2023 ANNUAL REPORT

LOS ANGELES
Federal Credit Union

Terry Manocchio
CHAIRPERSON

BOARD CHAIRPERSON'S REPORT

In 2023, LAFCU continued its strong financial performance growing to more than $1.3 billion in assets while maintaining our competitive edge as one of the highest-rated, service-oriented financial institution in the Greater Los Angeles California Metropolitan area. We remain well-capitalized with plenty of money to lend and a commitment to conservative, sound business practices. Our leadership and staff continued to meet the needs of our 75,000 members with a high level of quality service and a commitment to offer a range of products and services.

To accommodate a growing membership, we began construction on our new full-service branch in Montebello that will open in March 2024. Our new phone system will be upgraded in January 2024 to enhance communication options by including "Angie," our virtual assistant, who will answer questions when members call or chat with us. In 2023, we also offered special high-rate Share Certificates to help members earn more money on their savings and continued to offer low-rate loans, free checking, and special accounts.

On behalf of the LAFCU Board of Directors, members of the Supervisory and Credit Committees, and credit union leadership and staff, I'd like to thank you for your business, ongoing support and welcome your feedback.


Terry Manocchio
CHAIRPERSON


Stan Horowitz
VICE CHAIRPERSON


Rito Cisneros
TREASURER


Joe Quan
SECRETARY


Roslyn Carter-Phillips
DIRECTOR


Denise McGee
DIRECTOR


Sheldon Miller
DIRECTOR


Abe Rasheed
DIRECTOR


Jeffery Whitmore
DIRECTOR

BOARD OF DIRECTORS

The credit union continued to implement creative and meaningful products and services for your financial needs. Here are some of the programs and services we introduced in 2023:

- Began the process of enhancing our communication options with a new phone system that will go live in January 2024. This will include “Angie,” our virtual assistant, who will answer questions when members type questions, call us, or live chat (from our website, online banking, or mobile app).
- Began construction on a new full-service branch in Montebello, our 8th overall, which will open in March 2024.
- Continued to offer special high rate Share Certificates to help members earn more money on their savings.
- Continued to enhance our self-service options, especially from mobile devices.
- We continued to support our Southern California community by contributing financial resources to important charities in 2023, including:
    - American Red Cross
    - Children’s Hospital Los Angeles
    - City of Hope hospital
    - Glendale Police Officers’ Association
    - Habitat for Humanity
    - Los Angeles Regional Food Bank
    - Midnight Mission Homeless Shelter & Rehab Facility
    - Operation Gratitude for veterans & first responders.
    - Toys for Tots

We also donated funds to help credit union members impacted by the August 2023 wildfire on the Hawaiian island of Maui.

PRESIDENT/CEO'S REPORT

Richard Lie
PRESIDENT/CEO

The year 2023 was busy and productive for Los Angeles Federal Credit Union. We offered special high-rate Share Certificates to help our members earn more on their savings. We also continued to enhance our self-service options, especially from mobile devices. In keeping with our commitment to the communities we serve, we raised and then donated over $43,000 to various charities to help those in need. We also donated $15,000 to help those impacted (including credit union members) by the Maui, Hawaii Wildfires in August. We continued to offer scholarships to LAFCU members attending college, and have awarded over $120,000 since our scholarship program's inception in 2006.

In 2023, we began the process to enhance our communication options with a new phone system that will go live in January 2024 and include "Angie," our virtual assistant. We also began construction on our new full-service branch in Montebello, our 8th overall, which will open in March 2024.

We have more to look forward to as we remain one of the highest-rated institutions statewide. We continue to be well-capitalized which means we have money to lend, with competitive rates to grow deposits and an ever-increasing membership. We accomplished so much in 2023 thanks to loyal members like you and in 2024, we plan to accomplish even more.

Rito Cisneros
TREASURER

TREASURER'S REPORT

Los Angeles Federal Credit Union remains financially strong and secure with money to lend. As of December 31, 2023, members' shares (deposits) totaled $1.1 billion, a decrease of $39 million compared to 2022. Our assets are $1.3 billion, a $69 million increase compared to 2022.

In 2023, we processed 32,676 consumer loan applications resulting in:

- $ 72.8 million approved vehicle loans.
- $ 66.2 million approved real estate loans & refinances.
- $ 60.8 million approved personal unsecured loans & other loans.

Our total membership grew to 75,377 in 2023 compared to 74,782 in 2022, an increase of 595.

Of equal importance to our financial success are the following:

- Net Income totaled $1.6 million in 2023.
- Net Worth (retained earnings & equity acquired in merger) increased increased $2 million, from $142 million in 2022 to $144 million 2023.

We remain well-capitalized thanks to you, the Board, and Credit Union management and staff, and we continue to use conservative and sound business practices to help protect your money from the unpredictability of the economy, the waning pandemic, and the stock market.

Thank you for your ongoing membership, loyalty, and support through the years. It has been my pleasure to serve as the LAFCU Treasurer.

Lonney Ferguson
CHAIRPERSON

Mark O'Brien
MEMBER

Dora Sanchez
MEMBER

CREDIT COMMITTEE CHAIRPERSON'S REPORT

The Credit Committee's main purpose is to ensure that LAFCU members have the opportunity and equal chance at receiving approval of their loan, regardless of race, religion, ethnicity, or gender, in accordance with the Fair Housing Act and Equal Credit Opportunity Act. Our program of low loan rates, low payments, flexible terms, rate discounts, and refinancing opportunities is designed to assist members along each stage of their financial lives.

To better serve and fulfill our members' needs, the committee members meet on a regular basis to review and respond to loan applications and lines of credit based on prudent lending criteria and practices designed to fulfill members' needs while limiting risk of financial loss to the credit union. All committee members tasked with evaluating loans must be present for the discussion at each meeting and signing off of loans.

The committee reads and reviews various publications from credit union and banking trade associations in an effort to remain knowledgeable and current on all rules and regulations. Committee members also provide input and recommendations to the credit union Board of Directors concerning existing loan policies and programs.

SUPERVISORY COMMITTEE CHAIRPERSON'S REPORT

LAFCU's Supervisory Committee is the independent body that monitors LAFCU's Board of Directors and management as they implement and maintain control procedures to ensure strict adherence to Generally Accepted Accounting Principles (GAAP), the National Credit Union Administration (NCUA) regulations, and LAFCU's longstanding bylaws. Accordingly, the Committee carries out the following primary responsibilities:

- Examines the actions of the Board of Directors and other officials to ensure they are acting within their authority, and that they are carrying out their fiduciary duties and responsibilities in good faith and with care.

- Ensures that financial statements are accurate, that management practices protect the credit union's assets, and that those assets are safeguarded from errors, conflict of interest, self-dealing and fraud.

- Verifies members' accounts periodically and ensures that LAFCU files regulatory reports accurately and in a timely manner.

- Selects independent auditing firms to perform annual audits of financial statements and other audits.

- Reviews and ensures results of NCUA examinations are addressed and implemented properly.

- Oversees elections of the Board of Directors.

- Audits and monitors educational, travel and conference expenses for volunteer officials, management and staff.

The Supervisory Committee meets regularly with external auditors who are Certified Public Accountants and/or specialty audit firms to review results of audits and examinations completed throughout the year. The results are monitored to ensure the Board of Directors and management implement corrective actions properly and within a timely manner. Based on the many audits conducted throughout 2023 and the National Credit Union Administration (NCUA) examination, LAFCU remains extremely safe and sound.

Submitted herein at the Consolidated Financial Statements for the year 2023. A complete copy of the 2023 Annual Report, containing the audited consolidated financial statements, is available at *www.LAFCU.org*. To obtain a condensed version of the annual report, please request a hard copy at any LAFCU branch.

Clifford Eng
CHAIRPERSON

David Asem
MEMBER

David Ly
MEMBER

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 24,201,762	$ 6,302,347
Debt securities available-for-sale, at fair value (amortized cost $375,107,809 and $398,733,567)	327,228,822	341,841,747
Debt securities held-to-maturity (fair value $9,786,414 and $12,865,862)	10,444,985	13,804,529
Other investments, at cost	1,887,644	1,859,580
Restricted stock, at cost	6,904,110	-
Loans, net of allowance for credit losses $7,274,574 at December 31, 2023 and allowance of loan losses of $5,974,778 at December 31, 2022	892,071,164	831,104,788
Accrued interest receivable	3,632,362	2,847,177
Premises and equipment, net	4,481,224	5,196,413
National Credit Union Share Insurance Fund (NCUSIF) deposit	10,630,528	10,871,283
Other assets	34,175,478	32,800,698
Total assets	$ 1,315,658,079	$ 1,246,628,562
LIABILITIES & MEMBERS' EQUITY		
LIABILITIES		
Members' shares*	$ 1,091,472,225	$ 1,130,841,573
Borrowings	104,868,863	5,821,412
Accrued expenses and other liabilities	23,973,481	25,199,792
Total liabilities	1,220,314,569	1,161,862,777
Commitments and contingent liabilities (Note 7 & 8)		
MEMBERS' EQUITY**		
Retained earnings	143,517,615	141,881,399
Equity acquired in merger	443,555	443,555
Accumulated other comprehensive loss	(48,617,660)	(57,559,169)
Total members' equity	95,343,510	84,765,785
Total liabilities and members' equity	$ 1,315,658,079	$ 1,246,628,562

** Also known as "deposits"*
*** "Retained earnings" plus "Equity acquired in merger" equals net worth.*
Net worth in 2023 = $144 million vs 2022 at $142.3 million.

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF INCOME

	December 31, 2023	December 31, 2022
INTEREST INCOME		
Loans	$ 37,953,125	$ 29,928,999
Investments and cash equivalents	6,672,587	6,447,414
Total interest income	44,625,712	36,376,413
INTEREST EXPENSE		
Members' shares	5,736,164	2,185,363
Borrowings	2,780,334	227,020
Total interest expense	8,516,498	2,412,383
Net interest income	36,109,214	33,964,030
PROVISION FOR CREDIT LOSSES	5,599,196	1,700,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	30,510,018	32,264,030
NONINTEREST INCOME		
Service charges and other fees	8,607,358	8,055,124
Net loss on sales of securities	-	(143,351)
Other noninterest income	1,402,284	4,039,735
Total noninterest income	10,009,642	11,951,508
NONINTEREST EXPENSE		
Salaries and benefits	20,107,120	17,480,416
Occupancy	2,764,581	2,647,213
Professional and outside services	8,105,776	7,908,413
Operations	7,905,967	8,229,595
Total noninterest expense	38,883,444	36,265,637
NET INCOME	$ 1,636,216	$ 7,949,901

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	December 31,	
	2023	2022
NET INCOME	$ 1,636,216	$ 7,949,901
OTHER COMPREHENSIVE INCOME		
Unrealized holding gains (losses) on investments classified as available-for-sale, net of reclassification adjustments for gains (losses) included in net income	9,012,833	(51,155,249)
Adjustment to post-retirement benefit plan	(71,324)	153,681
Other comprehensive income (loss)	8,941,509	(51,001,568)
Comprehensive income (loss)	$ 10,577,725	$ (43,051,667)

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	Retained Earnings			Equity Acquired in Merger	Accumulated Other Comprehensive Income Loss
	Regular Reserve	Unappropriated	Total		
BALANCE, December 31, 2021	$ 30,000,000	$103,931,498	$133,931,498	$ 443,555	$ (6,557,601)
Net income	-	7,949,901	7,949,901	-	-
Other comprehensive loss	-	-	-	-	(51,001,568)
BALANCE, December 31, 2022	30,000,000	111,881,399	141,881,399	443,555	(57,559,169)
Net income	-	1,636,216	1,636,216	-	-
Other comprehensive income	-	-	-	-	8,941,509
BALANCE, December 31, 2023	$ 30,000,000	$113,517,615	$143,517,615	$ 443,555	$ (48,617,660)

See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2023	December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,636,216	$ 7,949,901
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium on securities, net	181,081	262,043
Provision for credit losses	5,599,196	1,700,000
Depreciation and amortization of premises and equipment	939,083	994,480
Loss on sales of securities	-	143,351
Net change in		
Accrued interest receivable	(785,185)	(429,449)
Other assets	(1,374,780)	(8,270,677)
Accrued expenses and other liabilities	(1,297,635)	11,734,015
Net cash provided by operating activities	4,897,976	14,083,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	-	(50,142,806)
Purchases of restricted stock	(6,904,110)	-
Proceeds from maturities and sales of available-for-sale securities	23,482,591	52,092,678
Proceeds from maturities of held-to-maturity securities	3,321,630	6,339,809
Net increase in other investments	(28,064)	(3,722)
Net increase in loans	(66,565,572)	(154,122,709)
Increase in the NCUSIF deposit	240,755	(384,799)
Purchase of premises and equipment	(223,894)	(390,594)
Net cash used in investing activities	(46,676,664)	(146,612,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in members' shares	(39,369,348)	1,178,206
Net increase in borrowings	99,047,451	5,821,412
Net cash provided by financing activities	59,678,103	6,999,618
Net change in cash and cash equivalents	17,899,415	(125,528,861)
CASH AND CASH EQUIVALENTS, beginning of year	6,302,347	131,831,208
CASH AND CASH EQUIVALENTS, end of year	$ 24,201,762	$ 6,302,347

(CONTINUED ON PAGE 11)

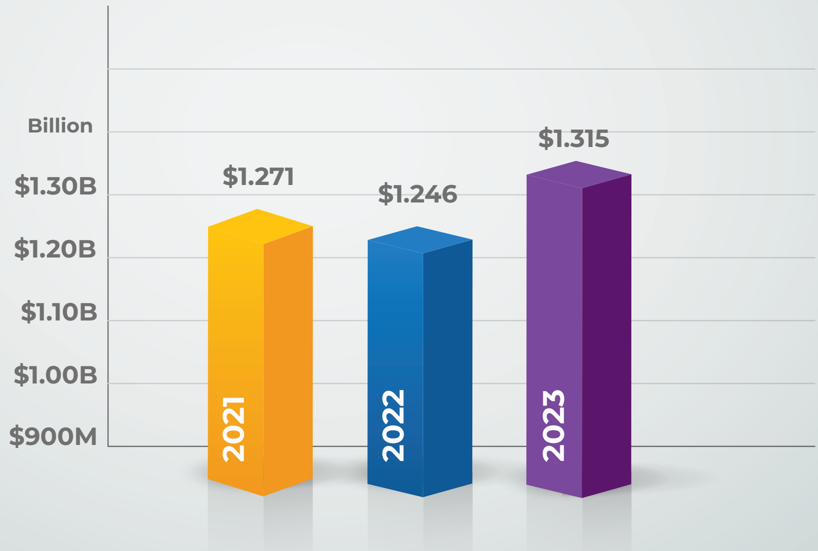
See "Notes to Consolidated Financial Statements" in the full version of the Annual Report available at www.LAFCU.org or in a LAFCU branch.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

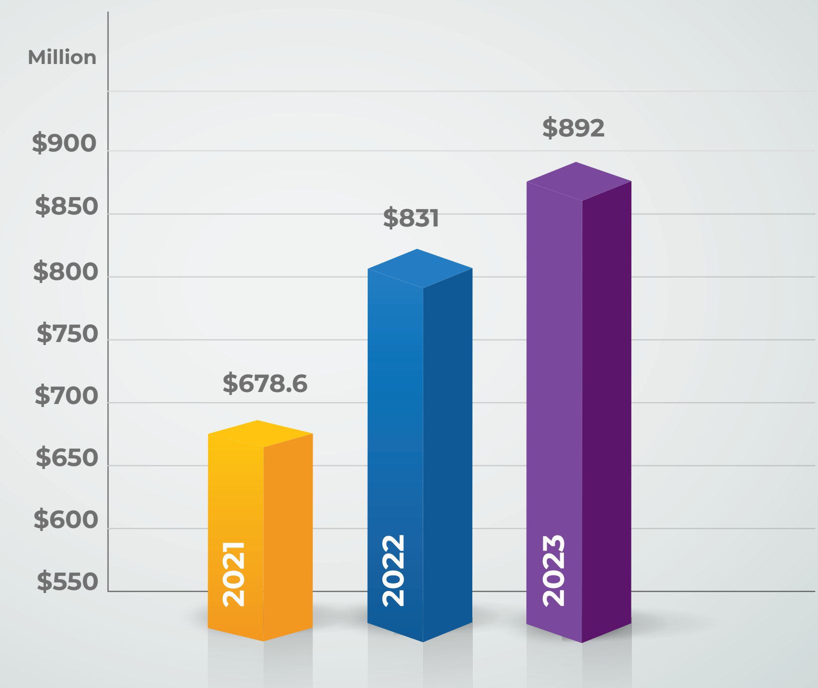
	December 31,	
	2023	2022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Dividends and interest paid	$ 8,516,498	$ 2,412,383
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Lease liabilities arising from obtaining right-of-use assets	$ 225,554	$ 1,898,724
Loans receivable transferred to foreclosed assets	30,403	(44,186)

For complete financials, including "Notes to Consolidated Financial Statements," see the 2023 Annual Report at www.LAFCU.org or in a LAFCU branch.

TOTAL ASSETS

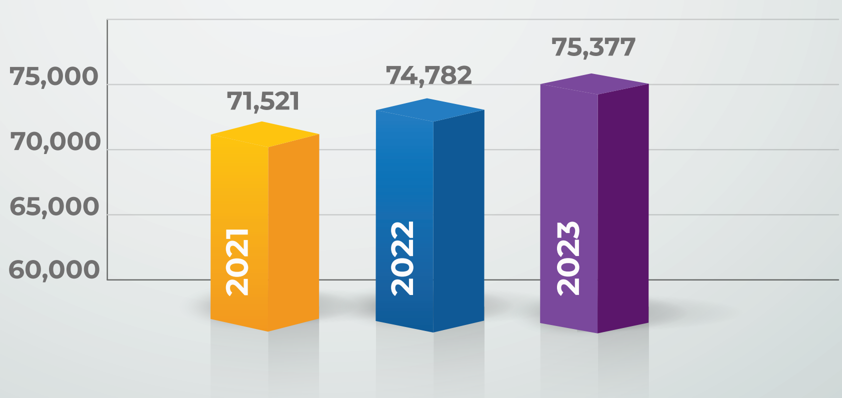


NET LOANS



MEMBERS' EQUITY / NET WORTH

TOTAL MEMBERS



Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of operations – Los Angeles Federal Credit Union and Subsidiary (the Credit Union) is a cooperative association holding a charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, which 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, COLA Insurance Services Corporation (COLA). All significant intercompany balances and transactions have been eliminated in consolidation.

COLA is a wholly owned subsidiary of the Credit Union. A substantial amount of COLA's business is derived from the Credit Union. COLA receives commissions from the referral of members of the Credit Union to various insurance agencies under an agreement with an insurance services firm.

Use of estimates – To prepare financial statements in conformity with accounting principles generally accepted in the United States (GAAP) management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and other postretirement benefit liabilities.

Subsequent events – Management of the Credit Union has evaluated subsequent events through April 5, 2024, the date on which the consolidated financial statements were available to be issued.

Concentrations of credit risk – Most of the Credit Union's business activity is with its members, who primarily are current and former employees of the City of Los Angeles and their families and reside in Southern California. The loan portfolio is diversified as a result of the Credit Union's membership; however, the Credit Union's loan portfolio has significant balances that are collateralized by residential and commercial real estate and may be exposed to credit risk resulting from these geographic or employment concentrations. In addition, the Credit Union's loan portfolio includes certain nontraditional loans (as described in Note 3), as well as 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 lienholder status and repossesses the collateral. Repossessed collateral normally consists of vehicles and residential real estate.

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

> **Level 1** – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> **Level 2** – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 12.

Cash and cash equivalents – For the purpose of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Cash flows from loans originated by the Credit Union and members' shares are reported net. Amounts due from financial institutions may, at times, exceed federally insured limits.

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

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

Allowance for credit losses: held-to-maturity securities – Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $779,630 at December 31, 2023, respectively and is excluded from the estimate of credit losses. Nearly all of the mortgage-backed residential securities and collateralized mortgage obligations held by the Credit Union are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses.

Allowance for credit losses: available-for-sale securities – 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 (loss).

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

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 uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities totaled $37,876 at December 31, 2023, and is excluded from the estimate of credit losses.

Other investments – Other investments consist primarily of permanent capital in a corporate credit union and investments in credit union service organizations and are classified separately and stated at cost.

Loans – The Credit Union grants mortgage and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area. In addition, the Credit Union purchases participations in loans originated by various other credit unions to commercial and faith-based organizations. All of these participations were purchased without recourse and are secured by real property. The originating credit union performs all servicing functions on these loans.

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

The accrual of interest income on loans is discontinued at the time the loan is 90 days past due. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain loan fees and 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 – The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

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 level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Accrued interest receivable is excluded from the estimate of credit losses for loans.

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 and measures the allowance for credit losses using a discounted cash flow with probability of default and loss given default method for all segments: member business, residential real estate, and consumer. Each portfolio segment is disaggregated further into multiple sub-categories by loan type.

Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. When foreclosure is likely or the borrower faces financial difficulty at the reporting date, and repayment hinges on collateral operation or sale, the expected credit losses are calculated using the collateral's fair value at the reporting date, adjusted for selling costs.

Expected credit losses are estimated over the contractual term of 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 an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

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 future expected 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.

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. The allowance for credit losses on off-balance sheet credit exposure is adjusted through a provision for 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.

Off-balance-sheet credit-related financial instruments – In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. 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 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 maturity.

Los Angeles Federal Credit Union and Subsidiary
Notes to Consolidated Financial Statements

Premises and equipment, net – Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings are depreciated using the straight-line method over the estimated useful lives ranging from 5–40 years. Furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 3–5 years. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Leases – The Credit Union leases retail space classified as operating leases. Most leases require the Credit Union to pay real estate taxes, maintenance, insurance, and other similar costs in addition to the base rent. Certain leases also contain lease incentives, such as tenant improvement allowances and rent abatement. Variable lease payments are recognized as lease expense when incurred.

The Credit Union records an operating lease right-of-use (ROU) asset and an operating lease liability for all operating leases. The ROU asset and lease liability are recorded in other assets and accrued expenses and other liabilities, respectively, in the statements of financial condition.

ROU assets represent the Credit Union’s right to use an underlying asset for the lease term and lease liabilities represent the Credit Union’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. For those leases that do not provide an implicit rate, the Credit Union uses the FHLB borrowing rates over a similar term of the lease payments at commencement date. Many of the Credit Union’s leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule, which are factored into the Credit Union’s determination of lease payments when appropriate. Substantially all of the leases provide the Credit Union with the option to extend the lease term one or more times following expiration of the initial term. The ROU asset and lease liability terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option.

Lease expense for lease payments is recognized on a straight-line basis over the lease term.

NCUSIF deposit and insurance premium – The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which in prior years required the maintenance of a deposit by each federally insured credit union in an amount equal to 1 percent of its insured members’ shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

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

Foreclosed assets – The Credit Union has foreclosed assets consisting primarily of real estate. Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, as well as changes on any valuation allowance on the properties, are included in noninterest expenses. Included in other assets are repossessed vehicles and other real estate owned of approximately $59,000 and $29,000 as of December 31, 2023 and 2022, respectively.

Other assets – Other assets consist primarily of prepaid expenses, foreclosed assets, insurance policies, and other receivables.

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 corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are approved by the Credit Union's Board of Directors.

Advertising costs – Advertising costs are expensed as incurred and are immaterial.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's wholly owned subsidiary, however, is subject to federal and state income taxes. Operations of the subsidiary resulted in immaterial income taxes paid for the years ended December 31, 2023 and 2022 FASB ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed, and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax expense and liability in the current year. For the years ended December 31, 2023 and 2022, management determined that the Credit Union and its subsidiary have taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Pension plan – 401(k) – The Credit Union has a qualified 401(k) plan covering substantially all of its employees. The Credit Union matches a portion of employees' wage reductions, which is recorded in compensation and benefits expense in the statements of income.

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Pension plan – deferred compensation plan – The Credit Union has nonqualified deferred compensation plans for members of management. The Credit Union contributes 100% of funds to the 457(f) nonqualified deferred compensation plan. Gains and losses for the 457(b) nonqualified plan and 457(f) nonqualified plan are recorded through noninterest income on the statement of income.

Life insurance policies – Life insurance policies held as part of the Credit Union's deferred compensation plan are carried at their cash surrender value.

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 and the post-retirement benefit plan, are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2023 and 2022, other comprehensive income (loss) includes reclassification adjustments related to unrealized gains (losses) on sales of available-for-sale securities and postretirement benefit plan.

Accumulated other comprehensive loss consisted of the following as of December 31:

	2023	2022
Net, unrealized loss on available-for-sale securities	$ (47,878,987)	$ (56,891,820)
Postretirement benefit plan adjustment	(738,673)	(667,349)
	$ (48,617,660)	$ (57,559,169)

Reclassifications – Certain account reclassifications have been made to the prior year's financial statements in order to conform to classifications used in the current year, with no impact to previously reported members' equity or net income.

Adoption of New Accounting Standards

On January 1, 2023, the Credit Union adopted Accounting Standards Update (ASU) 2016-13 *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, ASC *Topic 326* made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell.

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The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in an immaterial difference to the Credit Union's allowance for credit losses on loans and there was no cumulative-effect adjustment to the beginning balance of retained earnings.

Note 2 – Debt Securities

The following table summarizes the amortized cost, fair value and allowance for credit losses of securities available-for-sale and securities held-to-maturity at December 31, 2023, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive (loss) and gross unrecognized gains and losses:

The following is a summary of investment securities available-for-sale at:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Federal agency securities	$ 170,608,684	$ -	$ (11,441,169)	$ -	$ 159,167,515
Federal agency mortgage-backed securities	92,870,212	-	(16,339,462)	-	76,530,750
Federal agency collateralized mortgage obligations	111,628,913	-	(20,098,356)	-	91,530,557
Total available-for-sale	$ 375,107,809	$ -	$ (47,878,987)	$ -	$ 327,228,822

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 171,335,512	$ -	$ (16,998,613)	$ 154,336,899
Federal agency mortgage-backed securities	100,997,596	-	(18,995,920)	82,001,676
Federal agency collateralized mortgage obligations	126,400,459	79	(20,897,366)	105,503,172
	$ 398,733,567	$ 79	$ (56,891,899)	$ 341,841,747

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The following is a summary of investment securities held-to-maturity at:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Federal agency mortgage-backed securities	$ 4,775,816	$ -	$ (266,722)	$ 4,509,094	$ -
Federal agency collateralized mortgage obligations	5,669,169	-	(391,849)	5,277,320	-
	$ 10,444,985	$ -	$ (658,571)	$ 9,786,414	$ -

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency mortgage-backed securities	$ 6,215,215	$ -	$ (424,071)	$ 5,791,144
Federal agency collateralized mortgage obligations	7,589,314	-	(514,596)	7,074,718
	$ 13,804,529	$ -	$ (938,667)	$ 12,865,862

Investments by maturity as of December 31, 2023, are summarized as follows:

	Available-for-Sale		Held-to-Maturity		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
No maturity	$ -	$ -	$ -	$ -	$ 1,887,644
Less than one year maturity	24,864,248	24,238,946	-	-	-
One to five years maturity	134,447,896	125,365,709	-	-	-
Five to 10 years maturity	11,296,540	9,562,860	-	-	-
Federal agency mortgage-backed securities	92,870,212	76,530,750	4,775,816	4,509,094	-
Federal agency collateralized mortgage obligations	111,628,913	91,530,557	5,669,169	5,277,320	-
	$ 375,107,809	$ 327,228,822	$ 10,444,985	$ 9,786,414	$ 1,887,644

Expected maturities of residential mortgage-backed securities and collateralized mortgage obligations may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are therefore classified separately with no specific maturity date. Permanent capital in a corporate credit union and investments in credit union service organizations have been classified as having no contractual maturity.

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Information pertaining to available-for-sale securities with gross unrealized losses at December 31, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, is as follows:

	December 31, 2023					
	Less Than Twelve Months		Twelve Months or Greater		Total	
Available-for-sale	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Federal agency securities	$ -	$ -	$ (11,441,168)	$ 159,167,515	$ (11,441,168)	$ 159,167,515
Federal agency mortgage-backed securities	-	-	(16,854,445)	79,356,634	(16,854,445)	79,356,634
Federal agency collateralized mortgage obligations	-	-	(19,583,374)	88,704,673	(19,583,374)	88,704,673
Total	$ -	$ -	$ (47,878,987)	$ 327,228,822	$ (47,878,987)	$ 327,228,822

The following table summarizes debt securities available-for-sale and held-to-maturity in an unrealized loss position at December 31, 2022, aggregated by major security type and length of time in a continuous loss position:

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or Greater		Total	
Available-for-sale	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Federal agency securities	$ (2,027,354)	$ 34,527,573	$ (14,971,259)	$ 119,809,325	$ (16,998,613)	$ 154,336,898
Federal agency mortgage-backed securities	(1,251,602)	10,339,394	(17,744,318)	75,318,144	(18,995,920)	85,657,538
Federal agency collateralized mortgage obligations	(2,918,268)	27,386,058	(17,979,098)	74,393,228	(20,897,366)	101,779,286
Total	$ (3,278,956)	$ 44,866,967	$ (32,715,577)	$ 195,127,469	$ (35,994,533)	$ 239,994,436
Held-to-maturity						
Federal agency mortgage-backed securities	$ (802,213)	$ 11,753,947	$ (136,453)	$ 993,937	$ (938,667)	$ 12,747,884
Federal agency collateralized mortgage obligations	-	-	-	-	-	-
Total	$ (802,213)	$ 11,753,947	$ (136,453)	$ 993,937	$ (938,667)	$ 12,747,884

The Credit Union believes that the unrealized losses are temporary, arising mainly from fluctuations in interest rates, and did not reflect a deterioration of the credit quality of the issuers. In analyzing an issuer's financial condition, the Credit Union may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The fair value is expected to recover as the securities approach maturity. There was no allowance for credit losses on debt securities available-for-sale held at the year ended December 31, 2023.

At December 31, 2023 and 2022, the investment portfolio included 358 and 252 securities with unrealized losses, respectively, that had existed for longer than one year. In addition, the investment portfolio included 0 and 294 securities with unrealized losses that have existed for less than one year at December 31, 2023 and 2022, respectively.

Gross proceeds on the sale of securities was $7,564,024 for the years ended December 31 2022. There was no sale of securities for the year ended December 31, 2023. There were $143,351 of realized gross losses on sales of securities for the year ended December 31, 2022.

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Securities pledged at year-end 2023 and 2022 had a carrying amount of $150,500,000 and $9,800,000 and were pledged to secure public deposits and repurchase agreements.

Other investments consisted of the following at December 31:

	2023	2022
Permanent capital in a corporate credit union	$ 602,876	$ 602,876
Credit union service organizations	1,284,768	1,256,704
	$ 1,887,644	$ 1,859,580

Note 3 – Loans, Net

The Credit Union's disclosures below reflect these changes made in 2023 to conform with the adoption of ASC 326, *Financial Instruments – Credit Losses*, using the modified retrospective approach. Accordingly, prior period was not modified to conform to the current period presentation.

Loans, net consisted of the following at December 31:

	2023	2022
Commercial real estate	24,065,180	23,877,082
Residential real estate	381,868,282	335,073,482
Consumer	490,820,716	475,704,865
Total loans receivable	896,754,178	834,655,429
Premiums on purchased vehicle loan participations	226,703	356,020
Net deferred loan origination fees and costs	2,364,857	2,068,117
Allowance for credit losses	(7,274,574)	(5,974,778)
Total loans, net	$ 892,071,164	$ 831,104,788

Allowance for credit losses – The Credit Union has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses expected in the Credit Union's portfolio. For purposes of determining the allowance for credit losses, the Credit Union segments certain loans in its portfolio by product type.

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The following table presents, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans for the years ended December 31, 2023 and 2022:

December 31, 2023	Commercial Real Estate	Residential Real Estate	Consumer	Total
Beginning balance, prior to adoption of ASC 326	$ 1,840,244	$ 2,333,317	$ 1,801,217	$ 5,974,778
Provision	28,878	219,982	5,350,336	5,599,196
Charge-offs	-	-	(5,215,941)	(5,215,941)
Recoveries	-	-	916,541	916,541
Ending balance	$ 1,869,122	$ 2,553,299	$ 2,852,153	$ 7,274,574

December 31, 2022	Commercial Real Estate	Residential Real Estate	Consumer	Total
Beginning balance	$ 1,814,579	$ 1,997,385	$ 2,524,693	$ 6,336,657
Provision	25,665	335,932	1,338,403	1,700,000
Charge-offs	-	-	(2,871,713)	(2,871,713)
Recoveries	-	-	809,834	809,834
Ending balance	$ 1,840,244	$ 2,333,317	$ 1,801,217	$ 5,974,778

Credit quality indicators – The Credit Union monitors past due status for the purpose of managing credit risk for all loans. The following tables provide past due amounts for each class of loan:

	As of December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ 24,065,180	$ 24,065,180
Residential real estate	5,553,621	730,881	426,254	6,710,756	375,157,526	381,868,282
Consumer	3,907,396	1,414,317	2,058,448	7,380,161	483,440,555	490,820,716
Total	$ 9,461,017	$ 2,145,198	$ 2,484,702	$ 14,090,917	$ 882,663,261	$ 896,754,178

	As of December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ 23,877,082	$ 23,877,082
Residential real estate	2,430,150	107,960	117,047	2,655,157	332,418,325	335,073,482
Consumer other	2,907,513	939,406	1,012,610	4,859,529	470,845,336	475,704,865
Total	$ 5,337,663	$ 1,047,366	$ 1,129,657	$ 7,514,686	$ 827,140,743	$ 834,655,429

Commercial credit quality indicators – The Credit Union manages a consistent process for assessing commercial loan credit quality. Commercial loans are subject to individual risk assessments using internal borrower and collateral quality ratings. The Credit Union uses the following risk rating definitions to assign a risk rating to each commercial loan within the portfolio:

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Pass – Loans that are protected by the current net worth and paying capacity of the obligor(s) or by the value of the underlying collateral.

Watch – “Pass” loans with temporary conditions that may lead to downgrades if not rectified by borrower action.

Special mention – Loans with potential weaknesses that require close attention. If left uncorrected, the weaknesses may result in deterioration of the repayment prospects for the asset, or in the future loan credit position.

Substandard – Loans that are inadequately protected by the current sound worth and paying capacity of the obligor(s) or the collateral pledged, if any.

Doubtful – Loans with all the weaknesses inherent in one classified under the “substandard” category, 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.

Loss – Loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Commercial loan credit exposure – The credit risk profile of commercial loans is monitored by internally assigned risk ratings by class, and by performing and nonperforming groupings. Management tracks the loan’s performance and when the loan becomes 60 days past due, the loan is classified as a nonperforming loan. Member business loans summarized by risk rating and performing status are as follows:

	December 31,	
	2023	2022
Commercial Real Estate		
Pass	$ 24,065,180	$ 23,877,082
Watch	-	
Special mention	-	
Substandard	-	-
Doubtful	-	-
Loss	-	-
Total	$ 24,065,180	$ 23,877,082

Residential real estate and consumer loan credit quality indicators – As part of the ongoing monitoring of the credit quality of the Credit Union’s residential real estate and consumer loan portfolios, management tracks certain credit quality indicators based on whether these loans are performing or nonperforming. To differentiate these categories, management tracks the loan’s performance and when the loan becomes 60 days past due, the loan is classified as a nonperforming loan.

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Notes to Consolidated Financial Statements

The following presents, by credit quality indicator, the residential real estate and consumer loan portfolio as of December 31:

	2023		
	Performing	Nonperforming	Total
Residential real estate			
First mortgage	$ 276,298,099	$ 950,776	$ 277,248,875
Second mortgage	104,413,047	206,359	104,619,406
Consumer			
Secured	208,290,304	1,514,457	209,804,761
Unsecured	279,057,649	1,958,307	281,015,956
	$ 868,059,099	$ 4,629,899	$ 872,688,998

	2022		
	Performing	Nonperforming	Total
Residential real estate			
First mortgage	$ 274,942,476	$ 117,047	$ 275,059,523
Second mortgage	59,905,998	107,960	60,013,958
Consumer			
Secured	220,273,454	1,622,134	221,895,588
Unsecured	253,479,396	329,882	253,809,278
	$ 808,601,324	$ 2,177,023	$ 810,778,347

Non-accrual loans – The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2023:

	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial real estate	$ -	$ -	$ -	$ -
Residential real estate	-	426,254	426,254	-
Consumer	-	2,058,448	2,058,448	-
Total	$ -	$ 2,484,702	$ 2,484,702	$ -

As of December 31, 2023, nonaccrual loans were included in the collective evaluation with an allowance for credit loss recorded.

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The following tables present the recorded investment in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2022:

	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial real estate	$ -	$ -
Residential real estate	117,047	-
Consumer	1,012,610	-
Total	$ 1,129,657	$ -

The Credit Union had no loans that were greater than 60 days past due for which the loans were accruing interest at December 31, 2023 or 2022.

The Credit Union had no loans that were evaluated on an individual basis where foreclosure was probable at December 31, 2023 or 2022.

Loan modification – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein.

The table below summarize the amortized cost of loans as of December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, 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:

December 31, 2023	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination	Total	% of Total Loan Class
Commercial real estate	$ -	$ -	$ -	$ -	$ -	$ -	0%
Residential real estate	-	-	2,143,753	-	-	2,143,753	0.56%
Consumer	-	-	4,477,866	-	-	4,477,866	0.91%
Total	$ -	$ -	$ 6,621,619	$ -	$ -	$ 6,621,619	1.47%

The allowance for credit losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio. However, no assurance can be given that the Credit Union, in any particular period, will not sustain credit losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio, and the ongoing evaluation process, will not require significant changes in the allowance for credit losses.

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The following presents the recorded investment and unpaid principal balance for impaired loans, with the associated allowance amount, if applicable, as of December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	905,490	905,490	260,684	914,401	37,648
Consumer	-	-	-	-	-
	$ 905,490	$ 905,490	$ 260,684	$ 914,401	$ 37,648
Impaired loans without an allowance					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
Total impaired loans					
Residential real estate					
First mortgage	$ -	$ -	$ -	$ -	$ -
Second mortgage	-	-	-	-	-
Commercial	905,490	905,490	260,684	914,401	37,648
Consumer	-	-	-	-	-
	$ 905,490	$ 905,490	$ 260,684	$ 914,401	$ 37,648

Note 4 – Premises and Equipment

Premises and equipment, net are summarized as follows at December 31:

	2023	2022
Land	$ 1,120,600	$ 1,120,600
Building	9,343,740	9,320,446
Furniture and equipment	9,177,789	8,980,820
Leasehold improvements	2,495,155	2,491,524
	22,137,284	21,913,390
Accumulated depreciation and amortization	(17,656,060)	(16,716,977)
	$ 4,481,224	$ 5,196,413

The Credit Union has operating leases for its seven offices. The maturities of these leases stagger through 2031. The Credit Union’s leases generally include extension clauses for five years at a time.

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Right-of-use assets and lease liabilities and the associated balance sheet classifications, are as follows at December 31:

	Balance Sheet Classification	2023	2022
Right-of-use assets			
Operating leases	Other assets	$ 2,181,043	$ 1,260,925
Lease liability			
Operating leases	Accrued expenses and other liabilities	$ 2,428,128	$ 1,278,486

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

	2023	2022
Lease cost		
Minimum rent payments	$ 838,723	$ 653,420
Other operating costs	95,035	220,960
	$ 933,758	$ 874,380

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

	2023	2022
Operating cash flows used in operating leases	$ 762,012	$ 635,859
Weighted average remaining lease term	4.81 Years	2.41 Years
Weighted average discount rate	1.5%	1.0%

The Credit Union's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Credit Union uses the incremental borrowing rate commensurate with the lease term.

The following table presents minimum lease payments under the terms of the leases at December 31, 2023:

2024	$ 752,060
2025	505,279
2026	266,261
2027	274,409
2028	282,807
Thereafter	458,255
Total lease payments	2,539,071
Less present value discount	(110,943)
Total	$ 2,428,128

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Rental expense for the years ended December 31, 2023 and 2022, for all facilities leased under operating leases, totaled approximately $934,000 and $874,000, respectively, which is included in noninterest expense on the consolidated statements of income.

Note 5 – Members' Shares

Members' shares are summarized as follows at December 31:

	2023	2022
Regular shares	$ 508,736,868	$ 565,440,392
Share drafts	256,241,044	266,306,347
Money market accounts	109,477,627	131,619,154
Individual retirement accounts	58,174	58,650
Individual retirement accounts certificates	23,858,168	25,449,887
Certificates	193,100,344	141,967,143
	$1,091,472,225	$1,130,841,573

Shares by maturity as of December 31, 2023, are summarized as follows:

No contractual maturity	$ 874,455,539
Zero to one year maturity	177,572,105
One to two years' maturity	23,246,321
Two to three years' maturity	4,376,400
Three to four years' maturity	6,368,660
Four to five years' maturity	5,453,200
	$1,091,472,225

Regular shares, share drafts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts up to the maximum federal deposit insurance level of $250,000. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. Individual retirement account and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of $250,000 or more at December 31, 2023 and 2022, is approximately $59,558,000 and $48,488,000, respectively.

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Note 6 – Borrowed Funds

The Credit Union has a master loan agreement with a corporate credit union that provides lines of credit totaling $80 million as of December 31, 2023. These credit lines include a $30 million variable-rate secured settlement line of credit (6.90% at December 31, 2023), and a $50 million variable- or fixed-rate secured term line of credit at December 31, 2023. Collateral for the settlement line consists of securities held at the corporate credit union and all other assets of the Credit Union. Collateral for the term line of credit can consist of securities held at the corporate credit union and loans owned by the Credit Union not otherwise pledged. At December 31, 2022, borrowings outstanding was $5,821,412 outstanding with weighted-average interest rates of 5.39%. At December 31, 2023, there were no borrowings outstanding for this agreement. These agreements are reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also utilizes a secured loan agreement with the Federal Reserve Bank (FRB). The terms of this agreement call for the pledging of securities held in safekeeping as collateral for any and all obligations taken by the Credit Union under this agreement. The agreement provides interest charged at a rate determined by the lender on a periodic basis. At December 31, 2023, borrowings outstanding was $53,500,000 outstanding with weighted-average interest rates of 5.14%. At December 31, 2022, there were no borrowings outstanding with the FRB. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also utilizes a secured loan agreement with the Federal Home Loan Bank. The terms of this agreement call for the pledging of real estate as collateral for any and all obligations taken by the Credit Union under this agreement. The agreement provides interest charged at a rate determined by the lender on a periodic basis. At December 31, 2023, borrowings outstanding was $50,500,000 outstanding with weighted-average interest rates of 5.39%. At December 31, 2022, there were no borrowings outstanding under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

Note 7 – Off-Balance-Sheet Activities

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

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

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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 creditworthiness 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, 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.

Outstanding loan commitments at December 31, 2023 and 2022, total approximately $20,989,000 and $29,341,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows at December 31:

	2023	2022
Credit card	$ 155,001,153	$ 159,427,274
Home equity	95,178,401	78,777,153
Unsecured share draft	15,282,807	15,942,666
Overdraft protection program	4,436,317	4,560,903
	$ 269,898,678	$ 258,707,996

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. The allowance for credit losses pertaining to unfunded loans is considered immaterial for the Credit Union.

Note 9 – Employee Benefits

401(k) salary deferral – Employees are eligible upon hire to participate in the employee deferral portion of the plan and eligible to participate in the employer matching portion of the plan after completing six months of service. Employees may contribute 1 percent to 20 percent of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The plan requires the Credit Union to match 100 percent of the first 6 percent of employee contributions. The Credit Union's matching contributions for the years ended December 31, 2023 and 2022, were approximately $727,000 and $640,000, respectively, which is included in noninterest expense on the consolidated statements of income.

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Profit sharing – Employees are eligible to participate after completing one year of service. The annual contribution is discretionary as determined by the Board of Directors. Plan forfeitures are used to reduce the Credit Union's annual contribution. The Credit Union contributed approximately $314,000 and $350,000 to the plan for the years ended December 31, 2023 and 2022, respectively, which is included in noninterest expense on the consolidated statements of income.

457(f) plan – The Credit Union has a nonqualified deferred compensation plan with fixed benefits and a supplemental term life benefit for certain executives under Internal Revenue Code Section 457(f). The Credit Union purchased credit union-owned variable annuities with term life insurance as designated assets for the plan. The variable annuity policies are invested in equity and fixed-income portfolios at CUNA Mutual Insurance. The value of the policies is included in other assets and was approximately $0 at December 31, 2023 and 2022. The Credit Union expensed approximately $120,000 and $130,000 during the years ended December 31, 2023 and 2022, respectively. The liability for the deferred compensation, which is included in accrued liabilities, was approximately $340,000 and $370,000 at December 31, 2023 and 2022, respectively.

Post-retirement benefit plan – The Credit Union provides a postretirement health benefits plan to certain current and former employees. The plan was closed to new participants as of January 1, 2009. The Codification requires the Credit Union to recognize the funding status of its other post-retirement benefit plan in its consolidated statements of financial condition, with a corresponding adjustment to accumulated other comprehensive income. Net unrecognized actuarial losses and unrecognized prior service costs are recognized as net periodic pension plan cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic pension cost in the same period will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension plan cost on the same basis as the amounts recognized in accumulated other comprehensive income.

The following table sets forth information regarding the post retirement benefit plan as of and for the years ended December 31:

	2023	2022
Net periodic benefit cost	$ 146,251	$ 98,101
Total recognized in other comprehensive income (loss)	71,324	(153,681)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 217,575	$ (55,580)

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	2023	2022
Assumptions for net periodic benefit cost		
Discount rate	4.65%	4.85%
Medical trend rate	6.6% in 2024 grading to 3.7%	6.2% in 2023 grading to 3.7%
Effect of a 1% increase in healthcare cost trend on		
Service cost plus interest cost	0.40%	0.40%
Accumulated postretirement benefits obligation	0.40%	0.40%
Effect of a 1% decrease in healthcare cost trend on		
Service cost plus interest cost	(0.40%)	(0.40%)
Accumulated postretirement benefits obligation	(0.40%)	(0.40%)
Employer contributions	$ 184,859	$ 161,879
Benefits paid	$ 184,859	$ 161,879

The following benefit payments are expected to be paid:

Years Ending December 31,	Amount
2024	$ 244,352
2025	261,747
2026	211,418
2027	217,111
2028	187,185
2029–2031	932,217
Total	$ 2,054,030

Note 10 – 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 U.S. GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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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. Effective January 1, 2022, all federally insured credit unions defined as complex are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as complex and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed $500 million, as reflected in its most recent call report. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio, or for a qualifying complex credit union, opting into the CCULR framework.

As of December 31, 2023 and 2022, the Credit Union followed the CCULR rule. The Credit Union's net worth ratio ratio was 11.12 as of December 31, 2023 (based on net worth of $145.8 million and total assets of $1.31 billion) and 11.52 as of December 31, 2022 (based on net worth of $142.3 million and total assets of $1.26 billion). The minimum net worth requirement as of December 31, 2023, was 9%, or $117.9 million.

Note 11 – Related-Party Transactions

In the normal course of business, the Credit Union extends credit to directors, Supervisory Committee members, and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022, are approximately $5,052,577 and $5,178,414, respectively. Members' shares from related parties at December 31, 2023 and 2022, amounted to approximately $3,665,251 and $2,461,925, respectively.

Note 12 – Fair Value

Fair value on a recurring basis – Assets measured at fair value on a recurring basis include available-for-sale investments as described in Notes 1 and 2. The inputs for the determination of the fair value of available-for-sale investments are classified within Level 2 of the valuation hierarchy.

	Carrying Value at December 31, 2023			
	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
Federal agency securities	$ 170,608,684	-	$ 170,608,684	-
Federal agency mortgage-backed securities	92,870,212	-	92,870,212	-
Federal agency collateralized mortgage obligations	111,628,913	-	111,628,913	-

	Carrying Value at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
Federal agency securities	$ 175,051,375	-	$ 175,051,375	-
Federal agency mortgage-backed securities	100,997,596	-	100,997,596	-
Federal agency collateralized mortgage obligations	122,684,596	-	122,684,596	-

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

	Carrying Value at December 31, 2023			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	$ 59,034	-	-	$ 59,034

	Carrying Value at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	$ 28,631	-	-	$ 28,631

Loans include certain impaired loans where an allowance for credit losses has been calculated based upon the fair value of the loans. The losses on the impaired loans, including modified loans, are generally based on the value of the collateral securing such loans and are classified within Level 3 of the fair value hierarchy.

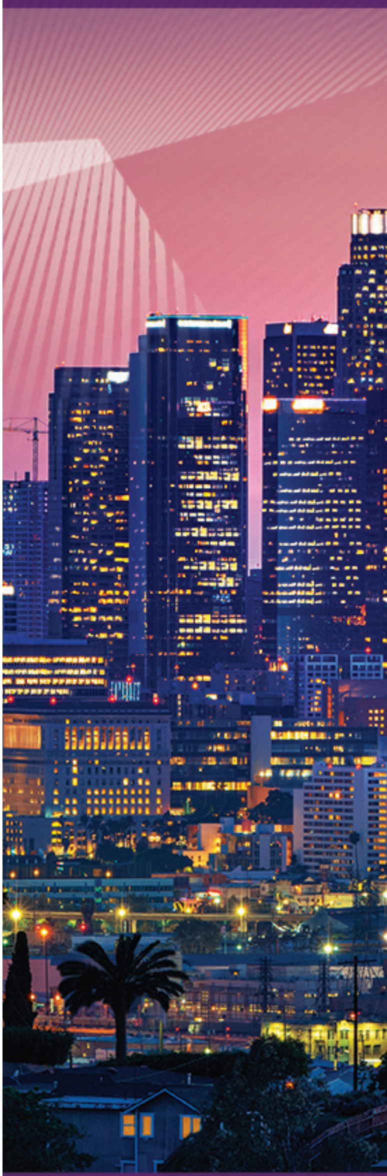
Foreclosed assets consist primarily of repossessed vehicles. Note 1 describes the accounting policy applied to such assets.

VISION STATEMENT

To be our members' first choice for financial services.

MISSION STATEMENT

To provide the best financial services as defined by our members, to maintain a high level of financial stability, and to foster employee growth and achievement.



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El Monte
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Gardena
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Glendale
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LA Mall (Downtown Los Angeles)
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Montebello
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Van Nuys
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