FAIRWINDS

ANNUAL REPORT 2023

VISION & MISSION

Vision

Members financially free

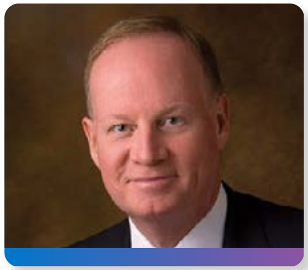
Mission

Changing members' lives on the journey to Financial Freedom

MESSAGE FROM THE CHAIRMAN & PRESIDENT/CEO

Message from the Chairman & President/CEO

Lisa Snead
Chairman



Larry Tobin
President / CEO

For 75 years, *FAIRWINDS* has been synonymous with financial freedom, a legacy that will grow and carry on for decades to come. It is our privilege, guiding and celebrating each significant milestone on our members' journey to Financial Freedom.

On December 17, 1948, eleven employees of the USN Special Devices Center in Port Washington, NY, met and applied for a credit union charter. On January 7, 1949, the charter was issued, and the credit union now known as *FAIRWINDS* Credit Union began with total assets of $55.

This year, with assets approaching $5 billion, we celebrate our 75th anniversary.

From the beginning, we have embraced cooperative principles – principles of economic self-help – the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

That's what we have done for 75 years – help members achieve financial freedom and live debt-free lives.

**"We achieved our dream...
no more mortgage payments!"**

Susan, *FAIRWINDS* member

We've helped hundreds of thousands of members like Susan reach and celebrate new money milestones and ultimately achieve financial freedom. Financial freedom happens at *FAIRWINDS*.

2023 was no exception. As we reflect on the past year and the past 75 years, we are filled with immense gratitude for the journey we've shared together. Despite the challenges posed by rising interest rates and increasing living costs, *FAIRWINDS* members were prepared, persevered, and prospered.

We are proud to share the 2023 Annual Report with you, including these significant accomplishments of members saving more, eliminating debt, building wealth, and living generously.

Once again members made a commitment to save more. One of our most popular solutions, the Emergency Savings Account, grew to more than $74 million in balances at year's end. Members continued to find value in the full suite of deposit solutions available, including our CD specials which attracted more than $300 million in balances. These achievements underscore the competitive nature of the deposit market in 2023 and our members' unwavering confidence.

Like Susan, fellow financial freedom seekers want to pay off their balances as quickly as possible. Consistent with 2022, 25% of vehicle loans and 38% of mortgage loans booked in 2023 were for shorter-term options, more than twice our peers. *FAIRWINDS* members want to eliminate debt!

Being prepared is not a short-term goal. The most successful financial freedom seekers know to build wealth today to ensure a secure and confident future. In 2023, members invested more than $240 million with our Wealth Management division – a new record. Looking ahead, we are poised to see the wealth assets we manage for members crossing over $1.0 billion in 2024.

Our members and crewmembers live and give generously. More than $100,000 was raised in our annual *FAIRWINDS* Giving campaign to support those most in need in our communities.

The commercial lending portfolio saw an exponential increase of almost 40% in disbursements in 2023, a testament to the growth of small businesses in our markets. Business owners not only trust and turn to *FAIRWINDS* for their banking needs, through our Business Money Milestones, we provide them with customized plans to reach their goals faster. Anyone and any business can achieve financial freedom.

Rooted in the people-helping-people philosophy, *FAIRWINDS* elevates this ethos to new heights. Our commitment to building a legacy of financial independence spans generations, exemplifying our dedication to fostering a debt-free future.

For 75 years, *FAIRWINDS* has been synonymous with financial freedom, a legacy that will grow and carry on for decades to come. It is our privilege, guiding and celebrating each significant milestone on our members' journey to Financial Freedom.

TREASURER'S REPORT

Treasurer's Report

Jason Albu
Treasurer

Our resolve to be the financial institution dedicated to helping every member achieve financial freedom has never been stronger.

Thank you for entrusting *FAIRWINDS* as your financial institution of choice. We extend our gratitude for your loyalty and the opportunity to serve you. It is with great pleasure that I present the 2023 Treasurer's Report, showcasing another year of outstanding performance and growth.

Financial Strength

In 2023, *FAIRWINDS* maintained formidable financial strength, with total assets exceeding $4.4 billion. Members trust *FAIRWINDS* with their most important financial assets.

Our net worth ratio, a pivotal measure of financial strength, stands at an impressive 10.14%, marking a significant increase from 9.06% in 2022. We stand well-capitalized.

FAIRWINDS continued to receive a 5-star superior rating from Bauer Financial, another significant measure of our financial strength and confidence.

Financial Performance

In terms of financial performance, we achieved a net income of $45.3 million, a notable increase from $36.5 million in 2022. The Return on Assets (ROA) also experienced a substantial rise to 1.02% in 2023 from 0.81% in 2022.

Our wealth management team's performance was exceptional last year, with members investing a record $240.0 million, far exceeding the previous year's $181.0 million. Moreover, the value of wealth assets we manage for our members reached a new high of $958.0 million and is projected to exceed $1.0 billion in 2024, another program milestone.

Deposits remained robust, totaling $3.5 billion in retail and $516.7 million in small business and commercial sectors.

Members still felt the challenges of a low-inventory housing market in 2023. Yet we disbursed an impressive $266.3 million in new mortgages, 38% of those loans being booked at a shorter term.

More members turned to *FAIRWINDS* for their commercial and small business lending needs. $320.2 million in commercial and small business loans were disbursed in 2023, up from $193.0 million in 2022.

Our commitment to prudent lending practices was reflected in a low delinquency rate of 0.20%, and charge-offs remained minimal at 0.11%.

Our resolve to be the financial institution dedicated to helping every member achieve financial freedom has never been stronger. As we celebrate 75 years of serving you, we look forward to an even more exceptional performance in 2024.

AUDIT COMMITTEE REPORT

Audit Committee Report

John Mahony
Audit Committee Chairman

For 75 years, *FAIRWINDS* has maintained a strong and resilient financial position and has demonstrated prudent financial management and stability.

On behalf of the *FAIRWINDS* Audit Committee, I am proud to share the 2023 Annual Audit Committee Report.

In the past year, the Audit Committee has diligently fulfilled its responsibilities to uphold the financial integrity and governance standards of *FAIRWINDS*. The Audit Committee serves independently from the credit union to ensure that *FAIRWINDS* operates at the highest levels of safety and security.

The Audit Committee consistently prioritizes the assessment of internal controls and risk management practices, implementing measures to identify and mitigate potential risks. Ongoing and rigorous audits and examination of the financial statements, information systems, operations, security, and compliance reflect our commitment to being a trusted and sound financial institution. Audits are conducted by independent external firms and *FAIRWINDS*' Internal Audit department.

Our 2023 annual independent audit of our financial statements and internal controls was conducted by Doeren Mayhew, CPA. The unbiased audit, as of September 30, 2023, once again rendered an unmodified opinion in its report stating that *FAIRWINDS*' financial statements are sound and free of material misstatements.

For 75 years, *FAIRWINDS* has maintained a strong and resilient financial position and has demonstrated prudent financial management and stability. *FAIRWINDS* continues to be a trusted, secure, and well-managed financial institution. Thank you for your trust and membership with *FAIRWINDS* and for the opportunity to serve you.

2023 YEAR IN REVIEW

The *FAIRWINDS* Way

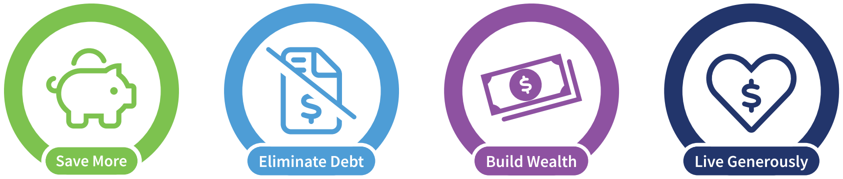
We have served and helped multiple generations of members experience a debt-free life since 1949. We do this through The *FAIRWINDS* Way. We take great pride in providing consistent, exceptional experiences and world-class service to you, our loyal members, fellow crewmembers, and our communities by living these three service principles:

- **I Am Committed to Helping Members Achieve Financial Freedom**
- **I Lead with a Servant's Heart**
- **I Make It Easy to do Business**

Here is how we delivered on The *FAIRWINDS* Way in 2023…

I Am Committed to Financial Freedom

Anyone can achieve financial freedom. For 75 years, and across multiple generations, we've guided our members to save more, eliminate debt, build wealth, live generously, and ultimately live a debt-free life. The journey to Financial Freedom is different for everyone, and we are here to support our members and all financial freedom seekers every step of the way.



Money Milestones
by FAIRWINDS

Here are some of the key accomplishments in 2023 which highlight our commitment to financial freedom:

- **More than 56,000 members have completed the *FAIRWINDS* Money Milestone Assessment**, and now have a clear plan and guide to work toward becoming debt-free.
- Introduced in 2020, the Emergency Savings Account continues to accelerate in popularity every year. At the end of 2023, **balances grew to more than $74 million** in this unique and vital member savings account option.
- Even with the rising costs of homes and vehicles, *FAIRWINDS* members are choosing shorter-term loans to shed their debt faster. More than **38% of members selected a shorter-term mortgage and 26% of members opted for a shorter-term auto loan in 2023.**

Through the Change it Up program, members can round up their debit card purchases to the nearest dollar and help to automatically build their savings or pay down a *FAIRWINDS* loan balance. To date, **38,000 members have automatically rounded up more than $23.6 million**, being the change their savings needs.

Members can pay off their *FAIRWINDS* loan faster with Freedom Payments – and they are. In the span of just a few weeks, **more than 1,000 members eagerly scheduled additional Freedom Payments** applied directly to their principal loan balance, with 41% set up as recurring payments.

FAIRWINDS was selected to continue to be the **Official Student Banking Services Provider for the University of Central Florida (UCF)** through 2028, extending a partnership that began in 2012. Through this valuable partnership, we're able to help thousands of students start off on the right financial path with the goal to live a debt-free life.

I Lead with a Servant's Heart

To serve is an honor. Every *FAIRWINDS* crewmember embodies the spirit of leading with a servant's heart, whether that's anticipating your needs or adding the extra touch to make your experiences memorable. That spirit and commitment extends to supporting the communities where we live and work. Credit unions were built on the philosophy of people helping people. And we have, for 75 years.

This past year proved to be an unforgettable year of generous living and giving from our crewmembers and members, serving those who need our help the most.

- **$325,000 in grants were awarded** to 12 organizations embodying the *FAIRWINDS* Foundation's core purpose of improving lives through financial well-being. In the past five years, the Foundation granted more than $1 million to dozens of organizations, including Junior Achievement USA, Prospera USA, Black Business Investment Fund (BBIF), Habitat for Humanity, and many more.
- **$103,544 was raised** in the annual *FAIRWINDS* Giving Campaign, breaking last year's record! Thanks to the generosity of our crewmembers, Heart of Florida United Way, Pet Alliance of Greater Orlando, United Arts, and the *FAIRWINDS* Foundation can continue to help those most in need in our communities.
- Collectively, our crewmembers **volunteered more than 800 hours of their time** to organizations including Habitat for Humanity, Wreaths Across America, Give Kids the World, A Gift For Teaching, Junior Achievement, and more. From distributing school supplies to cleaning up lakes and beaches to packing up Thanksgiving meal kits, we are always honored to serve.

FAIRWINDS was recognized as the **12th Most Philanthropic Company in Central Florida** by the *Orlando Business Journal*.

We were honored to be once again named a **top employer of choice.**

We received these distinguished recognitions in 2023:

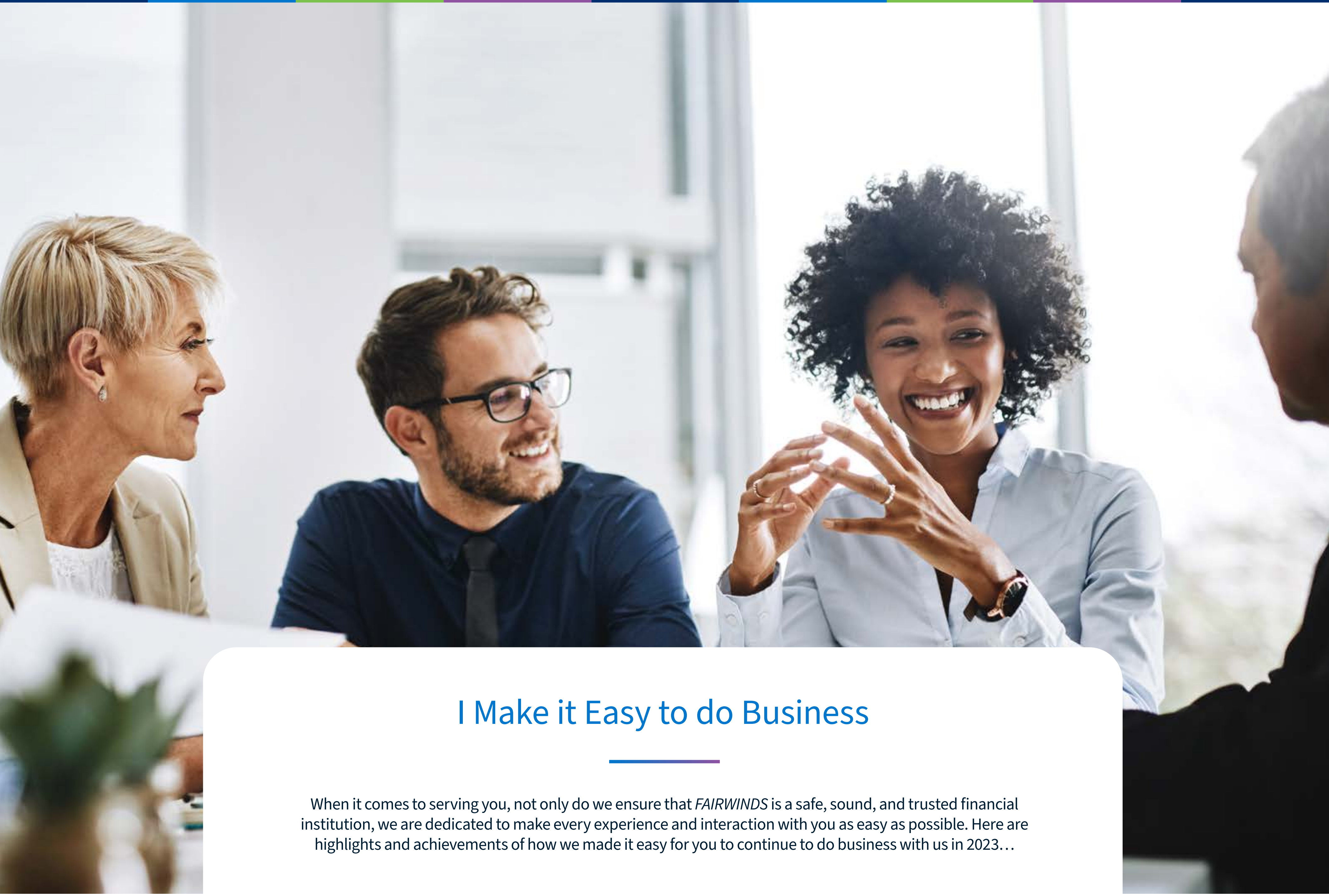
Best Places to Work
Orlando Business Journal
(#2 Large Category)

Best 100 Companies to Work For in Florida
Florida Trend
(Large Category)

Best Credit Unions to Work For
American Banker
(#10 Nationwide)

Awards like these simply reinforce our work culture and commitment to ensure crewmembers feel valued and appreciated. As a result, our **average tenure of 8.4 years** sits well above the national average.

2023 was a record-breaking year for our Net Promoter Score (NPS), a key indicator of members' satisfaction with service and convenience. **We finished 2023 with a score of 88%, up from 83% in 2022,** and far above the banking industry average of 44%.

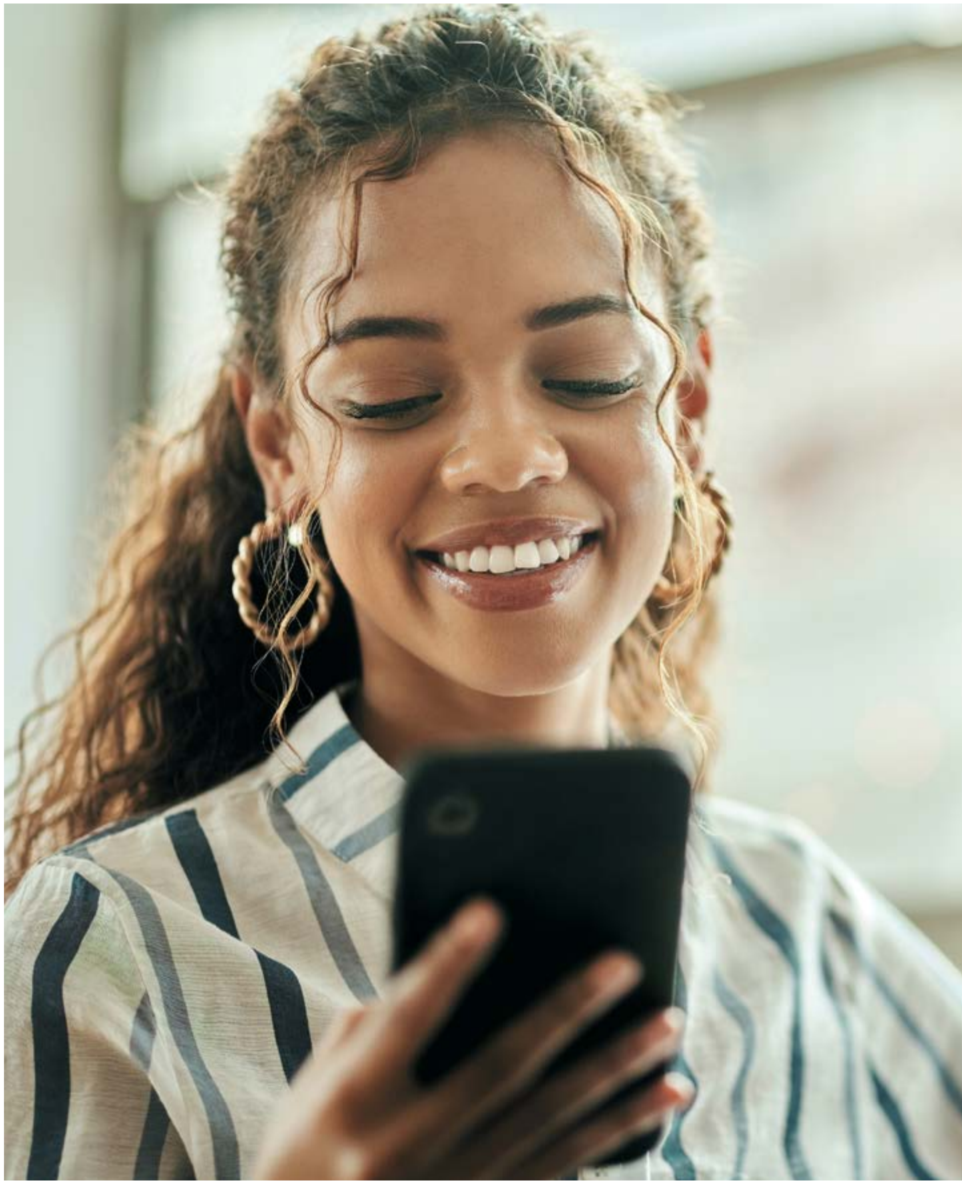


I Make it Easy to do Business

When it comes to serving you, not only do we ensure that *FAIRWINDS* is a safe, sound, and trusted financial institution, we are dedicated to make every experience and interaction with you as easy as possible. Here are highlights and achievements of how we made it easy for you to continue to do business with us in 2023…

Enhanced tools and services were introduced, including:

- The popular service **Zelle®** is now integrated within *FAIRWINDS* Online and the mobile app. Members can easily and simply send and receive money immediately.
- A completely **refreshed and redesigned website** for our members was launched offering members and future members an improved experience to access solutions and guidance throughout the journey to Financial Freedom.
- We enhanced our members' experiences with the **new Signature Services collection**, including higher mobile deposit limits and priority queue access for Member Services support. Signature members also received a new custom, elevated look within *FAIRWINDS* Online and the mobile app.
- Through a **new self-serve option** available within *FAIRWINDS* Online, members were able to seamlessly update more than 30,000 personal checking and savings accounts to solutions that best complement their financial freedom journey.
- Small business members can now enjoy a more simplified way to send invoices, accept payments, and manage cash flow through Autobooks, an **all-in-one bookkeeping solution**, available within the Business Banking Suite.
- Business members also enjoyed new features with the *FAIRWINDS* Visa® Business Credit Cards, including the convenience of **instantly adjusting employee card spending limits.**
- Making it easy to do business with *FAIRWINDS* also means making it easy for our crewmembers. An **enterprise-wide virtual helpdesk** was introduced to help every crewmember more efficiently provide exceptional, world-class service to our members and to each other.



LOOKING AHEAD TO 2024

Looking Ahead to 2024

For 75 years, we've provided the most cutting-edge solutions and world class service levels, evolving and adapting to our members' needs.

We will continue to elevate your experiences in 2024.

Our mission to change members' lives on the journey to Financial Freedom has never been more important. Every day members are achieving new Money Milestones! Soon you will be able to see your progress and hard work represented with a **custom Money Milestone badge**. Available within your *FAIRWINDS* Online Banking account, your current Money Milestone will be front and center with expert tips and guides to help you keep meeting and beating your goals.

For our business members, we're making it easy to complete your **Business Money Milestone Assessment within the mobile app and online banking**. Knowing exactly where your business is on the journey to Financial Freedom can help you recognize progress and adjust strategies as you confidently work toward becoming a debt-free business.

As thousands of members build wealth and connect with an advisor, we're introducing **a new option for self-directed investing**. A complement to our vast menu of Wealth Management products and services, this is an ideal solution for members looking to self-manage an investment portfolio and easily purchase individual stocks and ETFs.

For members needing a *FAIRWINDS* Visa® Debit or Credit Card, your **card will instantly be added to your digital wallet**, providing you access to use your card immediately.

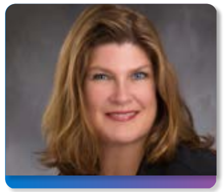
Protecting your accounts to the highest levels is our top priority. Through the power of artificial intelligence (AI), we're implementing even more robust tools and measures to help **further detect and prevent fraud** – keeping you and your money safe.

This is a small glimpse into the extraordinary experiences you can look forward to in 2024 – and beyond.

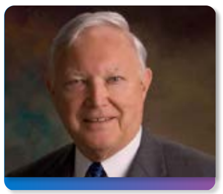
BOARD OF DIRECTORS & MANAGEMENT TEAM

Board of Directors

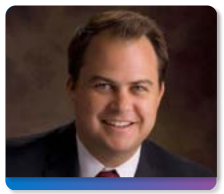
Lisa Snead
Chairman



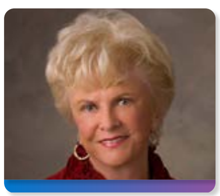
Elizabeth Krahmer
Vice Chairman



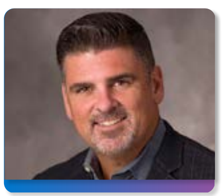
Richard Leigh
Secretary



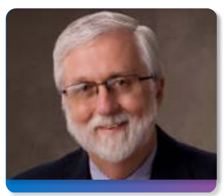
Jason Albu
Treasurer



Carol Denton
Director



John Mahony
Director



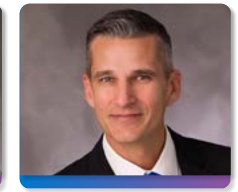
Mack Perry
Director

Management Team

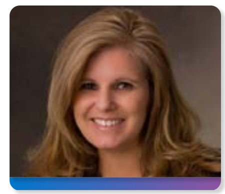
Larry Tobin
President/CEO

Kathy Chonody
Senior Executive VP/CFO

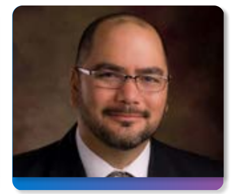
Phillip Tischer
Senior Executive VP/COO



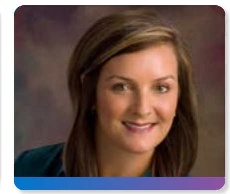
Jim Adamczyk
Senior Executive VP/CRO



Mathy Hogan
Executive VP – Payments and Digital Banking



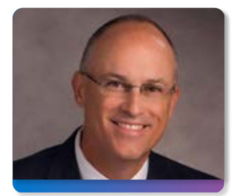
Charles Lai
Executive VP/CIO



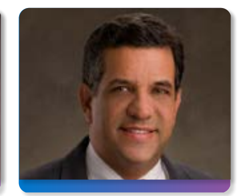
Lindsey LeWinter
Executive VP – Human Resources

Bryan Meizinger
Executive VP – Chief Credit Officer

Dianne Owen
Executive VP – Sales and Marketing

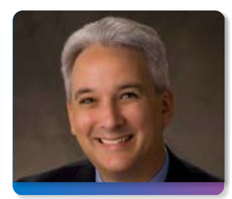


Tom Baldwin
Senior VP – Retail Banking and Wealth Management

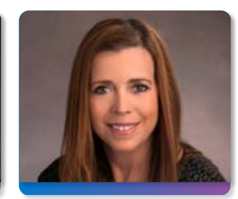


Jorge Font
Senior VP – Business Services

Jennifer Parshall
Senior VP – Risk Management



James Thornberry
Senior VP – Operations



Kim Wightman
Senior VP – Accounting/Controller

CONSOLIDATED FINANCIAL HIGHLIGHTS

Consolidated Financial Highlights

ASSETS	As of December 31, 2023	As of December 31, 2022
Net Loans to Members	$2,909,569,091	$2, 608,036,961
Cash & Due from Banks	$27,898,344	$335,987,624
Government & Agency Securities	$1,133,240,461	$1,180,440,686
Other Investments	$71,710,082	$67,951,344
Fixed Assets	$109,891,358	$114,938,391
All Other Assets	$171,889,300	$153,458,066
Total Assets	$4,424,198,635	$4,460,813,072

LIABILITIES & MEMBERS' EQUITY	As of December 31, 2023	As of December 31, 2022
Accounts Payable & Liabilities	$118,855,209	$65,339,275
Members' Shares & Deposits	$4,007,367,731	$4,170,122,142
Reserves & Undivided Earnings	$297,975,695	$225,351,655
Total Liability and Members' Equity	$4,424,198,635	$4,460,813,072

STATEMENT OF INCOME	As of December 31, 2023	As of December 31, 2022
Interest on Loans	$120,805,625	$89,152,557
Investment Income	$31,463,190	$31,308,977
Other Income	$59,870,656	$64,246,069
NCUSIF Distribution (Dividend)	$0	$0
Total Income	$212,139,472	$184,707,603
Operating Expenses	($119,591,376)	($119,657,641)
Provision of Loan Losses	($716,515)	($1,758,835)
Non-Operating Gains	$2,519,515	($12,536,714)
Dividends	($49,034,345)	($14,495,290)
Total Expenses	($166,822,721)	($148,448,480)
Reserves	$45,316,751	$36,259,123

VITAL STATISTICS	As of December 31, 2023	As of December 31, 2022
Number of Members	227,941	223,680
Number of Loans Granted	12,536	15,727
$$$ of Loans Granted	$1,234,930,157	$1,256,818,221
Number of Loans Granted Since Organized	1,144,277	1,131,741
$$$ of Loans Granted Since Organized	$17,855,146,586	$16,620,216,429

AUDITED FINANCIAL STATEMENTS

Independent Auditor's Report

DoerenMayhew
CPAs AND ADVISORS

To the Board of Directors and Audit Committee
***FAIRWINDS* Credit Union and Subsidiaries**

Report of the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of *FAIRWINDS* Credit Union and its subsidiaries (the Credit Union), which comprise the consolidated statements of financial condition as of September 30, 2023 and 2022, and the related consolidated statements of earnings, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Credit Union as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP).

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 Audits of the Consolidated Financial Statements section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with GAAP; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report

DoerenMayhew
CPAs AND ADVISORS

Auditor's Responsibilities for the Audits of the Consolidated 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 audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

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

Doeren Mayhew

Troy, Michigan
January 4, 2024

FAIRWINDS and subsidiaries Consolidated Statements of Financial Condition Years Ended September 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 127,189,590	$ 551,724,398
Investment securities (Note 2):		
Equity Securities	55,023,895	38,908,542
Available-for-sale debt securities	1,108,410,222	1,132,747,666
Held-to-maturity debt securities	21,402	39,974
Federal Home Loan Bank (FHLB) stock	3,122,600	2,315,100
Loans to members, net of allowance for loan losses (Note 3)	2,869,042,670	2,538,930,528
Accrued interest receivable	12,046,827	10,495,687
Property, equipment and leasehold improvements (Note 4)	98,209,888	101,961,495
Operating lease right-of-use asset (Note 8)	12,579,034	13,903,940
National Credit Union Share Insurance Fund (NCUSIF) deposit	36,972,529	38,030,123
Investments in life insurance contracts	24,372,907	42,526,307
Goodwill	71,144,489	71,144,489
Prepaid and other assets	26,044,866	24,525,292
Total assets	**$ 4,444,180,919**	**$ 4,567,253,541**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' shares and savings accounts (Note 6)	$ 4,089,737,003	$ 4,304,799,333
Borrowed funds	50,000,000	-
Supplemental executive retirement plan liability (Note 11)	12,549,965	14,687,319
Operating lease liabilities (Note 8)	12,579,034	13,903,940
Accrued expenses and other liabilities	37,930,110	26,504,902
Total liabilities	**$ 4,202,796,112**	**$ 4,359,895,494**
Commitments and contingent liabilities		
Members' equity:		
Undivided earnings	442,706,920	396,828,015
Accumulated other comprehensive loss	(201,322,113)	(189,469,968)
Total members' equity	**241,384,807**	**207,358,047**
Total liabilities and members' equity	**$ 4,444,180,919**	**$ 4,567,253,541**

FAIRWINDS and subsidiaries Consolidated Statements of Earnings
Years Ended September 30, 2023 and 2022

	2023	2022
INTEREST INCOME:		
Loans	$ 112,133,503	$ 82,425,132
Investment securities	35,528,526	24,786,130
Total interest income	**$ 147,662,029**	**$ 107,211,262**
INTEREST EXPENSE:		
Members' shares and savings	$ 38,188,092	10,832,436
Borrowed funds	1,016,661	-
Total interest expense	**$ 39,204,753**	**$ 10,832,436**
Net interest income	**$ 108,457,276**	**$ 96,378,826**
Provision for loan losses	565,612	480,963
Net interest income after provision for loan losses	**$ 107,891,664**	**$ 95,897,863**
NON-INTEREST INCOME:		
Fees and charges	$ 29,672,411	$ 31,602,494
Interchange income	29,224,563	28,176,834
Mortgage servicing rights fair market value adjustment	(813,368)	4,574,475
Gain on sale of building	-	4,778,261
Loss on equity investments	(1,975,609)	(8,505,498)
Total non-interest income	**$ 56,107,997**	**$ 60,626,566**
NON-INTEREST EXPENSES:		
Compensation and benefits	63,768,816	63,025,257
Office operations	26,649,937	23,779,953
Operating expenses	18,924,991	21,460,237
Occupancy	8,777,012	8,373,208
Total non-interest expenses	**$ 118,120,756**	**$ 116,638,655**
NET EARNINGS	**$ 45,878,905**	**$ 39,885,774**

FAIRWINDS and subsidiaries Consolidated Statements of Comprehensive Income Years Ended September 30, 2023 and 2022

	2023	2022
Net earnings	$ 45,878,905	$ 39,885,774
Other comprehensive loss:		
Net unrealized holding losses on investments classified as available-for-sale	(11,852,145)	(177,379,019)
Reclassification adjustment for securities gains included in net earnings	-	-
Total other comprehensive loss	**$ (11,852,145)**	**$ (177,379,019)**
COMPREHENSIVE INCOME (LOSS)	**$ 34,026,760**	**$ (137,493,245)**

FAIRWINDS and subsidiaries Consolidated Statements of Members' Equity Years Ended September 30, 2023 and 2022

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Members' equity - October 1, 2021	$ 14,459,893	$ 342,482,348	$ (12,090,949)	$ 344,851,292
Transfer (Note 1)	(14,459,893)	14,459,893	-	-
Comprehensive income (loss)	-	39,885,774	(177,379,019)	(137,493,245)
Members' equity - September 30, 2022	-	396,828,015	(189,469,968)	207,358,047
Comprehensive income (loss)	-	45,878,905	(11,852,145)	34,026,760
Members' equity - September 30, 2023	**$ -**	**$ 442,706,920**	**$ (201,322,113)**	**$ 241,384,807**

FAIRWINDS and subsidiaries Notes to Consolidated Financial Statements Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 45,878,905	$ 39,885,774
Adjustments to net cash provided from operating activities:		
Depreciation	4,697,477	5,335,181
Provision for loan losses	565,612	480,963
Net amortization (accretion) of premiums on investment securities	(675,549)	9,351,284
Decrease (increase) in cash surrender valueof life insurance contracts	440,792	(37,916)
Decrease in fair market value of equity investments	1,975,609	6,982,496
Gain on sale of building	-	(4,778,261)
Amortization of operating lease right-of-use asset	1,324,906	-
Repayment of operating lease liabilities	(1,324,906)	-
Changes in assets and liabilities:		
Increase in accrued interest receivable	(1,551,140)	(2,983,419)
Increase in prepaid and other assets	(194,668)	(6,398,495)
Increase (decrease) in supplemental executive retirement plan liability	(2,137,354)	1,352,345
Increase (decrease) in accrued expenses and other liabilities	10,100,302	(25,088,667)
Total adjustments	**$ 13,221,081**	**$ (15,784,489)**
NET CASH PROVIDED FROM OPERATING ACTIVITIES	**$ 59,099,986**	**$ 24,101,285**

FAIRWINDS and subsidiaries Notes to Consolidated Financial Statements Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans to members	$ (330,677,754)	$ (211,383,854)
Proceeds from calls, maturities, and repayments of investment securities:		
Available-for-sale debt securities	68,407,151	31,230,005
Held-to-maturity debt securities	18,572	3,773
Purchases of investment securities - available-for-sale	(55,246,303)	(186,447,254)
Purchase of equity investments	(18,090,962)	-
Purchase of FHLB stock	(807,500)	(583,500)
Purchases of property and equipment	(945,870)	(3,003,316)
Proceeds from redemption of life insurance contracts	17,712,608	-
Proceeds from the sale of property and equipment	-	7,623,656
Cash acquired through merger	-	18,915,023
Net decrease (increase) in NCUSIF deposit	1,057,594	(9,252,566)
Net cash used in investing activities	(318,572,464)	(352,898,033)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in members' shares and savings accounts	(215,062,330)	341,461,534
Proceeds from advances	50,000,000	-
Net cash provided from financing activities	(165,062,330)	341,461,534
Net increase (decrease) in cash and cash equivalents	(424,534,808)	12,664,786
Cash and cash equivalents - beginning	551,724,398	539,059,612
Cash and cash equivalents - ending	**$ 127,189,590**	**$ $551,724,398**
SUPPLEMENTAL INFORMATION		
Interest and dividends paid	**$ 39,204,753**	**$ $10,832,436**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

FAIRWINDS Credit Union's (the Credit Union) operations are principally related to holding deposits for and making loans to individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

FAIRWINDS Financial Services, L.L.C. is a wholly-owned subsidiary of the Credit Union. As of September 30, 2023 and 2022, *FAIRWINDS* Financial Services, L.L.C. was inactive. *FAIRWINDS* Insurance Services, L.L.C. is a wholly-owned subsidiary of *FAIRWINDS* Credit Union created to provide insurance products for members of the Credit Union. *FAIRWINDS* Insurance Services, L.L.C.'s operations represent less than 1% of the consolidated totals for 2023 and 2022.

During the year ended September 30, 2022, the Credit Union acquired Citizens Bank of Florida. See Note 13.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiaries, *FAIRWINDS* Financial Services, L.L.C. and *FAIRWINDS* Insurance Services, L.L.C. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. The estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses, the fair value of investment securities, and goodwill. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Comprehensive Income/(Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive Income/(loss) is limited to the changes in unrealized gain/(loss) on available-for-sale debt securities. When available-for-sale debt securities are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of available-for-sale debt securities reported in the consolidated statements of earnings.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less including overnight deposits. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Investment Securities

The Credit Union's investments in securities are classified and accounted for as follows:

Equity Securities: Marketable equity securities have readily determinable fair values. Equity securities are measured at fair value as of the date of the consolidated statements of financial condition. Changes in fair value of equity securities are included in other income in the consolidated statements of earnings.

Held-to-Maturity Debt Securities: Mortgage-backed securities, which the Credit Union has the positive intent and ability to hold to maturity, are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income over the terms of the securities.

Available-for-Sale Debt Securities: Debt securities are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. The securities are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive loss until realized.

Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of earnings. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Credit Union does not intend to sell these securities, and (iv) it is more likely than not that the Credit Union will have the ability to hold the securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment, and it has no quoted market value.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

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

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

Certain direct loan origination costs are deferred and recognized as an adjustment to interest income over the contractual life of the loans.

Allowance for Loan Losses

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: commercial, real estate and consumer. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Commercial loans are divided into real estate and other. Real estate loans are divided into first mortgages and home equity. Consumer loans are divided into secured and unsecured.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component covers impaired loans and specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

These portfolio segments include commercial, real estate and consumer with risk characteristics described as follows:

Commercial: Commercial loans not secured by real estate generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in decreased collateral values.

Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments.

Consumer: The consumer loan portfolio usually comprises a large number of small loans, including automobile, personal loans, bounce protection, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Commercial Segment Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each class of loans. As of September 30, 2023 and 2022, the historical loss time frame for each class was 60 months.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Consumer and Real Estate Segment Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2023 and 2022, the historical loss time frame for real estate loans was 36 months. As of September 30, 2023 and 2022, the historical loss time frame for consumer loans was 12 months.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings (TDRs)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a TDR if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and real estate loan portfolio comprises secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and real estate loan portfolio is measured by the periodic delinquency rate, non-accrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, non-accrual loans and loans modified under TDRs that are past due in accordance with the loans' original contractual terms are considered to be in a non-performing status for purposes of credit quality evaluation.

Commercial Credit Quality Indicators

The Credit Union assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into four major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have potential weaknesses, such as negative financial trends, a limited financial history, a serious documentation flaw, or inadequate control on the part of the Credit Union. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset. However, a loan rated "special mention" is considered fully collectible.

Substandard: A loan is "substandard" if there is the potential for loss. Such loans have well-defined weaknesses and are not fully protected either by the paying capacity of the borrower or the value of the secondary source of repayment. These loans are characterized by the distinct possibility that the Credit Union could sustain some loss if the deficiencies are not corrected.

Doubtful: Loans that have well defined weaknesses. Collection in full is highly improbable. Information exists that may strengthen the loan precluding determination of an exact loss amount.

Loss: Loans that should be charged-off, as collection possibilities are no longer existent. There is no value in the asset.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis.

All loans will be charged-off once deemed uncollectible. Non-performing loans are charged-off in compliance with Section 655.044, Florida Statutes. Generally, non-performing loans are deemed to be a loss when they become six months delinquent unless it is determined prior that there is no collectability based on the established loan life collections process. This process includes well defined procedures and guidelines used to identify, monitor, and address non-performing loans and when they should be considered for charge-off.

In the overdraft program, deposit accounts that are negative for 60 consecutive days will be charged-off. All other negative balance deposit accounts will be written off as operational losses as appropriate.

Transfers of Financial Assets

The Credit Union accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, Transfers and Servicing. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) 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.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participation interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial assets, (2) from the date of transfer, all cash flows received, except any cash flows allocated as compensation or servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the Orlando, Florida metropolitan area. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property, Equipment and Leasehold Improvements

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated amortization. Amortization is computed on the straight-line method over the length of the lease term. Assets classified as construction-in-process are not depreciated until the asset has been completed and placed into service. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Right-of-use Assets

Right-of-use assets are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term and amortized on a straight-line basis (See Note 8).

Goodwill

Goodwill is an intangible asset that arises through a merger when identifiable assets acquired are less than identifiable liabilities and equity acquired. Goodwill is not amortized, it is tested for impairment if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. The balance of goodwill resulted from the business combinations with Friends Bank on October 1, 2019 and Citizens Bank of Florida on April 30, 2022.

Mortgage Servicing Rights

Mortgage servicing assets are recognized as separate assets when rights are acquired through sale of financial assets and are measured at fair value at the date of transfer. Fair value 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 into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Service fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. Mortgage servicing rights are included within other assets in the consolidated statements of financial condition.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

National Credit Union Share Insurance Fund (NCUSIF) Deposit

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

Investments in Life Insurance Contracts

The Credit Union owns investments in various life insurance contracts for key executives. These investments are recorded at their cash surrender value. Gains and losses from changes in value are recorded in net earnings.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote.

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Operating Lease Liabilities

Lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term (See Note 8).

Regular Reserve

As of September 30, 2021, the Credit Union was required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest. The regular reserve requirement was eliminated beginning on January 1, 2022. The balance of approximately $14,460,000 was transferred to undivided earnings during the year ended September 30, 2022.

Income Taxes

The Credit Union is exempt from most federal, state and local income taxes under the provisions of the Internal Revenue Code (IRC) and state tax laws. However, IRC Section 511 imposes a tax on the unrelated business income derived by state-chartered credit unions. Generally, these taxes are insignificant to the Credit Union.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale debt securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on October 1, 2023. The Credit Union's initial entry to adopt CECL will be approximately $1,034,000.

Reclassification

Certain amounts reported in the 2022 consolidated financial statements have been reclassified to conform with the 2023 presentation. There were no changes to total equity or net earnings as a result of the aforementioned.

Subsequent Events

Management has evaluated subsequent events through January 4, 2024, the date the consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investment Securities

The estimated fair values of equity securities held for trading are as follows:

As of September 30	
2023	2022
$ 55,023,895	**$ 38,908,542**

The net realized losses recognized on equity investments as a result of changes in market value was approximately $1,976,000 and $10,279,000 during the years ended September 30, 2023 and 2022, respectively. There were no sales of equity investments during the year ended September 30, 2023. During the year ended September 30, 2022, net gains recognized on equity investments sold were approximately $1,773,000.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 2 - Investment Securities (Continued)

The Credit Union's equity investments are impermissible under the investment limitations of Part 703 of NCUA Regulations. However, NCUA Regulation §701.19 permits the investment in otherwise impermissible investments if the Credit Union can support that the investment is directly related to its obligation for employee benefit expenses and only intends to hold the investment for as long as it has an actual or potential obligation for employee benefits. The plans are invested in mutual funds and are included in investments with a corresponding supplemental executive retirement plan liability. The balance of the liability was approximately $12,550,000 and $14,687,000 as of September 30, 2023 and 2022, respectively.

The following table presents the amortized cost and estimated fair value of available-for-sale debt securities as of September 30, 2023:

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities:				
Federal agency securities	$ 334,953,824	$ -	$ (59,798,005)	$ 275,155,819
Collateralized mortgage obligations	180,386,374	-	(39,566,531)	140,819,843
Mortgage-backed securities	481,789,443	-	(85,965,852)	395,823,591
Corporate bonds	93,633,744	-	(7,645,914)	85,987,830
Municipal bonds	9,626,187	-	(681,838)	8,944,349
Treasury bonds	209,342,763	-	(7,663,973)	201,678,790
Total available-for-sale	**$ 1,309,732,335**	**$ -**	**$ (201,322,113)**	**$ 1,108,410,222**
Held-to-maturity debt securities:				
Mortgage-backed securities	**$ 21,402**	**$ -**	**$ (441)**	**$ 20,961**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 2 - Investment Securities (Continued)

The following table presents the amortized cost and estimated fair value of available-for-sale debt securities as of September 30, 2022:

	September 30, 2022			
Available-for-sale debt securities	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 324,766,781	$ -	$ (57,381,639)	$ 267,385,142
Collateralized mortgage obligations	198,459,515	3,823	(35,338,720)	163,124,618
Mortgage-backed securities	531,831,905	-	(79,644,975)	452,186,930
Corporate bonds	94,455,943	-	(9,226,332)	85,229,611
Municipal bonds	10,201,626	-	(614,379)	9,587,247
Treasury bonds	162,501,302	-	(7,267,184)	155,234,118
Total available-for-sale	**$ 1,322,217,072**	**$ 3,823**	**$ (189,473,229)**	**$ 1,132,747,666**
Held-to-maturity debt securities:				
Mortgage-backed securities	$ 39,974	$ -	$ (562)	$ 39,412

The amortized cost and estimated market value of debt securities at September 30, 2023, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because the borrower may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities to be Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 56,259,090	$ 55,197,280	$ -	$ -
Due in one year to less than five years	404,669,993	369,144,498	-	-
Due in five years to ten years	185,585,634	146,534,539	-	-
Due in greater than ten years	1,041,801	890,471	-	-
Collateralized mortgage obligations	180,386,374	140,819,843	-	-
Mortgage-backed securities	481,789,443	395,823,591	21,402	20,961
Total	**$ 1,309,732,335**	**$ 1,108,410,222**	**$ 21,402**	**$ 20,961**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 2 - Investment Securities (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2023 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	September 30, 2023					
Description of Securities	Continuing Unrealized Losses For Less Than 12 Months		Continuing Unrealized Losses For 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ 9,873,800	$ (113,892)	$ 265,282,019	$ (59,684,113)	$ $275,155,819	$ (59,798,005)
Collateralized mortgage obligations	2,885,489	(283,661)	137,934,354	(39,282,870)	140,819,843	(39,566,531)
Mortgage-backed securities	24,330	(85)	395,799,261	(85,965,767)	395,823,591	(85,965,852)
Corporate bonds	-	-	85,987,830	(7,645,914)	85,987,830	(7,645,914)
Municipal bonds	3,004,050	(245,245)	5,940,299	(436,593)	8,944,349	(681,838)
Treasury bonds	45,669,500	(743,654)	156,009,290	(6,920,319)	201,678,790	(7,663,973)
Total	**$ 61,457,169**	**$ (1,386,537)**	**$ 1,046,953,053**	**$ (199,935,576)**	**$ 1,108,410,222**	**$ (201,322,113)**

Information pertaining to investments with gross unrealized losses as of September 30, 2022 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	September 30, 2022					
Description of Securities	Continuing Unrealized Losses For Less Than 12 Months		Continuing Unrealized Losses For 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ 11,521,720	$ (947,891)	$ 255,863,422	$ (56,433,748)	$ 267,385,142	$ (57,381,639)
Collateralized mortgage obligations	47,723,738	(5,244,244)	115,400,880	(30,094,476)	163,124,618	(35,338,720)
Mortgage-backed securities	218,365,723	(29,125,581)	233,821,207	(50,519,394)	452,186,930	(79,644,975)
Corporate bonds	51,213,643	(4,717,818)	34,015,968	(4,508,514)	85,229,611	(9,226,332)
Municipal bonds	9,587,247	(614,379)	-	-	9,587,247	(614,379)
Treasury bonds	145,985,718	(5,989,744)	9,248,400	(1,277,440)	155,234,118	(7,267,184)
Total	**$ 484,397,789**	**$ (46,639,657)**	**$ 648,349,877**	**$ (142,833,572)**	**$ 1,132,747,666**	**$ (189,473,229)**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 2 - Investment Securities (Continued)

As of September 30, 2023, the investment portfolio included 224 securities, of which 205 had current unrealized losses which have existed for longer than one year. As of September 30, 2022, the investment portfolio included 222 securities, of which 45 had current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings. Management believes the decline in fair value for these securities is temporary. In addition, the Credit Union does not have the intent to sell these investment securities and it is not more-likely-than-not that the Credit Union will be required to sell these investment securities prior to their anticipated recovery. There were no sales of investments classified as available for sale during the year ended September 30, 2023 and 2022.

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2023	2022
COMMERCIAL:		
Real estate	$ 690,813,063	$ 563,381,604
Other	61,818,246	54,787,030
Total Commercial	**752,631,309**	**618,168,634**
REAL ESTATE:		
First mortgages	1,308,359,058	1,253,791,152
Home equity	142,692,539	80,772,196
Total real estate	**1,451,051,597**	**1,334,563,348**
CONSUMER:		
Secured	561,257,598	503,100,869
Unsecured	105,225,262	92,026,395
Total Consumer	**666,482,860**	**595,127,264**
Net deferred loan origination fees/costs	15,972,582	10,056,513
Total	2,886,138,348	2,557,915,759
Less: allowance for loan losses	(17,095,678)	(18,985,231)
TOTAL LOANS TO MEMBERS	**$ 2,869,042,670**	**$ 2,538,930,528**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at September 30, 2023:

September 30, 2023	Commercial	Real Estate	Consumer	Total
ALLOWANCE FOR LOAN LOSSES:				
Beginning balance	$ 6,734,148	$ 2,742,191	$ 9,508,892	$ 18,985,231
Charge-offs	(70,621)	(38,319)	(3,433,782)	(3,542,722)
Recoveries	140,970	213,730	732,857	1,087,557
Provision for (recapture of) loan losses	(1,356,820)	558,547	1,363,885	565,612
Ending balance	5,447,677	3,476,149	8,171,852	17,095,678
Ending balance individually evaluated for impairment	33,831	1,040,175	-	1,074,006
Ending balance collectively evaluated for impairment	**$ 5,413,846**	**$ 2,435,974**	**$ 8,171,852**	**$ 16,021,672**
LOANS:				
Ending balance individually evaluated for impairment	$ 92,340	$ 13,876,977	$ -	$ 13,969,317
Ending balance collectively evaluated for impairment	**759,738,886**	**1,439,958,825**	**672,471,320**	**2,872,169,031**
TOTAL RECORDED INVESTMENT IN LOANS	**$ 759,831,226**	**$ 1,453,835,802**	**$ 672,471,320**	**$ 2,886,138,348**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at September 30, 2022:

	September 30, 2022			
	Commercial	**Real Estate**	**Consumer**	**Total**
ALLOWANCE FOR LOAN LOSSES:				
Beginning balance	$ 7,600,533	$ 2,866,122	$ $8,912,274	$ 19,378,929
Charge-offs	-	-	(2,879,318)	(2,879,318)
Recoveries	180,575	1,052,621	771,461	2,004,657
Provision for (recapture of) loan losses	(1,046,960)	(1,176,552)	2,704,475	480,963
Ending balance	6,734,148	2,742,191	9,508,892	18,985,231
Ending balance individually evaluated for impairment	7,557	1,157,127	-	1,164,684
Ending balance collectively evaluated for impairment	**$ 6,726,591**	**$ 1,585,064**	**$ 9,508,892**	**$ 17,820,547**
LOANS:				
Ending balance individually evaluated for impairment	$ $71,747	$ 15,077,112	$ -	$ 15,148,859
Ending balance collectively evaluated for impairment	**621,091,916**	**1,321,465,564**	**600,209,420**	**2,542,766,900**
TOTAL RECORDED INVESTMENT IN LOANS	**$ 621,163,663**	**$ 1,336,542,676**	**$ 600,209,420**	**$ 2,557,915,759**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Impaired Loans

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2023:

	September 30, 2023				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
WITH NO RELATED ALLOWANCE RECORDED:					
Real estate:					
First mortgages	$ 2,792,630	$ 2,792,630	$ -	$ 2,537,426	-
Home equity	381,959	381,959	-	397,145	-
WITH AN ALLOWANCE RECORDED:					
Commercial:					
Real estate	28,344	28,344	5,487	50,046	-
Other	63,996	63,996	28,344	63,996	-
Real estate:					
First mortgages	10,240,136	10,240,136	959,873	11,081,472	-
Home equity	462,252	462,252	80,302	461,002	-
TOTAL:					
Commercial	**$ 92,340**	**$ 92,340**	**$ 33,831**	**$ 114,042**	**$ -**
Real estate	**$ 13,876,977**	**$ 13,876,977**	**$ 1,040,175**	**$ 14,477,045**	**$ -**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2022:

	September 30, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
WITH NO RELATED ALLOWANCE RECORDED:					
Real estate:					
First mortgages	$ 2,282,222	$ 2,282,222	$ -	$ 2,696,763	-
Home equity	412,331	412,331	-	520,992	-
WITH AN ALLOWANCE RECORDED:					
Commercial:					
Other	71,747	71,747	7,557	75,410	-
Real estate:					
First mortgages	11,922,807	11,922,807	1,108,436	12,783,715	-
Home equity	459,752	459,752	48,691	465,397	-
TOTAL:					
Commercial	**$ 71,747**	**$ 71,747**	**$ 7,557**	**$ 75,410**	**$ -**
Real estate	**$ 15,077,112**	**$ 15,077,112**	**$ 1,157,127**	**$ 16,466,867**	**$ -**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans at September 30, 2023:

September 30, 2023

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Financing Receivable	Recorded Investment > 90 Days and Accruing
COMMERCIAL:							
Real estate	$ -	$ -	$ -	$ -	$ 698,012,980	$ 698,012,980	
Other	120,500	8,652	24,737	153,889	61,664,357	61,818,246	-
REAL ESTATE:							
First mortgages	134,205	1,100,684	2,055,197	3,290,086	1,306,878,441	1,310,168,527	
Home equity	456,894	97,598	207,772	762,264	142,905,011	143,667,275	-
CONSUMER:							
Secured	1,525,185	198,677	154,887	1,878,749	565,367,309	567,246,058	-
Unsecured	1,080,299	452,124	431,993	1,964,416	103,260,846	105,225,262	-
TOTAL:	**$ 3,317,083**	**$ 1,857,735**	**$ 2,874,586**	**$ 8,049,404**	**$ 2,878,088,944**	**$ 2,886,138,348**	**$ -**

Loans on which the accrual of interest has been discontinued or reduced approximated $2,875,000 as of September 30, 2023. There were no loans 90 days or more past due and still accruing interest as of September 30, 2023.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans at September 30, 2022:

	September 30, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Financing Receivable	Recorded Investment > 90 Days and Accruing
COMMERCIAL:							
Real estate	$ -	$ -	$ -	$ -	$ 566,376,633	$ 566,376,633	-
Other	-	22,717	478,042	500,759	54,286,271	54,787,030	-
REAL ESTATE:							
First mortgages	391,292	1,582,544	1,617,483	3,591,319	1,251,787,690	1,255,379,009	-
Home equity	245,677	149,448	325,124	720,249	80,443,418	81,163,667	-
CONSUMER:							
Secured	1,615,246	288,503	216,986	2,120,735	506,062,290	508,183,025	-
Unsecured	754,904	356,029	231,948	1,342,881	90,683,514	92,026,395	-
TOTAL:	**$ 3,007,119**	**$ 2,399,241**	**$ 2,869,583**	**$ 8,275,943**	**$ 2,549,639,816**	**$ 2,557,915,759**	**$ -**

Loans on which the accrual of interest has been discontinued or reduced approximated $2,870,000 as of September 30, 2022. There were no loans 90 days or more past due and still accruing interest as of September 30, 2022.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of September 30, 2023:

CREDIT GRADE	Real Estate	Other	Total
Pass	$ $686,499,569	$ 61,602,320	$ 748,101,889
Special mention	9,600,719	490,531	10,091,250
Substandard	1,570,817	67,270	1,638,087
Doubtful	-	-	-
Loss	-	-	-
Total:	**$ 697,671,105**	**$ 62,160,121**	**$ 759,831,226**

The following table presents the loan balance for commercial loans based on risk rating as of September 30, 2022:

CREDIT GRADE	Real Estate	Other	Total
Pass	$ 561,439,332	$ 53,238,815	$ 614,678,147
Special mention	5,027,384	503,529	5,530,913
Substandard	-	954,603	954,603
Doubtful	-	-	-
Loss	-	-	-
Total:	**$ 566,466,716**	**$ 54,696,947**	**$ 621,163,663**

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For consumer and real estate loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, non-accrual loans are considered to be in a non-performing status for purposes of credit quality evaluation.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality (Continued)

The following tables present the loan balance based on performance indication as of September 30, 2023 and 2022:

	September 30, 2023		September 30, 2022	
	Performing Loans	Non-Performing Loans	Performing Loans	Non-Performing Loans
REAL ESTATE				
First mortgages	$ $1,308,113,330	$ 2,055,197	$ 1,253,761,526	$ 1,617,483
Home Equity	143,459,503	207,772	80,838,543	325,124
Total real estate	**$ 1,451,572,833**	**$ 2,262,969**	**$ 1,334,600,069**	**$ 1,942,607**
CONSUMER				
Secured	$ 567,091,171	$ 154,887	$ 507,966,039	$ 216,986
Unsecured	104,793,269	431,993	91,794,447	231,948
Total consumer	**$ 671,884,440**	**$ 586,880**	**$ 599,760,486**	**$ 448,934**
TOTAL	**$ 2,123,457,273**	**$ 2,849,849**	**$ 1,934,360,555**	**$ 2,391,541**

Note 4 - Property, Equipment and Leasehold Improvements

The principal categories of property, equipment and leasehold improvements are summarized as follows:

	2023	2022
Land and improvements	$ 28,514,392	$ 28,987,545
Building and improvements	83,472,696	83,556,579
Furniture and equipment	33,238,670	32,602,765
Leasehold improvements	9,996,168	9,976,477
Total cost	155,221,926	155,123,366
Less accumulated depreciation and amortization	(57,012,038)	(53,161,871)
UNDERPRECIATED COST	**$ 98,209,888**	**$ 101,961,495**

Depreciation and amortization charged to earnings was approximately $4,697,000 and $5,335,000 for the years ended September 30, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 5 - Borrowed Funds

The Credit Union maintains a credit agreement with FHLB of Atlanta. As of September 30, 2023 and 2022, the Credit Union pledged approximately $707,831,000 and $766,760,000, respectively, in first mortgage loans with the FHLB. The Credit Union may borrow up to 100% of the collateral pledged. As of September 30, 2023 and 2022, there were no borrowed funds under this agreement. Interest rates on advances from the FHLB are determined at the time of the advances and collateral in the form of mortgage securities are pledged at the time of the advance.

The Credit Union maintains a line-of-credit with Corporate One Federal Credit Union at a variable rate of interest, guaranteed by all assets, maximum credit available of $100,000,000 at September 30, 2023 and 2022. There were no outstanding advances as of September 30, 2023 and 2022.

The Credit Union is authorized to borrow from the Federal Reserve discount window. The Credit Union may borrow funds up to amounts collateralized by Credit Union assets including investment securities. As of September 30, 2023, the Credit Union pledged approximately $107,136,000 in corporate bonds with the Federal Reserve discount window. The Credit Union had no outstanding borrowings as of September 30, 2022.

As of September 30, 2023, the Credit Union had an outstanding borrowing with Federal Reserve Bank of Atlanta (FRB) at a fixed interest rate of 4.70%. As of September 30, 2022, the Credit Union had no outstanding borrowings with the FRB. The repayment schedule of the advances as of September 30, 2023 is as follows:

	2023
LESS THAN ONE YEAR	**$ 50,000,000**

Note 6 - Members' Shares and Savings Accounts

	2023	2022
Share draft accounts	$ 1,164,352,195	$ 1,303,667,883
Shares and equivalents	2,214,157,199	2,144,361,707
Money market accounts	-	525,202,028
Individual retirement accounts (IRAs)	50,014,292	61,770,457
Certificates of deposit and IRA certificates	661,213,317	269,797,258
	$ 4,089,737,003	**$ 4,304,799,333**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 6 - Members' Shares and Savings Accounts (Continued)

At September 30, 2023, scheduled maturities of certificates of deposit and IRA certificates are as follows:

Year Ending September 30th		
2024	$	$630,641,413
2025		11,953,067
2026		9,705,434
2027		6,557,981
2028		2,224,443
Thereafter		130,979
TOTAL	**$**	**661,213,317**

The aggregate amount of time deposit accounts in denominations of $250,000 or more at September 30, 2023 was approximately $142,557,000.

Note 7 - Regulatory Capital

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 regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Effective January 1, 2022, federally insured, natural-person credit unions defined as "complex" will have to comply with the NCUA's risk-based capital ("RBC") final rule which amends NCUA's Prompt Corrective Action ("PCA") regulations, part 702, or the newly created Complex Credit Union Leverage Ratio ("CCULR") rule. A credit union is defined as "complex" if the credit union's quarter-end total assets exceed $500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA's current regulations to establish an RBC ratio measure that is the percentage of a credit union's capital divided by the credit union's defined risk weighted asset base. This RBC rule more closely aligns NCUA's risk weights with those assigned by other Banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for "well capitalized" credit unions, and an 8 percent RBC ratio level for "adequately capitalized" credit unions.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 7 - Regulatory Capital (Continued)

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule are required to have a minimum 9 percent leverage ratio. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA's PCA regulations, part 702. Management has selected CCULR for calculating its RBC as of September 30, 2023 and 2022.

As of September 30, 2023 and 2022, 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 Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of September 30, 2023		As of September 30, 2022	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$ 442,706,920	$ 10.02%	$ 396,828,015	9.10%
Amount needed to be classified as "well capitalized"	$ 397,141,347	$ 9.00%	$ 392,484,717	9.00%

To calculate the net worth ratio as of September 30, 2023 and 2022, the Credit Union used the average of the three month-end balances over the calendar quarter, as permitted by regulation, in performing its calculation of total assets.

Note 8 - Leases

The Credit Union enters into leases in the normal course of business primarily for financial centers and equipment. The Credit Union's leases have remaining terms ranging from 1 to 18 years.

The Credit Union includes lease extension options in the lease term if it is reasonably certain that the Credit Union will exercise the option. Leases are classified as operating leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Credit Union uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Credit Union's incremental borrowing rate is based on the FHLB advance rate. As of September 30, 2023, right-of-use assets and lease liabilities, as reflected in the consolidated statements of financial condition, approximated $12,579,000 and $13,904,000, respectively.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 8 - Leases (Continued)

The total cost of operating leases, included in office occupancy expenses, was approximately $1,837,000 and $1,800,000 for the years ended September 30, 2023 and 2022, respectively.

The projected minimum rental payments under the terms of the leases at September 30, 2023 are as follows:

Year Ending September 30th		
2024	$	1,563,000
2025		1,567,000
2026		1,495,000
2027		1,537,000
2028		1,862,000
Thereafter		5,551,000
TOTAL	**$**	**13,575,000**

Note 9 - Commitments and Contingent Liabilities

Off-Balance Sheet Risk

The Credit Union is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Credit Union has in particular classes of financial instruments.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2023, the total unfunded commitments under such lines-of-credit was approximately $968,150,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 10 - Fair Value Measurements

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this guidance are described below:

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at September 30, 2023 and 2022 are summarized as follows:

	As of September 30, 2023			
	Level 1	**Level 2**	**Level 3**	**Level 4**
AVAILABLE-FOR-SALE:				
Federal agency securities	$ -	$ 275,155,819	$ -	$ 275,155,819
Collateralized mortgage obligations	-	140,819,843		140,819,843
Mortgage-backed securities	-	395,823,591	-	395,823,591
Corporate bonds	-	85,987,830	-	85,987,830
Municipal bonds	-	8,944,349	-	8,944,349
Treasury bonds	201,678,790	-	-	201,678,790
Equity securities	55,023,895	-	-	55,023,895
Mortgage servicing rights	-	-	8,771,907	8,771,907
TOTAL	**$ 256,702,685**	**$ 906,731,432**	**$ 8,771,907**	**$ 1,172,206,024**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis (Continued)

	As of September 30, 2022			
	Level 1	Level 2	Level 3	Level 4
AVAILABLE FOR SALE:				
Federal agency securities	$ -	$ 267,385,142	$ -	$ 267,385,142
Collateralized mortgage obligations	-	163,124,618		163,124,618
Mortgage-backed securities	-	452,186,930	-	452,186,930
Corporate bonds	-	85,229,611	-	85,229,611
Municipal bonds	-	9,587,247	-	9,587,247
Treasury bonds	155,234,118	-	-	155,234,118
Equity securities	38,908,542	-	-	38,908,542
Mortgage servicing rights	-	-	9,219,883	9,219,883
TOTAL	**$ 194,142,660**	**$ 977,513,548**	**$ 9,219,883**	**$ 1,180,876,091**

The following tables summarize the changes in fair value for items measured at fair value (Level 3) on a recurring basis using significant unobservable inputs as of September 30, 2023 and 2022:

	Mortgage Servicing Rights Years Ended September 30,	
	2023	2022
Balance, beginning of year	$ 9,219,883	$ 4,006,626
Capitalization	365,392	638,782
Fair value adjustment	(813,368)	4,574,475
BALANCE, END OF YEAR	**$ 8,771,907**	**$ 9,219,883**

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis (Continued)

As of September 30, 2023

	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 9,720,722	$ 9,720,722

As of September 30, 2022

	Level 1	Level 2	Level 3	Level 4
Impaired loans	$ -	$ -	$ 11,289,622	$ 11,289,622

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. For collaterally dependent loans, fair value is measured based on the value of the collateral securing the loans and is classified at a Level 3 in the fair value hierarchy where the collateral is real estate. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Credit Union. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

For non-collaterally dependent loans, fair value is determined based on a present value of cash flows methodology. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

Note 11 - Employee Benefit Plans

Defined Contribution 401(k) Profit Sharing Plan

The Credit Union has a 401(k) profit sharing plan that covers substantially all employees. Contributions by the Credit Union included in the determination of net earnings for the years ended September 30, 2023 and 2022 were approximately $2,200,000 and $1,985,000, respectively.

Deferred Compensation Plan

The Credit Union has a deferred compensation plan covering certain management employees which will be payable upon the employees' retirement or termination. The liability at September 30, 2023 and 2022 was approximately $90,000 and $104,000, respectively, and is included in other accrued liabilities in the consolidated statements of financial condition.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 11 - Employee Benefit Plans (Continued)

The Credit Union has three Supplemental Executive Retirement Plans (SERPs) that guarantee specific payments be made to key executives once eligibility requirements are met. As of September 30, 2023 and 2022, the obligation to the executives was approximately $12,550,000 and $14,687,000, respectively. The SERPs were established to provide periodic benefit payments for each executive to be paid when they reach certain ages, with the final payment to be made at age 65 determined based on the five highest years of compensation paid to the executive between the date the agreements were signed and retirement age.

The Credit Union anticipates payments under the terms of the SERPs to be as follows:

Year Ending September 30th		
2024	$	2,250,000
2025		3,478,000
2026		6,525,000
2027		11,728,000
2028		400,000
Five years thereafter		2,175,000
TOTAL	**$**	**26,556,000**

The Credit Union has invested in assets, which consist of mutual funds, life insurance and annuity contracts, to informally fund the deferred compensation plans. As of September 30, 2023 and 2022, the Credit Union had mutual funds valued at approximately $55,024,000 and $38,909,000, respectively, and life insurance and annuity contracts valued at approximately $24,373,000 and $42,526,000, respectively, related to these plans. The assets would be available to general creditors in the event of liquidation of the Credit Union's assets. The Credit Union has incurred expenses of approximately $6,294,000 and $5,806,000 under these agreements for the years ended September 30, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 12 - Loan Servicing:

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans and the related custodial escrow balances approximate the following as of September 30, 2023 and 2022

		2023		2022
Mortgage loan portfolio serviced for:				
Federal National Mortgage Association (FNMA)	**$**	**$517,777,519**	**$**	**563,086,000**
Custodial escrow balances	**$**	**$6,885,092**	**$**	**$7,109,000**

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2023 and 2022:

		2023		2022
Mortgage servicing rights:				
Balance, beginning of year	$	9,219,883	$	4,006,626
Capitalized servicing rights	$	365,392	$	638,782
Total	$	9,585,275	$	4,645,408
Market value adjustment	$	(813,368)	$	4,574,475
BALANCE, END OF YEAR	**$**	**8,771,907**	**$**	**9,219,883**

As of September 30, 2023 and 2022, the fair value of mortgage servicing assets was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The fair value of servicing rights was determined using weighted average discount rates ranging from 8.20% to 10.31% and 8.31% to 8.82% for the years ended September 30, 2023 and 2022, respectively, as well as prepayment speeds ranging from 2.00% to 9.0% and 2.00% to 3.60% as of September 30, 2023 and 2022, respectively. Service fee income for the years ended September 30, 2023 and 2022 was approximately $1,389,000 and $1,433,000, respectively. Mortgage servicing rights are included in other assets in the consolidated statements of financial condition at September 30, 2023 and 2022.

Notes to Consolidated Financial Statements
September 30, 2023 and 2022

Note 13 - Business Combination

On April 30, 2022, the Credit Union acquired Citizens Bank of Florida, which was accounted for pursuant to the guidance of ASC 805, Business Combinations. The acquisition will expand the Credit Union's presence in targeted geographical locations to better serve their membership. Fair values were determined in accordance with the guidance provided in ASC Topic 820 as presented in the following table:

Total cash consideration paid for bank stock	**$**	**77,606,913**
FAIR VALUE OF IDENTIFIABLE ASSETS ACQUIRED:		
Cash and cash equivalents	$	$96,521,936
Investments		95,643,368
Loans receivable		265,446,341
Fixed assets		11,130,748
Other assets		5,644,045
Investments in life insurance contracts		5,995,732
Goodwill		61,917,416
Core deposit intangible		1,004,857
TOTAL IDENTIFIABLE ASSETS ACQUIRED	**$**	**543,304,443**
FAIR VALUE OF LIABILITIES ASSUMED:		
Deposits	$	448,841,107
Other liabilities		16,856,423
TOTAL LIABILITIES ASSUMED	**$**	**465,697,530**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FAIRWINDS