-
Gain on disposition of premises and equipment, net	15	-
Non-interest income	23,408	23,392
	69,490	69,263
Non-Interest Expense		
Compensation and employee benefits	29,689	28,326
Operations	16,536	16,399
Occupancy	4,643	4,512
Loan servicing	4,333	4,270
Professional and outside services	2,621	3,850
Education and promotion	2,355	2,506
Equity/Trading securities losses, net	-	97
Other gains and losses, net	-	676
Loss on disposition of premises and equipment, net	-	4
Non-interest expense	60,177	60,639
Net Income	$ 9,313	$ 8,623

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY
(DOLLARS IN THOUSANDS)

COMPREHENSIVE INCOME

	December 31, 2023	December 31, 2022
Net Income	$ 9,313	$ 8,623
Other Comprehensive Income (Loss)		
Net unrealized holding gains/(losses) on securities arising during the year	4,409	(18,983)
Adjustment due to pension plan accounting	-	1,226
	4,409	(17,757)
Comprehensive Income (Loss)	$ 13,722	$ (9,134)

CHANGES IN MEMBERS' EQUITY

	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired From Acquisitions	Total
Balance, December 31, 2021	$ 139,169	$ (2,151)	$ 4,003	$ 141,021
Net income	8,623	-	-	8,623
Change in unrealized gain/(loss) on securities	-	(18,983)	-	(18,983)
Change relating to pension plan accounting	-	1,226	-	1,226
Balance, December 31, 2022	147,792	(19,908)	4,003	131,887
CECL Cumulative Effect Adjustment	(1,932)	-	-	(1,932)
Net income	9,313	-	-	9,313
Change in unrealized gain/(loss) on securities	-	4,409	-	4,409
Balance, December 31, 2023	$ 155,173	$ (15,499)	$ 4,003	$ 143,677

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2023	December 31, 2022
Cash Flows From Operating Activities		
Net income	$ 9,313	$ 8,623
Adjustments to reconcile net income to net cash:		
Provision for credit/loan losses	14,030	7,657
Depreciation and amortization of premises and equipment	2,826	3,139
(Gain) loss on disposition of premises and equipment, net	(15)	4
Gain on disposition of assets acquired in liquidation, net	(195)	-
Amortization of investment premiums/discounts	(146)	91
Amortization of loan premiums/discounts	(1,078)	(851)
Amortization of deferred loan origination costs	3,754	3,712
Changes in operating assets and liabilities:		
Equity securities	(119)	92
Loans held-for-sale	369	3,588
Accrued interest receivable	(349)	(1,177)
Right-of-use assets	1,088	(4,423)
Other assets	(7,201)	(17,248)
Dividends payable	985	173
Lease liabilities	(1,088)	4,423
Accrued expenses and other liabilities	1,190	(1,342)
Net cash provided by operating activities	23,364	6,461
Cash Flows From Investing Activities		
Purchases of:		
Available-for-sale debt securities	-	(28,459)
Held-to-maturity debt securities	-	(20,789)
FHLB stock	(7,525)	-
Premises and equipment	(1,837)	(2,389)
Proceeds from:		
Maturities, paydowns and sales of available-for-sale debt securities	16,799	10,377
Maturities and paydowns of held-to-maturity debt securities	3,122	163
Sale of FHLB stock	-	6,456
Sale of premises and equipment	301	0
Sale of mortgage loans	46,776	54,430
Sale of assets acquired in liquidation, net	518	-
Net change in:		
Other investments	(88,505)	177,919
Loans receivable, net of charge-offs	25,628	(303,424)
Assets acquired in liquidation	(184)	(276)
NCUSIF deposit	246	(1,182)
Acquisition activity	-	(8,271)
Recoveries on loans charged off	2,691	1,018
Net cash used in investing activities	(1,970)	(114,427)

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2023	December 31, 2022
Cash Flows From Financing Activities		
Net change in share and savings accounts	(13,119)	75,358
Proceeds from borrowings	25,000	35,000
Repayments of borrowings	(35,000)	-
Net cash (used in) provided by financing activities	(23,119)	110,358
Net Change in Cash and Cash Equivalents	(1,725)	2,393
Cash and Cash Equivalents at Beginning of Year	20,867	18,474
Cash and Cash Equivalents at End of Year	$ 19,142	$ 20,867
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 21,423	$ 8,024
Loans receivable transferred to assets acquired in liquidation	$ 136	$ 276
Non-cash change in assets acquired in liquidation, net	$ -	$ 30

Supplemental Schedule of Noncash Investing and Financing Information

Except for the cash received, the balances acquired in the acquisition as described in Note 15 of these financial statements are not included in the above because no cash was paid. Rather, only the transactions impacting cash flows after the date of acquisition are reflected in the corresponding sections (operating, investing, and financing) above.

The following schedule describes the Credit Union's noncash investing and financing activities relating to the acquisition during the year ended December 31, 2022.

	2023	2022
Cash received in merger	$ -	$ 9,849
Acquired assets, net of cash received	-	73,021
Assumed liabilities	-	(74,599)
Equity acquired in merger	$ -	$ 8,271

The accompanying notes are an integral part of these financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Scott Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Illinois Credit Union Act for the purposes of promoting thrift among, and creating a source of credit for its members. 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP, as detailed in the Accounting Standards Codification (ASC), that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

For purposes of the statement of financial condition and the statement of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Equity Securities

These investments are reported at fair value. Fair value is generally based on quoted market prices or quoted market prices for similar assets. Realized and unrealized gains and losses are recognized in profits or losses through the statement of income.

Debt Securities

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in "Other Comprehensive (Loss) Income." Realized gains and losses on securities available-for-sale are included in "Other Noninterest Income" or expense and, when applicable, are reported as a reclassification adjustment in "Accumulated other comprehensive income (loss)." Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity/call date.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in "Non-interest income".

With the adoption of ASU 2016-13, expected credit losses on securities are measured on a collective basis by major security type. In addition to the major security types, management may further evaluate the qualitative factors associated with these securities to determine the expectation of credit losses, if any. Impairments below cost in the estimated fair value of individual debt securities that are attributable to credit losses are recorded through an allowance for credit losses. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Impairments below cost attributable to other factors are realized in noninterest income in the consolidated statements of income. Gains and losses on the sale of debt securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Unrealized gains and losses on debt securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are typically recognized in interest income using the interest method over the terms of the securities. Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. Impairments below cost in the estimated fair value of individual available-for-sale debt securities when there is an intent to sell or for which it more likely than not the Credit Union will be required to sell before the impairment is recovered, are realized in noninterest income in the consolidated statements of income. When there is not an intent to sell or it is more likely than not the Credit Union will not be required to sell the security before the impairment is recovered, management assesses whether the decline in fair value has resulted from credit losses or other factors. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for available-for-sale credit losses is recorded. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Any future changes in the allowance for credit losses is recorded as a provision for (reversal of) credit losses. Losses attributable to other factors are charged to accumulated other comprehensive income. Gains and losses on the sale of available-for-sale debt securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Other Investments

Other investments are carried, as a practical expedient, at cost, less impairment, plus or minus changes resulting from observable price changes.

Charitable Donation Account (CDA)

The Credit Union has a Charitable Donation Account (CDA). This is a hybrid investment which grants credit unions expanded investment powers to fund charitable contributions, whereby 51% of the earnings and capital gains must be distributed to charities at a frequency of no less than five years.

(DOLLARS IN THOUSANDS)

The Charitable Donation Account consists of:

	December 31,	
	2023	**2022**
Debt and equity securities	$ 4,843	$ 4,514

These investments are marked to market and realized and unrealized gains and losses are recorded in non-interest income.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Chicago, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock

As part of the restructuring of Visa, Inc., the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. The Credit Union has a balance of 5,339 shares as of December 31, 2023. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union’s financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of amortized cost or fair value at December 31, 2023 and cost or fair value at December 31, 2022. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse.

Loans Receivable

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost, which is the outstanding principal balance net of any deferred fees or costs, charge-offs, and unamortized premiums or discounts on originated or purchased loans. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. When principal or interest is delinquent for 90 days or more, the Credit Union evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for Credit Losses - Loans

As of January 1, 2023, the Credit Union adopted Accounting Standards Update 2016-13, "Financial Instruments - Credit Losses, Topic 326" (ASC 326) which replaces the incurred loss methodology that incorporated only known information as of the balance sheet date with a current expected credit loss (CECL) model. The CECL model is Management's estimate of lifetime expected credit losses for financial assets measured at amortized cost including loans receivables, held-to-maturity investments and off-balance sheet credit exposures such as conditionally cancelable unfunded commitments. The allowance for loan credit losses (ALCL) is estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio and supportable forecasts of the economic outlook over the life of the loan. It is adjusted through a provision for credit losses charged to earnings. There are two components of the ALCL: reserves on pooled loans sharing risk characteristics (portfolio segments) and individually evaluated loans that do not fit within a portfolio segment.

The allowance for off-balance sheet risk is an estimated liability for losses on commitments expected to be funded over its estimated life and the likelihood that funding will occur. The Credit Union will report adjustments to the liability as a credit loss expense.

Management uses a disciplined process and methodology to establish the allowance for credit losses each month. To determine the total ALCL, Management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans with similar risk factors (such as, but not limited to, loan type and structure, collateral type, leverage ratio, refinancing risk and origination quality) analyzed on a pooled basis. The ALCL consists of amounts applicable to the following loan types: (i) auto; (ii) real estate; (iii) other consumer secured; (iv) unsecured and credit cards; and (v) member business/commercial loans.

To determine the balance of the loan allowance account, loans are pooled by portfolio segment and losses are modeled using the Probability of Default with Discounted Cash Flows (PDwDCF), and historical loss methods and quantitative adjustments, as deemed necessary, over the loss emergence period. Individually reviewed loans are reserved based on the characteristics of each loan in the segment. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Credit Union uses vendor-supplied and internally-developed methods in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for credit losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for credit losses. The Credit Union's allowance for loan credit losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced credit officers.

Management monitors differences between estimated and actual incurred credit losses. This monitoring process includes periodic assessments by management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for credit losses are made by charges to the provision for credit losses. Credit exposures deemed to be uncollectible are charged against the ALCL. Accrued interest balances are reversed when a loan is placed in non-accrual status and therefore excluded from the ALCL calculation. Recoveries of previously charged off amounts are credited to the reserve.

Loan Charge-offs

Consumer and non real estate secured commercial loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

Loan Modifications

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a loan modification. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

Allowance for Loan Losses - Incurred Model

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, Management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. In addition, the Credit Union's regulator, as an integral part of its examination process, periodically reviews the Credit Union's allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Premises and Equipment

Land is carried at cost. Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and leasehold amortization. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the respective leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

Servicing Rights

Servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. Capitalized servicing assets are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of servicing assets is netted against loan servicing fee income.

(DOLLARS IN THOUSANDS)

Assets Acquired in Liquidation

Assets acquired in liquidation through repossession, foreclosure or other legal proceeding are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of repossession or foreclosure . Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After repossession or foreclosure, if the Credit Union continues to hold the asset or property held for sale, it is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on the asset or property to be held and used are measured as the amount by which the carrying amount of the asset or property exceeds its fair value. Costs of significant asset or property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the asset or property to the lower of its cost or fair value less cost to sell.

	December 31,	
	2023	**2022**
Foreclosed residential real estate property held for sale	$ -	$ 276
Loans collateralized by residential real estate in the process of foreclosure	$ 79	$ 272

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations. ASC 350-20, Intangibles—Goodwill and Other, provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be evaluated at least annually for impairment. The Credit Union evaluates goodwill for impairment at the entity level on an annual basis, or more frequently should events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. See Note 15 for details.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insurable shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Share and Savings Accounts

Shares include savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. As a natural person credit union, deposits that exceed the $250,000 NCUA insurance limit (uninsured shares) are subordinated to all other liabilities of the Credit Union upon liquidation except subordinated debt. Dividends on share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Equity Acquired From Acquisitions

Equity acquired from acquisitions represents equity accounted for in accordance with the acquisition method of accounting. Under this accounting method undivided earnings of the acquiree are combined on the acquirer's statement of financial condition as a component of equity called equity acquired from acquisition(s). This component of equity is considered part of net worth as defined by regulations established by the National Credit Union Administration.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. However, the Credit Union is subject to unrelated business income tax. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. Management has determined there are no material uncertain tax positions.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 Inputs

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

Level 2 Inputs

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

(DOLLARS IN THOUSANDS)

Level 3 Inputs

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Subsequent Events

In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through February 28, 2024, the date on which the financial statements were available to be issued.

Reclassifications

Certain 2022 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

NOTE 2: INVESTMENTS

Investments consist of the following:

Equity Securities

	December 31, 2023	December 31, 2022
Equities	$ 1,936	$ 1,816

Net equity securities profits (losses) are computed as follows:

	December 31, 2023	December 31, 2022
Unrealized gains/(losses) recognized on equity securities still held at the year end	$ 89	$ (241)
Net gains/(losses) recognized during the period on equity securities sold during the period	122	144
Equity securities profits (losses), net	$ 211	$ (97)

(DOLLARS IN THOUSANDS)

Available-for-Sale Debt Securities

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities and U.S. Government Obligation securities	$ 94,630	$ -	$ (6,645)	$ 87,985
Federal agency mortgage backed securities and CMOs	64,956	-	(8,644)	56,312
Corporate bonds	3,088	4	(213)	2,879
Total	$ 162,674	$ 4	$ (15,502)	$ 147,176

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities and U.S. Government Obligation securities	$ 104,516	$ -	$ (9,568)	$ 94,948
Federal agency mortgage backed securities and CMOs	72,143	-	(10,013)	62,130
Corporate bonds	2,998	-	(327)	2,671
Total	$ 179,657	$ -	$ (19,908)	$ 159,749

The Credit Union has agreed to pledge these securities to the Federal Reserve Bank to secure a line-of-credit. The aggregate amortized cost of pledged securities was:

	December 31,	
	2023	2022
Pledged securities	$ 142,253	$ 169,488

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position are as follows:

	As of December 31, 2023			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities and U.S. Government Obligation securities	$ -	$ -	$ 87,985	$ (6,645)
Federal agency mortgage backed securities and CMOs	-	-	56,312	(8,644)
Corporate bonds	-	-	2,744	(213)
Total	$ -	$ -	$ 147,041	$ (15,502)

(DOLLARS IN THOUSANDS)

	As of December 31, 2022			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities and U.S. Government Obligation securities	$ 19,249	$ (696)	$ 75,699	$ (8,872)
Federal agency mortgage backed securities and CMOs	7,986	(529)	54,144	(9,484)
Corporate bonds	-	-	2,645	(327)
Total	$ 27,234	$ (1,225)	$ 132,489	$ (18,683)

There are a total of 184 and 197 securities with unrealized losses as of December 31, 2023 and 2022, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The securities in an unrealized loss position at December 31, 2023, were impaired due to the current interest rate environment and not to increased credit risk. In estimating impairment losses, the Credit Union considers, among other things, the length of time and the extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer. The Credit Union does not intend to sell these investments, and it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in cost. All securities and certificates owned by the Credit Union are payable at par at maturity.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of unrealized losses. The impairments are due primarily to rising interest rates in 2023. The Credit Union reviews all of its securities for impairment at least quarterly. The Credit Union determined that no additional impairment was associated with these securities on December 31, 2023.

The amortized cost and estimated fair value of debt securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2023	
	Amortized Cost	Fair Value
Within 1 year	$ 20,238	$ 19,707
1 to 5 years	76,859	70,600
5 to 10 years	621	556
Subtotal	97,718	90,863
Mortgage-backed securities	64,956	56,312
Total	$ 162,674	$ 147,176

(DOLLARS IN THOUSANDS)

Mortgage-backed securities (MBS) classified as available-for-sale represent participation interest in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments, and not to the market value of such securities.

MBS are issued by lenders, such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities, which provide for the periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or on specific dates. MBS provide periodic payments which are, in effect, a "pass-through" of the interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. A MBS will mature when all the mortgages in the pool mature or are prepaid. MBS do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall.

Held-to-Maturity Debt Securities

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations securities	$ 18,112	$ -	$ (670)	$ 17,442
Certificates of deposit	3,992	-	-	3,992
Federal agency mortgage backed securities	303	-	(13)	290
Total	$ 22,407	$ -	$ (683)	$ 21,724

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations securities	$ 20,282	$ -	$ (1,185)	$ 19,096
Certificates of deposit	4,492	-	-	4,492
Federal agency mortgage backed securities	426	-	(28)	397
Total	$ 25,199	$ -	$ (1,213)	$ 23,986

The Credit Union has agreed to pledge these securities to the Federal Reserve Bank to secure a line-of-credit. The aggregate amortized cost of pledged securities was:

	December 31,	
	2023	2022
Pledged securities	$ 18,688	$ 426

(DOLLARS IN THOUSANDS)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022, are as follows:

	December 31, 2023			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government obligations securities	$ -	$ -	$ 17,442	$ (670)
Federal agency mortgage backed securities	-	-	290	(13)
Total	$ -	$ -	$ 17,731	$ (683)

	December 31, 2022			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government obligations securities	$ 20,282	$ (1,185)	$ -	$ -
Federal agency mortgage backed securities	397	(28)	-	-
Total	$ 20,679	$ (1,213)	$ -	$ -

There are a total of 33 and 38 securities with unrealized losses as of December 31, 2023 and 2022, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The securities in an unrealized loss position at December 31, 2023, were impaired due to the current interest rate environment and not to increased credit risk. In estimating impairment losses, the Credit Union considers, among other things, the length of time and the extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer. The Credit Union does not intend to sell these investments, and it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in cost. All securities and certificates owned by the Credit Union are payable at par at maturity.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of unrealized losses. The impairments are due primarily to rising interest rates in 2023. The Credit Union reviews all of its securities for impairment at least quarterly. The Credit Union determined that no additional impairment was associated with these securities on December 31, 2023.

(DOLLARS IN THOUSANDS)

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2023	
	Amortized Cost	Fair Value
Within 1 year	$ 8,992	$ 8,882
1 to 5 years	12,863	12,302
5 to 10 years	249	249
Subtotal	22,104	21,433
Mortgage-backed securities	303	291
Total	$ 22,407	$ 21,724

Other Investments

	December 31,	
	2023	2022
Other deposit accounts	$ 154,897	$ 66,393
Perpetual capital at Alloya Corporate Federal Credit Union	285	285
Total	$ 155,182	$ 66,678

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31,	
	2023	2022
Residential first mortgage real estate	$ 341,823	$ 348,921
Residential second mortgage real estate	60,400	48,177
Consumer secured	786,133	878,991
Consumer unsecured	56,544	55,582
Commercial real estate	16,829	19,046
Other commercial	4,812	5,765
	1,266,541	1,356,482
Allowance for credit losses	(13,812)	-
Allowance for loan losses	-	(10,019)
Loans receivable, net	$ 1,252,729	$ 1,346,463

Included in the loan amounts above:	2023	2022
Deferred loan origination costs	$ 2,997	$ 4,468
Premiums/discounts, net	$ (1,771)	$ (2,849)

Allowance for Credit Losses - Loans

The Credit Union has an established methodology to determine the adequacy of the loan allowance for credit losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan credit losses, the Credit Union pools certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: real estate, consumer secured, consumer unsecured, and member business/commercial portfolios. Each pool of loan requires significant judgment which includes assessing the size, complexity and available data to determine the CECL methodology that fits each portfolio segment. The Credit Union uses both internally developed and vendor supplied models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions the Credit Union uses to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following are the factors the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

Real Estate

Real Estate loans are pooled by portfolio class and the PDwDCF methodology is applied to each class. Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional quantitative and environmental multipliers to loan balances. During the year, the Credit Union has applied vendor supplied forecast factors based on the current unemployment rate and Housing Price Index (HPI) for the Metropolitan Statistical Areas (MSA) in which the borrower resides.

Consumer Secured

Consumer Secured loans include loans secured by autos, deposits, recreational vehicles, motorcycles and other assets. These loans are not assessed at an underlying class level. The PDwDCF methodology is applied to each class. Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional quantitative and environmental multipliers to loan balances. During the year, the Credit Union has applied vendor supplied forecast factors based on the current unemployment rate for the Metropolitan Statistical Areas (MSA) in which the borrower resides.

Consumer Unsecured and Credit Cards

Unsecured consumer loans are pooled by portfolio class. The PDwDCF methodology is applied to the Unsecured and Credit Card classes and a historical loss percentage is applied to Negative Shares. Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional quantitative and environmental multipliers to loan balances. During the year, the Credit Union has applied vendor supplied forecast factors based on the current unemployment rate for the Metropolitan Statistical Areas (MSA) in which the borrower resides.

(DOLLARS IN THOUSANDS)

Member Business/Commercial

Member business/commercial loans include real estate loans secured by commercial and industrial properties, office or mixed-use facilities and other commercial assets for use in the normal course of a member's business and the Individual Review methodology is applied to each class. Each Member Business/Commercial loan is reserved based on the attributes of each loan. The individual reserve requirements are aggregated to comprise the ACL for the Member Business Commercial loan portfolio.

The Credit Union's Estimation Process

The Credit Union utilizes third-party software to estimate future credit losses based on current macroeconomic factors. Management applies judgment to develop its own view of loss probability using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of the management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Credit Union's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for credit loss. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Credit Union considers the allowance for credit losses adequate to cover credit losses inherent in the loan portfolio. The following table presents by portfolio segment, the changes in the allowance for credit losses.

	For the year ending December 31, 2023			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for credit losses:				
Beginning balance, prior to adoption of FASB ASU 2016-13	$ 816	$ 308	$ 8,895	$ 10,019
Impact of adopting FASB ASU 2016-13	-	-	1,933	1,933
Provision for credit losses	(557)	112	14,475	14,030
Recoveries on previous credit losses	174	0	2,404	2,578
Loans receivable charged off	(36)	(15)	(14,696)	(14,747)
Ending balance	$ 397	$ 405	$ 13,011	$ 13,812

(DOLLARS IN THOUSANDS)

The following summarizes the activity in the allowance for loan losses account for the year ending:

	For the year ending December 31, 2022			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 543	$ 554	$ 7,570	$ 8,667
Provision for loan losses	112	(97)	7,642	7,657
Recoveries on previous loan losses	244	9	764	1,017
Loans receivable charged off	(83)	(158)	(7,081)	(7,322)
Ending balance	$ 816	$ 308	$ 8,895	$ 10,019
Loans receivable:				
Individually evaluated for impairment	$ 24,811	$ 599	$ 4,981	$ 30,392
Collectively evaluated for impairment	-	396,499	929,592	1,326,090
Total loans receivable	$ 24,811	$ 397,098	$ 934,573	$ 1,356,482
Allowance for loan losses:				
Individually evaluated for impairment	$ 816	$ 289	$ 514	$ 1,619
Collectively evaluated for impairment	-	19	8,381	8,400
Total allowance for loan losses	$ 816	$ 308	$ 8,895	$ 10,019

Credit Quality

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

The following is a summary of loans based on credit quality as of:

	As of December 31, 2023		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 341,644	$ 179	$ 341,823
Residential second mortgage real estate	60,393	7	60,400
Consumer secured	779,119	7,014	786,133
Consumer unsecured	55,886	658	56,544
Commercial real estate	16,829	-	16,829
Other commercial	4,775	37	4,812
Total	$ 1,258,646	$ 7,895	$ 1,266,541

(DOLLARS IN THOUSANDS)

	December 31, 2022		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 348,618	$ 303	$ 348,921
Residential second mortgage real estate	47,881	296	48,177
Consumer secured	874,116	4,875	878,991
Consumer unsecured	55,476	106	55,582
Commercial real estate	19,046	-	19,046
Other commercial	5,040	725	5,765
Total	$ 1,350,177	$ 6,305	$ 1,356,482

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Past Due Loans by Class

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

	As of December 31, 2023			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 341,451	$ 193	$ 179	$ 341,823
Residential second mortgage real estate	60,175	218	7	60,400
Consumer secured	772,660	6,460	7,014	786,134
Consumer unsecured	55,419	467	658	56,544
Commercial real estate	16,829	-	-	16,829
Other commercial	4,774	-	38	4,812
Total	$ 1,251,307	$ 7,339	$ 7,896	$ 1,266,542

	December 31, 2022			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 347,892	$ 726	$ 303	$ 348,921
Residential second mortgage real estate	47,830	50	296	48,177
Consumer secured	869,866	4,251	4,875	878,991
Consumer unsecured	54,813	663	106	55,582
Commercial real estate	19,046	-	-	19,046
Other commercial	5,040	-	725	5,765
Total	$ 1,344,486	$ 5,690	$ 6,306	$ 1,356,482

(DOLLARS IN THOUSANDS)

Nonaccrual Loans

The Credit Union generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loans reach 90 days past due for all loan types.

When the Credit Union places a loan on nonaccrual status, the Credit Union reverses the accrued unpaid interest receivable against interest income and account for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Credit Union returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The following table presents the loans to members on nonaccrual status.

	December 31, 2023	December 31, 2022
Loans on which the accrual of interest has been discontinued	$ 7,895	$ 6,306

There were no loans greater than 90 days or more past due and still accruing interest as of December 31, 2023 and 2022.

Modified Loans under ASC 326

The amortized cost basis of loans that had a payment default during the year and were modified in the twelve months prior to that default are disclosed below.

	For the year ending December 31, 2023			
	Residential Real Estate	Consumer Secured	Consumer Unsecured	Commercial
Principal forgiveness	$ -	$ 64	$ -	$ -
Payment delay	-	-	-	-
Term extension	-	22,215	129	-
Interest rate reduction	-	96	-	-
Combination term extension and principal forgiveness	-	-	-	-
Combination term extension and interest rate reduction	-	-	-	-
	$ -	$ 22,375	$ 129	$ -

At December 31, 2023, there are no commitments to lend additional funds to any member experiencing financial difficulties whose loan terms have been modified.

(DOLLARS IN THOUSANDS)

Impaired Loans

The Credit Union considers loans impaired when, based on current information, it is probable that the Credit Union will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Credit Union's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual status when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of “minimal delay” in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The following table includes the unpaid principal balances for impaired loans receivable with the associated allowance amount, if applicable. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	December 31, 2022		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 303	$ 275	$ 61
Residential second mortgage real estate	296	14	148
Consumer secured	4,875	498	16
Consumer unsecured	106	16	1
Commercial real estate	-	-	-
Other commercial	725	91	725
Total:			
Residential real estate	$ 599	$ 289	$ 86
Consumer	$ 4,981	$ 514	$ 12
Commercial	$ 725	$ 91	$ 725

There were no impaired loans without a related allowance as of December 31, 2022.

(DOLLARS IN THOUSANDS)

Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a TDR. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include interest rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms deemed to be a concession, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit year ending:

	December 31, 2022			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Balance	Number of Loans	Balance
Residential real estate	-	$ -	-	$ -
Consumer	35	490	1	20
Commercial	-	-	-	-
	35	$ 490	1	$ 20

The pre-modification and post-modification balances for troubled debt restructurings are generally the same.

NOTE 4: SERVICING RIGHTS

Loans serviced for others are not included in the accompanying statements of financial condition. Capitalized servicing rights are included in other assets on the balance sheet.

Activity for capitalized servicing rights are as follows:

	December 31,	
	2023	2022
Balance, beginning of year	$ 1,318	$ 1,271
Additions	263	281
Amortization of servicing rights	(268)	(234)
	1,312	1,318
Valuation allowance	-	-
Balance, end of year	$ 1,312	$ 1,318
Principal balance of loans serviced for others	$ 222,247	$ 199,919

(DOLLARS IN THOUSANDS)

NOTE 5: PREMISES AND EQUIPMENT

	December 31, 2023	December 31, 2022
Land	$ 9,441	$ 9,508
Buildings	37,251	37,039
Furniture and equipment	23,705	22,176
Leasehold improvements	2,278	2,505
Construction in process	35	526
	72,711	71,754
Less accumulated depreciation and amortization	(38,735)	(36,503)
Premises and equipment, net	$ 33,977	$ 35,251

NOTE 6: LEASES

The Credit Union has operating leases for Branches. The leases have remaining lease terms of 5 year to 7 years, some of which include options to renew.

	For the Year Ending December 31, 2023	For the Year Ending December 31, 2022
Operating lease cost	$ 1,183	$ 1,218

Supplemental cash flow information related to leases was as follows:	December 31, 2023	December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,110	$ 1,125
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ -	$ 5,549

Supplemental balance sheet information related to lease was as follows:	December 31, 2023	December 31, 2022
Operating leases:		
Operating lease right-of-use assets	$ 3,335	$ 4,423
Operating lease liabilities	$ 3,335	$ 4,423
Weighted average remaining lease term	40 months	50 months
Weighted average discount rate	1.87%	1.85%

(DOLLARS IN THOUSANDS)

Maturities of lease liabilities were as follows:

Year Ending December 31,	Amount
2024	$ 1,176
2025	1,169
2026	526
2027	349
2028	225
Total lease payments	3,445
Imputed Interest	(111)
Total lease liability	$ 3,335

NOTE 7: SHARE AND SAVINGS ACCOUNTS

	December 31, 2023	December 31, 2022
Share draft accounts	$ 393,311	$ 420,862
Money market accounts	140,919	162,499
Share accounts	655,546	748,930
Certificate accounts	354,719	225,323
Total	$ 1,544,495	$ 1,557,614

The scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	Amount
2024	$ 240,795
2025	63,548
2026	41,585
2027	4,168
2028	4,623
Total	$ 354,719

	December 31, 2023	December 31, 2022
Certificate accounts in denominations of $250 or more	$ 34,189	$ 22,070
Negative share and saving accounts that were reclassed to loans receivable	$ 400	$ 334

The National Credit Union Share Insurance Fund insures members' shares up to $250. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional $250.

(DOLLARS IN THOUSANDS)

NOTE 8: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a defined contribution 401(k) plan covering substantially all employees. Employees may make salary contributions up to the Federal limit. For every 1% of employee contribution, the Credit Union will make 0.25% match, up to a maximum of 1% of employer contributions to 4% employee contribution. The match must be approved by the Board of Directors on an annual basis.

The 401(k) plan has a profit sharing plan feature which allows for annual employer contributions. The non-discretionary contribution is 3% of eligible wages and the discretionary contribution is approved by the Board of Directors on an annual basis. The discretionary contribution approved for 2023 and 2022 was 1%.

	For the Year Ending December 31,	
	2023	2022
Credit Union matching contributions	$ 194	$ 184
Credit Union profit sharing contributions	$ 887	$ 834

Deferred Compensation 457(b) Plan

The Credit Union maintains non-governmental tax-exempt organization Section 457(b) deferred compensation plan for a select group of Management and/or highly compensated employees of Scott Credit Union. Participants are eligible based on approval by the Credit Union's Board of Directors. Under this plan, participants defer a portion of their compensation. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

	December 31,	
	2023	2022
Plan expense	$ 23	$ 37

SERP Plan

The Credit Union initiated a Supplemental Executive Retirement Plan (SERP). The Credit Union’s expense for the plan years were as follows:

	For the Year Ending December 31,	
	2023	2022
SERP plan expense	$ 324	$ 44

(DOLLARS IN THOUSANDS)

Split Dollar Life Insurance

The Credit Union provides certain individuals with a Supplemental Retirement Plan (SERP) . The SERP is being funded via life insurance policies and split dollar loan agreements have been entered into with the participants of the executives covered under the Plan. As part of the split dollar loan agreements, the executives have assigned the policies to the Credit Union as collateral. This assignment secures repayment of any advances and accrued interest for the policy premiums and any other advances under any agreement. The loans have a fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually.

	December 31,	
	2023	2022
Split dollar loans and accrued interest	$ 28	$ 19

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Legal Contingencies

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate of which, in Management's opinion, would not be material to the Credit Union's financial condition.

Off-Balance-Sheet Risk

The Credit Union is a 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 the amount recognized in the financial statements.

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

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

	December 31,	
	2023	2022
Credit cards	$ 76,170	$ 78,896
Home equity	44,520	42,368
Overdraft protection	13,849	14,035
Commercial	662	1,211
Other consumer	2,134	1,116
Share draft lines of credit	1,079	833
Total	$ 138,414	$ 138,460

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 lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans 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.

Concentrations of Credit Risk

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 Southwestern Illinois and St. Louis County, Missouri. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

NOTE 10: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2023 and 2022, the Credit Union had an unused line-of-credit with Alloya Corporate Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was $7,500 as of December 31, 2023 and 2022, respectively. There were no outstanding borrowings as of these dates.

Federal Reserve Bank

The Credit Union participates in the Borrower-In-Custody program with the Federal Reserve. The Borrower-In-Custody program allows the Credit Union to pledge automobile loans as collateral for borrowing at rates determined by the lender at the time of borrowing. The collateral is valued monthly by the Federal Reserve based on the terms of the pledged loans. As of December 31, 2023 and 2022, the balance of loans pledged was $72,790 and $96,473, respectively. The maximum amount that could be borrowed as of December 31, 2023 and 2022 was $54,321 and $68,659, respectively.

The Federal Reserve Bank also allows the Credit Union to borrow against securities pledged as collateral. As of December 31, 2023 and 2022, the value of the pledged securities was $142,253 and $169,488, respectively. The maximum amount that could be borrowed as of December 31, 2023 and 2022 was $160,258 and $193,663, respectively.

(DOLLARS IN THOUSANDS)

Federal Home Loan Bank

As a member of the Federal Home Loan Bank (FHLB), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral for advances. Qualified collateral, as defined in the FHLB Statement of Credit Policy, is free and clear of liens, pledges, and encumbrances. The Federal Home Loan Bank has established a Credit Availability of $247,358 and $253,012 as of December 31, 2023 and 2022 respectively. As of December 31, 2023 and 2022, the outstanding balances, maturities, and interest rates of these loans were as follows:

			December 31,	
Description	**Maturity Date**	**Interest Rate**	**2023**	**2022**
Loan No. 1	10/30/26	4.50%	$ 25,000	$ -
Loan No. 2	06/28/23	2.94%	-	5,000
Loan No. 3	01/20/23	4.33%	-	30,000
			$ 25,000	$ 35,000

Scheduled maturities of borrowed funds are as follows:

Year Ending December 31,	**Amount**
2024	$ -
2025	-
2026	25,000
Total	$ 25,000

NOTE 11: CAPITAL REQUIREMENTS

As of December 31, 2023, since the Credit Union's total assets met or exceeded the threshold of $500 Million, the Credit Union is considered "complex" under NCUA Rules and Regulations. The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting standards generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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. The Risk-Based Capital ratio (RBC) to be considered well capitalized under the regulatory framework is 10.00%. If the Credit Union elects the Complex Credit Union Leverage Ratio option instead of the RBC ratio, the net worth ratio to be considered well capitalized would be 9.00%.

(DOLLARS IN THOUSANDS)

The Credit Union has elected as of December 31, 2023 to use the Complex Credit Union Leverage Ratio as the determining net worth classification for regulatory purposes. The Credit Union had elected as of December 31, 2022 to use the Risk-Based Capital ratio as the determining net worth classification for regulatory purposes. The Credit Union has the option to change this election on a quarterly basis. There are no conditions or events since that notification that management believes have changed the institution's category.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	December 31, 2023		December 31, 2022	
	Amount	**Ratio**	**Amount**	**Ratio**
Regulatory Net Worth	$ 160,470	9.21%	$ 151,795	8.66%
Complex Credit Union Leverage Ratio		9.21%		N/A
Net Worth Classification	Well Capitalized		N/A	
Risk Based Capital	$ -	-	$ 136,179	12.28%
Net Worth Classification	N/A		Well Capitalized	

NOTE 12: RELATED PARTY TRANSACTIONS

The balance of certain related party transactions with directors, committee members and executives are as follows:

	December 31, 2023	December 31, 2022
Loans	$ 2,119	$ 2,081
Shares	$ 2,650	$ 2,687

NOTE 13: FAIR VALUE MEASUREMENTS

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 - Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Available-for-sale investments	$ 147,176	$ -	$ 147,176	$ -
Equity securities	$ 1,936	$ 1,936	$ -	$ -

(DOLLARS IN THOUSANDS)

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 159,749	$ -	$ 159,749	$ -
Equity securities	$ 1,816	$ 1,816	$ -	$ -

Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment. The following tables present the balances of the assets and liabilities measured at fair value on a nonrecurring basis:

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 1,312	$ -	$ -	$ 1,312

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 1,318	$ -	$ -	$ 1,318

Available-for-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Equity Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Servicing Rights: Servicing rights do not trade in an active, open market with readily observable prices. While sales of servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of servicing rights using discounted cash flows models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discounts rates, prepayment speeds, and default rates.

NOTE 14: REVENUE RECOGNITION

Revenue is recorded when earned, which is generally over the period services are provided and no contingencies exist. The following summarizes the Credit Union's revenue recognition policies as they relate to certain noninterest income line items in the Statement of Income.

Card Income

Card income includes fees such as interchange, cash advance, annual, late, over-limit and other miscellaneous fees. Uncollected fees are included in customer card receivables balances with an amount recorded in the allowance for loan and lease losses for estimated uncollectible card receivables. Uncollected fees are generally written off when a card receivable reaches 180 days past due.

Service Charges

Service charges include fees for insufficient funds, overdrafts and other banking services. Uncollected fees are included in outstanding loan balances with an amount recorded for estimated uncollectible service fees receivable. Uncollected fees are generally written off when a fee receivable reaches 60 days past due. Investment and brokerage services revenue consists primarily of asset management fees and brokerage income.

Other Non-Interest Income

Other non-interest income includes income from various sources. The amounts from these various sources are not significant revenue source and excluded from the scope of FASB's revenue guidance.

Commission Income

Commission Income includes commissions the Credit Union earns on insurance products and or investment products sold to Credit Union members by third parties.

(DOLLARS IN THOUSANDS)

NOTE 15: ACQUISITION

Effective June 18, 2022, the Credit Union completed the acquisition of Tempo Bank, the acquiree in this business combination. Tempo Bank was a bank-chartered bank in Illinois. The reason for the acquisition was to further promote thrift among its members consistent with purpose when founded. The acquisition is a business combination of two entities accounted for in accordance with the provisions of acquisition method accounting. The application of acquisition method accounting requires that the acquiree credit union's assets and liabilities be recorded at fair value. The following details the fair value adjustments to the assets and liabilities of the acquiree credit union as part of this business combination:

	Book Value	Fair Value
Financial Assets:		
Cash	$ 680	$ 680
Deposits in banks	8,905	9,168
Investments	21,411	20,786
Total loans receivable, net	51,367	48,573
Land and building	810	780
Accrued interest on loans	97	97
Other assets	160	2,785
Total assets	$ 83,430	$ 82,869
Financial Liabilities		
Accrued dividends & interest payable	$ 41	$ 41
Accounts payable and other liabilities	587	587
Borrowings	5,000	5,000
Shares	68,727	68,971
Total liabilities	$ 74,355	$ 74,599
Total equity/goodwill	$ 9,075	$ 8,271

As result of the acquisition and the application of the acquisition method of accounting, there was a goodwill recognized at the time of the acquisition for $8,271.

(DOLLARS IN THOUSANDS)

NOTE 16: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Credit Union recognizes the net assets acquired and liabilities assumed of acquired entities at estimated fair value as of the acquisition date, and those fair values are subject to refinement as information relative to the fair values at the date of acquisition becomes available. The Credit Union recognized the excess of consideration over the fair value of net assets acquired in its acquisition of the following acquisition(s) as follows:

Credit Union	Acquisition Date	Amount
Tempo Bank	6/18/2022	$ 8,271

In accordance with the requirements of ASC 350-20, Goodwill and Other Intangibles, goodwill is evaluated for impairment at the organizational reporting level annually and upon any changes in circumstances that could likely result in reducing the fair value of a reporting unit below its carrying amount. The Credit Union performed qualitative assessments of goodwill as of the December 31, 2022, pursuant to ASU 2011-08, Testing Goodwill for Impairment, and concluded that it was not likely that the fair value of the entity was below its carrying amount, and therefore did not recognize any impairment charges.

The following table summarizes the carrying amount of goodwill that is classified as “Goodwill and Other Intangible assets, net” on the Statements of Financial Condition:

	Years Ended December 31,	
	2023	2022
Balance, beginning of year	$ 8,271	$ -
Additions	-	8,271
Amortization of goodwill	-	-
Impairment incurred	-	-
Balance, end of year	$ 8,271	$ 8,271

Other Intangible Assets

Core deposit balances represent a favorable source of financing for financial institutions, and a “core deposit intangible” asset represents the fair value of cost savings derived from available core deposits acquired relative to the cost of alternative funding. The fair value of core deposit intangibles was associated with share certificate accounts acquired from the acquisition. The acquisition resulted in the recognition of the core deposit intangible assets as detailed below:

Credit Union	Estimated remaining useful life at	Acquired fair value of core deposit
Tempo Bank	9 years	$ 2,644

(DOLLARS IN THOUSANDS)

The Credit Union amortizes the core deposit intangible on a straight-line basis over its estimated remaining useful life. Amortization expense was $624 and $147 for the years ended December 31, 2023 and 2022, respectively. The gross carrying amount, accumulated amortization, and net carrying amount of the core deposit intangible were as follows:

	December 31	
	2023	**2022**
Gross carrying amount	$ 2,644	$ 2,644
Accumulated amortization	(441)	(147)
Net carrying amount	$ 2,203	$ 2,497

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Nearman
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Certified Public Accountants