Affinity Federal Credit Union

2023 ANNUAL REPORT

Achieving Wellbeing Together

Contents

About Affinity

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

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

To our fellow and valued members,

My first year as leader of Affinity has been marked by many important lessons - ones of resilience, determination, and community. I have been inspired by my colleagues and our members in facing the challenges that 2023 brought head on and have been reminded time and time again that Affinity is an incredibly special community.

This past year was a challenge for many in our credit union community. Economically, the impact of high interest rates, market volatility, and heightened financial stress has been felt in all corners of the financial services industry. These challenges were undeniably felt by the businesses and neighborhoods Affinity serves. It was due to these wide-ranging negative financial stressors that our financial results for 2023 were impacted.

While these results are disappointing, they are not reflective of where we are or who we are. Affinity is rooted on a solid financial foundation. We purposely have reserves in place to ensure the sustainability of our operations, even in challenging times. These strong capital reserves are an important and intentional strategic decision that enable us to be there for our members when they need us most. Rest assured that all of our members' accounts and investments are safe, and we remain a well-capitalized credit union, exceeding regulatory requirements.

The environment seen in 2023 is a stark reminder of the credit union philosophy, and of our mission of ***people helping people***. We are proud to continue to play a vital role in the financial wellbeing of our members.

A Different Approach

Credit unions are different; Affinity is different. The way we measure success is more about the difference we are making in our members' lives, than it is about bottom lines. Our member-composed board of directors volunteer their time because they believe in our mission, not for payment or prestige. Our employees are members, too, because they have trust in how we operate and the cooperative principles. We aren't reporting a tough financial year to shareholders; we are reporting to our not-for-profit cooperative member owners - to each one of you, the people we chat with at the coffee shop each day, share a laugh with at the community park, guide through your first home purchase or help secure a life-changing loan. All 232,404 of our members matter; ***you matter*** to us. ***Your financial dreams matter*** to us.

As a credit union, we are inherently member centric. We provide true support for our members in all economic conditions. We celebrate with you in good times and provide added support when you need it most

We take great pride in helping members during times of hardship and have made proactive and strategic moves to support our members who are facing financial difficulties. We understand that life can be unpredictable, and we are here to provide the support and assistance needed to navigate these challenging times.

The decisions made reflect our dedication to our membership and our willingness to stand by you when you need us most. ***Your wellbeing remains our top priority***, and we will continue to explore ways to provide financial relief and support to our members with concentrated efforts around the five elements of wellbeing.

"I love how amazing and helpful the Affinity staff are. They are always willing to go above and beyond. The staff truly makes my financial experience enjoyable. I have stayed with this institution for years due to the exceptional staff and availability of services."

Erin S., Member for 10 Years

"My first major life decision was choosing a bank! I was working my first internship at AT&T and Affinity was located downstairs. I opened my first account then, and now all three of my boys have an account. This is a credit union that is now serving three generations of my family. They truly provide a path to wealth and daily management of finances."

Kimberly W., Member for 30 Years

"Affinity offers great value whether you are looking for a mortgage or opening a checking/saving account. Above all, I like the people at the Basking Ridge branch. Branch manager, Zenan, helped us when we were dealing with an issue with our son's SSI payments. He promptly helped us and provided the letter needed to resolve the issue. In fact, we have closed all our accounts with commercial banks, since we get everything we need from Affinity. Affinity offers great value for whatever you are looking for, and above all you get it with smile!"

Kamlesh S., Member for 25+ Years

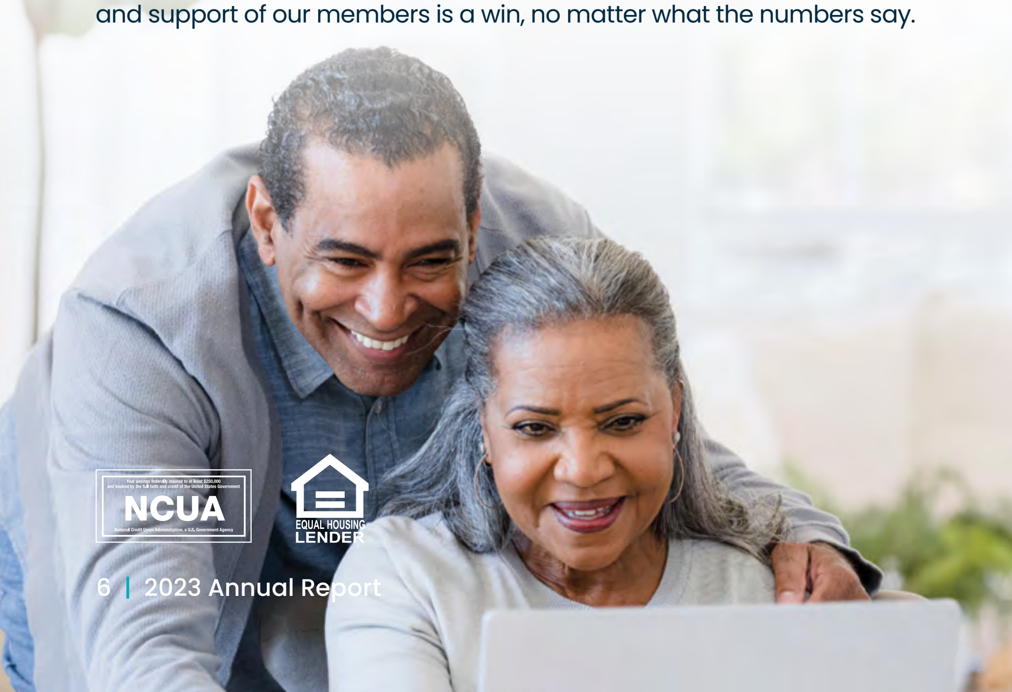
Distinct Philosophy

One of the distinctions between credit unions and our banking counterparts is our commitment to our members' financial wellbeing. Our philosophy of people helping people, and our commitment to being here for you in all areas of your life is well established and practiced by our entire organization.

This mission shone bright this year, as we were able to help members when they needed it most. We are constantly working to best prepare our membership to make savvy financial decisions and arm them with the knowledge needed to achieve their financial dreams. Last year we provided 230 webinars and seminars to our members and the community. Through our online education tools over 500 courses were completed and over 10,000 articles, activities, and other content was utilized by our community. This equates to tens of thousands of individuals reached, and over 10,000 hours of education delivered.

To ensure Wealth Management services availability and to assist with your personal financial goals five new Financial Advisors were added in 2023 increasing the team to 12 Financial Advisors. Each Affinity branch has a dedicated Financial Advisor with scheduled times available for convenience of the members in each branch. The Affinity website home page now includes an investments tab including Financial Advisor bio's and the ability to schedule either a in person or virtual appointment with the Financial Advisor of your choice.

Beyond the innumerous conversations our team regularly hold to help you navigate your next big financial goal or challenge, we make every effort to help our members maintain their financial health and wellbeing. We regularly offer loan deferments and modifications to help our members find some relief with their loan payments during tough times. We helped over 2,600 members last year with these relief efforts and we are proud to share that we kept all members with our mortgages in their homes, avoiding all foreclosures. Our ability to be nimble in our strategy and support of our members is a win, no matter what the numbers say.



NCUA

EQUAL HOUSING LENDER

Janice and Milton

Affinity members for 30+ years ran out of retirement savings after spending it on cancer treatment for Milton. Now in their late 70s and 80s, for the first time in their lives they are struggling to put gas in their cars, food on the table, and purchase their medications. The Member Relief Fund grants they received will augment the fixed income they receive from social security.

Beacon In The Community

This was a year marked by numerous and unforeseen challenges, but among those challenges were many bright spots.

We increased our overall membership by almost 10,000 members. We added two new branches in Madison, New Jersey and River Edge, New Jersey, allowing us to serve thousands of new members in these communities. We expanded our leadership team to enhance our strategic direction, adding a new Chief Financial Officer, Chief Information Officer, Director of Customer Relationship Management, Director of Information Technology, Vice President of Wealth Management and Vice President of Contact Center Operations.

We also maintained focus on ***giving back to our communities.*** We celebrated our second annual Impact Day, with 316 employees giving back nearly 1,000 hours of service to communities in New Jersey, New York, Connecticut, and remote locations at nearly 20 different organizations, including the Moms Helping Moms Foundation, park clean ups in Piscataway, New Jersey and Lake Papaianni, the Center for Safety and Change, New Haven Promise, and several others.

"Tabby's Place appreciates the hard work and assistance of volunteers from Affinity Federal Credit Union's Impact Day in 2023. Your team of volunteers assisted us with a variety of cleaning tasks around our sanctuary to help keep our residents safe, clean, and cared for. Every helping hand makes a difference in the lives of the approximately 130 felines who call Tabby's Place home. From washing laundry and cleaning cat rooms to simply providing love and attention to our cats, we thank those who choose to give their time with us last October."

Tabby's Place, Impact Day 2023 Recipient

In addition to our team's direct community efforts, the Affinity Foundation continued its important work across the tri-state area, awarding over $2.4 million in grants to local charities and student scholarships since inception in 2005. Last year marked the launch of a new multi-year grant program, committing $360,000 to six organizations over the next three years. This is the foundation's biggest contribution since its founding. This program will provide significant funding opportunities to community partners who serve disadvantaged populations in support of programs that align with the Foundation's three pillars of focus: education, financial wellbeing, and healthcare.

Our member wellbeing surveys have revealed numerous members need even greater support than what traditional credit union products and services can provide for. ***To help these most in need members***, the Member Relief Fund was established in 2021. Our struggling members reported being unable to put food on the table for their families or unable to pay rent, while some were skipping going to the doctor or buying much needed medications. Even worse, some found themselves homeless. The fund provides these members with $500 grants to help alleviate their financial struggles, and to connect them with community supports. As of 2023, the fund assisted 163 members, across 25 states, awarding $95,200 in grants.

Our work with members and throughout the community has not gone unnoticed, and we are thrilled to share that Affinity received several awards and accolades this year. We ranked first on the Forbes, ***Best-in-State Credit Union*** list for New York and were recognized as a top credit union in both NJBIZ Reader Rankings and Central Jersey Community's Choice Awards.

Two Affinity team members were honored for their work, including Foundation Board of Trustee Member and retired Affinity staff member, Frank Giannelli, who was awarded the Credit Union Times' Luminaries Award for Community, and Affinity's Chief Administrative Officer, Pam Cohen, who was named among American Banker's Most Powerful Women in Credit Unions. Our SmartStart Savings was named best high-yield savings by WSJ BuySide for a second year in a row. These honors are made even more meaningful by the value our team brings to our members.

Refer a Friend Program

$500,000

in new deposits

$800,000

in new loans

500

new members

800

new accounts

1,300

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

Look Ahead

We are positioned not only to weather this storm and face whatever challenges the economy presents in the future, but to continue growing our membership and our community footprint. Our commitment to you is stronger than ever, and we are excited to expand that commitment in 2024.

Your overall wellbeing remains of critical importance to us, and we will continue to provide services, support and resources that help you advance toward your financial, career, physical and emotional goals. Importantly, we have spent the last year training 42 members of the Affinity team as Certified Wellbeing Coaches, equipped with the knowledge and resources to help improve your overall wellbeing. These individuals will be represented across our branches, providing you with an even more personalized experience as you meet your goals. We are training an even larger class of coaches in 2024, with over 15% of the organization to be certified by year end. We are excited to share more about this program in the months ahead.

No matter how big or small, ***we're here to help you achieve your financial dreams.*** Our increase in professional experts over the past year creates an even greater opportunity for you, our members, to thrive, and there is still more to come. Certified Wellbeing Coaches can help with your everyday goals, and our Certified Financial Planner (CFP) advisors are here for your more advanced financial wellbeing needs, such as retirement, wealth management, and other long-term plans. Finding time to map your financial future has never been easier, with our team available where you are: be it by phone, branch, appointment, or virtually.

We are committed to advancing Affinity's mission, the credit union philosophy, and our work within the community. We will open three branches in 2024 - expanding our footprint and impact to new communities. It is with deep gratitude for our members that we all move ahead into the future. I am looking forward to another year of serving our members, deepening our community roots, and continuing to provide support where and when it is needed most. Thank you for your continued trust, support, partnership, and membership.

Thank you for your continued trust, support, partnership, and membership.

Sincerely,

Kevin Brauer | President & CEO
Affinity Federal Credit Union

Richard Meene | Board Chairman
Affinity Federal Credit Union

NCUA

EQUAL HOUSING LENDER

Products & Services from Affinity

PERSONAL AND BUSINESS ACCOUNTS

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

CONVENIENT ACCOUNT ACCESS

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

BUSINESS SOLUTIONS

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

AFFINITY MORTGAGES

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

INSURANCE

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

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

LOANS FOR EVERY NEED

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

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

PROPERTY & CASUALTY INSURANCE

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

LIFE & HEALTH INSURANCE

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

Our Members Matter

AUTO SOLUTIONS

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

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

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

FINANCIAL WELLBEING & LEARNING

A firm sense of social purpose drives everything we do at Affinity, and our goal is to work toward a future in which everyone can achieve their financial dreams. Strengthening the financial wellbeing of the membership is a cornerstone to achieving this goal and is brought to life by our impassioned team members. We provide the individualized and personalized advice and guidance you need to build a healthy relationship with your finances, both today and in the future.

With our new team of Certified Wellbeing Coaches that graduated in 2023, we are empowering our team to nurture our member's wellbeing. Each wellbeing coach invested approximately 75 hours in training, learning about how to provide members with the best possible support in managing their personal finances and overcoming financial challenges. Coaches are comprehensively educated on topics like credit, foreclosure, bankruptcy, taxes, insurance, identity theft, and on fostering member financial wellbeing.

Our members and community continue to ask for more education each year, prioritizing their financial education and wellbeing annually by utilizing our financial literacy content in record numbers. Our network of learners benefited from over 230 webinars and seminars last year, with nearly 6,000 of you joining us to boost your financial acumen. Many of you also joined us to learn at your own pace through Enrich, our online education portal, and by listening to the Wellbeing and Your Wallet Podcast. Across all of these channels, over 10,000 hours of educational content was delivered.

Affinity Investment Services

INVESTMENTS & RETIREMENT PLANNING

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

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

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

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

Transforming Lives Empowering Communities

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

OUR MISSION

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

OUR VISION

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

OUR IMPACT SINCE FOUNDING

$2.4 Million
Awarded through Grants, Scholarships and Donations

489
Charities and Members Supported

OUR IMPACT IN 2023

$158,000
Community Grants and Donations to 16 Charities

$36,500
Member Relief Grants to 63 Members

$17,500
Scholarships to 7 Student Members

OUR MEMBER GIVING

$52,517
By participating in our fundraising events or making a donation

OUR EMPLOYEES GIVING BACK

$35,226
Donated by Credit Union Employees to Support Our Mission

175
Hours to Support Our Foundation's Programs, Fundraising Events and Community Partners

35
Employees Volunteered

DONATE NOW

AffinityGives.org
AFCU_Foundation@AffinityFCU.com

Affinity Foundation
PO Box 430, Martinsville, NJ 08836
908.860.3902

Supervisory Committee Report

The Supervisory Committee, composed of members who are non-employees appointed by the Board of Directors, meets periodically with management, internal auditors, and independent auditors to review the manner in which these groups of individuals are preforming their responsibilities, as well as to carry out the Supervisory Committee's oversight roles with respect to auditing internal controls and financial reporting. Crowe LLP, an independent certified public accounting firm, has audited the consolidated financial statements of the Credit Union as of December 31, 2023, and for the years then ended. Their opinion is included in this annual report on page 15.

SUPERVISORY COMMITTEE

Doug McCrea | Chairman

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

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

CROWE LLP

Crowe LLP

New York, New York
March 27, 2024

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
ASSETS		
Cash on hand	$ 18,254	$ 16,113
Interest-bearing deposits	50,645	94,782
Cash and cash equivalents	68,899	110,895
Investments		
Available for sale	180,504	204,195
FHLB	23,818	35,315
Other	3,052	2,976
Loans, net	3,782,395	3,898,275
Accrued interest receivable	17,406	15,003
Property and equipment, net	8,811	7,853
National Credit Union Share Insurance Fund deposit	30,172	29,040
Credit union-owned life insurance	70,253	79,588
Other assets	87,708	88,399
	$ 4,273,018	$ 4,471,539
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,403,262	$ 3,299,620
Borrowed funds	460,499	718,499
Accrued expenses and other liabilities	96,114	101,198
Total liabilities	3,959,875	4,119,317
Commitments and contingent liabilities		
Members' equity		
Retained earnings, substantially restricted	328,142	365,362
Acquired equity from merger	2,096	2,096
Accumulated other comprehensive loss	(21,163)	(20,888)
Non-controlling interest	4,068	5,652
Total equity	313,143	352,222
	$ 4,273,018	$ 4,471,539

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Interest income		
Loans	$ 190,503	$ 140,644
Investments and other	11,812	6,520
Total interest income	202,315	147,164
Interest expense		
Members' shares	57,772	17,497
Borrowed funds	32,467	11,398
Total interest expense	90,239	28,895
Net interest income	112,076	118,269
Credit loss expense	53,593	19,340
Net interest income after credit loss expense	58,483	98,929
Noninterest income		
Service charges and other fees	25,237	23,112
Loan servicing and loan production fees	1,416	1,464
Mortgage servicing rights, net	(90)	(267)
Credit union-owned life insurance income	2,722	2,701
Gain (loss) on sale of property and equipment	5	25,047
Gain (loss) on sale of loans	314	-
Other noninterest income	9,067	8,843
Total noninterest income	38,671	60,900
Noninterest expenses		
Salaries and benefits	59,352	57,563
Occupancy and operations (Note 15)	68,731	61,677
Total noninterest expenses	128,083	119,240
Net (loss) income	$ (30,929)	$ 40,589

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Net (loss) income	$ (30,929)	$ 40,589
Other comprehensive income:		
Unrealized gains (losses) on securities available for sale		
Unrealized holding gains (losses) arising during the period	2,249	(24,846)
Reclassification adjustment for net gains included in net income	-	-
Net change	2,249	(24,846)
Unrealized (losses) gains on cash flow hedge derivatives		
Unrealized holding (losses) gains	(10,276)	16,627
Reclassification adjustment for losses included in net income	7,752	(1,386)
Net change	(2,524)	15,241
Total other comprehensive (loss) Income	(275)	(9,605)
Comprehensive (loss) income	$ (31,204)	$ 30,984

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
December 31, 2023 and 2022
(dollars in thousands)

	Retained Earnings				Accumulated		
	Regular Reserve	Acquired Equity in Merger	Unappropriated	Total	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Members' Equity
Balance January 1, 2022	$ 40,374	$ 1,806	$ 285,740	$ 327,920	$ (11,283)	$ 6,082	$ 322,719
Net income	-	-	40,406	40,406	-	183	40,589
Cumulative adjustment for Lease Standard adoption (ASC 842)	-	-	(1,158)	(1,158)	-	-	(1,158)
Equity acquired in merger	-	290	-	290	-	-	290
Capital distribution	-	-	-	-	-	(613)	(613)
Other comprehensive loss	-	-	-	-	(9,605)	-	(9,605)
Balance December 31, 2022	40,374	2,096	324,988	367,458	(20,888)	5,652	352,222
Cumulative adjustment for CECL Standard adoption (ASC 326)	-	-	(6,383)	(6,383)	-	-	(6,383)
Net loss	-	-	(30,837)	(30,837)	-	(92)	(30,929)
NJCC disassociation distribution	-	-	-	-	-	(1,492)	(1,492)
Other comprehensive loss	-	-	-	-	(275)	-	(275)

See accompanying notes to consolidated financial statements.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Cash from operating activities		
Net (loss) income	$ (30,929)	$ 40,589
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	2,141	3,304
Credit Loss Expense	53,593	19,340
Net amortization of available-for-sale investments	613	266
Fair value adjustment for equity security	(569)	568
Amortization of purchase accounting adjustments	38	60
Amortization of intangibles	73	89
Capitalization of mortgage servicing rights	(441)	(307)
Amortization of servicing rights	531	574
Gain on sale of loans	(314)	-
Gain on sale of property and equipment	(5)	(25,047)
Increase in carrying value of credit union life insurance	(2,722)	(2,701)
Net loss on sale of other real estate owned, net of write-downs	-	25
Amortization of lease liability	1,791	1,232
Amortization of right of use asset	2,521	1,064
Net change in		
Accrued interest receivable	(2,403)	(3,945)
National Credit Union Administration deposit	(1,132)	(1,664)
Other assets	(630)	4,263
Accrued expenses and other liabilities	(10,762)	6,580
Net cash provided by operating activities	11,394	44,290
Cash flows from investing activities		
Repayments of available-for-sale investments	26,077	50,330
Purchase of available-for-sale investments	(750)	(39,452)
Net change in FHLB and other investments	11,990	(23,150)
Net change in loans	56,180	(856,262)
Purchases of property and equipment	(3,137)	(49)
Proceeds from sale of other real estate owned	-	296
Proceeds from credit union life insurance	12,057	1,403
Proceeds from sale of property and equipment	43	50,549
Net cash provided by (used in) investing activities	102,460	(816,335)
Cash flows from financing activities		
Net increase in members' shares	103,642	94,023
Proceeds from borrowed funds	6,500,000	718,000
Repayment of borrowed funds	(6,758,000)	(180,000)
Capital distribution	-	(613)
CUMAnet Partner Disassociation (NJCC)	(1,492)	-
Net cash (used in) provided by financing activities	(155,850)	631,410
Change in cash and cash equivalents	(41,996)	(140,635)
Cash and cash equivalents at beginning of year	110,895	251,530
Cash and cash equivalents at end of year	$ 68,899	$ 110,895

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Supplemental cash flow information		
Dividends paid on members' shares and interest paid on borrowed funds	$ 90,675	$ 25,540
Cash paid on leases	4,614	1,444
Supplemental noncash disclosures		
Adoption of ASC 842 - Leases	$ -	$ 3,693
Adoption of ASC 326 - Current Expected Credit Loss	6,383	-
New leases entered into during the year	3,712	44,801
Acquisition of PTEFCU	-	290

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

AFS is the parent company of majority-owned subsidiary, CUMAnet, LLC ("CUMAnet"); and the wholly owned subsidiaries Members Alliance Insurance Agency, LLC ("MAI"), Members Alliance Title Agency, LLC ("MATA"), Real Property Solutions Group, LLC ("RPSG") and Collaborative Commercial Lending Group, LLC ("CCLG"). CUMAnet is engaged in facilitating originations and servicing mortgages to members of the Credit Union as well as members of other participating entities. CUMAnet is consolidated into AFS, as AFS owns more than 80% of CUMAnet. Minority interest, representing the remaining ownership interest of CUMAnet's partners, is shown as non-controlling interest. During 2023, one of the minority interest owners, NJCC, exited its ownership of CUMAnet. MAI is engaged in selling insurance products. MATA provides title insurance products. RPSG is engaged in buying collateral that has been repossessed by the Credit Union for the purpose of maintaining and marketing the collateral for resale. CCLG is engaged in providing business loan services to commercial members.

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

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

Use of Estimates in the Preparation of Financial Statements: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Management of the Credit Union has evaluated the effects of subsequent events that have occurred subsequent to the period through March 27, 2024, which is the date the financial statements were available to be issued.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The fair value hierarchy is as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

Cash and Cash Equivalents, and Cash Flows: For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from financial institutions. Net cash flows are reported for member loans, shares, and FHLB and other investments.

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

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

Amortization of purchase premiums and discounts on debt securities are recognized in interest income using the level yield method over the terms of the securities without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, and deferred loan fees and costs. Accrued interest receivable totaled $14.81 million as of December 31, 2023, and was reported in Accrued interest receivable on the consolidated statements of financial condition and is included in the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating repayments.

Interest income on loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage and consumer loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

From time to time, the Credit Union sells loans from its portfolio as a part of its asset liability management strategy and to manage interest rate risk. When a determination is made to sell loans, such loans are reclassified from held for investment to held for sale. In addition, in 2023, the Credit Union originated mortgage loans for sale totaling $24.6 million. These loans were sold at a gain of $314,000 and were sold with servicing retained. There were no loans held for sale as of December 31, 2023.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The methodology used to measure the allowance for credit losses varies based on the portfolio segment. The Credit Union utilizes Discounted Cash Flow (“DCF”), Life Cycle Probability of Dollar Default (“PD”) / Loss Given Default (“LGD") and Weighted Average Remaining Maturity (“WARM"). The following table illustrates the methodologies utilized by Segment as of December 31, 2023:

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

At December 31, 2023 and 2022, there was no balance of OREO. At December 31, 2023 and 2022, the recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $1,069,899 and $374,672, respectively.

Credit Union-Owned Life Insurance: The Credit Union owns credit union-owned life insurance to help offset the cost of employee benefits. Credit union-owned life insurance is recorded at its net realizable value, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. The change in the cash surrender value is included as a component of non-interest income. In 2023, the Credit Union made the decision to surrender some of the policies and had accordingly notified the applicable insurance companies. During 2023, $12 million of cost proceeds were received. No gain or loss is expected as a result of the decision to surrender the policies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments and Hedging Activities: At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). All derivatives are recorded on the consolidated statements of financial condition at fair value as other assets or liabilities as appropriate.

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

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

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

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

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

National Credit Union Share Insurance Fund ("NCUSIF") Deposit and Insurance Premium: The deposit in the NCUSIF is in accordance with National Credit Union Administration ("NCUA") regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares. For 2023 and 2022, the NCUA determined that Credit Unions did not have to pay a premium.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other credit union matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Pricing Committee.

Marketing Costs: Marketing costs are expensed as incurred.

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

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value assigned to the equity of the acquired institution, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. The Credit Union has selected December 31 as the date to perform the annual impairment test. The core deposit intangible arising from the merger is amortized using an accelerated method over the estimated useful life of ten years. As of December 31, 2023 and 2022, goodwill totaled $5,760,000. The Core deposit intangible totaled $135,000 and $208,000 as of December 31, 2023 and December 31, 2022. Both goodwill and core deposit intangible are included with other assets on the consolidated statements of financial condition.

Amortization of the core deposit intangible totaled $73,000 and $89,000 for 2023 and 2022 and was included with occupancy and operations on the consolidated statements of operations.

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

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Credit Union recorded a net decrease to net worth of $6.4 million as of January 1, 2023 for the cumulative effect of adopting ASC 326. The impact of adoption on off-balance sheet commitments was immaterial.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the impact on the allowance for credit losses as of January 1, 2023, the date of adoption:

	January 1, 2023		
	Pre-Adoption Allowance	Impact of Adoption	Post-Adoption Allowance
Allowance for credit losses on Loans:			
Commercial	$ 5,902	$ (1,659)	$ 4,243
Residential	8,670	4,671	13,341
Consumer	22,862	3,371	26,233
Total ending allowance balance	$ 37,434	$ 6,383	$ 43,817

NOTE 2 - INVESTMENTS

Investments classified as available-for-sale as of December 31, 2023 and 2022, consist of the following (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2023				
U.S. Government - sponsored agency securities	$ 4,991	$ -	$ (370)	$ 4,621
Mortgage-backed securities - residential	82,278	15	(8,768)	73,525
Collateralized mortgage obligations ("CMOs")	93,229	-	(14,750)	78,479
Municipal Bonds	4,843	-	(365)	4,478
Corporate Bonds	10,045	-	(316)	9,729
Charitable Donation Account - Corp Bonds	10,528	-	(856)	9,672
Total available-for-sale investments	$ 205,914	$ 15	$ (25,425)	$ 180,504
December 31, 2022				
U.S. Government - sponsored agency securities	$ 4,987	$ -	$ (522)	$ 4,465
Mortgage-backed securities - residential	99,552	-	(10,406)	89,146
Collateralized mortgage obligations ("CMOs")	102,246	-	(14,512)	87,734
Municipal Bonds	4,808	-	(566)	4,242
Corporate Bonds	10,082	-	(470)	9,612
Charitable Donation Account - Corp Bonds	10,179	-	(1,183)	8,996
Total available-for-sale investments	$ 231,854	$ -	$ (27,659)	$ 204,195

NOTE 2 - INVESTMENTS (Continued)

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

	Amortized Cost	Fair Value
Available-for-sale investments		
Less than one year	$ -	$ -
One to five years	19,879	18,828
Five to ten years	-	-
Over ten years	-	-
Mortgage-backed securities - residential	82,278	73,525
CMOs	93,229	78,479
Charitable Donation Account - Corp Bonds	10,528	9,672
Total	$ 205,914	$ 180,504

The following tables summarize securities with unrealized losses greater than 12 months at December 31, 2023 and 2022, aggregated by major security type in a continuous unrealized loss position (dollars in thousands):

	Unrealized Losses	Fair Value
December 31, 2023		
U.S. Government - sponsored agency securities	$ (370)	$ 4,621
Mortgage-backed securities - residential	(8,768)	73,525
CMOs	(14,750)	78,479
Municipal Bonds	(365)	4,478
Corporate Bonds	(316)	9,729
Charitable Donation Account - Corp Bonds	(856)	9,672
Total available-for-sale investments	$ (25,425)	$ 180,504
December 31, 2022		
U.S. Government - sponsored agency securities	$ (522)	$ 4,465
Mortgage-backed securities - residential	(9,878)	63,358
CMOs	(11,002)	52,100
Municipal Bonds	-	-
Corporate Bonds	-	-
Charitable Donation Account - Corp Bonds	(1,183)	8,996
Total available-for-sale investments	$ (22,585)	$ 128,919

There were no securities in an unrealized loss position for less than 12 months at December 31, 2023. Securities in an unrealized loss position for less than 12 months at December 31, 2022 included mortgage-backed securities - residential, Collateralized mortgage obligations, Municipal and Corporate bonds with fair value of $25,788,000, $35,634,000, $4,242,000, and $9,612,000 and related unrealized loss of $528,000, $3,510,000, $566,000 and $470,000, respectively.

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 - INVESTMENTS (Continued)

At December 31, 2023 and 2022, the debt securities in unrealized loss position primarily included securities issued by U.S. Government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions that the government has affirmed its commitment to support. There is no credit deterioration in the issuers of the corporate or municipal bonds owned by the Credit Union.

Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Credit Union does not consider these securities to be other-than-temporarily impaired at December 31, 2023 and 2022.

As of December 31, 2023, there was no allowance of credit losses on securities available for sale. In addition, all securities were performing and there were no securities available for sale on non-accrual status.

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

	2023	2022
FHLB of New York stock	$ 23,818	$ 35,315
Certificates of deposit in financial institutions	141	634
Charitable Donation Account Equity Security, at fair value	2,911	2,342
	$ 26,870	$ 38,291

Securities pledged for borrowings had a fair value of $143 million and $166 million at December 31, 2023 and 2022, respectively.

NOTE 3 - LOANS

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

	2023	2022
Commercial:		
Commercial	$ 46,248	$ 50,053
Commercial real estate	286,192	285,989
Residential:		
Residential real estate	2,024,639	1,982,559
Residential home equity	281,358	278,322
Consumer:		
Auto	740,846	951,760
Auto leasing	178,794	104,135
Credit card	166,175	153,325
Student loan and other	102,237	105,978
	3,826,489	3,912,121
Net deferred loan costs	14,696	23,588
Allowance for credit losses	(58,790)	(37,434)
Loans, net	$ 3,782,395	$ 3,898,275

NOTE 3 – LOANS (Continued)

Included with commercial loans above are Payroll Payment Protection ("PPP") loans totaled $279 thousand as of December 31, 2023.

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

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

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

	Commercial	Residential	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Beginning balance	$ 7,060	$ 7,571	$ 14,690	$ 29,321
Provision (credit) for loan losses	(1,304)	950	19,694	19,340
Loans charged off	(1)	(60)	(15,363)	(15,424)
Recoveries	147	209	3,841	4,197
Total ending allowance balance	$ 5,902	$ 8,670	$ 22,862	$ 37,434

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

	Commercial	Residential	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 969	$ 559	$ 8	$ 1,536
Collectively evaluated	4,933	8,111	22,854	35,898
Total ending allowance balance	$ 5,902	$ 8,670	$ 22,862	$ 37,434
Loans:				
Loans individually evaluated for impairment	$ 18,484	$ 21,918	$ 59	$ 40,461
Loans collectively evaluated	317,558	2,238,963	1,315,139	3,871,660
Total ending loans balance	$ 336,042	$ 2,260,881	$ 1,315,198	$ 3,912,121

NOTE 3 - LOANS (Continued)

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

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With no related allowance recorded:					
Commercial:					
Commercial	$ 3,579	$ 3,579	$ -	$ 3,615	$ 144
Commercial real estate	8,834	8,834	-	8,897	505
Residential:					
Residential real estate	15,579	14,421	-	11,508	477
Residential home equity	1,762	1,762	-	1,322	66
With an allowance recorded:					
Commercial:					
Commercial	6,071	6,071	969	6,057	256
Commercial real estate	-	-	-	-	-
Residential:					
Residential real estate	5,735	5,735	559	7,329	212
Residential home equity	-	-	-	-	-
Consumer:					
Unsecured	59	59	8	25	2
Total	$ 41,619	$ 40,461	$ 1,536	$ 38,753	$ 1,662

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

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

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

NOTE 3 - LOANS (Continued)

Interest income recognized on nonaccrual loans during the year ended December 31, 2023 was not material. The nonaccrual loans with no allowance for loan losses were collateral dependent loans secured by real estate. These loans were individually evaluated for impairment.

The following table present the recorded investment in nonaccrual by class of loans as of December 31, 2022. There were no loans past due over 89 days that were still accruing:

	2022
Commercial:	
Commercial	$ 6,024
Commercial real estate	-
Residential:	
Residential real estate	11,469
Residential home equity	1,227
Consumer:	
Auto	46,657
Auto leasing	175
Credit card	1,952
Student loan and other	2,116
Total	$ 69,620

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 - LOANS (Continued)

The following tables present the aging of the amortized cost in past due loan by class of loans as of December 31, 2023 and 2022 (dollars in thousands). For 2023, the past dues as shown based on contractual payment status (ignoring non-accrual status), which is different than 2022 where the greater than 90 days past due column includes all loans on nonaccrual status, irrespective of payment status.

	30 - 59 Days Past Due	60 - 89 Days Past Due
December 31, 2023		
Commercial:		
Commercial	$ 47	$ 148
Commercial real estate	-	-
Residential:		
Residential real estate	28,231	3,645
Residential home equity	2,390	417
Consumer:		
Auto	47,690	16,562
Auto leasing	1,511	29
Credit card	2,751	1,128
Student loan and other	2,357	942
Total	$ 84,977	$ 22,871
December 31, 2022		
Commercial:		
Commercial	$ 115	$ 21
Commercial real estate	1,262	-
Residential:		
Residential real estate	19,125	3,003
Residential home equity	1,233	1,045
Consumer:		
Auto	44,087	18,154
Auto leasing	865	-
Credit card	1,219	937
Student loan and other	1,653	820
Total	$ 69,559	$ 23,980

Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
$ 135	$ 330	$ 45,918	$ 46,248
1,255	1,255	284,937	286,192
2,511	34,387	1,990,252	2,024,639
1,110	3,917	277,441	281,358
32,971	97,223	643,623	740,846
123	1,663	177,131	178,794
2,679	6,558	159,617	166,175
2,359	5,658	96,579	102,237
$ 43,143	$ 150,991	$ 3,675,498	$ 3,826,489
$ 6,024	$ 6,160	$ 43,893	$ 50,053
-	1,262	284,727	285,989
11,469	33,597	1,948,962	1,982,559
1,227	3,505	274,817	278,322
46,657	108,898	842,862	951,760
175	1,040	103,095	104,135
1,952	4,108	149,217	153,325
2,116	4,589	101,389	105,978
$ 69,620	$ 163,159	$ 3,748,962	$ 3,912,121

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 3 - LOANS (Continued)

Effective January 1, 2023, the Credit Union adopted ASU 2022-02, which eliminate the accounting for TDRs while expanding loan modification disclosure requirements.

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

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

The following table presents the amortized cost basis of loans at 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:

Dollars in Thousands	Term Extension	Interest Rate Reduction	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial				
Commercial	$ -	$ 47	$ -	.10%
Consumer:				
Auto	41	-	52	.01%
Student Loan and other	-	-	27	.03%
Total	$ 41	$ 47	$ 79	0.00%

NOTE 3 - LOANS (Continued)

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

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

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

NOTE 3 - LOANS (Continued)

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

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

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

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

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

Credit Quality Indicators

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

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

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

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

AFFINITY FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 - LOANS (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

Based on the most recent analysis performed, the risk category of loans by class is as follows:

	Pass	Criticized and Classified
December 31, 2023		
Commercial	$ 33,857	$ 12,391
Commercial real estate	263,174	23,018
Total	$ 297,031	$ 35,409
December 31, 2022		
Commercial	$ 34,984	$ 15,069
Commercial real estate	264,074	21,915
Total	$ 299,058	$ 36,984

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

NOTE 4 - LOAN SERVICING

Mortgage loans serviced for others by CUMAnet that are not included in the accompanying consolidated statements of financial condition are summarized as follows as of December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
FNMA	$ 194,673	$ 184,117
FHLMC	20,509	23,095
Credit Union of New Jersey	84,807	89,907
Greater Alliance Federal Credit Union	75,375	71,742
Others	81,106	87,275
	$ 456,470	$ 456,136

Custodial escrow accounts maintained in connection with the foregoing loan servicing are summarized as follows as of December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
FNMA	$ 2,381	$ 2,387
FHLMC	371	441
Credit Union of New Jersey	893	964
Greater Alliance Federal Credit Union	626	658
Others	707	782
	$ 4,978	$ 5,232

NOTE 4 - LOAN SERVICING (Continued)

A summary of the changes in the balance of mortgage servicing rights for first mortgages in 2023 and 2022 were as follows (dollars in thousands):

	2023	2022
Balance at beginning of year	$ 1,881	$ 2,148
Servicing assets recognized during the year	441	307
Amortization of servicing assets	(531)	(574)
Balance at end of year	$ 1,791	$ 1,881
Fair value of mortgage servicing rights	$ 5,838	$ 5,514

There was no valuation allowance on the servicing rights asset as of December 31, 2023 and 2022.

Fair value at year-end 2023 and 2022 was determined using discount rates at 15% and ranging from 12% to 15%, respectively and prepayment speeds ranging from 5% to 20% in 2023 and 5% to 22% in 2022, depending on the stratification of the specific pool.

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

	2023	2022
Prepayment speed per year	7.7%	6.9%
Weighted average life	7 years	8 years
Weighted average discount rate	15%	15%

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows for December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
Land	$ 1,936	$ 1,936
Buildings	4,813	4,753
Leasehold improvements	11,350	10,753
Furniture and equipment	31,898	32,135
	49,997	49,577
Accumulated depreciation and amortization	(41,186)	(41,724)
	$ 8,811	$ 7,853

Depreciation expense for the years ended 2023 and 2022 was $2.1 million and $3.3 million, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

Lessee Arrangements

The Credit Union enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers, and information technology equipment. The Credit Union's leases have remaining terms ranging from 1 to 20 years, some of which include renewal or termination options to extend the lease for up to 15 years. Renewals options are generally not included in determining lease term unless the Credit Union is reasonably certain that the renewal option will be exercised. In addition, non-lease component cost such as common area maintenance, real estate taxes etc. are not included in the determination of the lease liability and are expenses as incurred. As of December 31, 2023, the weighted average remaining lease terms was 17.5 years and the weighted average discount rate was 5.7%.

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

As of December 31, 2023 the right of use assets totaled approximately $48.6 million and was included with other assets on the consolidated statements of condition compared to $47.4 million as of December 31, 2022. The lease liability totaled approximately $50.4 million compared to $48.5 million as of December 31, 2022 and was included with accrued expenses and other liabilities on the consolidated statements of condition.

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

2024	$ 4,717
2025	4,499
2026	4,455
2027	4,496
2028	4,533
Subsequent years	61,276
Total undiscounted lease payments	83,976
Less: imputed interest	(33,589)
Net lease liabilities	$ 50,387

Rental expense for all facilities leased under operating leases totaled $5.8 million and $1.8 million for the years ended December 31, 2023 and 2022, respectively, and was included with occupancy and operations expense on the consolidated statements of operations.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2023 and 2022, are approximately $4.2 million and $4.8 million, respectively. Deposits from related parties at December 31, 2023 and 2022, amounted to approximately $3.0 million and $4.4 million, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS (Continued)

Included in other assets are loans to executives under a split dollar collateral assignment life insurance arrangement between the Credit Union and the executives. Under the arrangement, certain executives own the life insurance policy, and the Credit Union provides a loan to the executive to fund the premiums on the policy. The loans are interest-bearing at a market rate and are secured by the lesser of the premiums paid or cash surrender value. In accordance with Accounting Standard Codification ("ASC") 715-60, the loans are recorded at lower of cash surrender value of the policies or the cumulative premium paid. Interest earned on the loans is recorded either monthly or annually as other income with a corresponding increase to the asset. The balance of the loans to the executives under these arrangements was approximate $10.2 million and $16.2 million at December 31, 2023 and 2022, respectively, and are included with other assets on the statements of financial condition. The decrease was a result of the credit union assigning its rights for $6 million of promissory notes for one of the split dollar collateral assignment policies in exchange for a life insurance annuity investment. The executive still owns the life insurance policy; however, the credit union is repaid their premium investment sooner. The investment will still earn the interest as it would had it remained a split dollar assignment.

NOTE 7 - MEMBERS' SHARES

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

	2023	2022
Regular shares	$ 1,434,037	$ 1,613,514
Share draft accounts	697,606	791,939
Money market accounts	198,015	256,416
Individual retirement shares and money market accounts	17,443	23,154
Individual retirement certificates	87,532	77,107
Share certificates	968,629	537,490
	$ 3,403,262	$ 3,299,620

Shares by maturity as of December 31, 2023, are summarized as follows (dollars in thousands):

No contractual maturity	$ 2,347,101
0 - 1 year maturity	922,807
1 - 2 years maturity	113,857
2 - 3 years maturity	5,421
3 - 4 years maturity	10,417
4 - 5 years maturity	3,598
Over 5 years maturity	61
	$ 3,403,262

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

The aggregate amount of certificates in denominations of $250,000 or more at December 31, 2023 and 2022, is approximately $297.56 million and $158.0 million, respectively.

Brokered deposits included in members' shares above were $137.1 million and $66.2 million as of December 31, 2023 and 2022, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

NOTE 9 - BORROWED FUNDS

The Credit Union has a collateralized borrowing arrangements with FHLB of New York secured by first mortgage loans on residential properties, FHLB of New York stock for Fixed Term and Floating Rate advances, and pledged securities for Repo advances. The total outstanding advances as of December 31, 2023 and 2022, were $460.5 million and $718 million, respectively. The weighted average rate of outstanding borrowings at December 31, 2023 and 2022, were 5.62% and 4.58%, respectively. Rates range from 1.33% to 5.65% in 2023 and 1.33% to 4.95% in 2022.

At December 31, 2023 advances totaling $250 million are variable SOFR rate advances with a weighted average rate of 5.63%.

There are prepayment penalties associated with these borrowings.

The Credit Union can borrow up to the adjusted amount of pledged assets at FHLB of New York. At December 31, 2023 the FHLB NY total borrowing capacity was $1.215 billion. Outstanding borrowings were $460 million leaving a $755 million remaining borrowing capacity through FHLB. There were no outstanding overnight borrowings as of December 31, 2023 and 2022.

The Credit Union has the ability to borrow from the FRB discount window in the amount of $500 million. There were no outstanding borrowings through the FRB discount window as of December 31, 2023 and 2022.

The outstanding FHLB borrowings by maturity on December 31, 2023 and 2022 are as follows (dollars in thousands):

	2023	2022
Less than 1 year maturity	$ 460,069	$ 718,000
1 - 2 years maturity	-	69
2 - 3 years maturity	430	-
3 - 4 years maturity	-	430
	$ 460,499	$ 718,499

NOTE 10 - OFF-BALANCE-SHEET ACTIVITIES

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

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

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

Outstanding mortgage loan commitments at December 31, 2023 and 2022, total approximately $2 million and $9 million, respectively.

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

	2023	2022
Home equity	$ 350,599	$ 336,770
Credit card	551,308	528,639
Other	46,387	47,042
Commercial	51,492	45,293
	$ 999,786	$ 957,744

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

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

NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

At December 31, 2023 and 2022, the Credit Union had two and one interest rate swap agreements, respectively. As part of its program to manage interest rate risk, the Credit Union entered into the derivative instrument agreements to modify the repricing characteristics of certain portions of the Credit Union's portfolios of interest-bearing liabilities.

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

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

Under the terms of the agreements, the Credit Union receives settlement amounts at a contractually determined variable rate and pays settlement amounts at a contractually determined fixed rate. The interest rate swap agreements specify that the Credit Union will receive interest payments equal to the daily SOFR (Secured Overnight Financing Rate), from the contract inception date to maturity date.

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

	2023	2022
Notional amounts	$ 420,000	$ 170,000
Weighted average pay rates	3.06%	2.68%
Weighted average receive rates	5.38%	1.91%
Weighted average remaining maturity	2.99 years	2.33 years
Unrealized gains/losses	$ 4,247	$ 6,771
Derivative liability (included in other liabilities)	$ (176)	$ -
Derivative asset (included in other assets)	$ 4,423	$ 6,771

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

	2023	2022
Amount of (loss)/gain recognized in OCI (effective portion)	$ 4,247	$ 6,771
Amount of (loss)/gain reclassified from OCI to interest expense	7,752	(1,386)
Amount of loss recognized in interest expense (ineffective portion)	-	-

In February 2024, the Credit Union terminated one of the swaps with a notional of $250 million.

NOTE 12 - EMPLOYEE BENEFITS

The Credit Union has a 401(k) qualified plan, which allows for pretax employee deferrals, an employer match of those deferrals, and a discretionary employer-defined contribution allocation. Participation is limited to employees that meet the eligibility guidelines set forth in the Summary Plan Document. There was no employer-defined contribution in 2023 or 2022.

The Credit Union contributed approximately $2.4 million and $2.1 million, respectively, to the plan for the years ended December 31, 2023 and 2022, related to the discretionary employer match of employee deferrals. The employer match is accrued and funded on a current basis.

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

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The fair value of assets in the plan as of December 31, 2023 and 2022, were approximately $125,000 and $125,000, respectively, and are included in Other Assets. There was no expense associated with this plan in 2023 and 2022. The total liability, which represent vested amounts, as of December 31, 2023 and 2022, under the plan was $125,000 and $125,000, respectively and is included with accrued expenses and other liabilities.

NOTE 13 - MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios, set forth in the table below, of net worth to total assets.

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

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

As of December 31, 2023 and 2022, the most recent call reporting period, the NCUA categorized the Credit Union as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. The Credit Union's risk-based capital ratio as of December 31, 2023 and 2022 was 11.5% and 11.8%.

NOTE 13 - MEMBERS' EQUITY (Continued)

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

	2023		2022	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as adequately capitalized	$ 256,638	6.00%	$ 245,766	6.00%
Amount needed to be classified as well-capitalized	299,411	7.00	286,727	7.00
Actual net worth	336,056	7.86	369,000	9.01

NOTE 14 - FAIR VALUE

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

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

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

Individually Evaluated Loans: The fair value of individually evaluated loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals completed by certified appraisers.

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

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

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

Affinity Federal Credit Union

2023 ANNUAL REPORT

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

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