NAVY FEDERAL CREDIT UNION

2023 ANNUAL REPORT

CELEBRATING 90 YEARS

1933 | 2023

OUR MEMBERS ARE THE MISSION®

To Our Members:

Strong. Safe. Secure. Proudly, these words describe Navy Federal Credit Union today just as they have for decades. Last year, we marked our 90th year serving the military and their families while also welcoming our 13 millionth member. It's amazing to think we began with only seven members in 1933. It took grit and determination to establish a credit union during the Great Depression. That same spirit is what's kept us strong and drove us to new heights in 2023—a year of growth and transition.

With inflation still a concern, many members were looking for ways to balance saving money and managing debt, while also fulfilling financial needs like buying cars and homes. We set to work providing members with meaningful ways to better navigate the challenges. The goal: provide more money-saving opportunities where members need it the most. The answer: offering low-minimum, high-return Share Certificate options, expanded easy-investment options with Navy Federal Investment Services, no-fee balance transfers, low loan rates and no-down-payment, no-closing-cost mortgages. In return, member loyalty helped spur growth in deposits and in our consumer lending portfolio. These increases bolstered our overall assets to $170.8 billion, an increase of $14.2 billion over the previous year.

Those numbers are marks of success and of the solid foundation we've purposefully built—especially important during a climate of uncertainty, which many faced in 2023. We also know value can be measured beyond dollars and cents. It's also measured in time saved and peace of mind—priceless commodities we focus on cultivating in our member service. So, in 2023, we continued our journey of digital transformation and our aim of going beyond providing products and services to providing solutions that give members real-world value. Last year, we joined the real-time payments rail system to provide members with another option to move and access their funds immediately. We also migrated millions of members to our new digital banking platform, equipped with an enriched experience and new features. Our investments in enhancing member service also extended to growing our branch network. To be where our members need us most, we opened three new branches—bringing our total to 355 worldwide locations.

In addition to our growth, 2023 truly was a year of transition. It marked my final year of leadership as Chief Executive Officer and my 23rd year of service to Navy Federal. As I bid you farewell, Ed and I ask you to join us in welcoming Dietrich Kuhlmann, former Navy Federal Chief Operating Officer, as our new CEO. Looking to the future, we greeted 2024 with a bright outlook for what's to come. Because our past 90 years have proven, more than anything, our strength comes from within. We thank you for your continued loyalty and membership and vow to continue to keep acting in your best interest and providing the solutions you need to thrive.

Sincerely,

Mary A. McDuffie
President/CEO
Navy Federal Credit Union

Edward R. Cochrane Jr.
Chair
Board of Directors

CELEBRATING 90 YEARS

1933 | 2023

Vision:

Be the most preferred and trusted financial institution serving the military and their families.

2023 Report of the Chairman and President

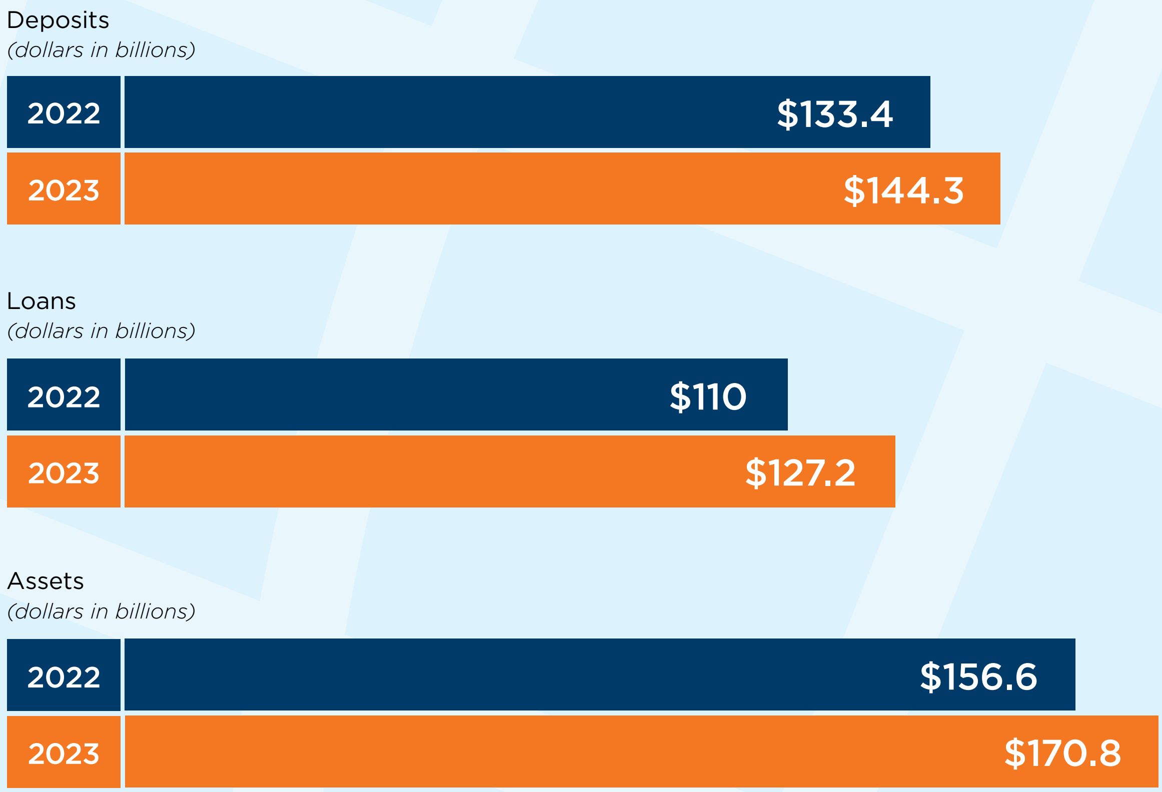
Navy Federal Credit Union experienced a landmark year in 2023, as we welcomed our 13 millionth member and celebrated our 90th anniversary of serving the military, Veterans and their families. Our stability and growth are the result of our unwavering commitment to understanding members' needs, providing around-the-clock personal service, ensuring the security of member accounts and adherence to sound financial practices.

Financial Summary
As of December 31
(dollars in millions)

	2022	2023
Assets	**$ 156,645.1**	**$ 170,801.1**
Loans Outstanding	$ 109,985.4	$ 127,166.4
Savings, Checking, MMSAs, IRAs	$ 104,372.5	$ 97,262.6
Share Certificates	$ 29,062.6	$ 47,068.7
Members' Equity	$ 14,168.1	$ 14,239.1
Gross Income	$ 9,315.9	$ 12,511.8
Non-Interest Expense	$ 4,767.5	$ 5,349.4
Dividends	$ 885.8	$ 2,368.5
Mortgage Loans Serviced	$ 84,277.4	$ 88,380.2
Members	**12,322,979**	**13,342,112**

Our commitment to the financial well-being of members earned us a top Veteran-Friendly award from U.S. Veterans Magazine.

Deposit, Loan and Asset Comparisons




Helping Members Achieve Their Goals

We know that even in tough times, members still need to buy cars and homes and borrow the money they need to achieve their goals. Our money-saving programs, such as competitive loan and savings rates and mortgages that required no down payment or closing costs, helped them do just that. Convenience, security, personalized products and services, and tools to educate and inspire members to make sound financial decisions continued to be hallmarks of Navy Federal's stability and appeal as a financial resource. We're proud to report that our membership base grew to 13.3 million, our assets increased $14.2 billion to $170.8 billion, and we ended the year with a net worth ratio of 10.99%.[1]

Lending

It was another strong year for our lending portfolio, driven by growth in membership and the value we provided members through our excellent savings and lending rates. Navy Federal's overall loan portfolio ended the year at $127.2 billion, a 15.6% increase from $110 billion in 2022. Our consumer lending portfolio increased a record-breaking 23% to $39.4 billion. J.D. Power ranked Navy Federal as #1 in Consumer Financing for the third straight year.

Auto Loans

It was a record-breaking year for auto loans, as our portfolio increased by 19% to $16.9 billion. The number of loans originated reached 554,927, up from just over 480,000 in 2022. Notably, new vehicle originations grew 26%, outpacing the 12% growth rate of new vehicles nationally.

Credit Cards

Members boosted our credit card account openings by over 750,000, increasing our credit card portfolio by 13% to $29.4 billion ($45 billion in total spending).

Mortgage and Equity Loans

Despite increasingly higher interest rates throughout 2023, Navy Federal continued to help members buy homes. Our mortgage lending portfolio increased to $88.4 billion (including sold loans serviced), up from $84.3 billion in 2022. Originations totaled $11.5 billion, and mortgage refinance totals reached $804.9 million. We were a top VA home lender by volume and total loan amount.[2]

While high interest rates, inflated home prices and low inventory in 2023 made it difficult for many families to purchase homes, still slightly over half (53%) of our mortgage originations were for first-time homebuyers. We helped our members succeed in the market by offering programs like our no-refi rate drop, a 0.25% rate discount on VA loans and a lock-and-shop feature that let members lock their mortgage rate while shopping for a home.

Our equity lending portfolio increased 89% to $4.8 billion (a record $3.3 billion originated). The most common reasons members secured these loans were debt consolidation and home improvements. To connect members with the best type of loan for home improvement projects, we introduced a new Home Project Financing Center page on our website.

Student Loans

While college enrollment in the U.S. remained approximately the same as 2022, our student lending portfolio increased by 14% to $1.1 billion. The government moratorium on federal loan repayment ended after three and a half years, spurring renewed interest in student loan refinancing. Members refinanced a total of 4,427 student loans, up 31.5% from 2022. The refinance loan origination volume reached $203.8 million, an increase of 25.4% over 2022.

Navy Federal is committed to providing exemplary service through our contact center, via eChat, at our branches and with digital banking options.

Business Loans

Small business owners turned to Navy Federal Business Solutions for financing in 2023, resulting in a 21% increase in business loans, to $1 billion.

Savings, Checking and Investments

Savings and Checking

Savings increased $10.9 billion to $144.3 billion. The 15-Month Share Certificate, which launched at an attractive 5% rate, was our most popular savings product.

Active checking accounts increased 10% to 9.5 million. Members with both checking and direct deposit increased 10% to 4.7 million. Debit card transactions increased by 15%, hitting a record 3.1 billion, representing $130 billion in spending.

Navy Federal Investment Services

Member investments under Navy Federal Financial Investment Services' management reached $4.5 billion.[3] Visits to Digital Investor, our digital investment tool, reached 9.3 million.

Member-Focused Service

To keep up with the ever-changing needs of our members, we continued to invest in the enhancement of our physical, digital and technological infrastructure so that service excellence could be found in our branches, on the phone and online.

Branches

Our branches provide the one-to-one interactions that help build relationships and support the communities they serve. We opened three new branches in 2023—in Fountain, Colorado; Carrollwood, Florida; and Tucker, Georgia, bringing the total number of worldwide branches to 355. Our branches, including 80 on U.S. military bases and 26 overseas on-base branches, attracted more than 22 million visits, more than 38 million transactions and more than $36 billion in deposits. Members gained deeper financial knowledge through more than 2,822 in-branch workshops on topics such as homebuying basics, retirement readiness, debt management and fraud protection. The Mortgage Bankers Association awarded us Residential Educator of the Year, and Forrester named us CX Elite and #1 in the Multichannel Banks category.[4] Other awards received include:

- Best Credit Union (GOBankingRates)
- Best of the Best (U.S. Veterans Magazine)
- Best Banks for Veterans (The Motley Fool Ascent)
- Best Credit Cards for Military Personnel (WalletHub)
- Best for Military Members (The Balance)
- Best Banks for Military Members and Best VA Loan Lenders (MONEY)[5]

We introduced a new, automated branch appointment function that allows members to save time by scheduling appointments to meet in person with branch member service representatives. More than 26,000 members took advantage of this new service. Four branches in Japan celebrated 50-year anniversaries, including Camp Foster and Camp Kinser in Okinawa and USFA Yokosuka and USFA Sasebo.

Contact Center

We continued to provide "anytime from anywhere" personal service by phone. Member Service Representatives in our contact centers answered more than 51.6 million calls, chats and eMessages (up 10.4% from 2022). A total of 6.8 million unique members were served, an increase of 9.9% over 2022. More than 1.7 million members leveraged the "call back" feature, saving them over 500,000 hours of hold time.

In recognition of our commitment to providing excellent member service, we received the International Customer Management Institute's award for the Best Large Contact Center.

Digital Banking and Technology

A record 10 million members used digital banking[6] a total of 2 billion times, representing 78% of the membership, an 11% increase over 2022. Security remained a top priority for us in 2023. Through investments in technology and data science, we created new safeguards to protect members against fraud and ensured speedy resolution of unauthorized transactions.

We introduced an upgraded version of our online banking platform to enable faster innovation and provide members with money management enhancements like a 360-degree view of all their bank and investment accounts (including those at other institutions) and customized insights and credit monitoring tools.

Protecting members against fraud remained a top priority. We offered two-factor and voice identification, 24/7 fraud monitoring and account security notifications to ensure member accounts were protected against breaches and fraudulent activity.

A Deeper Focus on Members' Needs

We created a new Member Strategy Office to help us better understand members' needs and provide them with the personalized service and experiences they desire most.

Employees Make the Mission Possible

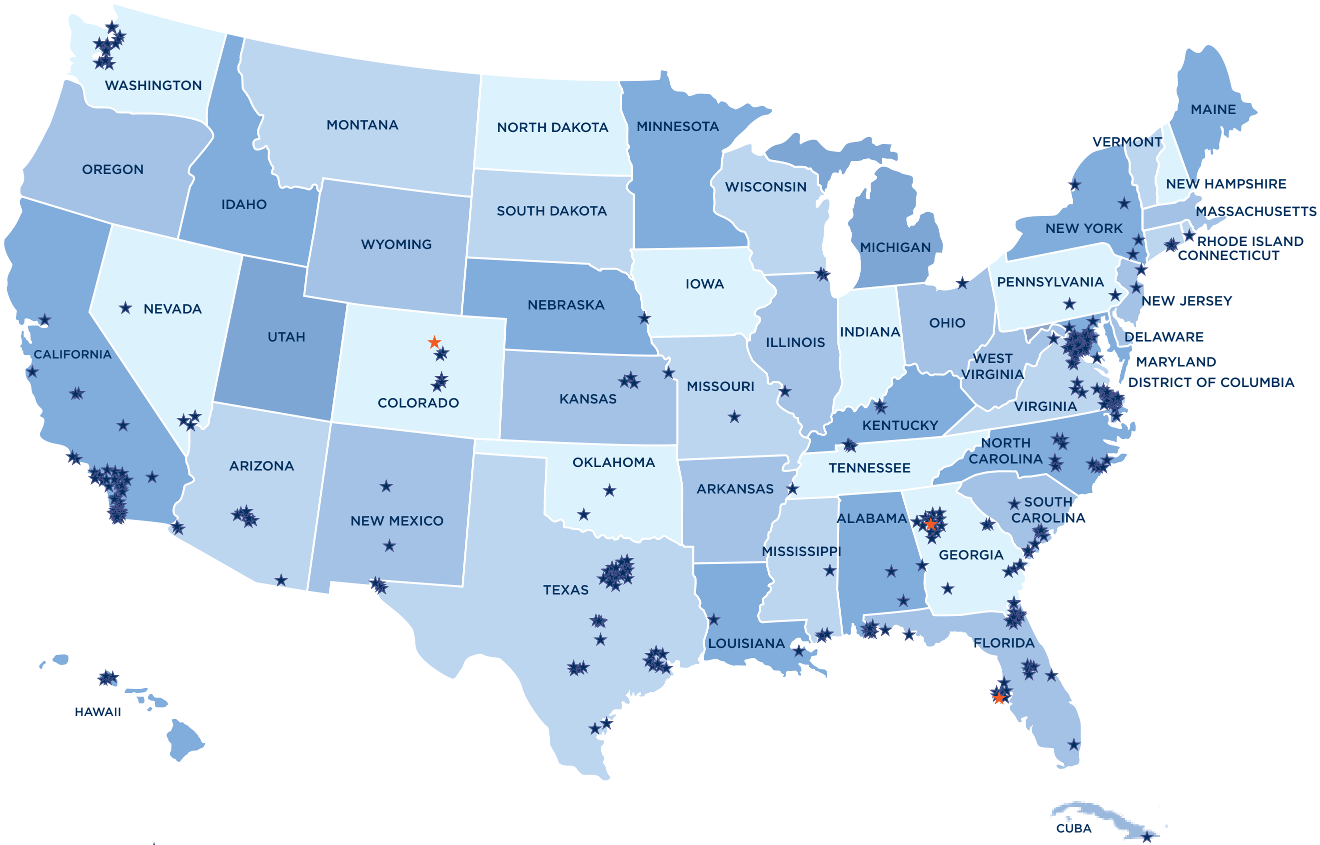
Our employees are encouraged and empowered to present their best selves in service to our mission on behalf of our members. Our frontline team members worldwide are committed to delivering personalized service and providing the guidance and support that members need, while those in our back offices worked hard to ensure members had access to the products and services best suited to meet their specific needs.

To ensure that all employees felt empowered to carry out Navy Federal's member-focused mission, we continued to support our diverse workforce by maintaining our caring culture and providing training and opportunities for growth. As a testament to employees' satisfaction, we're proud to report for the 13th time (and the 12th consecutive year), we were named a FORTUNE 100 Best Companies to Work For.[7] Our other "Employer of Choice" awards include:

- FORTUNE Best Workplaces in Financial Services and Insurance and Best Workplaces for Women and Millennials
- Military Times Best for Vets
- Computerworld's Best Places to Work in IT
- American Banker's No. 1 Most Powerful Women in Credit Unions
- Forbes 2023 America's Best Large Employers, Best Employers for New Grads, and Best in State Employers

As a not-for-profit credit union, members appreciate Navy Federal's member-focused mission and the community we've built together based on shared values and support of those who serve our country. We're proud of our accomplishments in 2023 and are as committed as ever to helping our members make well-informed decisions aimed at reaching today's goals and improving their future financial standing.

2023 United States and Cuba Locations



★ New Branches ★ Existing Branches

ALABAMA
Enterprise
Montgomery

ARIZONA
Chandler
Glendale
Goodyear
Mesa
Phoenix (2)
Sierra Vista
Yuma (2)*

CALIFORNIA
Brea
Chula Vista (3)
Corona
Coronado
El Cajon (2)
Fountain Valley
Hawthorne
La Mesa
Lake Elsinore
Lemoore (2)*
Long Beach
Mission Viejo
Monterey*
Murrieta
National City
NBVC Point Mugu*
NBVC Port Hueneme*
Oceanside (3)
Ontario
Port Hueneme
Ridgecrest
Riverside
San Diego (14)*
San Marcos
Santa Ana
Santee
Temecula (2)
Twentynine Palms
Vacaville
West Covina

COLORADO
Aurora
Centennial
Colorado Springs (2)
Fountain
Lakewood

CONNECTICUT
Groton (2)*
New London*

DISTRICT OF COLUMBIA
Pentagon*
Washington
Navy Yard*

FLORIDA
Altamonte Springs
Atlantic Beach
Clearwater
Fleming Island
Gulf Breeze
Jacksonville (8)
Kissimmee
Lutz
Mary Esther
Mayport*
Miami*
Orlando (2)
Pace
Panama City Beach*
Pensacola (5)
Riverview
Satellite Beach
St. Petersburg
Tampa (2)
Winter Park

GEORGIA
Albany*
Augusta
Brookhaven
Buford
Columbus (2)
Conyers
Douglasville
Fayetteville
Grovetown
Hinesville
Kennesaw
Kings Bay*
Marietta
McDonough
Milton
Richmond Hill
Sandy Springs
Savannah
Snellville
St. Marys
Stockbridge
Tucker

HAWAII
Honolulu (2)*
Kailua
Kapolei
Mililani

ILLINOIS
Great Lakes (2)*
Gurnee
O'Fallon

KANSAS
Fort Riley*
Junction City
Leavenworth
Manhattan

KENTUCKY
Elizabethtown
Oak Grove
Radcliff

LOUISIANA
Leesville
New Orleans

MARYLAND
Accokeek
Annapolis (3)*
Bel Air
Bethesda (2)*
Bowie
Brandywine
Capitol Heights
Clinton
Fort Meade*
Frederick
Gaithersburg
Gambrills
Germantown
Glen Burnie
Glenarden
Indian Head*
Laurel
Lexington Park
Odenton
Rockville
Suitland*
Waldorf

MISSISSIPPI
D'Iberville
Gulfport (2)*
Meridian*

MISSOURI
St. Robert

NEBRASKA
Bellevue

NEVADA
Fallon*
Henderson
Las Vegas (2)

NEW JERSEY
Cherry Hill
Colts Neck*

NEW MEXICO
Albuquerque
White Sands
Missile Range*

NEW YORK
Evans Mills
Highland Falls
Kings Point*
Saratoga Springs*

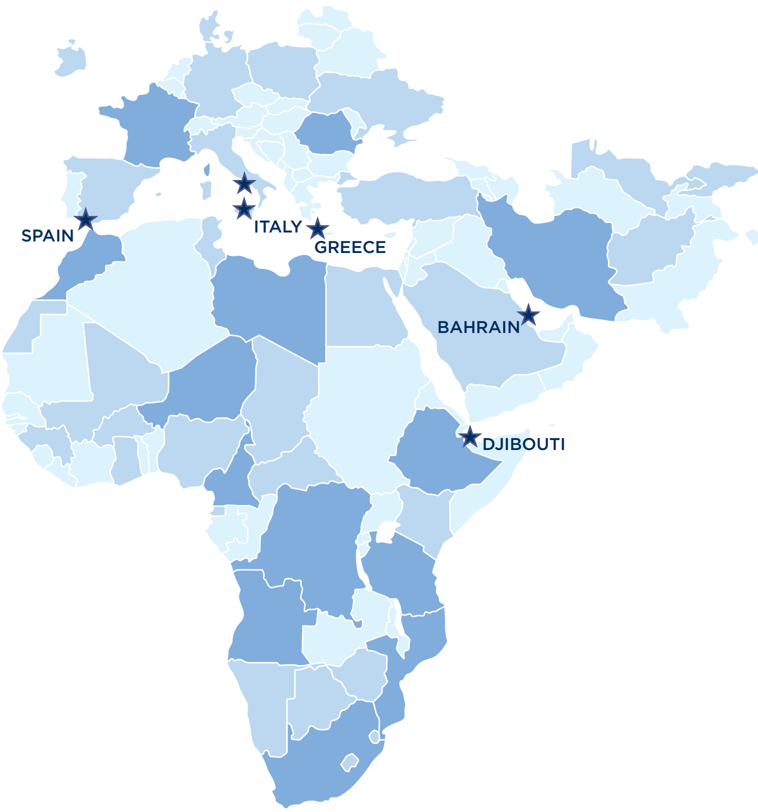
NORTH CAROLINA
Cameron
Elizabeth City*
Fayetteville (2)
Garner
Havelock
Jacksonville (2)
Midway Park
Moyock
Raleigh (2)
Richlands
Swansboro

OHIO
Cleveland*

OKLAHOMA
Lawton
Midwest City

PENNSYLVANIA
Carlisle*
Horsham

Overseas Locations (All On-Base) 2023



RHODE ISLAND
Newport*

SOUTH CAROLINA
Beaufort
Charleston
Columbia (2)
Goose Creek
North Charleston
Parris Island*
Summerville

TENNESSEE
Clarksville (2)
Millington

TEXAS
Allen
Arlington
Burleson
Copperas Cove
Corpus Christi
Cypress
Dallas
Duncanville
El Paso (4)
Euless
Fort Worth (2)*
Garland
Harker Heights
Helotes
Houston
Humble
Katy
Killeen (2)
Kingsville*
Mansfield
Mesquite
Pearland
Round Rock
San Antonio (3)
Spring
Sugar Land
The Colony
Webster
Westworth Village

VIRGINIA
Alexandria (3)
Arlington (3)
Ashburn
Burke
Centreville
Chesapeake (5)
Colonial Heights
Fairfax
Falls Church
Fredericksburg (3)
Gainesville
Hampton (2)
Lake Ridge
Manassas
Midlothian
Montclair
Newport News (2)
Norfolk (6)*
Portsmouth (3)*
Reston
Richmond
Springfield
Stafford (2)
Sterling
Suffolk
Vienna
Virginia Beach (12)*
Williamsburg
Winchester
Woodbridge
Yorktown*

WASHINGTON
Bremerton
Everett*
Lacey
Lakewood
Lynnwood
Marysville*
Oak Harbor (2)*
Port Orchard
Poulsbo
Puyallup
Silverdale
Tacoma

AFRICA
Djibouti*

BAHRAIN
Manama*

CUBA
Guantanamo Bay*

GREECE
Crete*

GUAM
Santa Rita*

ITALY
Naples*
Sigonella*

JAPAN
Ayase*
Camp Zama*
Iwakuni*
Misawa*
Sasebo*
Yokosuka*
Yokota*

KOREA
Chilgok-Gun*
Daegu*
Osan*
Pyeongtaek*

OKINAWA
Camp Courtney*
Camp Foster*
Camp Hansen*
Camp Kinser*
Camp Schwab*
Futenma*

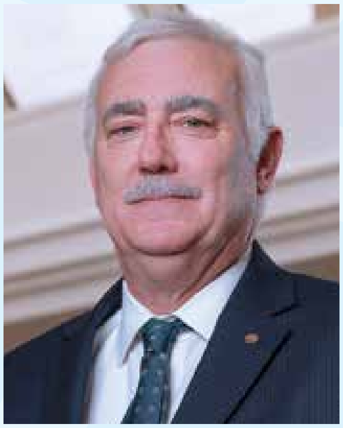
SINGAPORE

SPAIN
Rota*

***Denotes on-base branch**

2023 Board of Directors

Edward R. Cochrane Jr.
Chair, Board of Directors
Chair, Executive Committee



Neil W. T. Hogg
Captain, USN (Ret.)
First Vice Chair
Executive Committee
Chair, Planning, Risk and Strategic Direction Committee

Annie B. Andrews
Rear Admiral, USN (Ret.)
Second Vice Chair
Executive Committee
Financial Strategy and Investment Committee

Mary A. McDuffie
Treasurer
Executive Committee
Secretary, Financial Strategy and Investment Committee
Planning, Risk and Strategic Direction Committee
Technology Strategy and Performance Committee

Brian E. Luther
Rear Admiral, USN (Ret.)
Secretary
Executive Committee
Chair, Financial Strategy and Investment Committee

Kirk A. Foster
Rear Admiral, USN (Ret.)
Planning, Risk and Strategic Direction Committee

Diane M. Randon
Financial Strategy and Investment Committee

Jennifer E. Shaar
Colonel, USMC (Ret.)
Supervisory Committee

Mark R. Taylor
Colonel, USA
Chair, Technology Strategy and Performance Committee

Input for the 2023 Annual Report

The Supervisory Committee provides the membership with an independent appraisal of the safety and soundness of Navy Federal's operations and activities. It does so in compliance with the Federal Credit Union Act and Navy Federal's bylaws. The Committee reviews all audit reports and meets quarterly to discuss audit results, Internal Audit recommendations for strengthening internal controls, and the status of management's action on all prior Internal Audit recommendations. The Supervisory Committee ensures that Navy Federal's financial statements provide a fair and accurate presentation of its financial condition and that management establishes and maintains sound internal controls to protect the assets of your credit union.

The Supervisory Committee employs the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to assist in meeting its responsibilities. The Committee meets regularly with PwC to evaluate audit results and to plan future audit work. PwC conducts quarterly procedures related to selected operations, and performs a comprehensive audit of the credit union's year-end financial statements. PwC's year-end audit, the *Independent Auditor's Report*, appears in this Annual Report.

Throughout the year, the committee reviews and responds in writing to letters and emails it receives from the membership. Both the membership and the management of Navy Federal benefit from this open communication because your individual concerns are addressed on a personal basis and your comments help to ensure that Navy Federal maintains the highest level of service to its members.

The National Credit Union Administration (NCUA), the regulatory agency for all federally chartered credit unions, also performs periodic supervisory examinations.

Based on the results of the Annual Report of Independent Auditors and the Examination Report of the NCUA, it is the opinion of your Supervisory Committee that Navy Federal continues to be financially strong and well managed, with sound policies and programs.

Acting as your ombudsman, the Supervisory Committee assures that all members are treated fairly by maintaining an open communication with the membership.

Michael C. Wholley

Michael C. Wholley
Chair

Michael C. Wholley
Brigadier General, USMC (Ret.)
Chair, Supervisory Committee

John R. Edwards
Major General, USAF
Supervisory Committee

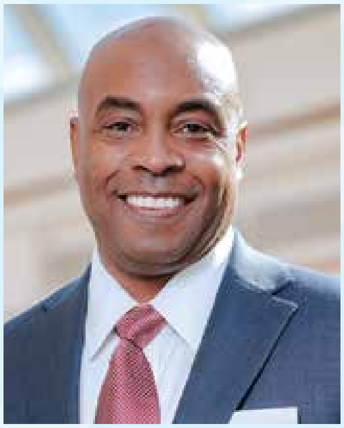
JaJa J.E. Marshall
Captain, USN
Supervisory Committee

Patrick J. McClanahan
Captain, SC, USN (Ret.)
Supervisory Committee

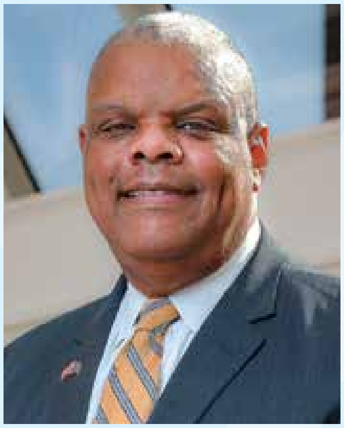
Jennifer E. Shaar
Colonel, USMC (Ret.)
Supervisory Committee

2023 Other Committee Members

Clyde N. Adams
Master Chief Petty Officer, USN
Planning, Risk and Strategic Direction Committee



Trent H. Edwards
Brigadier General, USAF (Ret.)
Financial Strategy and Investment Committee



Sinclair M. Harris
Rear Admiral, USN (Ret.)
Planning, Risk and Strategic Direction Committee

Kelly K. Harrison
Commander, USN (Ret.)
Technology Strategy and Performance Committee

Christopher W. Lavin
Captain, USCG
Technology Strategy and Performance Committee

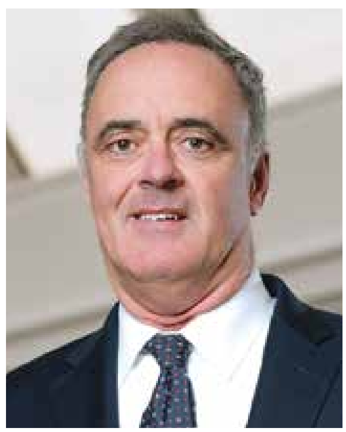
William P. Mizerak
Colonel, USMC (Ret.)
Technology Strategy and Performance Committee

James L. Moser
Financial Strategy and Investment Committee

Daniel L. Nega
Planning, Risk and Strategic Direction Committee

Alan J. Reyes
Rear Admiral, USN (Ret.)
Financial Strategy and Investment Committee

Kyle W. Robinson
Brigadier General, USAF (Ret.)
Technology Strategy and Performance Committee



Paul Severs
Captain, USN (Ret.)
Planning, Risk and Strategic Direction Committee

Bradley B. Son
Lieutenant Colonel, USA
Technology Strategy and Performance Committee

OUR MEMBERS ARE THE MISSION®

[1]The formula used to calculate the net worth ratio is total equity (excluding accumulated other comprehensive income) divided by total assets.

[2]Navy Federal Credit Union was listed #4 on the U.S. Department of Veterans Affairs—VA Home Loan—Lender Statistics "FY 2023 Total Lender Loan Volume." Navy Federal has no affiliation with U.S. Department of Veteran Affairs or any other government agency.

[3]Navy Federal Financial Group, LLC (NFFG) is a licensed insurance agency. Non-deposit investments, brokerage, and advisory products are only sold through Navy Federal Investment Services LLC (NFIS), a member of FINRA/SIPC and an SEC-registered investment advisory firm. NFIS is a wholly owned subsidiary of NFFG. Insurance products are offered through NFFG and NFIS. **These products are not NCUA/NCUSIF or otherwise federally insured, are not guaranteed or obligations of Navy Federal Credit Union (NFCU), are not offered, recommended, sanctioned, or encouraged by the federal government, and may involve investment risk, including possible loss of principal.** Deposit products and related services are provided by NFCU. Financial advisors are employees of NFFG, and they are employees and registered representatives of NFIS. NFIS and NFFG are affiliated companies under the common control of NFCU. Call 1-877-221-8108 for further information.

[4]Forrester Research does not endorse any company included in any CX Index™ report and does not advise any person to select the products or services of any particular company based on the ratings included in such reports.

[5]Navy Federal Credit Union was included in Best Banks and Credit Unions for Military Members in October 2023 and Best VA Loan Lenders in January 2024 by money.com.

[6]Message and data rates may apply for use of digital banking.

Equal Opportunity Employer

EQUAL HOUSING LENDER

NAVY FEDERAL CREDIT UNION

Consolidated Financial Statements and Report of Independent Auditors

December 31, 2023 and 2022

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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Report of Independent Auditors

To the Board of Directors and Supervisory Committee of Navy Federal Credit Union

Opinion

We have audited the accompanying consolidated financial statements of Navy Federal Credit Union and its subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit 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 auditors' 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

PricewaterhouseCoopers LLP

Washington, District of Columbia
March 20, 2024

(dollars in thousands)	As of December 31, 2023	2022
ASSETS		
Cash and cash equivalents	$ 8,957,420	$ 13,591,181
Available-for-sale debt securities	30,819,331	27,170,950
Held-to-maturity securities	650,127	750,033
Equity securities	534,403	436,818
Mortgage loans held for sale ($574,541 and $505,547 at fair value, respectively, and $2,776,114 and $0 at lower of cost or fair value, respectively)	3,350,655	505,547
Loans held for investment ($948,311 and $998,568 at fair value, respectively), net of allowance for credit losses of $4,813,422 and allowance for loan losses of $2,078,402, respectively	119,002,286	107,401,431
Accounts receivable and accrued interest	1,640,313	1,534,739
Property, plant and equipment, net	2,486,174	2,340,862
Investments in FHLB	358,340	209,015
NCUSIF deposit	1,320,393	1,225,438
Mortgage servicing rights	622,668	628,150
Other assets	1,058,976	850,934
Total assets	**$ 170,801,086**	**$ 156,645,098**
LIABILITIES AND MEMBERS' EQUITY		
Deposit accounts		
Checking	$ 29,163,798	$ 28,803,328
Savings	34,147,810	36,105,840
Money market savings	24,506,995	30,600,013
Certificates	47,068,730	29,062,643
Individual retirement accounts	9,443,967	8,863,286
Total deposit accounts	**144,331,300**	**133,435,110**
Liabilities		
Borrowed funds	7,165,000	4,565,000
Accounts payable and accrued expenses	4,169,837	3,536,849
Other liabilities	895,890	940,061
Total deposit accounts and liabilities	**156,562,027**	**142,477,020**
Members' equity		
Equity	18,773,659	19,247,201
Accumulated other comprehensive loss	(4,534,600)	(5,079,123)
Total members' equity	**14,239,059**	**14,168,078**
Total liabilities and members' equity	**$ 170,801,086**	**$ 156,645,098**

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

	For the Years Ended December 31,	
(dollars in thousands)	**2023**	**2022**
Interest income		
Loans	$ 8,880,969	$ 6,702,591
Investment securities	921,978	765,398
Other investments	540,765	291,969
Total interest income	**10,343,712**	**7,759,958**
Dividends and interest expense		
Dividends on deposits	2,368,464	885,791
Interest on borrowed funds	226,301	185,191
Total dividends and interest expense	**2,594,765**	**1,070,982**
Net interest income	**7,748,947**	**6,688,976**
Provision for credit losses	(3,200,007)	(1,574,830)
Net interest income after provision for credit losses	**4,548,940**	**5,114,146**
Non-interest income		
Net gain/(loss) on mortgage loans	61,776	(137,207)
Net gain/(loss) on investments	105,847	(110,756)
Mortgage servicing revenue	154,721	152,949
Interchange income, net	895,973	798,377
Fee and other income	949,816	852,532
Total non-interest income	**2,168,133**	**1,555,895**
Non-interest expense		
Salaries and employee benefits	2,934,664	2,495,186
Office operations and equipment	580,147	530,992
Servicing expense	341,527	288,010
Professional and outside services	643,345	608,422
Marketing	195,810	183,141
Depreciation and amortization	277,823	295,480
Other	376,059	366,225
Total non-interest expense	**5,349,375**	**4,767,456**
Net income	**$ 1,367,698**	**$ 1,902,585**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	As of December 31, 2023	As of December 31, 2022
Net income	**$ 1,367,698**	**$ 1,902,585**
Other comprehensive income/(loss)		
Change in unrecognized pension and postretirement amounts	53,319	(52,222)
Net unrealized gains/(losses) on AFS debt securities	566,111	(4,825,976)
Change in fair value of cash flow hedge derivatives	(74,907)	233,541
Total other comprehensive income/(loss)	**544,523**	**(4,644,657)**
Total comprehensive income/(loss)	**$ 1,912,221**	**$ (2,742,072)**

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

(dollars in thousands)	Equity	Accumulated Other Comprehensive Income/(Loss)	Total Members' Equity
Balance at December 31, 2021	**$ 17,344,616**	**$ (434,466)**	**$ 16,910,150**
Other comprehensive income/(loss)	-	(4,644,657)	(4,644,657)
Net income	1,902,585	-	1,902,585
Balance at December 31, 2022	**$ 19,247,201**	**$ (5,079,123)**	**$ 14,168,078**
Cumulative effect of adopting ASC 326 Financial Instruments - Credit Losses	(1,841,240)	-	(1,841,240)
Other comprehensive income/(loss)	-	544,523	544,523
Net income	1,367,698	-	1,367,698
Balance at December 31, 2023	**$ 18,773,659**	**$ (4,534,600)**	**$ 14,239,059**

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

(dollars in thousands)	For the Years Ended December 31, 2023	2022
Operating activities		
Net income	$ 1,367,698	$ 1,902,585
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	3,200,007	1,506,891
Depreciation, amortization and accretion	295,600	272,686
Amortization of ROU asset	26,513	26,591
Valuation (gains) losses	(69,293)	337,588
Realized (gains) losses on sale of loans	(21,874)	(122,055)
Other adjustments to net income	4,516	60,203
Change in loans held for sale	(115,348)	1,168,040
Change in accounts receivable, accrued interest and other assets	(268,515)	(226,347)
Change in mortgage servicing rights	(48,999)	(117,497)
Change in accounts payable, accrued expenses and other liabilities	686,869	1,729,075
Net cash provided by operating activities	**5,057,174**	**6,537,760**
Investing activities		
Purchases of AFS debt securities	(6,192,486)	(6,898,528)
Purchases of HTM debt securities	(150,041)	-
Proceeds from maturities, paydowns and calls of AFS debt securities	3,017,520	2,581,807
Proceeds from sales of AFS debt securities	99,445	121,339
Proceeds from maturities, paydowns and calls of HTM securities	250,034	134
Net (purchases) redemptions of FHLB stock	(149,325)	(19,377)
Proceeds from sale of loans held for investment	9,439	67,939
Net increase in loans held for investment	(19,556,319)	(17,025,542)
Purchases of property, plant and equipment	(491,375)	(337,166)
Increase in NCUSIF deposit	(94,955)	(102,332)
Proceeds from sale of real estate owned and other assets	70,837	58,424
Net cash used in investing activities	**(23,187,226)**	**(21,553,302)**
Financing activities		
Net increase in deposit accounts	10,896,190	5,705,709
Net change in securities sold under repurchase agreements	-	(1,386,141)
Proceeds from borrowed funds	4,700,102	2,100,102
Repayments of borrowed funds	(2,100,102)	(2,160,102)
Net cash provided by financing activities	**13,496,190**	**4,259,568**
Net (decrease) increase in cash and cash equivalents and restricted cash	(4,633,862)	(10,755,974)
Cash and cash equivalents and restricted cash at beginning of year	13,591,282	24,347,256
Cash and cash equivalents and restricted cash at end of year	**$ 8,957,420**	**$ 13,591,282**
Supplemental cash flow information		
Interest paid	$ 2,550,102	$ 1,065,872
Non-cash activities		
Transfers of loans held for investment to other assets	$ 91,296	$ 60,459
Transfer of mortgage loans held for sale to loans held for investment	28,048	97,010
Transfer of loans held for investment to mortgage loans held for sale	2,776,115	-
Right-of-use assets recognized at adoption of ASU 2016-02	-	312,138

The following table provides a reconciliation of Cash and cash equivalents and restricted cash from the Consolidated Statements of Financial Condition to the Consolidated Statements of Cash Flows:

(dollars in thousands)	As of December 31, 2023	2022
Cash and cash equivalents in the Consolidated Statements of Financial Condition	$ 8,957,420	$ 13,591,181
Restricted cash included in other assets in the Consolidated Statements of Financial Condition	-	101
Total Cash and cash equivalents and restricted cash in the Consolidated Statements of Cash Flows	**$ 8,957,420**	**$ 13,591,282**

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

Note 1: Summary of Significant Accounting Policies

Organization

Navy Federal Credit Union is a member-owned, not-for-profit financial institution formed in 1933 under the provisions of the Federal Credit Union Act (FCUA) to provide a variety of financial services to those individuals in its field of membership, which includes Active Duty, Veterans and retired military and civilian personnel who are, or were, employed by the Department of Defense, Coast Guard and their families. Navy Federal is headquartered in Vienna, Virginia, with branch locations around the country and abroad.

Navy Federal Financial Group (NFFG), a wholly owned subsidiary of Navy Federal Credit Union, is a credit union service organization that provides investment, insurance and other financial services. Navy Federal Investment Services, LLC, whose name was changed from Navy Federal Brokerage Services, LLC, effective January 1, 2022, is a wholly owned subsidiary of NFFG. Navy Federal Credit Union and its consolidated entities are referred to as "Navy Federal" herein.

Basis of Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of Navy Federal Credit Union and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. We have also reclassified certain prior-year amounts to conform to the current period presentation, which did not have a material impact on our consolidated financial condition.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available at the time the consolidated financial statements are prepared. Actual amounts or results could differ from these estimates.

Variable Interest Entities

An entity is a Variable Interest Entity (VIE) if:

- its equity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties;
- its equity investors do not have decision-making rights about the entity's operations; or
- its equity investors do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A variable interest is a contractual, ownership or other interest whose value changes as the fair value of the VIE's net assets change. Navy Federal's variable interests in VIEs arise from debt security investments in the form of Government Sponsored Enterprises (GSE) issued securities, privately issued Mortgage-Backed Securities, an equity investment in a mutual fund as well as mortgage servicing rights (MSRs). These investments are presented within Note 2: Investments and Note 4: Loan Sales and Continuing Involvement in Assets Transferred. The fair value of the securities and MSRs represent Navy Federal's maximum exposure to VIEs. Navy Federal consolidates VIEs when considered the primary beneficiary. An entity is deemed the primary beneficiary of a VIE if that entity has both (i) the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Navy Federal is not required to consolidate any VIEs as of the reporting date since we are not considered the primary beneficiary.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances due from other financial institutions, cash held at the Federal Reserve Bank (FRB) and short-term investments with original maturities of three months or less. Original maturity means the original maturity when we acquire the investment, not the original maturity of the instrument itself. Cash and cash equivalents exclude restricted cash, which is included in Other assets in the Consolidated Statements of Financial Condition.

Investments

Navy Federal's investments in debt securities are classified as available-for-sale (AFS) or held-to-maturity (HTM) in accordance with ASC 320, *Investments—Debt Securities*. Debt securities are recorded on a trade date basis. Debt securities classified as AFS are carried at fair value, with any unrealized gains and losses recorded in accumulated other comprehensive income (AOCI) in the Consolidated Statements of Financial Condition. Debt securities classified as HTM are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Based on our investment strategy, management has the intent and ability to hold HTM securities until maturity. Gains and losses on dispositions are computed using the specific identification method and are included in Net gain/ (loss) on investments in the Consolidated Statements of Income. For both AFS and HTM debt securities, interest income is recognized on an accrual basis, and premiums and discounts are amortized or accreted as an adjustment to interest income using the interest method. See Note 2: Investments for details.

Navy Federal evaluates its debt securities in an unrealized loss position for credit impairment in accordance with ASC 326, *Financial Instruments—Credit Losses*, except for debt securities that are guaranteed by entities including the U.S. Treasury, and U.S. government-sponsored agencies where a zero-credit loss assumption is applied. Navy Federal assesses whether it (a) has the intent to sell the debt security, (b) is more likely than not that it will be required to sell the debt security before recovering its amortized cost basis or (c) does not expect to recover the entire amortized cost basis of the debt security even if it does not intend to sell the debt security. In order to determine whether the entire amortized cost basis of the debt security can be recovered, Navy Federal compares the present value of cash flows expected to be collected from the AFS debt security to its amortized cost basis and considers (1) the amount, (2) adverse conditions specifically related to the AFS debt security or specific industry, (3) the volatility of the AFS debt security and its expected cash flows and (4) changes in ratings of the issuer. If Navy Federal does not intend to sell an impaired AFS debt security and it is not more likely than not that Navy Federal will be required to sell the AFS debt security before recovery of its amortized cost basis, the impairment is separated into a credit component and a noncredit component. Expected cash flows are derived from our best estimate as of the reporting date. The credit component is recognized through the allowance for credit losses limited by the amount by which the fair value is less than the amortized cost basis and the noncredit component is recognized in AOCI in the Consolidated Statements of Financial Condition.

If Navy Federal has the intent to sell, or it is more likely than not that Navy Federal will be required to sell an impaired AFS debt security, impairment is recognized immediately within Net gain/ (loss) on investments in the Consolidated Statements of Income.

When measuring expected credit losses related to AFS debt securities subject to prepayment risk, Navy Federal has elected to adjust the acquisition date effective interest rate to consider the timing of expected cash flows resulting from expected prepayments. As a result, the discount rate used to determine expected credit losses will match the rate used to recognize interest income as of the reporting date. If a variable rate asset requires credit loss measurement, Navy Federal has elected to utilize the rate in effect at the time a credit loss has been identified to calculate the effective interest rate for discounting purposes and to project cash flows.

If and when relevant, the unwinding of any discount due to the passage of time is considered a component of provision for credit losses. This election ensures that the reversal of any credit losses due to the passage of time is recorded as an offset to previously recognized credit losses in the same financial statement line item.

Navy Federal's investments in equity securities are classified as Equity securities in the Consolidated Statements of Financial Condition in accordance with ASC 321, *Investments—Equity Securities*. Equity securities are recorded on a trade date basis. Equity securities with readily determinable fair values are carried at fair value. Equity securities that do not have readily determinable fair values are carried at cost less impairment. Unrealized gains and losses are recorded in earnings and included in Net gain/ (loss) on investments in the Consolidated Statements of Income. See Note 2: Investments for details.

Navy Federal has stock in the Federal Home Loan Bank (FHLB) of Atlanta. The carrying amounts are considered a reasonable estimate of fair value. FHLB stock is a restricted investment that is included in Investments in FHLB in the Consolidated Statements of Financial Condition and is evaluated for impairment annually. There was no impairment for the years ended December 31, 2023 and 2022.

In accordance with ASC 860, *Transfers and Servicing*, repurchase agreements and reverse repurchase agreements are recorded at historical cost and accounted for as secured financings within Borrowed funds or short-term investments within Cash and cash equivalents in the Consolidated Statements of Financial Condition, respectively.

Loans

Navy Federal's loan portfolio consists of consumer, credit card and real estate loans. Consumer loans consist of secured consumer loans (auto loans) and unsecured consumer loans (signature loans, checking lines of credit and education loans). Real estate loans consist of mortgage and equity loans. Real estate loans also include loans where Navy Federal has purchased a participation interest in mortgage loans originated by other credit unions. At origination, all consumer, credit card and equity loans are classified as held for investment. Mortgage loans are classified as either mortgage loans held for investment or mortgage loans held for sale based on management's intent and ability to hold the loans for the foreseeable future or until maturity or payoff.

In accordance with ASC 310, *Receivables*, loans held for investment are carried at the amount of unpaid principal balance (UPB) adjusted for net loan origination fees and certain direct origination costs, less an allowance for credit losses. Interest is accrued on loans using the effective interest rate on a daily basis except for credit card loans, for which interest is calculated by applying the periodic rate to the average daily balance outstanding. Accrued interest is presented separately from corresponding loans within Accounts receivable and accrued interest in the Consolidated Statements of Financial Condition.

In response to the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised), Navy Federal has taken action to support members through offering a variety of assistance programs. Members requesting assistance were offered payment forbearance, payment extensions, payment deferrals and other types of loan modifications to help members deal with the effects of the pandemic (collectively referred to as "COVID-19 Loan Accommodations under the CARES Act"). As a result, certain loans receiving assistance due to COVID-19-related hardships are not being reported as past due based on the loan's original contractual term as of December 31, 2023 and 2022. All other loans are reported as delinquent when they are 30 days past due.

When a loan becomes 90 days past due, accrued interest is reversed and the loan is placed into non-accrual status. For credit card loans, accrued interest is capitalized into the UPB in the month subsequent to the accrual and interest is no longer accrued on the loan past 90 days. Navy Federal does not recognize an allowance for credit losses on accrued interest receivable due to the reversal of uncollectible balances in a timely manner. Interest received on loans in non-accrual status is accounted for on a cash basis. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and collection of remaining outstanding contractual payments is reasonably assured.

In accordance with ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*, loan origination fees and certain direct origination costs related to loans held for investment are deferred and amortized over the life of the loans as yield adjustments using the interest method for all products except for credit card loans, where fees and costs are netted, deferred and amortized on a straight-line basis over 12 months.

A loan is considered impaired when, based on current information and events, it is probable that Navy Federal will be unable to collect all amounts due from the borrower in accordance with the original contractual term. Navy Federal measures and recognizes impairment in accordance with ASC 326, *Financial Instruments—Credit Losses*.

Allowance for Credit Losses

On January 1, 2023, Navy Federal adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and related ASUs (that collectively comprise ASC 326, also referred to herein as "CECL") that require the measurement of an allowance for credit losses (ACL), which represents management's best estimate of expected future credit losses related to loans, debt securities and off-balance sheet credit exposures that are not unconditionally cancelable. Upon adoption, using a modified retrospective approach, we recorded an increase to the allowance for credit losses of $1.9 billion based on the current economic conditions and portfolio balances as of January 1, 2023. The cumulative impact as a result of the adoption of CECL was a decrease to members' equity of $1.8 billion, which includes the impact from the reversal of liabilities related to unconditionally cancelable off-balance sheet credit exposures related to unfunded credit card lines, which had been measured under the incurred loss methodology. All credit card lines are considered unconditionally cancelable and therefore no longer require an allowance in accordance with CECL. See Note 3: Loans and Allowance for Credit Losses for details.

The adoption of CECL did not have an impact on Navy Federal being categorized as "well-capitalized" under the NCUA's regulatory framework. See Note 13: Regulatory Matters.

The ACL is a reserve against loans held for investment established through a provision for credit losses charged to earnings. Loan losses are charged against the ACL when management believes the collectability of the loan amount is not probable. Recoveries on previously charged-off loans are credited to the ACL.

The ACL is based on historical loss experience, current borrower risk characteristics, current economic conditions, reasonable and supportable forecasts of future conditions and other relevant factors. Navy Federal maintains the ACL at an appropriate level for expected losses on our existing loans held for investment, debt securities and unfunded commitments that are not unconditionally cancelable. The ACL is estimated considering the contractual term adjusted for prepayment expectations as of the balance sheet date. For products without a fixed contractual maturity date, Navy Federal relies on past events, current conditions, and reasonable and supportable forecasts to determine the length of the paydown time period or period in which a default may occur.

Navy Federal estimates expected losses using a combination of the expected losses over a reasonable and supportable forecast period and the long run average expected losses for the remaining contractual term adjusted for prepayment expectations. Credit losses beyond the reasonable and supportable period are derived from long run historical credit loss information adjusted for the credit quality of the current portfolio. Portfolio segments represent the level at which Navy Federal develops and documents a systematic methodology to determine its ACL. Navy Federal's loan portfolio consists of three portfolio segments; consumer, credit card and real estate. Navy Federal utilizes probability of default models to determine the ACL.

For Chapter 7 bankruptcies, Navy Federal has elected the collateral-dependent practical expedient. For loans in which foreclosure is considered probable, expected credit losses are also based on the fair value of the collateral at the reporting date adjusted for selling costs as appropriate. Loans that are not in foreclosure, except those undergoing a modification or are otherwise subject to a repayment plan, are generally charged-off to the ACL at 180 days past due.

The amortized cost of Navy Federal's loan portfolio excludes accrued interest receivable of $384.8 million at December 31, 2023, which is presented as a component of Accounts receivable and accrued interest in the Consolidated Statements of Financial Condition.

Real Estate Loans

The ACL for loans secured by residential real estate is determined using quantitative methods supplemented with qualitative analysis. The ACL is calculated by estimating the number of loans that will default over the life of the existing portfolio, after factoring in estimated prepayments, using quantitative modeling methodologies. The attributes that are most significant in estimating the ACL include borrower FICO Score and delinquency status. The estimates are based on Navy Federal's historical experience with the loan portfolio, adjusted to reflect the economic outlook. The outlook related to real estate prices, real GDP and disposable income growth are key factors that impact the frequency and severity of loss estimates.

Credit Cards

Credit cards are revolving lines of credit without a defined maturity date. The estimated life of a credit card receivable is determined by estimating the amount and timing of expected future payments that it will take for a receivable balance to pay off. The ACL calculation incorporates the spending behavior of a borrower through time using key borrower-specific factors and economic factors. Unemployment rate outlook, borrower credit score, delinquency status and historical payment behavior are all key inputs into the credit card receivable loss forecasting model. Future draws on the credit card lines are excluded from the ACL as they are unconditionally cancelable.

Secured Consumer Loans

The ACL for secured consumer loans is determined using quantitative methods supplemented with qualitative analysis. The quantitative model estimates the ACL giving consideration to key borrower and loan characteristics such as delinquency status, borrower credit score, underlying collateral type and collateral value.

Unsecured Consumer Loans

The ACL for unsecured consumer loans is determined using quantitative methods supplemented with qualitative analysis. The quantitative model estimates ACL giving consideration to key borrower and loan characteristics such as delinquency status and borrower credit score.

Loan Restructurings

On January 1, 2023, using a modified retrospective approach, Navy Federal adopted the applicable provisions of ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* related to non-public business entities, which eliminates the accounting guidance for Troubled Debt Restructurings and adds new disclosure requirements related to loan modifications provided to borrowers experiencing financial difficulty. The impact of the adoption of ASU 2022-02 is included within the $1.9 billion increase to the allowance for credit losses in connection with adopting CECL as a result of the alignment of the effective dates.

Restructurings to borrowers experiencing financial difficulty result from our loss mitigation activities and include principal forgiveness, interest rate reductions, payment delays, term extensions or combinations thereof. Restructured loans to borrowers experiencing financial difficulty continue to be subject to our existing nonaccrual policies. Expected losses or recoveries on loans where restructurings have been granted to borrowers experiencing financial difficulty have been factored into the ACL estimates for each loan portfolio segment. Significant judgment is required to determine if a borrower is experiencing financial difficulty, and these considerations vary by loan portfolio segment.

Navy Federal has elected the practical expedient to exclude accrued interest receivable balances from the required restructuring tables in Note 3: Loans and Allowance for Credit Losses. Navy Federal has also elected to disclose all restructurings that result in payment delays within Note 3: Loans and Allowance for Credit Losses, including those restructurings that result in a delay in payment that is deemed insignificant.

Mortgage Loans Held for Sale

Navy Federal's mortgage loans held for sale portfolio consists of mortgage loans in which we have the intent and ability to sell. Interest income on mortgage loans held for sale is recorded as earned and is reported within Interest income—Loans in the Consolidated Statements of Income. ASC 825, *Financial Instruments*, permits entities to irrevocably elect to measure many financial instruments at fair value. Navy Federal has elected this fair value measurement option for mortgage loans classified as held for sale at origination; as such, these loans are recorded at fair value with subsequent changes to estimated fair value recognized in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income. Fees earned and direct costs incurred associated with loans originated with the intent and ability to sell are recognized immediately within interest income.

Navy Federal reclassifies loans from held for investment to held for sale when we no longer have both the intent and ability to hold the loan for the foreseeable future, to maturity, or estimated time the loan will be repaid. Mortgage loans reclassified to held for sale, for which we have not elected the fair value option at origination, are reported at lower of amortized cost or fair value. Any excess of a loan's amortized cost over its fair value is recognized as a valuation allowance in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income, with subsequent changes in this valuation allowance also being recorded to Net gain/ (loss) on mortgage loans. Fair value is determined based on an evaluation of best forward sales contract prices sourced from the TBA market by agency. Previously recorded allowance for credit losses are reversed against the provision for credit losses upon transfer. Unamortized direct fees earned and direct costs are deferred until the related loan is sold. See Note 3: Loans and Allowance for Credit Losses for details on mortgage loans transferred from held for investment to held for sale for the year ended December 31, 2023.

Loans are derecognized from the Consolidated Statements of Financial Condition when sold, and sales treatment is applied when, in accordance with ASC 860, *Transfers and Servicing*, the conditions for sale of financial assets are met. See Note 4: Loan Sales and Continuing Involvement in Assets Transferred for details.

In certain circumstances, mortgage loans originated with the intent to sell for which fair value option was elected will no longer be sold. Upon this change of intent, Navy Federal transfers and reclassifies the loans as held for investment. These loans continue to be measured at fair value with subsequent changes in estimated fair value recognized in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income.

Mortgage Servicing Rights

Navy Federal recognizes mortgage servicing rights (MSRs) when mortgage loans are sold, and Navy Federal retains the right to service those loans. Navy Federal recognizes MSRs at fair value with changes in fair value recognized in the Other line item in the Consolidated Statements of Income. Navy Federal recognizes revenue from servicing mortgage loans as earned based upon the specific contractual terms of the servicing arrangement. See Note 4: Loan Sales and Continuing Involvement in Assets Transferred for details.

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

Prior to the adoption of ASU 2022-02, a Troubled Debt Restructuring (TDR) was a loan for which Navy Federal had granted a concession it would not have otherwise considered because a member was experiencing financial difficulty. The types of concessions Navy Federal granted in a TDR primarily included term extensions and interest rate reductions. TDR loans are accounted for in accordance with ASC 310-40, *Receivables—Troubled Debt Restructurings* and were individually evaluated for impairment. See Note 3: Loans and Allowance for Credit Losses for details.

The CARES Act provided optional, temporary relief from accounting for certain loan modifications as TDRs. Under these provisions, temporary relief was provided from the accounting requirements for TDRs for certain loan modifications during the period beginning on March 1, 2020 and ending on January 1, 2022 for a loan that was not more than 30 days past due as of December 31, 2019 and was not previously accounted for as a TDR, as well as federally backed mortgage loans regardless of delinquency status.

On April 7, 2020, federal banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) (the “Interagency Statement”). Loans that did not meet the criteria for TDR relief under the CARES Act were evaluated in accordance with the Interagency Statement, which allowed banks to not designate certain short-term modifications (e.g., six months or less) as TDRs for borrowers with COVID-19 hardships, who were current on their payments prior to the modification.

Navy Federal elected to apply the above provisions of the CARES Act and Interagency Statement for the COVID-19 Loan Accommodations meeting the relevant criteria.

Property, Plant and Equipment

Land held for use is carried at cost. Buildings, furniture, fixtures, equipment, computer software and capitalized information technology (IT) assets are carried at cost less accumulated depreciation and amortization, which are computed on a straight-line basis over the assets’ estimated useful lives. The cost and related accumulated depreciation and amortization are eliminated from accounts when assets are disposed. Gains or losses upon disposition are included within the Other line item in the Consolidated Statements of Income. Expenditures for repairs and maintenance are charged to earnings as incurred. Improvements that extend the useful life of an asset are capitalized and depreciated over the extended useful life. Navy Federal purchases as well as internally develops and customizes certain software to enhance or perform internal business functions. Software development costs incurred in the planning and post-development project stages are charged to non-interest expense, and costs incurred in the application development stage are capitalized and amortized using the straight-line method over a five-year period. Leasehold improvements are carried at cost less accumulated amortization and are amortized over the lesser of the useful life or the remaining lease term. Useful lives for each asset category are estimated as follows:

	Useful Life
Buildings	40 years
Leasehold improvements	5 years
Equipment, furniture and fixtures	5 to 7.5 years
Computer equipment	2 to 3 years
Computer software and capitalized IT assets	5 years

Lease Accounting

Effective January 1, 2022, Navy Federal adopted the provisions of ASU 2016-02, *Leases* for all leases with a term greater than one year as of the adoption date, using the modified retrospective transition method. Navy Federal elected the package of practical expedients, to include not reassessing prior classification conclusions of existing leases, any initial direct costs associated with the leases, and whether any existing contracts are or contain leases.

At contract inception, Navy Federal determines whether the contract is, or contains, a lease based on the term and conditions of the contract. Lease contracts for which Navy Federal is the lessee are recognized in the Consolidated Statements of Financial Condition as right-of-use (ROU) assets and lease liabilities. Lease liabilities and their corresponding ROU assets are recorded based on the present value of the future lease payments over the expected lease term. ROU assets and related lease liabilities are included in Other assets and Other liabilities in the Consolidated Statements of Financial Condition. Navy Federal utilizes the risk-free rate as a discount rate. The lease terms include periods covered by options to extend or terminate the lease depending on whether Navy Federal is reasonably certain to exercise such options. Navy Federal accounts for lease and non-lease components as single lease component and does not recognize the ROU assets and lease liabilities for any leases with terms of one year or less. Navy Federal recognizes the lease costs for these leases on a straight-line basis over the lease term whereas the variable lease costs are recognized in the period in which the obligation for those payments is incurred. Operating lease cost is included in Office operations and equipment in the Consolidated Statements of Income.

Navy Federal's operating leases, where Navy Federal is a lessee, include office space, branches and ATMs. While Navy Federal has certain finance leases as a lessee, such leases are not material to the Consolidated Financial Statements.

National Credit Union Share Insurance Fund Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the FCUA and National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each credit union in an amount equal to 1% of its insurable shares. The deposit would be refunded to Navy Federal if its insurance coverage is terminated or the operations of the fund are transferred from the NCUA Board.

Derivative Financial Instruments

Financial instruments that qualify as derivatives in accordance with ASC 815, *Derivatives and Hedging*, are financial contracts that derive their value from underlying changes in assets, rates or indices. Derivatives are used to hedge against changes in prices or interest rate movements that could adversely affect the value of certain assets or liabilities and future cash flows.

Navy Federal accounts for its derivative financial instruments in accordance with ASC 815, which requires all derivative instruments to be carried at fair value in the Consolidated Statements of Financial Condition. Navy Federal executes and clears certain derivative transactions through derivative clearing organizations. Navy Federal's centrally cleared derivatives are subject to legally enforceable master netting agreements, where we have the right to offset exposure with the same counterparty. As such, Navy Federal reports these positions on a net basis in the Consolidated Statements of Financial Condition. All derivative financial instruments are recognized at fair value and classified as Other assets or Other liabilities in the Consolidated Statements of Financial Condition. See Note 5: Derivative Instruments and Hedging Activities for details.

Economic Hedges

Navy Federal enters into mortgage loan commitments, also called interest rate lock commitments (IRLCs), in connection with its mortgage banking activities to fund residential mortgage loans at specified times in the future. The IRLCs are considered derivative instruments under applicable accounting guidance and expose Navy Federal to the risk that the price of the loans underlying the commitments may decline between the inception of the rate lock and the funding date of the loan. Navy Federal is exposed to further price risk after the funding date until the mortgage loan is sold. To protect against price risk, Navy Federal enters into forward sales contracts with counterparties, transacting in exchange-traded U.S. Treasury futures contracts, as well as trading options on U.S. Treasury futures contracts. Changes in the fair value of all economic hedges executed to hedge against the volatility caused due to IRLCs and holding mortgage loans for sale are included in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income.

Accounting Hedges

In accordance with the provisions of ASC 815, derivative instruments can be designated as fair value hedges or cash flow hedges. Navy Federal applies hedge accounting to qualifying hedging relationships. A qualifying hedging relationship exists when changes in the fair value of a derivative hedging instrument are expected to be highly effective in offsetting changes in the fair value of the hedged item attributable to the risk being hedged during the term of the hedging relationship. Fair value hedges are used to protect against changes in the value of assets and liabilities as a result of interest rate volatility. Navy Federal uses interest rate swaps as fair value hedges to offset the change in value of its certain fixed-rate AFS debt securities. Changes in the fair value of fair value hedges are recorded in the same Consolidated Statements of Income line item as the related hedged item. Cash flow hedges are used to minimize the variability in cash flows resulting from interest rate fluctuations. Navy Federal uses interest rate swaps to hedge against the variability in cash flows of its floating-rate debt payments. Changes in fair value of cash flow hedges are reported as a component of AOCI and reclassified into earnings in the same period when the hedged transaction affects earnings, and in the same Consolidated Statements of Income line as the hedged item.

At the inception of a hedge relationship, Navy Federal formally documents the hedged item, the particular risk management objective, the nature of the risk being hedged, the derivative being used, how effectiveness of the hedge will be assessed and how ineffectiveness of the hedge will be measured. Navy Federal utilizes a regression analysis at the inception of a hedge and a qualitative analysis for each reporting period thereafter to assess whether the derivative is expected to be, and has been, highly effective in offsetting changes in the fair value or cash flows of a hedged item.

Navy Federal discontinues hedge accounting when it is determined the derivative is not expected to be or has ceased to be a highly effective hedge; the derivative expires or is sold or terminated; the derivative is de-designated; or in the case of a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time frame. Subsequent to discontinuing a fair value or cash flow hedge, the derivative will continue to be recorded in the Consolidated Statements of Financial Condition at fair value, with changes in fair value included in earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value. If the forecasted transaction is no longer probable to occur, Navy Federal discontinues hedge accounting designation and immediately recognizes the previously unrealized gain or loss in AOCI into earnings. For other discontinuing type events, the unrealized gain or loss continues to be deferred in AOCI until the forecasted transaction affects earnings. See Note 5: Derivative Instruments and Hedging Activities for details.

Margin and Collateral

In connection with certain derivative financial instruments, Navy Federal is required to post initial and/ or variation margin in accordance with our futures clearing merchant and derivative clearing organization policies. Navy Federal's centrally cleared derivative contracts are considered either "collateralized" or "settled" on a daily basis as a result of margin requirements. Navy Federal considers variation margin posted in connection with contracts considered settled within the same unit of account as the derivative financial instrument for the purposes of presentation of the net fair value within the financial statements. When subject to a legally enforceable master netting agreement, it is Navy Federal's policy to offset all collateral receivable or payable with related derivative liabilities or assets, respectively, and to net such amounts in the Consolidated Statements of Financial Condition. Any securities pledged as margin do not impact presentation of net fair value of derivative assets/liabilities as Navy Federal does not surrender effective control over the securities when posting as collateral. The securities pledged are not derecognized from the balance sheet as a result of the pledge.

Pension Accounting and Retirement Benefit Plans

Navy Federal has a defined benefit pension plan, 401(k) defined contribution and 457(b) savings plans, and a non-qualified supplemental retirement plan. Navy Federal also provides a postretirement medical plan for certain retired employees. Navy Federal accounts for its defined benefit pension plan and postretirement medical plan in accordance with ASC 715, *Compensation—Retirement Benefits*. See Note 10: Retirement Benefit Plans for details.

Fair Value Measurement

Navy Federal measures certain financial assets and liabilities at fair value in accordance with ASC 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. Navy Federal employs various valuation approaches to measure fair value, including market and income approaches. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. Valuation techniques and parameters used for measuring assets and liabilities are reviewed and validated by Navy Federal on an annual basis. In measuring fair value, Navy Federal maximizes the use of quoted prices and observable inputs. A description of the fair value hierarchy is as follows:

- Level 1—Valuation is based on unadjusted quoted prices in an active market for identical instruments.
- Level 2—Valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions (rates, volatilities, credit spreads) for financial instruments are observable.
- Level 3—Valuation is generated from techniques that use significant assumptions that are not observable in the market. Valuation techniques include pricing models, discounted cash flow methodologies or similar techniques.

Generally, uncertainties in fair value measurements of financial instruments using unobservable inputs may have a significant impact on fair value. Certain of these unobservable inputs will, in isolation, have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in the opposite direction for a given change in another input. In general, changes in interest rates, constant prepayment rates, servicing costs, best execution forward contract prices or other relevant inputs may result in a significant increase or decrease in the Level 3 fair value measurement of a particular asset or liability as of the reporting date. See Note 14: Fair Value Measurement for additional information.

Revenue Recognition

Non-interest income includes revenue from various types of transactions and services provided to members and customers, which primarily consists of Interchange income and Fee and other income. Revenue from contracts with customers is earned by Navy Federal in exchange for services provided to customers and recognized when services are completed or as they are rendered and based on agreed-upon rates. The majority of the contracts with customers are short-term in nature and can be terminated by our members or customers at any time.

Interchange income consists of credit and debit card fees for standing ready to authorize and provide settlement on card transactions processed through the payment networks. Interchange fees are recognized upon settlement with the payment networks. Interchange rates are set by the payment network and are variable in nature as they are based on transaction volumes and other factors.

Interchange income is reported net of the cost of rewards programs based on card usage. The rewards cost totaled $673.4 million and $647.6 million for the years ended December 31, 2023 and 2022, respectively.

The majority of Fee and other income relates to service charges on deposit accounts for account maintenance and various transaction-based services such as ATM usage, returned items fees and other deposit-related fees. The revenue from these fees is recognized when services or transactions are completed and are based on the type of services provided and agreed-upon rates. Payments for services provided are either withdrawn from the member's account as services are rendered or in the billing period following the completion of the service.

Advertising Costs

Advertising costs are expensed as incurred and are included in Marketing in the Consolidated Statements of Income.

Income Taxes

Pursuant to the FCUA, Navy Federal is exempt from federal and state income taxes.

Dividends

Dividend rates on deposit accounts are set by Navy Federal's Board of Directors. Dividends are charged to Dividends on deposits in the Consolidated Statements of Income and paid to members monthly.

New Accounting Pronouncement

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments* ("ASU 2023-06"). ASU 2023-06 was issued in response to the U.S. Securities and Exchange Commission's (SEC) Release No. 33-10532, Disclosure Update and Simplification, issued on August 17, 2018. ASU 2023-06 incorporates 14 of 27 disclosures referred by the SEC into the ASC, modifying the disclosure or presentation requirements of a variety of topics within the ASC and affecting a broad range of entities. For Navy Federal, the effective date for each amendment will be two years after the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective. The amendments should be applied prospectively. If the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K by June 30, 2027, the related amendment will be removed from the ASC and will not become effective for any entity. Navy Federal is in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

Note 2: Investments

HTM and AFS Debt Securities

Navy Federal's HTM debt securities are issued or guaranteed by either the U.S. government or a federal agency. The amortized cost of Navy Federal's HTM debt securities as of December 31, 2023 and 2022 was $650 million and $750 million, respectively. Taking into consideration the risk profile of the issuers of our HTM securities, historical information, and current and forecasted conditions, we do not expect credit losses on these securities as of the period ended December 31, 2023. Management performs periodic assessments to reevaluate this conclusion by considering any changes in credit quality of the issuer, historical losses, current conditions, and reasonable and supportable forecasts. Navy Federal's AFS debt securities portfolio consists of U.S. Treasury and federal agency securities; GSEs or Government National Mortgage Association (GNMA) backed residential mortgage-backed securities; private commercial mortgage-backed securities (CMBS), bank notes and corporate bonds; municipality bonds; and non-U.S. government securities.

Navy Federal's AFS debt securities by major security type as of December 31 were as follows:

	December 31, 2023			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale debt securities				
U.S. government and federal agency securities	$ 11,977,461	$ 2,619	$ (1,433,492)	$ 10,546,588
Residential mortgage-backed securities	16,563,598	32,026	(2,413,485)	14,182,139
Commercial mortgage-backed securities	467,377	-	(25,805)	441,572
Bank notes and corporate bonds	4,891,177	11,824	(335,536)	4,567,465
Municipal securities	928,143	815	(105,990)	822,968
Non-U.S. government securities	266,384	-	(7,785)	258,599
Total available-for-sale debt securities	**$ 35,094,140**	**$ 47,284**	**$ (4,322,093)**	**$ 30,819,331**

	December 31, 2022			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale debt securities				
U.S. government and federal agency securities	$ 11,011,785	$ -	$ (1,646,265)	$ 9,365,520
Residential mortgage-backed securities	14,921,441	1,978	(2,566,066)	12,357,353
Commercial mortgage-backed securities	469,350	-	(34,744)	434,606
Bank notes and corporate bonds	4,468,881	1,387	(444,062)	4,026,206
Municipal securities	874,121	-	(141,111)	733,010
Non-U.S. government securities	266,292	-	(12,037)	254,255
Total available-for-sale debt securities	**$ 32,011,870**	**$ 3,365**	**$ (4,844,285)**	**$ 27,170,950**

Navy Federal sold AFS debt securities with a carrying value of $99.2 million and $124.7 million for cash proceeds of $99.5 million and $121.3 million for the years ended December 31, 2023 and 2022, respectively. Gross realized gains of $0.3 million and gross realized losses of zero were included in earnings for the year ended December 31, 2023. Gross realized gains of zero and gross realized losses of $3.3 million were included in earnings for the year ended December 31, 2022.

The contractual maturities of Navy Federal's HTM debt securities as of December 31, 2023 were as follows:

	December 31, 2023
(dollars in thousands)	**Amortized Cost**
Held-to-maturity debt securities	
Due in one year or less	$ 400,099
Due after one year through five years	150,028
Due after five years through ten years	-
Due after ten years	100,000
Total held-to-maturity debt securities	**$ 650,127**

The contractual maturities of Navy Federal's AFS debt securities as of December 31, 2023 were as follows:

	December 31, 2023	
(dollars in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale debt securities		
Due in one year or less	$ 3,198,984	$ 3,159,704
Due after one year through five years	8,337,780	8,012,384
Due after five years through ten years	2,122,278	1,855,650
Due after ten years	21,435,098	17,791,593
Total available-for-sale debt securities	**$ 35,094,140**	**$ 30,819,331**

Navy Federal held 678 AFS debt securities in an unrealized loss position at December 31, 2023. All securities in an unrealized loss position were reviewed individually for impairment as discussed in Note 1: Summary of Significant Accounting Policies. Navy Federal does not intend to sell nor would Navy Federal be, more likely than not, required to sell these securities before recovering their amortized cost basis. The unrealized losses associated with these investments are not a result of changes in the credit quality of the issuers; rather, the losses are reflective of changing market interest rates.

As of December 31, 2023, based on a review of each of the securities in the available-for-sale investment securities portfolio, we concluded that we expected to realize the amortized cost basis of each security. No AFS debt securities realized a credit loss for the period ended December 31, 2023, nor were we required to recognize an allowance for credit losses as of December 31, 2023.

The table below presents the gross unrealized losses and fair value of securities available for sale that do not have an associated allowance at December 31, 2023. These securities are segregated between investments that had been in a continuous unrealized loss position for less than twelve months and twelve months or more, based on the point in time that the fair value declined below the amortized cost basis. All securities included in the table have been evaluated to determine if a credit loss exists. All securities with unrealized losses were evaluated, and the unrealized losses associated with these investments are not a result of changes in the credit quality of the issuers; rather, the losses are reflective of changing market interest rates. All securities with unrealized losses are contractually current on payments and have credit ratings of "BBB-" equivalent or higher. Additionally, for the CMBS holdings, the current subordination levels are equal to or higher than the subordination levels at purchase. As part of our credit impairment assessment, as of December 31, 2023, we concluded that we do not intend to sell and believe we will not be required to sell these securities prior to recovery of the amortized cost basis.

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity debt securities	**$ -**	**$ -**	**$ 464,819**	**$ (35,281)**	**$ 464,819**	**$ (35,281)**
Available-for-sale debt securities						
U.S. government and federal agency securities	685,121	(4,122)	8,941,786	(1,429,370)	9,626,907	(1,433,492)
Residential mortgage-backed securities	582,750	(2,131)	11,227,570	(2,411,354)	11,810,320	(2,413,485)
Commercial mortgage-backed securities	-	-	441,572	(25,805)	441,572	(25,805)
Bank notes and corporate bonds	278,594	(883)	3,520,201	(334,653)	3,798,795	(335,536)
Municipal securities	-	-	765,231	(105,990)	765,231	(105,990)
Non-U.S. government securities	496	(2)	258,103	(7,783)	258,599	(7,785)
Total available-for-sale debt securities	**1,546,961**	**(7,138)**	**25,154,463**	**(4,314,955)**	**26,701,424**	**(4,322,093)**
Total debt securities	**$ 1,546,961**	**$ (7,138)**	**$ 25,619,282**	**$ (4,350,236)**	**$ 27,166,243**	**$ (4,357,374)**

With the adoption of the CECL standard on January 1, 2023, expected credit losses on investment securities are required to be recognized through an allowance, instead of as a direct write-down to the amortized cost basis of the security. The amortized cost basis of investment securities for which impairment had previously been recorded did not change upon adoption.

We maintain the allowance for investment securities at levels that we believe to be appropriate as of the balance sheet date to absorb expected credit losses on our portfolio. See Note 1: Summary of Significant Accounting Policies for a discussion of the methodologies used to determine the allowance for investment securities.

The table below presents the gross unrealized losses and fair value of debt securities at December 31, 2022, prior to the adoption of the CECL standard. These securities are segregated between investments that had been in a continuous unrealized loss position for less than twelve months and twelve months or more, based on the point in time that the fair value declined below the amortized cost basis.

	December 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity debt securities	**$ 95,876**	**$ (4,498)**	**$ 593,572**	**$ (56,065)**	**$ 689,448**	**$ (60,563)**
Available-for-sale debt securities						
U.S. government and federal agency securities	4,421,064	(199,511)	4,944,457	(1,446,754)	9,365,521	(1,646,265)
Residential mortgage-backed securities	3,879,799	(346,736)	8,257,138	(2,219,330)	12,136,937	(2,566,066)
Commercial mortgage-backed securities	413,225	(28,928)	21,381	(5,816)	434,606	(34,744)
Bank notes and corporate bonds	2,958,555	(186,937)	918,415	(257,125)	3,876,970	(444,062)
Municipal securities	341,989	(39,369)	391,021	(101,742)	733,010	(141,111)
Non-U.S. government securities	254,255	(12,037)	-	-	254,255	(12,037)
Total available-for-sale debt securities	**12,268,887**	**(813,518)**	**14,532,412**	**(4,030,767)**	**26,801,299**	**(4,844,285)**
Total debt securities	**$ 12,364,763**	**$ (818,016)**	**$ 15,125,984**	**$ (4,086,832)**	**$ 27,490,747**	**$ (4,904,848)**

As of December 31, 2023 and 2022, Navy Federal had pledged $185.1 million and $83.2 million, respectively, of investment securities as collateral with counterparties for derivative transactions under master netting agreements. See Note 5: Derivative Instruments and Hedging Activities for derivative transactions under master netting agreements. As of December 31, 2023 and 2022, Navy Federal pledged $1 billion in investment securities to the FHLB as collateral to borrow funds. See Note 9: Borrowed Funds for maturity information of the associated liabilities.

Equity Securities

Navy Federal's equity securities consist of investments in a mutual fund and redeemable common stock. Navy Federal recognized $97.6 million unrealized gains and $114.3 million unrealized losses on equity securities during the years ended December 31, 2023 and 2022, respectively.

Note 3: Loans and Allowance for Credit Losses

Navy Federal's loan portfolio comprises consumer, credit card and real estate loans. The consumer loan portfolio comprises two classes of financing receivable: secured and unsecured loans. The credit card and real estate portfolios' segments comprise one class of financing receivable, which aligns to the portfolio segment level. Classes of financing receivables are characterized by similarities in risk attributes and the manner in which we monitor and assess credit risk.

As a result of COVID-19 Loan Accommodations, certain loans modified due to COVID-19-related hardships are not being reported as past due based on the contractual terms of the loan as of December 31, 2023 and 2022. See Note 1: Summary of Significant Accounting Policies for additional details.

The composition of Navy Federal's loans by portfolio and delinquency status as of December 31 was as follows:

	December 31, 2023					
(dollars in thousands)	Current	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Loans
Consumer loans						
Secured loans	$ 30,517,846	$ 342,017	$ 148,105	$ 171,969	$ 662,091	$ 31,179,937
Unsecured loans	7,821,259	132,767	73,118	145,112	350,997	8,172,256
Total consumer loans	**$ 38,339,105**	**$ 474,784**	**$ 221,223**	**$ 317,081**	**$ 1,013,088**	**$ 39,352,193**
Credit card loans	28,118,546	402,943	271,269	612,800	1,287,012	29,405,558
Real estate loans	53,935,795	545,507	186,620	390,035	1,122,162	55,057,957
Total loans held for investment	**$ 120,393,446**	**$ 1,423,234**	**$ 679,112**	**$ 1,319,916**	**$ 3,422,262**	**$ 123,815,708**

	December 31, 2022					
(dollars in thousands)	Current	30-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Unamortized Cost/ (Deferred Fee)	Total Loans
Consumer loans	$ 31,106,442	$ 498,084	$ 223,405	$ 721,489	$ 48,250	$ 31,876,181
Credit card loans	25,262,626	457,539	370,027	827,566	3,714	26,093,906
Real estate loans	50,729,415	647,189	326,631	973,820	(193,489)	51,509,746
Total loans held for investment	**$ 107,098,483**	**$ 1,602,812**	**$ 920,063**	**$ 2,522,875**	**$ (141,525)**	**$ 109,479,833**

Non-Accrual Loans

When a loan becomes 90 days past due, accrued interest is reversed and the loan is placed into non-accrual status. For credit card loans, accrued interest is capitalized into the UPB in the month subsequent to the accrual and interest is no longer accrued on the loan past 90 days. Refer to the delinquency status tables above for consumer and credit card loans on non-accrual status as of December 31, 2023 and 2022. Real estate loans that received COVID-19 Loan Accommodations under the CARES Act were placed on non-accrual under the same policy. As a result, loans are not reported as delinquent due to receiving COVID-19 Loan Accommodations but are classified as non-accrual due to missing three consecutive payments. As of December 31, 2023 and 2022, real estate loans on non-accrual status were $453 million and $465 million, respectively.

Credit Quality

Navy Federal closely monitors the credit quality of its loan portfolio based on economic conditions, loan performance trends and certain risk attributes. The risks in Navy Federal's loan portfolios correlate to broad economic trends, which are monitored in conjunction with borrowers' risk attributes. The risks that may affect the default experience on Navy Federal's loan portfolios include changes in economic conditions, which are monitored in conjunction with various loan attributes such as delinquency status, borrower credit score and historical payment behavior. This information is utilized to evaluate the appropriateness of the allowance for credit losses. Navy Federal evaluates the appropriateness of credit quality indicators annually. Along with ongoing monitoring of delinquency trends and losses, we use a national third-party provider to update FICO credit scores monthly for use in our ongoing credit analysis.

As of December 31, 2023, Navy Federal uses current delinquency status and FICO Score as an indicator of credit quality for all loan portfolios. For delinquency status as of December 31, 2023, refer to the loan composition and delinquency status table above.

The following table summarizes our loans by FICO Scores as of December 31, 2023:

	December 31, 2023			
	FICO[1]			
(dollars in thousands)	Greater Than or Equal to 720	719 to 660	Less Than 660	Total
Consumer loans				
Secured loans	$ 13,479,401	$ 7,374,940	$ 10,092,324	$ 30,946,665
Unsecured loans	2,819,565	2,537,202	2,671,175	8,027,942
Total consumer loans	**$ 16,298,966**	**$ 9,912,142**	**$ 12,763,499**	**$ 38,974,607**
Credit card loans	7,635,365	9,534,348	11,810,110	28,979,823
Real estate loans	41,462,188	7,864,657	4,694,162	54,021,007
Total	**$ 65,396,519**	**$ 27,311,147**	**$ 29,267,771**	**$ 121,975,437**

(1) Excludes $1.8 billion in loans for which current FICO Scores were unavailable as of December 31, 2023 due to nature of the portfolio, limited credit history, or changes in credit profile. Navy Federal considers delinquency status as a primary indicator of credit quality for loans without a current FICO score. Refer to the loan composition and delinquency status table above for information as of December 31, 2023.

As of December 31, 2022, Navy Federal used FICO Score and delinquency status as an indicator of credit quality for secured consumer loans and unsecured consumer loans, respectively, which consisted of the following:

(dollars in thousands)	December 31, 2022
Secured consumer loans	
FICO	**Total (1)**
Greater than or Equal to 610	$ 20,026,060
Less than 610	4,515,473
Total	**$ 24,541,533**
Unsecured consumer loans	
Delinquency Status	
Performing	$ 7,091,844
60+ days and foreclosure	172,880
Total	**$ 7,264,724**

(1) Excludes deferred costs from both secured and unsecured consumer loans of $48.3 million and other adjustments of $21.7 million.

As of December 31, 2022, Navy Federal used delinquency status as an indicator of credit quality for credit card, mortgage and equity loans. Refer to the loan composition and delinquency status table above for information as of December 31, 2022.

Allowance for Credit Losses

Changes in the allowance for credit losses during the year ended December 31, 2023 were as follows:

	December 31, 2023			
(dollars in thousands)	**Consumer**	**Credit Cards**	**Real Estate**	**Total**
Allowance for credit losses:				
Balance, beginning of year	$ 749,598	$ 1,222,761	$ 106,043	$ 2,078,402
Cumulative effect of adopting ASC 326 Financial Instruments - Credit Losses [a]	429,817	1,481,633	(9,230)	1,902,220
Beginning balance, adjusted	$ **1,179,415**	$ **2,704,394**	$ **96,813**	$ **3,980,622**
Provision expense	1,046,918	2,152,481	608	3,200,007
Writeoffs charged against the allowance	(1,020,310)	(1,630,257)	(4,996)	(2,655,563)
Recoveries collected	155,118	127,909	5,329	288,356
Balance, end of year	$ **1,361,141**	$ **3,354,527**	$ **97,754**	$ **4,813,422**

[a] Represents the impact of adopting ASU 2016-13, Financial Instruments - Credit Losses on January 1, 2023 and our transition from an incurred loss methodology for our reserves to an expected credit loss methodology.

Changes in the allowance for loan losses during the year ended December 31, 2022 were as follows:

	December 31, 2022			
(dollars in thousands)	**Consumer**	**Credit Cards**	**Real Estate**	**Total**
Allowance for credit losses:				
Balance, beginning of year	$ 549,953	$ 1,136,517	$ 93,885	$ 1,780,355
Provision expense	679,676	890,428	4,726	1,574,830
Loans charged off	(642,345)	(965,399)	(4,795)	(1,612,539)
Recoveries	162,301	167,796	12,227	342,324
Net change in allowance for unfunded commitments	13	(6,581)	-	(6,568)
Balance, end of year	$ **749,598**	$ **1,222,761**	$ **106,043**	$ **2,078,402**
Ending balance: loans held for investment, individually evaluated for impairment	$ 107,288	$ 115,834	$ 91,440	$ 314,562
Ending balance: loans held for investment, collectively evaluated for impairment	$ 642,311	$ 1,106,927	$ 14,602	$ 1,763,840
Loan amount (excluding allowance):				
Ending balance: loans held for investment, individually evaluated for impairment	$ 550,786	$ 344,884	$ 2,417,772	$ 3,313,442
Ending balance: loans held for investment, collectively evaluated for impairment	$ 31,325,395	$ 25,749,022	$ 49,091,974	$ 106,166,391

As of December 31, 2023, the allowance for unfunded related commitments was immaterial. As of December 31, 2022, the allowance for unfunded related commitments was $61 million, as determined under the incurred loss methodology.

Collateral-Dependent Loans

A loan is considered to be collateral-dependent when repayment is expected to be provided substantially through the operation or sale of the collateral underlying the loan and when the borrower is experiencing financial difficulty. In the case of a Chapter 7 bankruptcy, the loan is also considered collateral-dependent as the bankruptcy court "removed" the borrower (the primary source of repayment) from responsibility to continue to make payments called for by the original loan agreement. As such, the loan is collateral-dependent because repayment depends solely on the sale collateral. Loans within our foreclosure pipeline are also considered collateral-dependent. For collateral-dependent loans, the difference between the amortized cost basis and the fair value of the collateral (less costs to sell, if applicable) is used to determine the allowance for credit losses. For additional information regarding collateral-dependent assets, see Note 1: Summary of Significant Accounting Policies.

The amortized cost of real estate loans collateralized by residential real estate property that are in process of foreclosure was $160.2 million as of December 31, 2023. The amortized cost of real estate loans subject to Chapter 7 bankruptcy was $123.2 million as of December 31, 2023.

Loan Restructurings

We offer several types of loan restructurings to borrowers that may result in a payment delay, interest rate reduction, term extension, principal forgiveness or a combination thereof. Payment delays include partial satisfaction of debt and significant delay, including payment deferrals, forbearance, term extensions or a combination thereof. Navy Federal does not distinguish other-than-insignificant from significant payment delays per ASC 310-10-50-46 and elects to disclose all payment delays. Navy Federal considers a borrower to be experiencing financial difficulty when the type of modification granted is directly indicative of financial hardship (e.g., bankruptcy, principal forgiveness, repossessed autos, consolidation of delinquent debts, real estate modifications). For all other modification types, a determination of borrower financial difficulty is made if a loan was 30 or more days past due at least once in the 12 months prior to modification.

The table below presents the amortized cost of loan restructurings involving borrowers experiencing financial difficulty that were entered into during the period ended December 31, 2023.

	December 31, 2023						
(dollars in thousands)	Interest Rate Reduction	Interest Rate Reduction and Term Extension	Principal Forgiveness	Payment Delay	Term Extension	Total	Total as % of Class of Financing Receivable [1]
Consumer Loans							
Secured loans	$ -	$ 43,897	$ 5,342	$ 86	$ 465,344	$ 514,669	1.65%
Unsecured loans	733	17,394	3,680	30,308	95,276	147,391	1.80%
Total Consumer Loans	**$ 733**	**$ 61,291**	**$ 9,022**	**$ 30,394**	**$ 560,620**	**$ 662,060**	**1.68%**
Credit card	193,528	-	27,392	264,600	-	485,520	1.65%
Real estate	2,543	54,223	18,062	729,512	237,156	1,041,496	1.90%
Total	**$ 196,804**	**$ 115,514**	**$ 54,476**	**$ 1,024,506**	**$ 797,776**	**$ 2,189,076**	

[1] Based on the amortized cost basis as of period end, divided by the total period-end amortized cost basis of the corresponding class of financing receivable

The table below presents the financial impacts of loan restructurings involving borrowers experiencing financial difficulty that we entered into during the period ended December 31, 2023.

	December 31, 2023		
(dollars in thousands)	Weighted-Average Interest Rate Reduction	Weighted-Average Months of Term Extension	Average Principal Forgiveness
Consumer Loans			
Secured loans	4.46%	5	$ 8.32
Unsecured loans	8.59%	7	$ 3.65
Credit card	12.79%	-	$ 4.41
Real estate	1.10%	41	$ 213.38

The table below presents the loan performance in the 12 months after a restructuring involving borrowers experiencing financial difficulty. While a loan is in a forbearance plan or repayment plan, payments continue to be due based on the loan's original contractual terms because the loan has not been permanently restructured. As a result, loans in forbearance plans and repayment plans are reported as delinquent to the extent that payments are past due based on the loan's original contractual terms. Loans that have been restructured by entering into a payment deferral plan or loan restructuring are reported as delinquent to the extent that payments are past due based on the loan's restructured terms.

	December 31, 2023				
(dollars in thousands)	Current	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total
Consumer					
Unsecured loans	$ 335,745	$ 85,688	$ 43,062	$ 50,174	$ 514,669
Secured loans	98,369	16,306	11,242	21,474	147,391
Total consumer	**$ 434,114**	**$ 101,994**	**$ 54,304**	**$ 71,648**	**$ 662,060**
Credit card	326,509	49,139	35,139	74,733	485,520
Real estate	625,849	143,186	66,229	206,232	1,041,496
Total	**$ 1,386,472**	**$ 294,319**	**$ 155,672**	**$ 352,613**	**$ 2,189,076**

The table above does not include gross charge-offs of nonperforming modified loans of borrowers facing financial difficulty as their amortized cost was $0 as of the end of the year. Modified loans of borrowers facing financial difficulty that were nonperforming and then charged off during the year ended December 31, 2023 included $29.2 million related to unsecured consumer loans, $24.5 million related to secured consumer loans, $73.1 million related to credit cards and $0.1 million related to real estate.

The following table presents the amortized cost of loans that had a payment default (i.e., loans that became 60 days or more delinquent) during the period ended December 31, 2023 and had been (a) restructured on or after January 1, 2023, the ASU 2022-02 effective date, through December 31, 2023 and (b) when the borrower was experiencing financial difficulty at the time of the modification.

	December 31, 2023					
(dollars in thousands)	Interest Rate Reduction	Interest Rate Reduction and Term Extension	Principal Forgiveness	Payment Delay	Term Extension	Total
Consumer Loans						
Secured loans	$ -	$ 11,020	$ 25	$ -	$ 106,073	$ 117,118
Unsecured loans	-	3,383	256	3,279	28,814	35,732
Total Consumer Loans	**$ -**	**$ 14,403**	**$ 281**	**$ 3,279**	**$ 134,887**	**$ 152,850**
Credit card	38,945	-	2,548	81,721	-	123,214
Real estate	352	15,878	215	163,132	41,772	221,349
Total	**$ 39,297**	**$ 30,281**	**$ 3,044**	**$ 248,132**	**$ 176,659**	**$ 497,413**

Troubled Debt Restructurings Disclosures Prior to the Adoption of ASU 2022-02

Prior to adoption of CECL, TDRs were individually evaluated for impairment beginning in the month of restructuring. For loans that had not been approved for foreclosure or discharged under Chapter 7 bankruptcy, impairment was measured as the difference between the net carrying amount of the loan and the modified future expected cash flows discounted at the loan's original effective interest rate. For real estate loans approved for foreclosure, impairment was measured by the difference between the recorded investment and the collateral value less estimated costs to sell. Chapter 7 bankruptcy TDRs were considered to be dependent solely on the collateral for repayment. The loans were measured based on the estimated fair value of the collateral less estimated cost to sell, and a charge-off was recorded if the carrying value exceeded the fair value of the collateral.

The following table summarizes the financial impact, by concession type, of loans that became TDRs during the year ended December 31:

	2022 [1]				
(dollars in thousands)	Interest Rate Reduction and Term Extension	Interest Rate Reduction	Term Extension	Other [2]	Total
Consumer	$ 10,464	$ 13,278	$ 34,486	$ 3,334	$ 61,562
Credit card	-	45,923	-	3,903	49,826
Real estate	8,064	595	16,462	396	25,517
Total	**$ 18,528**	**$ 59,796**	**$ 50,948**	**$ 7,633**	**$ 136,905**

[1] Excludes loans that were classified as TDRs in prior years and re-modified during the year.
[4] Includes TDR loans resulting from actions taken by a bankruptcy court, such as the reduction of the loan's contractual principal or interest, or where the borrower has been released from personal liability.

Subsequent to designation as a TDR, interest income was recognized based on a loan's modified expected cash flows and revised effective interest rate. Additional impairment was recognized for TDRs that exhibit further credit deterioration after modification.

For the year ended December 31, 2022, TDRs that were more than 90 days delinquent within the first 12 months after modification totaled $252.9 million, which included $96.7 million of consumer loans, $44.5 million of credit card loans and $111.7 million of real estate loans.

Impaired Loans

Interest income was not accrued on loans that remained impaired and did not return to performing status during the year ended December 31, 2022. Interest income on impaired loans in non-accrual status was recognized on a cash basis. The following table represents information regarding loans individually evaluated for impairment as of and for the year ended December 31:

	December 31, 2022			
(dollars in thousands)	Loan Amount	Associated Allowance	Average Balance	Interest Income Recognized
Impaired loans with an associated allowance				
Consumer	$ 546,203	$ 107,288	$ 499,746	$ 40,967
Credit card	337,484	115,834	343,470	37,011
Real estate	2,062,985	91,440	1,726,429	89,365
Total impaired loans with an associated allowance	**$ 2,946,672**	**$ 314,562**	**$ 2,569,645**	**$ 167,343**
Impaired loans without an associated allowance				
Consumer	$ 4,583	$ -	$ 4,149	$ 501
Credit card	7,400	-	5,539	1,212
Real estate	354,787	-	340,463	13,485
Total impaired loans without an associated allowance	**$ 366,770**	**$ -**	**$ 350,151**	**$ 15,198**
Total impaired loans	**$ 3,313,442**	**$ 314,562**	**$ 2,919,796**	**$ 182,541**

Loan Transfers

Navy Federal reclassified $2.8 billion of mortgage loans held for investment to mortgage loans held for sale during the year ended December 31, 2023, due to change in management's intent to hold these loans until maturity. At the date of transfer, Navy Federal reversed $4.3 million of allowance for credit losses on the $2.8 billion of mortgage loans transferred. The balances transferred and reclassified were reported at the lower of their amortized cost basis or fair value. Fair value is determined based on an evaluation of best forward sales contract prices sourced from the TBA market by agency.

Navy Federal reclassified $28 million and $97 million of mortgage loans held for sale to mortgage loans held for investment during the years ended December 31, 2023 and 2022, respectively. Navy Federal continues to account for these loans at fair value due to the election of the fair value option at loan origination.

Note 4: Loan Sales and Continuing Involvement in Assets Transferred

In the normal course of business, Navy Federal originates and transfers qualifying residential mortgage loans in securitization or sales transactions in which it has continuing involvement. Loans are sold to Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, collectively the Government Sponsored Enterprises (GSEs) and Government National Mortgage Association (GNMA). The GSEs and GNMA generally securitize loans into mortgage-backed securities that are sold to third-party investors in the secondary market or retained by Navy Federal for investment purposes. Navy Federal may also sell loans that were previously retained for investment purposes to private third-party investors.

Navy Federal sold/securitized $3.3 billion and $6.1 billion of first mortgage loans during the years ended December 31, 2023 and 2022, respectively. The following table provides a summary of the cash flows exchanged between Navy Federal and transferees on all loans transferred during the years ended December 31:

(dollars in thousands)	2023	2022
Cash from sale of mortgage loans and mortgage-backed securities	$ 3,263,923	$ 5,900,153
Repurchase of previously transferred loans	72,301	143,052
Contractual servicing fees received	155,038	152,957

Realized gains on sale of mortgages are included in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income and totaled $35.6 million and $122.1 million for the years ended December 31, 2023 and 2022, respectively. Navy Federal recorded fair value gain on mortgage loans held for sale and mortgage loan commitments of $3.3 million for the years ended December 31, 2023, and recorded a fair value loss of

$51.3 million for the years ended December 31, 2022 in Net gain/ (loss) on mortgage loans in the Consolidated Statements of Income.

Navy Federal's continuing involvement in loans transferred includes ongoing servicing, repurchasing previously transferred loans under certain conditions, loss-sharing agreements, holding of mortgage-backed securities and obligations related to standard representations and warranties.

Servicing

Navy Federal retains MSR on loans transferred in sale transactions and loans securitized by the GSEs and GNMA. MSR assets are recognized at fair value on the date of sale or securitization. The changes in fair value of MSRs during the years ended December 31 were as follows:

(dollars in thousands)	2023	2022
Balance, beginning of period	**$ 628,150**	**$ 474,649**
Additions from loans sold with servicing retained	48,998	117,496
Change in fair value due to:		
Pay offs/Maturities [1]	(56,656)	(81,180)
Others [2]	2,176	117,185
Balance, end of period	**$ 622,668**	**$ 628,150**

[1] Represents MSR value changes resulting from passage of time, including the impact from scheduled loan principal payments and loans that were paid down or paid off during the period.
[2] Represents MSR value changes resulting primarily from market-driven changes in interest rates.

Actual and expected loan constant prepayment rates (CPR), discount rates, servicing costs and other economic factors are considered in determining the MSR fair value. The MSR valuation is sensitive to interest rate and prepayment risk. The sensitivity analysis of the hypothetical effect on fair value of MSR as a result of a 10% and 20% adverse change in the CPR and option adjusted spread at December 31 is presented below:

(dollars in thousands)	2023	2022
Weighted-average life (years)	8.01	5.83
Weighted-average CPR	7.10%	11.88%
Decline in fair value from 10% adverse change	$ 17,141	$ 25,494
Decline in fair value from 20% adverse change	33,104	50,619
Option adjusted spread	5.89%	1.32%
Decline in fair value from 10% adverse change	$ 15,225	$ 3,006
Decline in fair value from 20% adverse change	29,664	5,924

See Note 14: Fair Value Measurement for further details.

Navy Federal earns servicing and other ancillary fees for its role as servicer. Navy Federal's servicing fees are priced based on parameters set by the GSEs and GNMA. Navy Federal's servicing revenue is included in Mortgage servicing revenue in the Consolidated Statements of Income. Navy Federal received $1.9 million and $2.2 million of late charges and miscellaneous fees, which is included in Fee and other income in the Consolidated Statements of Income during the years ended December 31, 2023 and 2022, respectively.

Navy Federal's responsibilities as servicer typically include collecting and remitting monthly principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and in certain instances, funding servicing advances that have not yet been collected from the borrower. Navy Federal recognizes servicing advances in Accounts receivable and accrued interest in the Consolidated Statements of Financial Condition. Servicing advances as of December 31, 2023 and 2022 totaled $104.2 million and $110.8 million, respectively.

The following table provides the outstanding and delinquent loan balances of transferred loans for which Navy Federal retains servicing rights at December 31:

(dollars in thousands)	2023	2022
Principal balances of loans serviced [1]	$ 34,709,623	$ 34,749,823
Delinquent loans [2]	183,015	229,196

[1] Includes loans that are in the GNMA early pool buyback program of $107.4 million and $153.9 million at December 31, 2023 and 2022, respectively.

[2] Serviced delinquent loans are 60 days or more past due. Delinquent loan balances, net of the adjustments related to COVID-19 Loan Accommodations totaled $176.8 million and $164.6 million as of December 31, 2023 and 2022, respectively.

Retained Investment in GNMA Securities

GNMA securities backed by Navy Federal loans may be retained as investments by Navy Federal and classified as AFS debt securities. See Note 2: Investments for details.

In accordance with ASC 860-20, *Sales of Financial Assets*, the effect of two negative changes in each of the key assumptions used to determine the fair value of Navy Federal's investment in GNMA securities must be disclosed. The negative effect of each key assumption change must be calculated independently, holding all other assumptions constant. The table below details the key assumptions used in Navy Federal's analysis, specifically, CPR and weighted-average life.

(dollars in thousands)	2023	2022
Weighted-average CPR	12.66%	13.51%
Weighted-average life (years)	5.59	5.35

The sensitivity analysis of the hypothetical effect on fair value of GNMA securities as a result of a 10% and 20% adverse change in the CPR at December 31 is presented below:

(dollars in thousands)	2023	2022
Weighted-average CPR		
Decline in fair value from 10% adverse change	$ 1,420	$ 1,545
Decline in fair value from 20% adverse change	2,995	2,960

The sensitivities in the table above are hypothetical and may not be indicative of actual results. The effect of a variation in a particular assumption on the fair value is calculated independently of changes in other assumptions. Further, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption on the fair value may not be linear.

The fair value of GNMA securities held by Navy Federal was $284.8 million and $319.9 million as of December 31, 2023 and 2022, respectively.

GNMA Early Pool Buyback Program

Navy Federal has the option to repurchase pooled loans out of GNMA securities when members fail to make payments for three consecutive months. As Navy Federal has the unilateral ability to repurchase these loans, effective control over the loans has been regained. Navy Federal recognizes an asset in mortgage loans held for sale and a corresponding liability in Other liabilities in the Consolidated Statements of Financial Condition regardless of whether it has the intent to repurchase the loan. Of the loans that became eligible for repurchase under the Early Pool Buyback Program, $69.8 million and $136.7 million were repurchased out of GNMA securities during the years ended December 31, 2023 and 2022, respectively. The loans bought out of GNMA securities are recorded as mortgage loans held for investment. At December 31, 2023 and 2022, amounts associated with the Early Pool Buyback Program recognized in Mortgage loans held for sale and Other liabilities totaled $107.4 million and $153.9 million, respectively.

Financial Guarantees Related to Recourse Provided in Assets Transferred

Representations and Warranties

For mortgage loans transferred in sale transactions or securitizations to the GSEs, GNMA and other investors, Navy Federal has made representations and warranties that the loans meet specified requirements. These requirements typically relate to collateral, underwriting standards, validation of certain borrower representations in connection with the loan and the use of standard legal documentation. In connection with the sale of loans to the GSEs, GNMA and other investors, Navy Federal may be required to repurchase the loan or indemnify the respective entity for losses due to breaches of these representations and warranties.

Navy Federal recognizes a liability for estimated losses related to representations and warranties from the inception of the obligation when the loans are sold. This liability is included in Other liabilities in the Consolidated Statements of Financial Condition. In the Consolidated Statements of Income, the related expense is included as an offset to Net gain/ (loss) on mortgage loans for loans sold during the current period, or in Servicing expense for re-measurement of the liability related to loans sold in prior periods. Navy Federal's estimated representations and warranties liability at December 31, 2023 and 2022 was $7.6 million and $10.2 million, respectively.

Management believes the liability for representations and warranties appropriately reflects the estimated probable losses on indemnification and repurchase claims for all loans sold and outstanding as of December 31, 2023 and 2022. In making these estimates, Navy Federal considers the losses expected to be incurred over the weighted average life of the sold loans. While management seeks to obtain all relevant information in estimating this liability, the estimation process is inherently uncertain and imprecise and, accordingly, it is reasonably possible future losses could be more or less than Navy Federal's established liability. At December 31, 2023 and 2022, Navy Federal estimates it is reasonably possible it could incur additional losses in excess of its accrued liability of up to approximately $27.1 million and $35.4 million, respectively.

The total UPB subject to representations and warranties was $33.6 billion and $33.9 billion as of December 31, 2023 and 2022, respectively.

Note 5: Derivative Instruments and Hedging Activities

Navy Federal's risk management strategies include the use of derivatives as economic hedges and derivatives designated as qualifying accounting hedges. The goal of these strategies is to mitigate market risk so that movements in interest rates do not adversely affect the value of Navy Federal's assets or liabilities, earnings or future cash flows. The fair value of derivative instruments is presented in a gain or loss position, net, for those that are subject to legally enforceable master netting agreements, and is reported in Other assets and Other liabilities, respectively, in the Consolidated Statements of Financial Condition.

The following table presents the notional amount and fair value of derivative instruments on a gross basis:

	December 31, 2023			December 31, 2022		
	Notional Amount	Derivatives at Fair Value		Notional Amount	Derivatives at Fair Value	
(dollars in thousands)		Asset	Liability		Asset	Liability
Derivatives not designated as accounting hedges:						
Interest rate lock commitments	$ 433,345	$ 6,302	$ 3	$ 302,464	$ 2,334	$ 71
Forward sales contracts	3,121,000	850	8,703	534,500	2,336	3,253
Treasury futures	5,000	-	-	-	-	-
Total derivatives not designated as accounting hedges	**$ 3,559,345**	**$ 7,152**	**$ 8,706**	**$ 836,964**	**$ 4,670**	**$ 3,324**
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Cash flow interest rate contracts (pay fixed)	$ 3,100,000	$ 204	$ 1,927	$ 2,100,000	$ 1,102	$ 17
Total derivatives designated as accounting hedges	**$ 3,100,000**	**$ 204**	**$ 1,927**	**$ 2,100,000**	**$ 1,102**	**$ 17**
Total derivative instruments, gross	**$ 6,659,345**	**$ 7,356**	**$ 10,633**	**$ 2,936,964**	**$ 5,772**	**$ 3,341**
Less: Legally enforceable master netting agreements		(1,054)	(8,907)		(2,353)	(2,353)
Total derivative instruments, net		**$ 6,302**	**$ 1,726**		**$ 3,419**	**$ 988**

Offsetting Derivative Financial Instruments

As discussed in Note 1: Summary of Significant Accounting Policies, some of Navy Federal's derivative instruments are subject to legally enforceable master netting agreements, where we have the right to offset exposure with the same counterparty. As such, Navy Federal reports these positions in the Consolidated Statements of Financial Condition on a net basis.

The following tables present total gross derivative assets and liabilities at December 31, 2023 and 2022, which are adjusted to reflect the effects of legally enforceable master netting agreements. The following tables also include financial instruments or cash collateral related to legally enforceable master netting agreements that represent securities or cash collateral received or pledged with the same counterparty. These amounts are not offset in the Consolidated Statements of Financial Condition, but are shown as a reduction to total derivative assets and liabilities to derive net derivative assets and liabilities.

	December 31, 2023					
				Gross Amounts Not Offset in Statements of Financial Condition		
(dollars in thousands)	Gross Amounts Recognized	Gross Amounts Offset in Statements of Financial Condition [1]	Net Amounts Presented in Statements of Financial Condition	Financial Instruments Collateral [2]	Cash Collateral [2]	Net Amount
Financial Assets						
Derivative instruments not subject to master netting agreements	$ 6,302	$ -	$ 6,302	$ -	$ -	$ 6,302
Derivative instruments subject to master netting agreements	1,054	(1,054)	-	-	-	-
Total derivative assets	**$ 7,356**	**$ (1,054)**	**$ 6,302**	**$ -**	**$ -**	**$ 6,302**
Financial Liabilities						
Derivative instruments not subject to master netting agreements	$ (3)	$ -	$ (3)	$ -	$ -	$ (3)
Derivative instruments subject to master netting agreements	(10,630)	8,907	(1,723)	1,723	-	-
Total derivative liabilities	**(10,633)**	**8,907**	**(1,726)**	**1,723**	**-**	**(3)**
Total	**$ (3,277)**	**$ 7,853**	**$ 4,576**	**$ 1,723**	**$ -**	**$ 6,299**

[1] Includes offset by same counterparty where legally enforceable under master netting agreements.

[2] Amounts are limited to the derivative asset/liability balance and, accordingly, do not include excess collateral received/pledged.

	December 31, 2022					
				Gross Amounts Not Offset in Statements of Financial Condition		
(dollars in thousands)	Gross Amounts Recognized	Gross Amounts Offset in Statements of Financial Condition [1]	Net Amounts Presented in Statements of Financial Condition	Financial Instruments Collateral [2]	Cash Collateral [2]	Net Amount
Financial Assets						
Derivative instruments not subject to master netting agreements	$ 2,334	$ -	$ 2,334	$ -	$ -	$ 2,334
Derivative instruments subject to master netting agreements	3,438	(2,353)	1,085	-	-	1,085
Total derivative assets	**$ 5,772**	**$ (2,353)**	**$ 3,419**	**$ -**	**$ -**	**$ 3,419**
Financial Liabilities						
Derivative instruments not subject to master netting agreements	$ (71)	$ -	$ (71)	$ -	$ -	$ (71)
Derivative instruments subject to master netting agreements	(3,270)	2,353	(917)	786	131	-
Total derivative liabilities	**(3,341)**	**2,353**	**(988)**	**786**	**131**	**(71)**
Total	**$ 2,431**	**$ -**	**$ 2,431**	**$ 786**	**$ 131**	**$ 3,348**

[1] Includes offset by same counterparty where legally enforceable under master netting agreements.

[2] Amounts are limited to the derivative asset/liability balance and, accordingly, do not include excess collateral received/pledged.

Derivatives Accounted For as Economic Hedges

Navy Federal is an active participant in the production of mortgage loans that are sold to investors in the secondary market. At origination, these loans are classified as Mortgage loans held for sale in the Consolidated Statements of Financial Condition. Prior to origination, the corresponding IRLCs related to Mortgage loans held for sale expose Navy Federal to the risk of adverse changes in interest rates between the time of the loan commitment and the time Navy Federal funds the loan. Navy Federal is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered to the investor. To offset this exposure, Navy Federal enters into forward sales contracts to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). These forward sales contracts act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans. In 2023, Navy Federal began transacting in U.S. Treasury futures contracts and options on U.S. Treasury futures to economically hedge the value of a portion of the IRLCs and Held for Sale loans as a result of changing market interest rates. Navy Federal accounts for these financial instruments as derivatives in accordance with ASC 815, *Derivatives and Hedging*.

The table below presents gains and losses resulting from derivatives accounted for as economic hedges for the years ended December 31:

(dollars in thousands)		2023	2022
Derivative Instruments	**Location of Gain/(Loss) Recognized in Earnings**		
Interest rate lock commitments	Net gain/(loss) on mortgage loans	$ 4,036	$ (18,912)
Forward sales contracts	Net gain/(loss) on mortgage loans	(6,936)	1,089
Treasury futures	Net gain/(loss) on mortgage loans	(175)	-
Total		**$ (3,075)**	**$ (17,823)**

Derivatives Accounted For as Qualifying Accounting Hedges

Under the provisions of ASC 815, *Derivatives and Hedging*, derivative instruments may be designated as a qualifying cash flow hedge.

Cash Flow Accounting Hedges

Navy Federal funds a portion of its operations with variable rate debt obligations. Navy Federal uses pay-fixed interest rate swaps to hedge the variability in cash flows related to existing and anticipated replacement FHLB borrowings that reprices based on the Secured Overnight Financing Rate (SOFR).

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported in AOCI and reclassified into earnings in the same period during which the hedged transaction affects earnings and is presented in the same Consolidated Statements of Income line item as the earnings effect of the hedged item.

The table below summarizes gains and losses on cash flow hedges for the years ended December 31:

	2023	2022		2023	2022
(dollars in thousands)	**Gain/(Loss) Recognized in AOCI**		**Location of Gain/(Loss) Reclassified From AOCI Into Earnings**	**Amount of Gain/(Loss) Reclassified From AOCI Into Earnings**	
Interest rate contracts	$ (24,612)	$ 212,422	Interest on borrowed funds	$ 50,295	$ (21,119)

During the next 12 months, net gains in AOCI of approximately $28.8 million on derivative instruments that qualify as cash flow hedges are expected to be reclassified into earnings.

For open or future cash flow hedges, the maximum length of time over which forecasted transactions are or will be hedged is approximately 10 years.

Note 6: Commitments and Contingencies

Commitments

In the normal course of business, Navy Federal enters into commitments to extend credit and makes financial guarantees to help meet the financing needs of its members. Unfunded loan commitments are amounts Navy Federal has agreed to lend to a member generally as long as the member remains in good standing on existing loans. Commitments generally have fixed expiration dates or other termination clauses. Navy Federal uses the same credit policies in making commitments as it does for all loans, and accordingly, at December 31, 2023 and 2022, the potential credit risk related to these commitments could be similar to existing loans, if these commitments became funded loans.

Commitment balances as of December 31 were as follows:

(dollars in thousands)	2023	2022
Credit cards	$ 46,460,116	$ 41,846,986
Home equity lines of credit	2,628,704	2,190,471
Checking lines of credit	1,300,616	1,301,821
Preapproved loans	1,561,561	1,456,723
Other	122,788	71,654
Total	**$ 52,073,785**	**$ 46,867,655**

Contingencies

Navy Federal is party to various legal and regulatory actions normally associated with financial institutions, the aggregate effect of which, in the opinions of management and legal counsel, would not be material to Navy Federal's consolidated financial statements.

Note 7: Property, Plant and Equipment and Leases

Property, Plant and Equipment

The following is a summary of Navy Federal's property, plant and equipment as of December 31:

(dollars in thousands)	2023	2022
Land and buildings	$ 2,079,027	$ 2,014,321
Equipment, furniture and fixtures	851,260	822,193
Computer software and capitalized IT assets	1,458,415	1,275,577
Leasehold improvements	219,497	207,837
Subtotal	**4,608,199**	**4,319,928**
Less: Accumulated depreciation/amortization	(2,122,025)	(1,979,066)
Total	**$ 2,486,174**	**$ 2,340,862**

Operating Leases

The following table presents information about the operating lease portfolio and related lease costs as of and for the years ended December 31, 2023 and 2022:

(dollars in thousands)	2023	2022
Right-of-use assets	$ 297,443	$ 288,301
Lease liabilities	$ 316,273	$ 304,572
Cash paid on operating lease liabilities	$ 30,202	$ 29,587
Weighted-average remaining lease term (years)	13.1	13.2
Weighted-average discount rate	2.4%	1.9%

(dollars in thousands)	2023	2022
Operating lease cost	$ 32,801	$ 31,459
Variable lease cost	7,615	7,036
Total lease cost	**$ 40,416**	**$ 38,495**

The following table presents a maturity analysis of the operating leases and a reconciliation of the future undiscounted cash flows to lease liabilities as of December 31, 2023:

(dollars in thousands)	Amount
2024	$ 31,731
2025	31,632
2026	30,987
2027	30,090
2028	28,548
Thereafter	219,267
Total undiscounted future lease payments	**$ 372,255**
Less: Imputed interest expense	(55,982)
Total lease liabilities	**$ 316,273**

In addition to the table above, as of December 31, 2023, NFCU had additional undiscounted future operating lease commitments of $15.7 million that were signed but had not yet commenced.

Note 8: Deposit Accounts

Navy Federal's deposit accounts consist of demand and time deposits. The aggregate amount of time deposits that meet or exceed the $250,000 NCUA insurance limit, which is reported at the members' applicable account ownership category, was $16.8 billion and $11.2 billion at December 31, 2023 and 2022, respectively.

As of December 31, 2023, scheduled maturities of time deposits for each of the next five years were as follows:

(dollars in thousands)	Amount
2024	$ 42,666,136
2025	6,220,639
2026	1,690,986
2027	1,067,498
2028	984,918

Overdrafts on demand deposits of $142.6 million and $120.3 million as of December 31, 2023 and 2022, respectively, have been reclassified to Loans held for investment in the Consolidated Statements of Financial Condition.

Interest rates on deposit accounts are set by the Board of Directors and are based on an evaluation of current and future market conditions. Interest on deposit accounts is based on available earnings for each interest period and is not guaranteed by Navy Federal. In claims against the assets of Navy Federal, such as in the event of its liquidation, amounts in deposit accounts that exceed the $250,000 NCUA insurance limit are subordinate to other liabilities of Navy Federal.

Note 9: Borrowed Funds

Navy Federal's borrowings as of December 31 were as follows:

	December 31, 2023				
(dollars in thousands)	**Amount Outstanding**	**Coupon**	**Fixed/Float**	**Payment**	**Maturities**
FHLB borrowing	$ 1,600,000	3.25% - 4.72%	Fixed	Monthly	2028 - 2037
FHLB borrowing	2,465,000	3.43% - 5.12%	Fixed	Quarterly	2028 - 2033
FHLB borrowing	3,100,000	5.61% - 5.70%	Float	Quarterly	2024 - 2025
Total FHLB borrowings	**$ 7,165,000**				

	December 31, 2022				
(dollars in thousands)	**Amount Outstanding**	**Coupon**	**Fixed/Float**	**Payment**	**Maturities**
FHLB borrowing	$ 1,600,000	3.25% - 4.72%	Fixed	Monthly	2028 - 2037
FHLB borrowing	865,000	3.43% - 4.62%	Fixed	Quarterly	2028 - 2033
FHLB borrowing	2,100,000	4.46% - 4.59%	Float	Quarterly	2023
Total FHLB borrowings	**$ 4,565,000**				

The following table displays the amount of borrowed funds by maturity for each of the next five years and thereafter as of December 31, 2023:

(dollars in thousands)	Amount	
2024	$	2,600,000
2025		500,000
2026		-
2027		-
2028		925,000
Thereafter		3,140,000
Total	**$**	**7,165,000**

Navy Federal did not prepay any borrowings during the years ended December 31, 2023 and 2022.

At December 31, 2023, Navy Federal pledged consumer and credit card loans to the FRB as collateral with a carrying amount of $48 billion for the ability to borrow up to $32.6 billion. At December 31, 2023, Navy Federal pledged mortgage loans held for investment with a carrying amount of $37.6 billion and debt securities with fair value of $1.1 billion to the FHLB as collateral for the ability to borrow up to $27 billion. At December 31, 2022, Navy Federal pledged consumer and credit card loans to the FRB as collateral with a carrying amount of $42.7 billion for the ability to borrow up to $28.9 billion. At December 31, 2022, Navy Federal pledged mortgage loans held for investment with a carrying amount of $26.4 billion and debt securities with fair value of $1 billion to the FHLB as collateral for the ability to borrow up to $20 billion.

Navy Federal had the following borrowing capacity and unused lines of credit as of December 31:

(dollars in thousands)	2023		2022	
Federal Reserve Bank	$	32,631,222	$	28,852,198
FHLB		19,815,021		15,450,079
Lines of Credit		250,000		250,000
Total	**$**	**52,696,243**	**$**	**44,552,277**

Note 10: Retirement Benefit Plans

Navy Federal Credit Union Employees' Retirement Plan

Navy Federal Credit Union Employees' Retirement Plan (the Plan) is a defined benefit retirement plan with benefits based on set formulas. Navy Federal transitioned to a Cash Balance design as of January 1, 2001, but retained the Traditional design for those employees who opted to remain under the Traditional formula. The following describes how the benefits are calculated:

- **Cash Balance**—This design provides either a single sum payment upon retirement or a monthly annuity. The annuity option is available for each Cash Balance Plan participant who has a benefit value of more than $5,000.
- **Traditional**—This design provides a lifetime of monthly retirement benefits, determined by a set formula. The formula is based on the final average earnings (an average of the three highest consecutive years of income) multiplied by 2%, times the length of employee service.

Retiree Medical Plan

Navy Federal provides to employees hired prior to January 1, 2009, postretirement benefits to offset the cost of medical insurance premiums or out-of-pocket medical expenses. The plan provides a lump sum, notionally credited, to a health reimbursement account equal to $75 or $100 (depending on the retiree's age on September 1, 2008), multiplied by the number of years of continuous service the retiree provided to Navy Federal, multiplied by a lump sum factor.

The pension assets, net of the accumulated benefit obligation, are recognized in Other assets and the retiree medical plan liabilities are recognized in Other liabilities in the Consolidated Statements of Financial Condition.

The following table provides key balances and transaction amounts of the pension and retiree medical plans as of and for the years ended December 31:

	Pension		Retiree Medical	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Accumulated benefit obligation at year end	$ 1,414,755	$ 1,285,249	N/A	N/A
Projected benefit obligation at year end	1,658,314	1,480,094	55,493	52,122
Fair value of plan assets at year end	1,972,263	1,729,573	-	-
Over/(under) funded	313,949	249,479	(55,493)	(52,122)
Employer contributions	36,000	60,000	3,450	3,447
Plan participants' contributions	-	-	6	78
Benefits paid	(74,377)	(72,402)	(3,456)	(3,525)
Net periodic benefit cost	27,473	16,244	4,196	5,190

As of December 31, 2023, the increase in projected benefit obligation for the pension plan was mainly driven by a decrease in the discount rate and plan experience, including new entrants, an increase in the change of the salary scale assumption, and an increase in the cash balance interest crediting rate assumption. As of December 31, 2023, the change in the projected benefit obligation for the retiree medical plan was mainly driven by a decrease in the discount rate.

As of December 31, 2022, the decrease in the projected benefit obligation for the pension plan was mainly driven by an increase in the discount rate, partially offset by plan experience, including new entrants, an increase in the Consumer Price Index (CPI) assumption and a plan amendment to provide a one-time benefit increase of 6% to all participants receiving monthly benefit. As of December 31, 2022, the change in the projected benefit obligation for the retiree medical plan was mainly driven by an increase in the discount rate.

Navy Federal reports service cost and other components of net periodic benefit cost in Salaries and employee benefits in the Consolidated Statements of Income. The assumptions used to determine the projected benefit obligation and net periodic benefit costs for the pension and retiree medical benefit plans for the years ended December 31 were as follows:

	Pension		Retiree Medical	
	2023	**2022**	**2023**	**2022**
Discount rate				
Projected benefit obligation	5.25%	5.55%	5.25%	5.50%
Net periodic benefit cost	5.55%	2.95%	5.50%	3.00%
Rate of compensation increase				
Projected benefit obligation	10.03%	8.57%	N/A	N/A
Net periodic benefit cost	7.78%	6.57%	N/A	N/A
Expected long-term rate of return	7.75%	6.00%	N/A	N/A
Cash balance interest crediting rate				
Projected benefit obligation	4.45%	4.10%	N/A	N/A
Net periodic benefit cost	4.10%	3.79%	N/A	N/A

The long-term rate of return assumption represents the expected average rate to be earned on plan assets and future plan contributions to meet benefit obligations. The assumption is based on several factors, including the anticipated long-term asset allocation of plan assets, historical market index and plan returns, and a forecast of future expected asset returns.

The amounts in AOCI that have not yet been recognized as components of net periodic benefit cost as of December 31 are:

	Pension		Retiree Medical	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Accumulated other comprehensive loss/(gain)				
Net prior service cost	$ 54,314	$ 62,396	$ -	$ 112
Net loss/(gain)	215,371	263,232	(175)	(2,911)
Total accumulated other comprehensive loss/(gain)	**$ 269,685**	**$ 325,628**	**$ (175)**	**$ (2,799)**

The amounts recognized in AOCI for the years ended December 31, 2023 and 2022 consist of:

	Pension		Retiree Medical	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Amounts amortized during the year				
Net prior service cost	$ (8,082)	$ (4,765)	$ (112)	$ (240)
Net loss	(9,567)	(4,926)	-	(839)
Amounts arising during the year				
Net prior service cost	-	39,952	-	-
Net (gain)/loss	(38,295)	41,756	2,737	(18,716)
Total recognized in other comprehensive (income)/loss	**$ (55,944)**	**$ 72,017**	**$ 2,625**	**$ (19,795)**

The following table discloses the benefits expected to be paid in the next 10 years:

(dollars in thousands)	Pension	Retiree Medical
2024	$ 96,733	$ 3,635
2025	101,318	3,623
2026	107,429	3,622
2027	112,714	3,635
2028	117,577	3,616
2029-2033	667,597	17,987

The anticipated employer contribution for 2024 is $25.0 million for the pension plan and $3.6 million for the retiree medical benefit plan. The measurement date for the pension and retiree medical benefit plan for 2023 and 2022 was December 31.

The investment strategy of the Plan is to employ an approach whereby a mix of equity and fixed-income investments are used to maximize the long-term return of plan assets at a prudent level of risk that includes consideration of benefit obligation volatility. The intent of this strategy is to keep the Plan well-funded over the long run. Risk tolerance is established through careful consideration of plan liabilities and plan-funded status. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and regular investment portfolio reviews.

As of December 31, 2023, the target allocation of plan assets was 25% U.S. equity securities, 40% global equity securities and 35% fixed-income securities. Most of the U.S. equity assets are invested in a large company index fund and in a defensive equity fund with the balance in small- and mid-sized company equity securities. Most of the global equity allocation is in developed markets around the world, with the balance in emerging markets. The fixed-income allocation comprises a small allocation to cash to provide liquidity for benefit and expense payments, with the balance invested in intermediate and long-term bonds, the majority of which are investment-grade.

The tables below present the Plan's assets within the fair value hierarchy as described in Note 1: Summary of Significant Accounting Policies as of December 31:

(dollars in thousands)	December 31, 2023			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. equity securities	$ 97,179	$ -	$ -	$ 97,179
Global equity securities	772,550	-	-	772,550
Fixed-income securities	318,558	232,135	-	550,693
Cash and cash equivalents	27,461	-	-	27,461
Total assets in the fair value hierarchy	**$ 1,215,748**	**$ 232,135**	**$ -**	**$ 1,447,883**
Investments measured at net asset value:				524,380
Total investments				**$ 1,972,263**

(dollars in thousands)	December 31, 2022			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. equity securities	$ 83,715	$ -	$ -	$ 83,715
Global equity securities	656,089	-	-	656,089
Fixed-income securities	273,330	226,571	-	499,901
Cash and cash equivalents	53,142	-	-	53,142
Total assets in the fair value hierarchy	**$ 1,066,276**	**$ 226,571**	**$ -**	**$ 1,292,847**
Investments measured at net asset value:				436,726
Total investments				**$ 1,729,573**

The following is a description of the valuation methodologies used to value fixed income securities that are classified within Level 2 of the fair value hierarchy. Municipal bonds, corporate bonds and corporate notes are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Asset-backed securities and non-agency collateralized mortgage obligation securities are valued using observable inputs based on similar assets in the marketplace.

Certain investments are measured at net asset value (NAV) per share, or its equivalent, as a practical expedient and therefore are not classified within the fair value hierarchy. These investments are valued at NAV, which is calculated based on the underlying investments and is provided by the respective investment managers as a practical expedient to estimate fair values. Most of the underlying investments are traded in markets that are considered to be active. For those underlying investments that are not considered to be actively traded, the fair values are based on quoted market prices of similar assets, dealer quotations or valuations from pricing sources supported by observable inputs.

The preceding methods may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. Although Navy Federal believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Interest in the investments measured at NAV can be purchased or redeemed at specified times during the month with advance notice of one to five days. For one investment, settlement of redemptions of more than $1 million will occur 10 business days following the trade date. For a second investment, significant contributions or redemptions require notice of 15 business days in advance of the trade date. There were no other significant redemption terms or conditions for the other investments measured at NAV.

Navy Federal 401(k) Savings Plan

The Navy Federal 401(k) savings plan is a defined contribution plan where employees can contribute up to the statutory limits to a 401(k) retirement account and receive employer matching contributions. The matching contribution percentage is based on the formula the employee receives in the defined benefit retirement plan. Employees eligible for the Cash Balance benefit receive a 100% employer match on the first 7% of pay they contribute to their 401(k) account up to IRS limits and are vested after completing two years of service. The employees eligible for the Traditional benefit receive an employer match of 50% on the first 7% of pay they contribute to their 401(k) account up to IRS limits.

The expense recognized for the 401(k) Plan, including matching contributions and administrative costs, was $115.8 million and $99.1 million for the years ended December 31, 2023 and 2022, respectively.

Deferred Compensation Plan

The Navy Federal 457(b) deferred compensation plan is a non-qualified plan that offers a before-tax savings opportunity to highly compensated employees. The annual deferral amount allowed mirrors the 401(k) Plan limits, and contributions held by Navy Federal earn monthly interest based on Navy Federal’s monthly gross income divided by average earning assets (loans and investments).

Non-Qualified Supplemental Retirement Plans

The non-qualified supplemental retirement plans are primarily designed to “make up” for benefits not paid through the qualified retirement plans as a result of IRS limitations. Internal Revenue Code Section 401(a)(17) limits the amount of compensation that can be used in a qualified retirement plan calculation, and Internal Revenue Code Section 415 limits the amount of monthly annuity that can be paid from a defined benefit plan.

All benefits are paid from Navy Federal's assets and are in compliance with all federal laws and regulations. As of December 31, 2023 and 2022, the total liability related to these plans was $3.1 million and $2.7 million, respectively.

Note 11: Related Party Transactions

In the normal course of business, Navy Federal extends loans to and receives deposits from credit union officials. Credit union officials are defined as volunteer members of the Board of Directors and board committees, and employees with the title of Vice President and above. The total outstanding loan balances extended to credit union officials as of December 31, 2023 and 2022 were $75.3 million and $68.3 million, respectively. Total deposit balances of credit union officials as of December 31, 2023 and 2022 were $43.7 million and $38.3 million, respectively. Loans to credit union officials are made under similar terms as loans entered into by all members. Deposit accounts held by credit union officials earn interest at the same rates provided to all other members.

Note 12: Accumulated Other Comprehensive Income/(Loss)

Details of AOCI as of and for the years ending December 31 were as follows:

	December 31, 2023			
(dollars in thousands)	**Unrecognized Net Pension and Postretirement Amounts**	**Unrealized Net Gain/(Losses) on Available-for-Sale Debt Securities**	**Unrealized Net Gains/(Losses) on Cash Flow Derivatives**	**Total**
Balance, beginning of year	**$ (322,829)**	**$ (4,840,917)**	**$ 84,623**	**$ (5,079,123)**
OCI before reclassifications	35,558	566,384	(24,612)	577,330
Amounts reclassified from AOCI to:				
Salaries and employee benefits	17,761	-	-	17,761
Net (gain)/loss on investments	-	(273)	-	(273)
Interest on borrowed funds	-	-	(50,295)	(50,295)
Net change in AOCI	**53,319**	**566,111**	**(74,907)**	**544,523**
Balance, end of year	**$ (269,510)**	**$ (4,274,806)**	**$ 9,716**	**$ (4,534,600)**

	December 31, 2022			
(dollars in thousands)	**Unrecognized Net Pension and Postretirement Amounts**	**Unrealized Net Gain/(Losses) on Available-for-Sale Debt Securities**	**Unrealized Net Gains/(Losses) on Cash Flow Derivatives**	**Total**
Balance, beginning of year	**$ (270,607)**	**$ (14,941)**	**$ (148,918)**	**$ (434,466)**
OCI before reclassifications	(62,992)	(4,829,564)	212,422	(4,680,134)
Amounts reclassified from AOCI to:				
Salaries and employee benefits	10,770	-	-	10,770
Net (gain)/loss on investments	-	3,588	-	3,588
Interest on borrowed funds	-	-	21,119	21,119
Net change in AOCI	**(52,222)**	**(4,825,976)**	**233,541**	**(4,644,657)**
Balance, end of year	**$ (322,829)**	**$ (4,840,917)**	**$ 84,623**	**$ (5,079,123)**

Note 13: Regulatory Matters

Navy Federal is subject to regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Navy Federal's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, Navy Federal must meet specific capital requirements that involve quantitative measures of Navy Federal's assets, liabilities and certain commitments as calculated under U.S. GAAP. Navy Federal's capital amounts and net worth classification are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

A credit union is defined as "complex", and a risk-based capital measure is applicable only if the credit union's most recent quarter-end total assets exceed $500 million. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio, or, if a qualifying "complex" credit union, by opting into the Complex Credit Union Leverage Ratio (CCULR) framework.

For a "complex" credit union to be categorized as "well capitalized", it must maintain a minimum net worth ratio of 7% and maintain a minimum risk-based capital ratio of 10%. For a qualifying "complex" credit union opting into the CCULR framework to be categorized as "well capitalized", it must maintain a minimum CCULR of 9%. If the CCULR falls below 9% but is greater than or equal to 7%, the credit union has two calendar quarters of grace period either to satisfy the requirements to be "well capitalized" under the CCULR framework or to calculate its risk-based capital ratio. If a "complex" credit union has a net worth ratio below 7% but greater than or equal to 6% and a risk-based capital ratio of 8% or greater, it is categorized as "adequately capitalized". If a "complex" credit union has a net worth ratio below 6% or a risk-based capital ratio of below 8%, it is categorized as "undercapitalized".

Navy Federal opts into the CCULR framework and is categorized as "well capitalized" under the NCUA regulatory framework for prompt corrective action as a result of having a CCULR of 11.63% and 12.29% as of December 31, 2023 and 2022, respectively. The components of Navy Federal's capital are stable, and the occurrence of factors that could significantly affect capital adequacy is considered to be remote as they are limited to extraordinary regulatory or economic events. There are no conditions or events that have occurred since December 31, 2023 that management believes would have changed Navy Federal's categorization.

Note 14: Fair Value Measurement

Navy Federal measures certain financial assets and liabilities at fair value in accordance with ASC 820, *Fair Value Measurement*, through various valuation approaches as described in Note 1: Summary of Significant Accounting Policies. Management has not made significant changes in the valuation techniques and parameters used for the fair value measurement of its financial assets and liabilities during the years ended December 31, 2023 and 2022.

Financial Assets and Liabilities Accounted For at Fair Value on a Recurring Basis

The following are the valuation methodologies and inputs used by Navy Federal in estimating the fair value of assets and liabilities measured on a recurring basis and classified as Level 1, Level 2 and Level 3 in the fair value hierarchy.

Available-for-Sale Debt Securities

Navy Federal receives pricing for AFS debt securities from a third-party pricing service provider. Below includes the valuation methodologies used for AFS debt securities classified as Level 2 in the fair value hierarchy.

- **U.S. Government and Federal Agency Securities, Bank Notes and Corporate Bonds, Municipal Securities and Non-U.S. Government Securities**—These financial instruments are valued based on similar assets in the marketplace or derived from model-based valuation techniques for which all significant inputs are observable.

- **Residential and Commercial Mortgage-Backed Securities**—These financial instruments include GSE-issued securities, GNMA-guaranteed securities and non-agency securities. The fair value is determined using a market approach. The inputs used in the fair value measurements are based upon readily observable transactions for securities with similar characteristics (such as issuer/guarantor, coupon rate, stated maturity and collateral pool characteristics) occurring on the measurement date.

Equity Securities

Navy Federal's equity securities primarily consist of investments in a mutual fund, which are valued based on quoted market price in an active market and classified as Level 1 in the fair value hierarchy.

Mortgage Loans Held for Sale, at Fair Value

Navy Federal elects the fair value option for certain mortgage loans held for sale at origination. The fair value of mortgage loans held for sale is determined based on an evaluation of best execution forward sales contract prices sourced from the TBA market by agency. As such, mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Loans Held for Investment, at Fair Value

Loans held for investment that are transferred from mortgage loans held for sale, for which the fair value option was elected at the time of origination, continue to be valued at fair value. These loans do not trade in an active, open market with readily observable prices. A discounted cash flow method is applied to determine the fair value, which projects future cash flows of an asset, and discounts them back to a present value. As significant unobservable inputs are utilized in the valuation, these loans are classified as Level 3 in the fair value hierarchy.

Mortgage Servicing Rights

MSR assets do not trade in an active, open market with readily observable prices. The fair value of MSR is determined by discounting projected net servicing cash flows. Actual and expected loan prepayment rate, discount rate, servicing costs and other economic factors are all considered in measuring the MSR fair value. The valuation model and underlying assumptions are corroborated by values received from independent third parties and through comparisons to market transactions. The fair value of Navy Federal's MSR portfolio is primarily affected by changes in mortgage interest rates resulting in loan prepayment acceleration factors to increase or decrease. As the MSR valuation is based on unobservable inputs, MSR assets are classified as Level 3 in the fair value hierarchy.

Derivative Assets and Liabilities

Fair values of interest rate swaps designated as cash flow hedge are determined based on third-party models that calculate the net present value of future cash flows discounted using the USD SOFR. Counterparty non-performance risk is considered by discounting future cash flows using the USD SOFR adjusted for credit quality. As the inputs utilized in the valuation are observable in the market, interest rate swaps are classified as Level 2 in the fair value hierarchy.

Fair values of forward sales contracts on TBA securities are determined based on an evaluation of best execution forward contract prices sourced from the TBA market, by agency. As such, forward sales contracts are classified as Level 2 in the fair value hierarchy.

Navy Federal utilizes Chicago Mercantile Exchange as the principal market (exchange) to transact in U.S. Treasury futures contracts and options on U.S. Treasury futures. The fair value of both of these instruments therefore is readily determinable and observable via the unadjusted bids and asks of exchange participants. As such, these instruments are classified as Level 1 in the fair value hierarchy.

Fair values of IRLCs are determined based on an evaluation of best execution forward contract prices sourced from the TBA market, adjusted by a factor that represents the probability it will settle and become a mortgage loan held for sale. As there are significant unobservable inputs in the fair value measurement, IRLCs are classified as Level 3 in the fair value hierarchy.

The tables below present certain information regarding assets and liabilities measured at fair value on a recurring basis in the Consolidated Statements of Financial Condition as of December 31:

	December 31, 2023				
(dollars in thousands)	Level 1	Level 2	Level 3	Netting Adjustments [1]	Total
Available-for-sale debt securities					
U.S. government and federal agency securities	$ -	$ 10,546,588	$ -	$ -	$ 10,546,588
Residential mortgage-backed securities	-	14,182,139	-	-	14,182,139
Commercial mortgage-backed securities	-	441,572	-	-	441,572
Bank notes and corporate bonds	-	4,567,465	-	-	4,567,465
Municipal securities	-	822,968	-	-	822,968
Non-U.S. government securities	-	258,599	-	-	258,599
Total available-for-sale debt securities	**-**	**30,819,331**	**-**	**-**	**30,819,331**
Equity securities	534,403	-	-	-	534,403
Mortgage loans held for sale	-	574,541	-	-	574,541
Loans held for investment	-	-	948,311	-	948,311
Mortgage servicing rights	-	-	622,668	-	622,668
Derivatives [2]	-	1,054	6,302	(1,054)	6,302
Total assets at fair value on a recurring basis	**$ 534,403**	**$ 31,394,926**	**$ 1,577,281**	**$ (1,054)**	**$ 33,505,556**
Derivatives [2]	$ -	$ (10,630)	$ (3)	$ 8,907	$ (1,726)
Total liabilities at fair value on a recurring basis	**$ -**	**$ (10,630)**	**$ (3)**	**$ 8,907**	**$ (1,726)**

[1] Amounts represent the impact of legally enforceable master netting agreements with the same counterparties.

[2] Derivative assets are included in Other assets and derivative liabilities are included in Other liabilities in the Consolidated Statements of Financial Condition.

	December 31, 2022				
(dollars in thousands)	Level 1	Level 2	Level 3	Netting Adjustments [1]	Total
Available-for-sale debt securities					
U.S. government and federal agency securities	$ -	$ 9,365,520	$ -	$ -	$ 9,365,520
Residential mortgage-backed securities	-	12,357,353	-	-	12,357,353
Commercial mortgage-backed securities	-	434,606	-	-	434,606
Bank notes and corporate bonds	-	4,026,206	-	-	4,026,206
Municipal securities	-	733,010	-	-	733,010
Non-U.S. government securities	-	254,255	-	-	254,255
Total available-for-sale debt securities	**-**	**27,170,950**	**-**	**-**	**27,170,950**
Equity securities	436,818	-	-	-	436,818
Mortgage loans held for sale	-	505,547	-	-	505,547
Loans held for investment	-	-	998,568	-	998,568
Mortgage servicing rights	-	-	628,150	-	628,150
Derivatives [2]	-	3,438	2,334	(2,353)	3,419
Total assets at fair value on a recurring basis	**$ 436,818**	**$ 27,679,935**	**$ 1,629,052**	**$ (2,353)**	**$ 29,743,452**
Derivatives [2]	$ -	$ (3,270)	$ (71)	$ 2,353	$ (988)
Total liabilities at fair value on a recurring basis	**$ -**	**$ (3,270)**	**$ (71)**	**$ 2,353**	**$ (988)**

[1] Amounts represent the impact of legally enforceable master netting agreements with the same counterparties.

[2] Derivative assets are included in Other assets and derivative liabilities are included in Other liabilities in the Consolidated Statements of Financial Condition.

Items measured as Level 3 in the fair value hierarchy as of December 31, 2023 and 2022 consist of MSRs, loans held for investment for which the fair value option was selected and interest rate lock derivatives. Issuances of MSRs for the years ending December 31, 2023 and 2022 were $49 million and $117.5 million, respectively. There were no originations of loans held for investment that are accounted for at fair value at origination for the years ending December 31, 2023 and 2022. Additions during the year only consisted of transfers as noted below. Issuances of interest rate lock derivatives for the years ending December 31, 2023 and 2022 were $43.1 million and $61.1 million, respectively.

Transfers into or out of Level 3 are made if the significant inputs used in the pricing models measuring the fair values of the assets and liabilities become unobservable or observable, respectively. Transfers are considered to be effective as of the date of the event or change in circumstances that caused the transfer. Loans originated as mortgage loans held for sale that are subsequently reclassified to held for investment are transferred from Level 2 into Level 3 of the fair value hierarchy. During the years ended December 31, 2023 and 2022, $28 million and $97 million of mortgage loans held for sale were reclassified to loans held for investment, respectively. There were no transfers out of Level 3 for the years ended December 31, 2023 and 2022.

Note 15: Subsequent Events

Navy Federal evaluated subsequent events through March 20, 2024, the date these financial statements were issued, and concluded that no subsequent events existed that are material to the consolidated financial statements.

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