2022

NAVY FEDERAL CREDIT UNION

ANNUAL REPORT

OUR MEMBERS ARE THE MISSION®

To Our Members:

Throughout 2022, the nation endured inflation, supply chain disruptions and economic uncertainty. Despite the environment, Navy Federal Credit Union remained committed to its members and our mission by providing resources, guidance, support and solutions.

We finished the year financially stronger than ever. Across the board, our assets, deposits, loans and membership grew, paving the way for us to invest in the products and services that make banking better and easier for you. Our total savings balances saw significant growth as we steadily increased our dividends throughout the year. We also continued to provide loans, credit cards and real-world guidance for our members on how to establish or improve their credit profiles. Members turned to us for financial solutions in great numbers, contributing to our healthy financial reserves and ongoing success for the credit union. We surpassed the 12-million-member mark—adding 1.2 million members in 2022. And, most importantly, we maintained high member satisfaction rates across our products and channels all year long.

To ensure we're keeping up with the demands of our expanding membership, we maintained investments in our technology and service platforms. We continued the buildout of new data centers, cloud computing infrastructure and enhanced cyber-security operations. We also added branches, opening 9 new locations in 2022, and increased capabilities on our mobile app and online. We're making excellent progress in our digital transformation road map, always looking for ways to modernize our digital experience for members and employees alike. It's important to us that members enjoy a personalized approach, simplicity, convenience and value across all our channels. And, it's equally important that our team members are able to put their passion for our mission to work using technology that helps deliver service excellence.

The growth and success we achieved last year allowed us to improve upon and expand our services for our members and the generations to come. Thanks to our solid foundation and careful planning and investment, we're steadfast and ready to face whatever may come. We remain committed to our mission and are unwavering in our focus on what is—and always will be—the single most important thing at Navy Federal: our members.

Sincerely,

Mary A. McDuffie
President/CEO
Navy Federal Credit Union

John A. Lockard
Chairman
Board of Directors

Vision Statement:

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

Report of the Chairman and President

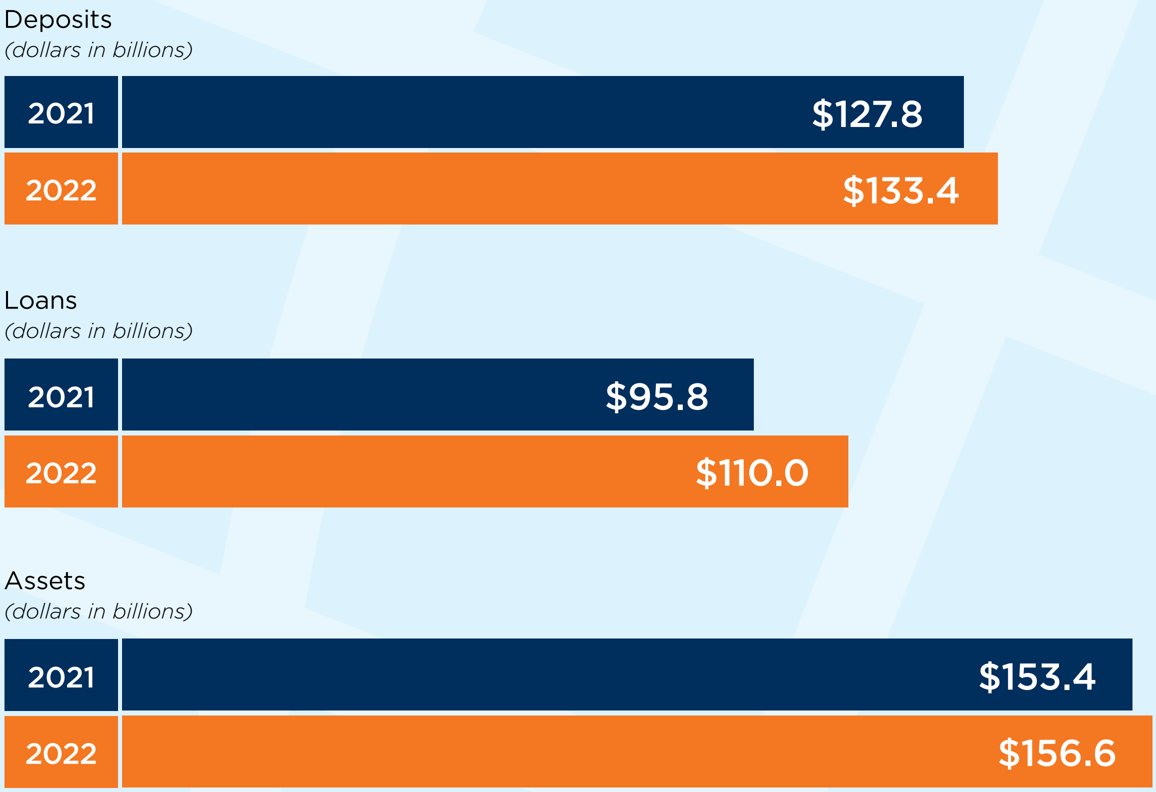
Navy Federal Credit Union experienced solid growth in 2022 in the midst of continued economic global uncertainties. With a strong **financial foundation** fueled by consistent member growth and an unwavering **focus** on members, Navy Federal continued to provide stability, strength and support to a membership base that topped 12 million military, veteran and family members.

Financial Summary

As of December 31 *(dollars in millions)*	**2021**	**2022**
Assets	**$ 153,433.0**	**$ 156,645.1**
Loans Outstanding	$ 95,811.3	$ 109,985.4
Savings, Checking, MMSAs, IRAs	$ 103,484.3	$ 104,372.5
Share Certificates	$ 24,275.2	$ 29,062.6
Members' Equity	$ 16,910.2	$ 14,168.1
Gross Income	$ 8,271.7	$ 9,315.9
Non-Interest Expense	$ 4,515.5	$ 4,767.5
Dividends	$ 829.2	$ 885.8
Mortgage Loans Serviced	$ 79,515.7	$ 84,277.4
Members	**11,133,370**	**12,322,979**

Providing exceptional, anytime, anywhere assistance continued to be a hallmark of Navy Federal's service.

Deposit, Loan and Asset Comparisons





Helping Members Meet Changing Priorities

Despite a challenging economy, our members continued to be optimistic and thrive in 2022, shifting priorities to make the best of new conditions. Some focused on savings, while others concentrated on decreasing spending or making home improvements instead of home purchases.

Navy Federal anticipated these changes and responded with what our members needed most—value. We offered highly competitive loan and saving rates, consistent member support and tools designed to both improve financial health and streamline banking.

As a result, we welcomed 1.2 million new members, bringing our total membership to 12.3 million members—an increase of 10.7%.

With that growth, our assets increased by $3.2 billion to $156.6 billion in 2022, and our net worth increased to 12.3%.[1]

Increases in membership led to another strong year for our lending portfolio, which closed the year at $110 billion. Navy Federal's consumer lending portfolio increased by 18.3% to $31.9 billion.

Mortgage, Equity and Personal Loans

Escalating interest rates cooled off the mortgage and refinance market, yet Navy Federal closed almost 50,000 mortgage loans for a total of $16.5 billion. About 58% of the new home loans we provided were for first-time home buyers.

We ended the year with a mortgage lending portfolio that increased by 6% to $84.3 billion (including sold loans serviced). Our mortgage team accomplished this while earning the highest marks in member satisfaction since 2019.

Our equity lending portfolio rose by an impressive 54% to $2.5 billion. Top uses for both equity and personal loans were home improvement and debt consolidation. Personal loans rose significantly with a record-breaking 392,600 new loans totaling $3.5 billion.

Credit Cards

Members continued to turn to Navy Federal for credit cards. Our portfolio increased to $26.1 billion. We opened more than 820,000 new accounts. Members slightly shifted purchases from discretionary items to staple goods, a reflection of continued inflationary pressures.

Auto Loans

While fewer cars were sold in the U.S. in 2022, Navy Federal helped a record number of members purchase vehicles with 488,285 auto loans totaling $14.6 billion. This was a 6% increase over 2021. With just under a million online visits, our online Car Buying Center helped members find everything they needed to shop for, finance and insure a car.

*Military image used for representational purposes only; does not imply government endorsement.

We're proud to report that our member and employee satisfaction rating remained high.

Awarded #1 in The US Financial Service Customer Trust Index Ranking by Forrester[6]

Savings, Investing and Checking

Deposits grew by $5.6 billion for a total of $133.4 billion. There was a dramatic increase in member investment in certificates and Money Market Savings Accounts (MMSAs). These savings vehicles were attractive because they offered guaranteed returns and protection from market fluctuations. We introduced new certificate terms and higher tiers on MMSAs to provide even more savings options. Our most popular term certificate, the 12-month, ended the year with a 4.4% interest rate, which was the best rate among key competitors.[2]

Members also continued investing in the market. Member investments under Navy Federal Financial Investment Services (NFIS)[3] administration reached $4.5 billion. NFIS' Digital Investor had 2 million visits. We increased the number of available exchange-traded funds and securities to the tool, which offers automatic and self-directed investment options. Digital Investor was also integrated into the Navy Federal mobile app, so members could sign in and go directly to their Digital Investor account.

And those conducting their everyday banking with us also grew. Active checking accounts increased 12% to 8.7 million.

Meeting Members Where They Need Us

Whether through digital banking or in person, providing exceptional, anytime, anywhere assistance continued to be a hallmark of Navy Federal's service.

Digital Banking

More than ever before, our members appreciated the convenience and ease of digital banking. Usage of our mobile app[4] and online banking continued to grow. Digital channels were used by an all-time high of 9.5 million members 3 billion times. This represented 77% of all our members, an increase of 13% over 2021. For added convenience, we offered members digital debit and gift cards so they could start using their new and replacement cards immediately.

Personal Service

For members looking for one-on-one personal service, we opened 9 new branches, including one on Joint Expeditionary Base Little Creek-Fort Story in Virginia Beach. This brought our total worldwide branches to 355, many of which are near or on military bases. The employees in these branches hosted approximately 1,400 financial education seminars on military bases and in branches on topics like buying a home and understanding credit.



Available 24 hours a day, 7 days a week, our U.S.-based Member Service Representatives answered 46.6 million calls, chats and eMessages, serving a total of 6.6 million members.

Focusing on Financial Health and Security

We centralized our education resources into our new MakingCents financial education hub to help members expand their financial knowledge, cope with an ever-changing financial landscape and combat fraud.

More than 5 million members used our Mission: Credit Confidence® Dashboard to track and manage their credit scores, learning how different actions could raise or lower their score.

Continued investment in technology enabled increased protection and vigilance as fraud continued to surface across the financial industry. Our Security Center, now accessible through our mobile banking app and website, provided members with valuable information on protection, scams to be aware of, how to report fraud and the importance of setting up text and email notifications.

Creating an Environment for Success

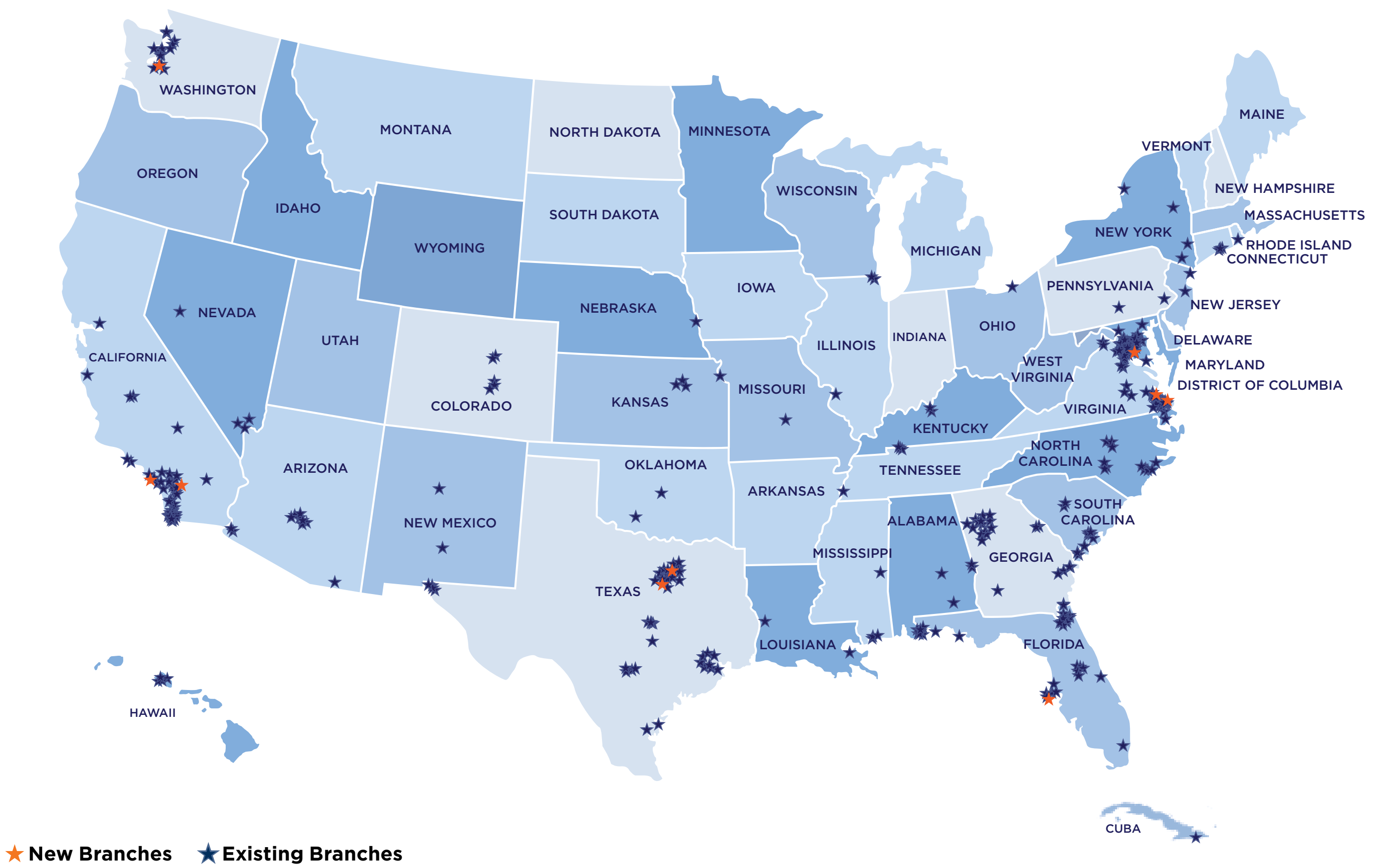
We understand that to provide members with exceptional service, it's important we do the same for our employees. Making sure we have a positive and supportive environment is crucial to their happiness and job satisfaction, and therefore, to our mission.

And, we're proud to report that our member and employee satisfaction rating remained high. For the 12th year, we were named a FORTUNE 100 Best Companies to Work For®[5] based on employee feedback, our culture and the training and development we offer.

- Named Navy Distinguished Credit Union of the Year for Navy Base San Diego Branch and Army Distinguished Credit Union for Fort Meade Branch by the Defense Credit Union Council
- Awarded Best Credit Union by GOBankingRates
- Ranked #1 for Customer Experience in Forrester's CX Index™ Survey for Multichannel Banks[6]
- Awarded #1 in The US Financial Service Customer Trust Index Ranking by Forrester[6]
- Ranked in Computerworld® Best Places to Work in IT
- Received 3 Forbes America's Best Employers awards for New Grads, Women and Veterans

*Military image used for representational purposes only; does not imply government endorsement.

2022 United States and Cuba Locations



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
Redlands
Ridgecrest
Riverside
San Diego (14)*
San Marcos
Santa Ana
Santee
Temecula (2)
Twentynine Palms
Vacaville
West Covina

COLORADO
Aurora
Centennial
Colorado Springs (2)
Fountain

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
Winter Park

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

HAWAII
Honolulu*
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
Capitol Heights
Clinton
Fort Meade*
Frederick
Gaithersburg
Gambrills
Germantown
Glen Burnie
Glenarden
Indian Head*
Laurel
Lexington Park
Odenton
Rockville
Suitland*
Upper Marlboro
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*

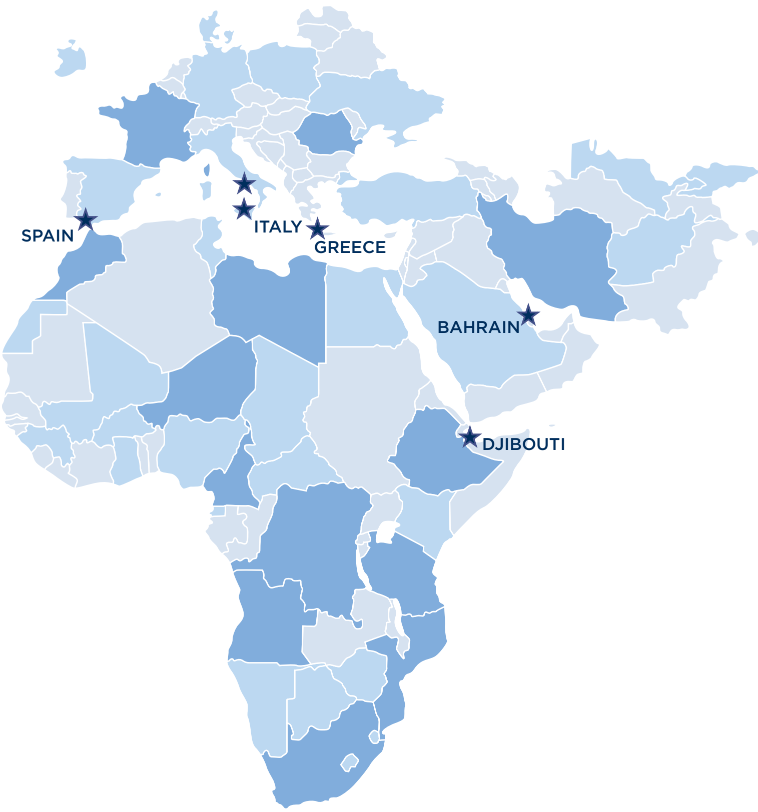
NEW YORK
Evans Mills
Highland Falls
Kings Point*
Saratoga Springs*

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

OHIO
Cleveland*

OKLAHOMA
Lawton
Midwest City

2022 Overseas Locations (All On-Base)



PENNSYLVANIA
Carlisle*
Horsham

RHODE ISLAND
Newport*

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

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 (2)
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**

2022 Board of Directors

John A. Lockard
Vice Admiral, USN (Ret.)
Chairman of the Board
Executive Committee

Bruce B. Engelhardt
Rear Admiral, USN (Ret.)
First Vice Chairman
Executive Committee
Financial Strategy and Investment Committee
Technology Strategy and Performance Committee

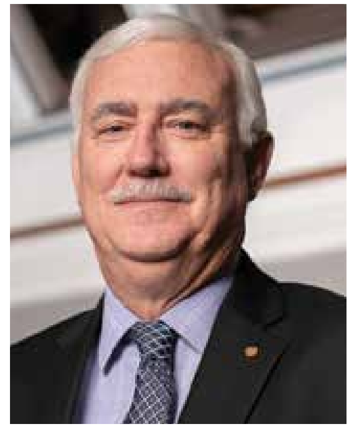
Edward R. Cochrane Jr.
Second Vice Chairman
Executive Committee
Financial Strategy and Investment Committee
Planning, Risk and Strategic Direction Committee

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

Pasquale M. Tamburrino Jr.
Secretary
Executive Committee
Financial Strategy and Investment Committee

Annie B. Andrews
Rear Admiral, USN (Ret.)
Planning, Risk and Strategic Direction Committee
Technology Strategy and Performance Committee

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



Neil W. T. Hogg
Captain, USN (Ret.)
Financial Strategy and Investment Committee

Brian E. Luther
Rear Admiral, USN (Ret.)
Supervisory Committee
Technology Strategy and Performance Committee

Supervisory Committee
Input for the 2022 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
Chairman

Supervisory Committee

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

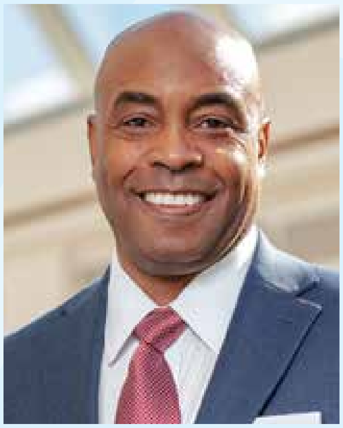
John R. Edwards
Brigadier General, USAF
Supervisory Committee

Brian E. Luther
Rear Admiral, USN (Ret.)
Supervisory Committee
Technology Strategy and Performance Committee

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

Jennifer E. Shaar
Colonel, USMC (Ret.)
Supervisory Committee
Financial Strategy and Investment Committee

Other Committee Members



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

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

Anthony M. Kurta
Rear Admiral, USN (Ret.)
Planning, Risk and Strategic Direction Committee

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

James L. Moser
Planning, Risk and Strategic Direction Committee

Daniel L. Nega
Technology Strategy and Performance Committee

Diane M. Randon
Planning, Risk and Strategic Direction Committee

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

Mark R. Taylor
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 other comprehensive income) divided by total assets.

[2]Based on independent market research.

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

[5]Fortune and 100 Best Companies to Work For are registered trademarks of Fortune Media IP Limited and are used under license.

[6]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.

NAVY FEDERAL CREDIT UNION

Consolidated Financial Statements and Report of Independent Auditors

December 31, 2022 and 2021

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

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, 2022 and 2021, and the related consolidated statements of income, comprehensive income, 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, 2022 and 2021 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.

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, D.C.
March 17, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands)	As of December 31, 2022	2021
ASSETS		
Cash and cash equivalents	$ 13,591,181	$ 24,347,156
Available-for-sale debt securities	27,170,950	27,774,948
Held-to-maturity securities	750,033	750,025
Equity securities	436,818	551,149
Mortgage loans held for sale, at fair value	505,547	1,870,977
Loans held for investment ($998,568 and $1,260,542 at fair value, respectively), net of allowance for loan losses of $2,078,402 and $1,780,355, respectively	107,401,431	92,159,921
Accounts receivable and accrued interest	1,534,739	1,295,191
Property, plant and equipment, net	2,340,862	2,303,346
Investments in FHLB	209,015	189,638
NCUSIF deposit	1,225,438	1,123,106
Mortgage servicing rights	628,150	474,649
Goodwill	58,905	58,905
Other assets	792,029	533,972
Total assets	**$ 156,645,098**	**$ 153,432,983**
LIABILITIES AND MEMBERS' EQUITY		
Deposit accounts		
Checking	$ 28,803,328	$ 27,356,838
Savings	36,105,840	34,574,117
Money market savings	30,600,013	32,772,081
Certificates	29,062,643	24,275,246
Individual retirement accounts	8,863,286	8,781,302
Total deposit accounts	**133,435,110**	**127,759,584**
Liabilities		
Borrowed funds	4,565,000	6,011,141
Accounts payable and accrued expenses	3,536,849	1,919,393
Other liabilities	940,061	832,715
Total deposit accounts and liabilities	**142,477,020**	**136,522,833**
Members' equity		
Equity	19,247,201	17,344,616
Accumulated other comprehensive loss	(5,079,123)	(434,466)
Total members' equity	**14,168,078**	**16,910,150**
Total liabilities and members' equity	**$ 156,645,098**	**$ 153,432,983**

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the Years Ended December 31, 2022	2021
Interest income		
Loans	$ 6,702,591	$ 5,759,229
Investment securities	765,398	524,084
Other investments	291,969	39,888
Total interest income	**7,759,958**	**6,323,201**
Dividends and interest expense		
Dividends on deposits	885,791	829,168
Interest on borrowed funds	185,191	192,978
Total dividends and interest expense	**1,070,982**	**1,022,146**
Net interest income	**6,688,976**	**5,301,055**
Provision for loan losses	(1,574,830)	(19,042)
Net interest income after provision for loan losses	**5,114,146**	**5,282,013**
Non-interest income		
Net (loss) gain on mortgage loans	(137,207)	268,385
Net (loss) gain on investments	(110,756)	92,490
Mortgage servicing revenue	152,949	152,815
Interchange income, net	798,377	726,497
Fee and other income	852,532	708,340
Total non-interest income	**1,555,895**	**1,948,527**
Non-interest expense		
Salaries and employee benefits	2,495,186	2,151,823
Office operations and equipment	530,992	513,365
Servicing expense	288,010	237,714
Professional and outside services	608,422	512,716
Marketing	183,141	173,818
Depreciation and amortization	295,480	310,114
Other	366,225	615,919
Total non-interest expense	**4,767,456**	**4,515,469**
Net income	**$ 1,902,585**	**$ 2,715,071**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	As of December 31,	
(dollars in thousands)	2022	2021
Net income	**$ 1,902,585**	**$ 2,715,071**
Other comprehensive (loss)/income		
Change in unrecognized pension and postretirement amounts	(52,222)	119,572
Net unrealized losses on AFS debt securities	(4,825,976)	(975,097)
Change in fair value of cash flow hedge derivatives	233,541	118,173
Total other comprehensive loss	**(4,644,657)**	**(737,352)**
Total comprehensive (loss)/income	**$ (2,742,072)**	**$ 1,977,719**

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Equity	Accumulated Other Comprehensive Income/(Loss)	Total Members' Equity
Balance at December 31, 2020	**$ 14,629,545**	**$ 302,886**	**$ 14,932,431**
Other comprehensive loss	-	(737,352)	(737,352)
Net income	2,715,071	-	2,715,071
Balance at December 31, 2021	**$ 17,344,616**	**$ (434,466)**	**$ 16,910,150**
Other comprehensive 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**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the Years Ended December 31, 2022	2021
Operating activities		
Net income	$ 1,902,585	$ 2,715,071
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,506,891	19,042
Depreciation, amortization and accretion	272,686	373,309
Amortization of ROU asset	26,591	-
Loss on extinguishment of debt	-	182,012
Valuation (gains) losses	337,588	217,857
Realized (gains) losses on sale of loans	(122,055)	(406,863)
Other adjustments to net income	60,203	(9,023)
Change in loans held for sale	1,168,040	526,428
Change in accounts receivable, accrued interest and other assets	(226,347)	1,316,180
Change in mortgage servicing rights	(117,497)	(186,223)
Change in accounts payable, accrued expenses and other liabilities	1,729,075	501,568
Net cash provided by operating activities	**6,537,760**	**5,249,358**
Investing activities		
Purchases of AFS debt securities	(6,898,528)	(11,452,500)
Purchases of HTM securities	-	(499,133)
Purchase of equity securities	-	(500,000)
Proceeds from maturities, paydowns and calls of AFS debt securities	2,581,807	4,345,533
Proceeds from sales of AFS debt securities	121,339	572,553
Proceeds from maturities, paydowns and calls of HTM securities	134	150,245
Net (purchases) redemptions of FHLB stock	(19,377)	101,400
Proceeds from sale of loans held for investment	67,939	-
Net increase in loans held for investment	(17,025,542)	(5,853,859)
Purchases of property, plant and equipment	(337,166)	(259,770)
Increase in NCUSIF deposit	(102,332)	(188,176)
Proceeds from sale of real estate owned and other assets	58,424	53,251
Net cash used in investing activities	**(21,553,302)**	**(13,530,456)**
Financing activities		
Net increase in deposit accounts	5,705,709	16,548,002
Net change in securities sold under repurchase agreements	(1,386,141)	1,386,141
Proceeds from borrowed funds	2,100,102	3,300,002
Repayments of borrowed funds	(2,160,102)	(5,352,014)
Net cash provided by financing activities	**4,259,568**	**15,882,131**
Net (decrease) increase in cash and cash equivalents and restricted cash	(10,755,974)	7,601,033
Cash and cash equivalents and restricted cash at beginning of year	24,347,256	16,746,223
Cash and cash equivalents and restricted cash at end of year	**$ 13,591,282**	**$ 24,347,256**
Supplemental cash flow information		
Interest paid	$ 1,065,872	$ 1,031,173
Non-cash activities		
Transfers of loans held for investment to other assets	$ 60,459	$ 46,547
Transfer of mortgage loans held for sale to loans	97,010	781,444
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, 2022	2021
Cash and cash equivalents on the Consolidated Statements of Financial Condition	$ 13,591,181	$ 24,347,156
Restricted cash included in other assets on the Consolidated Statements of Financial Condition	101	100
Total Cash and cash equivalents and restricted cash in the Consolidated Statements of Cash Flows	**$ 13,591,282**	**$ 24,347,256**

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 entity 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 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.

Principles of Consolidation

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.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. Adjustments have been made within Operating activities of the Consolidated Statement of Cash Flows for the year ended December 31, 2021 to combine similar line items. These adjustments do not affect previously reported total Net cash provided by operating activities within the Consolidated Statement of Cash Flows.

Business Combinations

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations*, requires all business combinations be accounted for by applying the acquisition method. Accordingly, Navy Federal allocates the acquisition price of assets obtained and liabilities assumed in a business combination at fair value on the acquisition date. Any excess of the acquisition price over the fair value of net assets acquired is recognized as goodwill. Any transaction costs are expensed as incurred.

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, which include federal funds sold and securities purchased under agreements to resell. Original maturity means the original maturity to us 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 on 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 these securities until maturity. Gains and losses on dispositions are computed using the specific identification method and are included in Net (loss) gain 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 other-than-temporary impairment in accordance with ASC 320. 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 debt security with its amortized cost basis and considers (1) the amount, and length of time, fair value has been less than amortized cost, (2) adverse conditions specifically related to the debt security or specific industry, (3) the volatility of the debt security and its expected cash flows and (4) changes in ratings of the issuer.

If Navy Federal has the intent to sell, it is more likely than not that Navy Federal will be required to sell, or does not expect the recovery of its entire amortized cost basis and the present value of cash flows expected to be collected is less than the amortized cost basis, any impairment is considered to be other-than-temporary. Such impairment is separated into a credit component and a noncredit component. The credit component is recognized immediately within Net (loss) gain on investments in the Consolidated Statements of Income, and the noncredit component is recognized in AOCI in the Consolidated Statements of Financial Condition. If Navy Federal sells or it is more likely than not that Navy Federal will be required to sell the debt security, any noncredit component of the other-than-temporary impairment is also recognized immediately within Net (loss) gain on investments in the Consolidated Statements of Income.

Navy Federal's investments in equity securities are classified as Equity securities on 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 are carried at fair value, with any unrealized gains and losses recorded in earnings and included in Net (loss) gain 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 on the Consolidated Statements of Financial Condition and is evaluated for impairment annually.

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 on 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. Navy Federal has elected the fair value option for mortgage loans held for sale; as such, these loans are recorded at fair value with subsequent changes to estimated fair value recognized in Net (loss) gain on mortgage loans in the Consolidated Statements of Income.

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 loan 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.

The Coronavirus Aid, Relief, and Economic Security Act was signed into law on March 27, 2020 with several provisions extended via the passing of the Consolidated Appropriations Act on December 27, 2020, and which expired on January 1, 2022 (hereafter jointly referred to as the "CARES Act"). 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"), which remains in effect as of December 31, 2022. Pursuant to the CARES Act, Interagency Statement and in response to the COVID-19 pandemic, 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, collectively COVID-19 Loan Accommodations, to help members deal with the effects of the pandemic. Navy Federal began its pandemic relief program on March 1, 2020 and continues to work prudently with members affected by COVID-19.

Navy Federal considered the impact of COVID-19 Loan Accommodations and reported delinquency status as follows:

- Loans that were current either at the time Navy Federal's pandemic relief program began or the month end prior to receiving COVID-19 Loan Accommodations (if originated after March 1, 2020) are reported as current throughout the accommodation period.
- Loans that were delinquent either at the time Navy Federal's pandemic relief program began or the month end prior to receiving COVID-19 Loan Accommodations (if originated after March 1, 2020) are reported as delinquent throughout the accommodation period.
- Loans brought current as part of the COVID-19 Loan Accommodations or that became current during the accommodation period are reported as current.

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. Generally, Navy Federal does not recognize an allowance for credit losses on accrued interest receivable. 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 are 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 and 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 310 and ASC 450.

Allowance for Loan Losses

Navy Federal accrues estimated loan losses in accordance with ASC 450-20, *Loss Contingencies,* and ASC 310, *Receivables*. The allowance for loan losses is a reserve against loans held for investment established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of the loan amount is not probable. Recoveries on previously charged-off loans are credited to the allowance.

Navy Federal's loan portfolio consists mainly of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. The allowance for loan losses is maintained at a level that, in management's judgment, is sufficient to absorb losses inherent in the portfolio based on monthly evaluations of the portfolio's collectability. Collectability is determined by historical experience, financial strength of the borrower, and current economic conditions and trends that may adversely affect a borrower's ability to pay. The allowance for loan losses is subject to estimates and uncertainties associated with factors and processes used in determining the amount. Actual loan losses may differ from those estimates. Loans that are not in foreclosure, undergoing a modification or subject to a repayment plan are generally charged-off to the allowance at 180 days past due. Loans that do not share similar risk characteristics are individually evaluated for impairment.

Navy Federal also maintains an allowance for unfunded commitments at a level that is appropriate to absorb estimated probable credit losses. The allowance for unfunded commitments is derived in a manner similar to the methodology used for determining the allowance for loan losses. The allowance for unfunded commitments is recorded in Other liabilities on the Consolidated Statements of Financial Condition and the related provision expense is included in Provision for loan losses in the Consolidated Statements of Income.

Mortgage Loans Held for Sale

Navy Federal's mortgage loans held for sale portfolio consists of mortgage loans originated with 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 the fair value option for mortgage loans held for sale; as such, these loans are recorded at fair value with subsequent changes to estimated fair value recognized in Net (loss) gain 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. Loans are removed 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 (loss) gain 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

A Troubled Debt Restructuring (TDR) is a loan for which Navy Federal has granted a concession it would not have otherwise considered because a member is experiencing financial difficulty. The types of concessions Navy Federal grants in a TDR primarily include term extensions and interest rate reductions. TDR loans are accounted for in accordance with ASC 310-40, *Receivables—Troubled Debt Restructurings by Creditors*. TDR loans are individually evaluated for impairment. See Note 3: Loans and Allowance for Loan 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 Accounting Standards Update (ASU) No. 2016-02, "Leases (Topic 842)," (ASU 2016-02), for all open leases with a term greater than one year as of the adoption date, using the modified retrospective transition method. Navy Federal elected certain practical expedients, including to not reassess under the new guidance our prior conclusions about the classification of any existing leases, any initial direct costs associated with the leases or 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 on 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 on 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.

NCUSIF 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, the operations of the fund are transferred from the NCUA Board or the NCUA decides to make a distribution to credit unions based on the equity ratio’s excess over the net operating level.

Goodwill
Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in business combinations. In accordance with ASC 350-20, *Intangibles—Goodwill and Other*, intangible assets with finite useful lives are amortized, and goodwill and intangible assets with indefinite lives are evaluated for impairment annually as of our reporting date, December 31, through evaluation of facts and circumstances over the duration of the reporting period. Navy Federal evaluates qualitative factors, including, but not limited to, the general economic environment, industry and market considerations and overall financial performance of Navy Federal. Based on this evaluation, if it is more likely than not the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured and recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Navy Federal completed its annual impairment assessment as of December 31, 2022 and concluded there was no impairment. Navy Federal did not have any adjustments to goodwill during the years ended December 31, 2022 and 2021.

Derivative Financial Instruments
Derivative financial instruments are financial contracts that derive their value from underlying changes in assets, rates or indices. Derivatives are used to protect or 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, *Derivatives and Hedging*, which requires all derivative instruments to be carried at fair value on 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 on the Consolidated Statements of Financial Condition. All derivative financial instruments are recognized at fair value and classified as Other assets or Other liabilities on 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. Changes in the fair value of economic hedges are included in Net (loss) gain on mortgage loans in the Consolidated Statements of Income.

Accounting Hedges
Under the provisions of ASC 815, *Derivatives and Hedging*, derivative instruments can be designated as fair value hedges or cash flow hedges. 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 on 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.

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 an 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

In the ordinary course of business, Navy Federal recognizes two types of revenue in its Consolidated Statements of Income: Interest income and Non-interest income.

Navy Federal's principal source of revenue is interest income from Loans and Investment securities, which is recognized on an accrual basis using the effective interest method. For information on Navy Federal's policies for recognizing Interest income on investments and loans, refer to "Investments", "Loans" and "Mortgage Loans Held for Sale" sections within this Note, respectively.

Non-interest income includes revenue from various types of transactions and services provided to members and customers, primarily, Interchange income, as well as Fee and other income. For information on Navy Federal's policies for recognizing Net (loss) gain on mortgage loans, Net (loss) gain on investments and Mortgage servicing revenue, refer to "Mortgage Loans Held for Sale", "Investments" and "Mortgage Servicing Rights" sections within this Note.

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 $647.6 million and $505.8 million for the years ended December 31, 2022 and 2021, 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 Pronouncements
The following accounting pronouncements have been issued by the FASB, but are not yet effective for Navy Federal:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects lifetime expected credit losses of financial assets carried at amortized cost. The following ASUs comprise Topic 326 and collectively allow entities to elect a simplified transition approach:

- ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*
- ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging*, and *Topic 825, Financial Instruments*
- ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*
- ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815),* and *Leases (Topic 842): Effective Dates*
- ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*
- ASU 2020-03, *Codification Improvements to Financial Instruments*
- ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

Navy Federal will adopt the Current Expected Credit Losses (CECL) accounting standard for the fiscal year 2023 reporting period on January 1, 2023. Navy Federal is in the process of updating accounting policies and implementing necessary changes to systems, models, processes and controls to transition to CECL using a modified retrospective approach. Upon adoption, we expect to record a net increase to the allowance for credit losses with an offsetting decrease to opening members' equity.

The increase in allowance is primarily driven by the measurement of expected credit losses using a life of loan assessment, with the largest expected increases within the credit card and consumer loan portfolios.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings (TDR) and Vintage Disclosures*, which eliminates the accounting guidance for TDRs by creditors in ASC 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, as credit losses from loans modified as TDRs are now incorporated in the allowance for credit losses upon adoption of CECL. ASU 2022-02 requires enhanced disclosures for certain loan refinancings and restructurings by creditors for borrowers experiencing financial difficulty. Navy Federal will apply the provisions outlined within ASU 2022-02 upon adoption of CECL, using the modified retrospective approach, allowing for the unwinding of existing TDR reserves as of CECL adoption. As the previously designated TDRs will now be incorporated into the allowance for credit losses, the financial impact of ASU 2022-02 adoption will be included as a component of the increase to the allowance for credit losses referenced above.

Navy Federal does not expect the adoption of CECL to have an impact on Navy Federal being categorized as "well-capitalized" under the NCUA's regulatory framework.

In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, to extend the temporary accounting rules under ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* from December 31, 2022 to December 31, 2024. The ASU became effective upon issuance and did not impact our financial results in 2022.

Note 2: Investments

HTM and AFS Debt Securities

The amortized cost of Navy Federal's HTM debt securities as of December 31, 2022 and 2021 was $750 million. Substantially, all the HTM debt securities are U.S. government and federal agency securities.

Navy Federal's AFS debt securities as of December 31 were as follows:

	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**

	December 31, 2021			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale debt securities				
U.S. government and federal agency securities	$ 9,444,357	$ 119,307	$ (190,159)	$ 9,373,505
Residential mortgage-backed securities	13,188,840	63,897	(283,779)	12,968,958
Commercial mortgage-backed securities	471,175	17,993	(1,282)	487,886
Bank notes and corporate bonds	3,712,632	233,575	(11,740)	3,934,467
Municipal securities	741,126	31,160	(6,125)	766,161
Non-U.S. government securities	231,686	12,285	-	243,971
Total available-for-sale debt securities	**$ 27,789,816**	**$ 478,217**	**$ (493,085)**	**$ 27,774,948**

Navy Federal sold AFS debt securities with a carrying value of $124.7 million and $552.8 million for cash proceeds of $121.3 million and $572.6 million for the years ended December 31, 2022 and 2021, respectively. Gross realized gains of zero and gross realized losses of $3.3 million were included in earnings for the year ended December 31, 2022. Gross realized gains of $19.7 million and gross realized losses of zero were included in earnings for the year ended December 31, 2021.

The contractual maturities of Navy Federal's HTM debt securities as of December 31, 2022 were as follows:

(dollars in thousands)	December 31, 2022 Amortized Cost
Held-to-maturity debt securities	
Due in one year or less	$ 249,848
Due after one year through five years	400,185
Due after five years through ten years	-
Due after ten years	100,000
Total held-to-maturity debt securities	**$ 750,033**

The contractual maturities of Navy Federal's AFS debt securities as of December 31, 2022 were as follows:

(dollars in thousands)	December 31, 2022 Amortized Cost	 Fair Value
Available-for-sale debt securities		
Due in one year or less	$ 936,178	$ 930,688
Due after one year through five years	8,129,760	7,687,537
Due after five years through ten years	2,854,926	2,468,184
Due after ten years	20,091,006	16,084,541
Total available-for-sale debt securities	**$ 32,011,870**	**$ 27,170,950**

Navy Federal held 8 HTM and 681 AFS debt securities in an unrealized loss position at December 31, 2022. All securities in an unrealized loss position were reviewed individually to determine whether those losses were caused by an other-than-temporary decline in fair value. Navy Federal makes a determination of whether unrealized losses are other-than-temporary as discussed in Note 1: Summary of Significant Accounting Policies. For a majority of these investments, 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. Navy Federal expects to recover the entire cost basis of these securities as there were no declines in the fair value that were considered other-than-temporary during the years ended December 31, 2022 and 2021.

The following tables present HTM and AFS debt securities at fair value and their associated gross unrealized losses aggregated by category and the length of time that individual securities have been in a continuous unrealized loss position:

	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)**

	December 31, 2021					
	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	**$ 541,400**	**$ (7,911)**	**$ 99,175**	**$ (855)**	**$ 640,575**	**$ (8,766)**
Available-for-sale debt securities						
U.S. government and federal agency securities	3,459,505	(45,182)	1,711,069	(144,976)	5,170,574	(190,158)
Residential mortgage-backed securities	7,631,249	(145,929)	2,745,088	(137,851)	10,376,337	(283,780)
Commercial mortgage-backed securities	-	-	25,952	(1,282)	25,952	(1,282)
Bank notes and corporate bonds	293,732	(3,968)	118,333	(7,772)	412,065	(11,740)
Municipal securities	263,774	(3,952)	57,959	(2,173)	321,733	(6,125)
Total available-for-sale debt securities	**11,648,260**	**(199,031)**	**4,658,401**	**(294,054)**	**16,306,661**	**(493,085)**
Total debt securities	**$ 12,189,660**	**$ (206,942)**	**$ 4,757,576**	**$ (294,909)**	**$ 16,947,236**	**$ (501,851)**

As of December 31, 2022 and 2021, Navy Federal had pledged $83.2 million and $137.5 million, respectively, of investment securities as collateral with counterparties for derivative transactions under master netting agreements. As of December 31, 2022 and 2021, Navy Federal pledged $1 billion and $1.1 billion in investment securities to the FHLB as collateral to borrow funds. As of December 31, 2022 and 2021, Navy Federal pledged zero and $1.4 billion in U.S. government and federal agency securities as collateral for borrowed funds under repurchase agreements. For securities sold under agreements to repurchase, Navy Federal would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. This risk is managed by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions. 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 $114.3 million unrealized losses and $51.1 million unrealized gains on equity securities during the years ended December 31, 2022 and 2021, respectively.

Note 3: Loans and Allowance for Loan Losses

Navy Federal's loan portfolio consists of consumer, credit card and real estate loans.

Pursuant to the Interagency Statement and in connection with the credit reporting provisions per the CARES Act, the December 31, 2022 and 2021 delinquency status of accounts that received COVID-19 Loan Accommodations aligns with the rules set forth for financial institutions to report delinquency status to the credit agencies. The past due status of loans that received COVID-19 Loan Accommodations was frozen during the accommodation period, and as a result, loans may be reported as current in the tables below even if payments were past due based upon the loan's original contractual terms. 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, 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**

	December 31, 2021					
(dollars in thousands)	Current	30-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Unamortized Cost/ (Deferred Fee)	Total Loans
Consumer loans	$ 26,468,260	$ 306,836	$ 131,098	$ 437,934	$ 44,229	$ 26,950,423
Credit card loans	21,272,813	288,005	201,607	489,612	6,177	21,768,602
Real estate loans	44,873,871	264,862	291,618	556,480	(209,100)	45,221,251
Total loans held for investment	**$ 92,614,944**	**$ 859,703**	**$ 624,323**	**$ 1,484,026**	**$ (158,694)**	**$ 93,940,276**

Non-Accrual Loans

When a loan becomes 90 days past due, accrued interest is reversed and the loan is placed into non-accrual status. Loans that received COVID-19 Loan Accommodations under the CARES Act were placed on non-accrual under the same policy. As a result, the table below included loans that were not reported as delinquent due to receiving certain COVID-19 Loan Accommodations but are classified as non-accrual due to missing three consecutive payments according to the terms of their original contractual agreement.

The composition of Navy Federal's loans by portfolio on non-accrual status as of December 31 was as follows:

(dollars in thousands)	2022	2021
Consumer loans	$ 223,405	$ 131,098
Credit card loans	370,027	201,607
Real estate loans	465,274	1,024,641
Total	**$ 1,058,706**	**$ 1,357,346**

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 consumer and credit card loans portfolio 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 mortgage and equity loans portfolio include changes in home prices in various geographic locations, which are monitored in conjunction with various loan attributes such as vintage, product type and property type. This information is utilized to evaluate the appropriateness of the allowance for loan losses. Credit quality indicators, as described below, are obtained and updated every month.

Consumer Loans

Navy Federal uses 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 as of December 31:

(dollars in thousands)	December 31, 2022	December 31, 2021
Secured consumer loans		
FICO	**Total [1]**	**Total [2]**
Greater than or Equal to 610	$ 20,026,060	$ 17,716,957
Less than 610	4,515,473	3,388,215
Total	**$ 24,541,533**	**$ 21,105,172**
Unsecured consumer loans		
Delinquency Status		
Performing	$ 7,091,844	$ 5,652,808
60+ days and foreclosure	172,880	129,981
Total	**$ 7,264,724**	**$ 5,782,789**

[1] Excludes deferred costs from both secured and unsecured consumer loans of $48.3 million and other adjustments of $21.7 million.
[2] Excludes deferred costs from both secured and unsecured consumer loans of $44.2 million and other adjustments of $18.2 million.

Credit Card, Mortgage and Equity Loans

Navy Federal uses 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 and 2021.

Allowance for Loan Losses

Changes in the allowance for loan losses during the years ended December 31 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

	December 31, 2021			
(dollars in thousands)	Consumer	Credit Cards	Real Estate	Total
Allowance for credit losses:				
Balance, beginning of year	$ 711,548	$ 1,708,198	$ 200,823	$ 2,620,569
Provision expense	119,729	16,875	(117,562)	19,042
Loans charged off	(418,741)	(694,090)	(4,653)	(1,117,484)
Recoveries	137,256	117,587	15,277	270,120
Net change in allowance for unfunded commitments	161	(12,053)	-	(11,892)
Balance, end of year	**$ 549,953**	**$ 1,136,517**	**$ 93,885**	**$ 1,780,355**
Ending balance: loans held for investment, individually evaluated for impairment	$ 89,774	$ 119,130	$ 73,023	$ 281,927
Ending balance: loans held for investment, collectively evaluated for impairment	$ 459,379	$ 1,017,387	$ 20,523	$ 1,497,289
Ending balance: loans held for investment, acquired with deteriorated credit quality	$ 800	$ -	$ 339	$ 1,139
Loan amount (excluding allowance):				
Ending balance: loans held for investment, individually evaluated for impairment	$ 457,002	$ 353,133	$ 1,716,012	$ 2,526,148
Ending balance: loans held for investment, collectively evaluated for impairment	$ 26,492,061	$ 21,415,469	$ 43,499,692	$ 91,407,223
Ending balance: loans held for investment, acquired with deteriorated credit quality	$ 1,360	$ -	$ 5,547	$ 6,907

Changes in the allowance for unfunded commitments during the years ended December 31 were as follows:

(dollars in thousands)	2022	2021
Balance, beginning of year	**$ 54,413**	**$ 42,521**
Net change in allowance for unfunded commitments	6,568	11,892
Balance, end of year	**$ 60,981**	**$ 54,413**

Troubled Debt Restructurings

TDRs are individually evaluated for impairment beginning in the month of restructuring. For loans that have not been approved for foreclosure or discharged under Chapter 7 bankruptcy, impairment is 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 is measured by the difference between the recorded investment and the collateral value less estimated costs to sell. Chapter 7 bankruptcy TDRs are considered to be dependent solely on the collateral for repayment. The loans are measured based on the estimated fair value of the collateral less estimated cost to sell, and a charge-off is recorded if the carrying value exceeds the fair value of the collateral.

The following table summarizes the financial impact, by concession type, of loans that became TDRs during the years 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.
[2] 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.

	2021 [1]				
(dollars in thousands)	**Interest Rate Reduction and Term Extension**	**Interest Rate Reduction**	**Term Extension**	**Other [2]**	**Total**
Consumer	$ 6,467	$ 11,796	$ 14,173	$ 4,003	$ 36,439
Credit card	-	21,087	-	2,952	24,039
Real estate	3,064	116	8,508	478	12,166
Total	**$ 9,531**	**$ 32,999**	**$ 22,681**	**$ 7,433**	**$ 72,644**

[1] Excludes loans that were classified as TDRs in prior years and re-modified during the year.
[2] 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 is recognized based on a loan's modified expected cash flows and revised effective interest rate. Additional impairment is 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.

For the year ended December 31, 2021, TDRs that were more than 90 days delinquent within the first 12 months after modification totaled $72.9 million, which included $30.3 million of consumer loans, $10.9 million of credit card loans and $31.7 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 years ended December 31, 2022 and 2021. Interest income on impaired loans in non-accrual status is recognized on a cash basis. The following table represents information regarding loans individually evaluated for impairment as of and for the years 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**

	December 31, 2021			
(dollars in thousands)	**Loan Amount**	**Associated Allowance**	**Average Balance**	**Interest Income Recognized**
Impaired loans with an associated allowance				
Consumer	$ 453,288	$ 89,774	$ 518,525	$ 42,914
Credit card	349,456	119,130	400,364	42,077
Real estate	1,389,873	73,023	1,320,399	44,989
Total impaired loans with an associated allowance	**$ 2,192,617**	**$ 281,927**	**$ 2,239,288**	**$ 129,980**
Impaired loans without an associated allowance				
Consumer	$ 3,714	$ -	$ 4,063	$ 651
Credit card	3,677	-	4,379	615
Real estate	326,139	-	303,221	7,978
Total impaired loans without an associated allowance	**$ 333,530**	**$ -**	**$ 311,663**	**$ 9,244**
Total impaired loans	**$ 2,526,147**	**$ 281,927**	**$ 2,550,951**	**$ 139,224**

Loan Transfers

Navy Federal reclassified $97 million and $781.4 million of mortgage loans held for sale to mortgage loans held for investment during the years ended December 31, 2022 and 2021, respectively. Navy Federal continues to account for these loans at fair value.

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 $6.1 billion and $10.7 billion of first mortgage loans during the years ended December 31, 2022 and 2021, 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)	2022	2021
Cash from sale of mortgage loans and mortgage-backed securities	$ 5,900,153	$ 10,962,946
Repurchase of previously transferred loans	143,052	464,608
Contractual servicing fees received	152,957	152,811

During the years ended December 31, 2022 and 2021, Navy Federal did not reclassify any mortgage loans from held for investment to mortgage loans held for sale.

Realized gains on sale of mortgages are included in Net (loss) gain on mortgage loans in the Consolidated Statements of Income and totaled $122.1 million and $406.9 million for the years ended December 31, 2022 and 2021, respectively. Navy Federal recorded fair value losses on mortgage loans held for sale and mortgage loan commitments of $51.3 million and $138.5 million for the years ended December 31, 2022 and 2021, respectively, in Net (loss) gain 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)	2022	2021
Balance, beginning of period	**$ 474,649**	**$ 418,954**
Additions from loans sold with servicing retained	117,496	186,224
Change in fair value due to:		
Pay offs/Maturities [1]	(81,180)	(160,029)
Others [2]	117,185	29,500
Balance, end of period	**$ 628,150**	**$ 474,649**

[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)	2022	2021
Weighted-average life (years)	5.83	5.93
Weighted-average CPR	11.88%	11.53%
Decline in fair value from 10% adverse change	$ 25,494	$ 22,709
Decline in fair value from 20% adverse change	50,619	43,581
Option adjusted spread	1.32%	5.70%
Decline in fair value from 10% adverse change	$ 3,006	$ 10,477
Decline in fair value from 20% adverse change	5,924	20,490

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 $2.2 million and $3.4 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, 2022 and 2021, 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 on the Consolidated Statements of Financial Condition. Servicing advances as of December 31, 2022 and 2021 totaled $110.8 million and $132.6 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)	2022	2021
Principal balances of loans serviced [1]	$ 34,749,823	$ 34,032,180
Delinquent loans [2]	229,196	395,475

[1] Includes loans that are in the GNMA early pool buyback program of $153.9 million and $342.8 million at December 31, 2022 and 2021, 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 $164.6 million and $203.4 million as of December 31, 2022 and 2021, 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, anticipated credit losses and weighted-average life.

(dollars in thousands)	2022	2021
Weighted-average CPR	13.51%	21.71%
Anticipated credit losses [1]	$ -	$ -
Weighted-average life (years)	5.35	3.55

[1] GNMA securities are fully collateralized by government-insured loans, and as such, there are no anticipated significant credit losses.

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)	2022	2021
Weighted-average CPR		
Decline in fair value from 10% adverse change	$ 1,545	$ 1,394
Decline in fair value from 20% adverse change	2,960	2,636

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 $319.9 million and $471.7 million as of December 31, 2022 and 2021, 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 on 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, $136.7 million and $454.3 million were repurchased out of GNMA securities during the years ended December 31, 2022 and 2021, respectively. The loans bought out of GNMA securities are recorded as mortgage loans held for investment. At December 31, 2022 and 2021, amounts associated with the Early Pool Buyback Program recognized in Mortgage loans held for sale and Other liabilities totaled $153.9 million and $342.8 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 on the Consolidated Statements of Financial Condition. In the Consolidated Statements of Income, the related expense is included as an offset to Net (loss) gain 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, 2022 and 2021 was $10.2 million and $9.9 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, 2022 and 2021. 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, 2022 and 2021, Navy Federal estimates it is reasonably possible it could incur additional losses in excess of its accrued liability of up to approximately $35.4 million and $29.1 million, respectively.

The total UPB subject to representations and warranties was $33.9 billion and $33.2 billion as of December 31, 2022 and 2021, respectively.

Loss-Sharing Agreements

Navy Federal sold mortgage loans to the GSEs under loss-sharing agreements dated from 2006 to 2021. Navy Federal must indemnify the GSEs for losses related to loans with higher loan-to-value (LTV) ratios through the life of the loans or loans with higher LTV and no private mortgage insurance that occur during a period of three to four years from the applicable settlement date. The following table summarizes the outstanding balance of loans sold and payments made for losses under these agreements during the years ended December 31:

(dollars in thousands)	UPB of Loans Sold as of 12/31	Maximum Future Exposure	Losses Paid During the Year Ended 12/31	Carrying Value of Liability as of 12/31
2022	$ 278,973	$ 63,194	$ 17	$ 583
2021	408,167	71,690	236	1,631

The liability recognized for estimated losses related to these loss-sharing agreements is included in Other liabilities on the Consolidated Statements of Financial Condition. In the Consolidated Statements of Income, the related expense is included as an offset to Net (loss) gain on mortgage loans for loans sold during the current period, or in Servicing expense for any re-measurement of the liability related to loans sold in prior years.

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 are presented in a gain or loss position, net, for those that are subject to legally enforceable master netting agreements, are reported in Other assets and Other liabilities, respectively, on 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, 2022			December 31, 2021		
	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	$ 302,464	$ 2,334	$ 71	$ 1,055,350	$ 21,177	$ 1
Forward sales contracts	534,500	2,336	3,253	2,154,000	1,221	3,227
Total derivatives not designated as accounting hedges	**$ 836,964**	**$ 4,670**	**$ 3,324**	**$ 3,209,350**	**$ 22,398**	**$ 3,228**
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value interest rate contracts	$ -	$ -	$ -	$ 10,000	$ 1	$ -
Cash flow interest rate contracts	2,100,000	1,102	17	2,160,000	99	2,267
Total derivatives designated as accounting hedges	**$ 2,100,000**	**$ 1,102**	**$ 17**	**$ 2,170,000**	**$ 100**	**$ 2,267**
Total derivative instruments, gross	**$ 2,936,964**	**$ 5,772**	**$ 3,341**	**$ 5,379,350**	**$ 22,498**	**$ 5,495**
Less: Legally enforceable master netting agreements		(2,353)	(2,353)		(1,221)	(1,221)
Total derivative instruments, net		**$ 3,419**	**$ 988**		**$ 21,277**	**$ 4,274**

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 on the Consolidated Statements of Financial Condition on a net basis.

The following tables present total gross derivative assets and liabilities at December 31, 2022 and 2021, 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 on 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, 2022					
				Gross Amounts Not Offset in Statement of Financial Condition		
(dollars in thousands)	Gross Amounts Recognized	Gross Amounts Offset in Statement of Financial Condition (1)	Net Amounts Presented in Statement 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.

	December 31, 2021					
				Gross Amounts Not Offset in Statement of Financial Condition		
(dollars in thousands)	Gross Amounts Recognized	Gross Amounts Offset in Statement of Financial Condition (1)	Net Amounts Presented in Statement of Financial Condition	Financial Instruments Collateral (2)	Cash Collateral (2)	Net Amount
Financial Assets						
Derivative instruments not subject to master netting agreements	$ 21,177	$ -	$ 21,177	$ -	$ -	$ 21,177
Derivative instruments subject to master netting agreements	1,321	(1,221)	100	-	-	100
Total derivative assets	**$ 22,498**	**$ (1,221)**	**$ 21,277**	**$ -**	**$ -**	**$ 21,277**
Financial Liabilities						
Derivative instruments not subject to master netting agreements	$ (1)	$ -	$ (1)	$ -	$ -	$ (1)
Derivative instruments subject to master netting agreements	(5,494)	1,221	(4,273)	4,157	116	-
Total derivative liabilities	**(5,495)**	**1,221**	**(4,274)**	**4,157**	**116**	**(1)**
Total	**$ 17,003**	**$ -**	**$ 17,003**	**$ 4,157**	**$ 116**	**$ 21,276**

(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 on 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. Navy Federal accounts for these 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)		2022	2021
Derivative Instruments	**Location of Gain/(Loss) Recognized in Earnings**		
Interest rate lock commitments	Net (loss) gain on mortgage loans	$ (18,912)	$ (67,148)
Forward sales contracts	Net (loss) gain on mortgage loans	1,089	25,170
Total		**$ (17,823)**	**$ (41,978)**

Derivatives Accounted For as Qualifying Accounting Hedges

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

Fair Value Accounting Hedges

Navy Federal uses qualifying fair value hedges to protect certain fixed-rate investments against adverse changes in fair value attributable to changes in interest rates. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. When interest rate fluctuations result in changes in the fair value of fixed-rate investments, the gains or losses on the derivative instruments are highly effective in offsetting the change in fair value.

The table below summarizes recognized gains and losses related to derivatives designated as fair value hedges during the years ended December 31:

(dollars in thousands)		2022	2021
Changes in Fair Value	**Location of Changes in Fair Value Recognized in Earnings**		
Interest rate swaps hedging fixed-rate investments	Fee and other income	$ 27	$ 10
Hedged fixed-rate investments attributable to risk being hedged	Fee and other income	84	6

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:

	2022	2021		2022	2021
(dollars in thousands)	**Gain/(Loss) Recognized in AOCI**		**Location of (Loss) Reclassified from AOCI into Earnings**	**Amount of (Loss) Reclassified from AOCI into Earnings**	
Interest rate contracts	$ 212,422	$ 61,081	Interest on borrowed funds	$ (21,119)	$ (57,092)

During the next 12 months, net gains in AOCI of approximately $38.8 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, 2022 and 2021, 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)	2022	2021
Credit cards	$ 41,846,986	$ 37,391,303
Home equity lines of credit	2,190,471	1,219,721
Checking lines of credit	1,301,821	1,280,954
Preapproved loans	1,456,723	1,340,048
Other	71,654	76,958
Total	**$ 46,867,655**	**$ 41,308,984**

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)	2022	2021
Land and buildings	$ 2,014,321	$ 1,982,513
Equipment, furniture and fixtures	822,193	737,897
Computer software and capitalized IT assets	1,275,577	1,102,694
Leasehold improvements	207,837	189,421
Subtotal	**4,319,928**	**4,012,525**
Less: Accumulated depreciation/amortization	(1,979,066)	(1,709,179)
Total	**$ 2,340,862**	**$ 2,303,346**

Operating Leases

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

(dollars in thousands)	Amount
Right-of-use assets	$ 288,301
Lease liabilities	$ 304,572
Cash paid on operating lease liabilities	$ 29,587
Weighted-average remaining lease term (years)	13.2
Weighted-average discount rate	1.9%

(dollars in thousands)	Amount
Operating lease cost	$ 31,459
Variable lease cost	7,036
Total lease cost	**$ 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, 2022:

(dollars in thousands)	Amount
2023	$ 29,723
2024	29,335
2025	28,586
2026	27,850
2027	26,833
Thereafter	205,233
Total undiscounted future lease payments	**347,560**
Less: Imputed interest expense	(42,988)
Total lease liabilities	**$ 304,572**

In addition to the table above, as of December 31, 2022, Navy Federal had additional undiscounted future operating lease commitments of $25.8 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 $11.2 billion and $9.7 billion at December 31, 2022 and 2021, respectively.

As of December 31, 2022, scheduled maturities of time deposits for each of the next five years were as follows:

(dollars in thousands)	Amount
2023	$ 18,227,099
2024	9,361,230
2025	4,742,875
2026	695,290
2027	1,337,544

Overdrafts on demand deposits of $120.3 million and $159 million as of December 31, 2022 and 2021, respectively, have been reclassified to Loans held for investment on 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, 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**				

	December 31, 2021					
(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		2,160,000	0.17% - 0.22%	Float	Quarterly	2022
Total FHLB borrowings	**$**	**4,625,000**				
Securities sold under repurchase agreements	$	1,386,141	0.01% - 0.12%	Fixed	Monthly	2022
Total securities sold under repurchase agreements	**$**	**1,386,141**				
Total borrowed funds	**$**	**6,011,141**				

The following table displays the amount of borrowed funds by maturity for each of the next five years and thereafter as of December 31, 2022:

(dollars in thousands)	Amount	
2023	$	2,100,000
2024		-
2025		-
2026		-
2027		-
Thereafter		2,465,000
Total	**$**	**4,565,000**

Navy Federal did not make any prepayment of its borrowings during the year ended December 31, 2022.

During 2021, Navy Federal prepaid $1.8 billion of its borrowings with the FHLB. In connection with the prepayment, Navy Federal incurred $182 million of debt extinguishment costs, which is included in Other non-interest expense in the Consolidated Statements of Income.

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. As of December 31, 2021, Navy Federal pledged $25.6 billion of consumer and credit card loans to the FRB as collateral for the ability to borrow up to $19 billion. As of December 31, 2021, Navy Federal pledged $25.2 billion in mortgage loans held for investment and $1.1 billion in debt securities to the FHLB as collateral for the ability to borrow up to $22.5 billion.

As of December 31, 2022, there were no securities purchased under repurchase agreements. For securities sold under agreements to repurchase, Navy Federal would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. This risk is managed by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions. As of December 31, 2021, Navy Federal pledged $1.4 billion in U.S. Treasury securities from the investments portfolio as collateral for borrowed funds under repurchase agreements.

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

(dollars in thousands)	2022	2021
Federal Reserve Bank	$ 28,852,198	$ 18,993,238
FHLB	15,450,079	17,878,515
Lines of Credit	250,000	250,000
Total	**$ 44,552,277**	**$ 37,121,753**

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 on 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 year ended December 31:

	Pension		Retiree Medical	
(dollars in thousands)	**2022**	**2021**	**2022**	**2021**
Accumulated benefit obligation at year end	$ 1,285,249	$ 1,537,469	N/A	N/A
Projected benefit obligation at year end	1,480,094	1,801,857	52,122	70,173
Fair value of plan assets at year end	1,729,573	2,079,596	-	-
Over/(under) funded	249,479	277,739	(52,122)	(70,173)
Employer contributions	60,000	40,000	3,447	3,218
Plan participants' contributions	-	-	78	110
Benefits paid	(72,402)	(63,243)	(3,525)	(3,328)
Net periodic benefit cost	16,244	24,197	5,190	5,451

As of December 31, 2022, the decrease in 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 benefits. 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.

As of December 31, 2021, the change in the projected benefit obligation for the pension plan was mainly driven by the change in the Consumer Price Index (CPI) assumption, plan experience, including new entrants, offset by the increase in the discount rate. As of December 31, 2021, the change in the projected benefit obligation for the retiree medical plans was mainly driven by the change 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	
	2022	2021	2022	2021
Discount rate				
Projected benefit obligation	5.55%	2.95%	5.50%	3.00%
Net periodic benefit cost	2.95%	2.65%	3.00%	2.80%
Rate of compensation increase				
Projected benefit obligation	8.57%	5.16%	N/A	N/A
Net periodic benefit cost	6.57%	4.66%	N/A	N/A
Expected long-term rate of return	6.00%	6.00%	N/A	N/A
Cash balance interest crediting rate				
Projected benefit obligation	4.10%	3.79%	N/A	N/A
Net periodic benefit cost	3.79%	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)	2022	2021	2022	2021
Accumulated other comprehensive loss				
Net prior service cost	$ 62,396	$ 27,209	$ 112	$ 352
Net loss/(gain)	263,232	226,402	(2,911)	16,644
Total Accumulated other comprehensive loss/(gain)	**$ 325,628**	**$ 253,611**	**$ (2,799)**	**$ 16,996**

The amounts recognized in AOCI for the years ended December 31, 2022 and 2021 consist of:

	Pension		Retiree Medical	
(dollars in thousands)	2022	2021	2022	2021
Amounts amortized during the year				
Net prior service cost	$ (4,765)	$ (3,665)	$ (240)	$ (239)
Net loss	(4,926)	(15,729)	(839)	(1,026)
Amounts arising during the year				
Net prior service cost	39,952	13,239	-	-
Net (gain)/loss	41,756	(109,025)	(18,716)	(3,127)
Total recognized in other comprehensive (income)/loss	**$ 72,017**	**$ (115,180)**	**$ (19,795)**	**$ (4,392)**

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

(dollars in thousands)	Pension	Retiree Medical
2023	$ 88,357	$ 3,506
2024	92,497	3,512
2025	98,064	3,534
2026	103,501	3,528
2027	108,840	3,502
2028-2032	614,190	17,509

The anticipated employer contribution for 2023 is $25 million for the pension plan and $3.4 million for the retiree medical benefit plan. The measurement date for the pension and retiree medical benefit plan for 2022 and 2021 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, 2022, 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, 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**

(dollars in thousands)	December 31, 2021			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. equity securities	$ 101,676	$ -	-	$ 101,676
Global equity securities	797,224	-	-	797,224
Fixed-income securities	378,762	242,220	-	620,982
Cash and cash equivalents	68,919	-	-	68,919
Total assets in the fair value hierarchy	**$ 1,346,581**	**$ 242,220**	**$ -**	**$ 1,588,801**
Investments measured at net asset value:				490,795
Total investments				**$ 2,079,596**

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 market place.

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 $99.1 million and $84.8 million for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the total liability related to these plans was $2.7 million and $7.2 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, 2022 and 2021 were $68.3 million and $64.5 million, respectively. Total deposit balances of credit union officials as of December 31, 2022 and 2021 were $38.3 million and $35.4 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, 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)**

	December 31, 2021			
(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	**$ (390,179)**	**$ 960,156**	**$ (267,091)**	**$ 302,886**
OCI before reclassifications	98,913	(948,130)	61,081	(788,136)
Amounts reclassified from AOCI to:				
Salaries and employee benefits	20,659	-	-	20,659
Net (gain)/loss on investments	-	(26,967)	-	(26,967)
Interest on borrowed funds	-	-	57,092	57,092
Net change in AOCI	**119,572**	**(975,097)**	**118,173**	**(737,352)**
Balance, end of year	**$ (270,607)**	**$ (14,941)**	**$ (148,918)**	**$ (434,466)**

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.

Effective January 2022, 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 greater than or equal to 7%, the credit union has two calendar quarters of grace period either to satisfy the requirements to be a qualifying “complex” credit union 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”.

As of December 31, 2022, Navy Federal opted 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 12.29%. 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, 2022 that management believes would have changed Navy Federal’s categorization.

Prior to January 2022, a credit union was defined as “complex” if the credit union’s quarter-end total assets exceeded $50 million and its Risk Based Net Worth (RBNW) requirement exceeded 6%. Navy Federal’s RBNW requirement as of December 31, 2021 was 5.97%, and therefore, was not considered “complex”. To be categorized as “well capitalized”, Navy Federal must maintain a minimum net worth ratio of 7%. As of December 31, 2021, Navy Federal was categorized as “well capitalized” under the NCUA regulatory framework for prompt corrective action as a result of a net worth-to-assets ratio of 11.30%.

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, 2022 and 2021.

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

Navy Federal elects the fair value option for mortgage loans held for sale at origination. Navy Federal accounts for mortgage loans using the lower of amortized cost or fair value method when a firm sale commitment is executed for loans that had been previously classified as held for investment. 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

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 and fair value hedges 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.

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 on the Consolidated Statements of Financial Condition as of December 31:

	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 on the Consolidated Statements of Financial Condition.

	December 31, 2021				
(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	$ -	$ 9,373,505	$ -	$ -	$ 9,373,505
Residential mortgage-backed securities	-	12,968,958	-	-	12,968,958
Commercial mortgage-backed securities	-	487,886	-	-	487,886
Bank notes and corporate bonds	-	3,934,467	-	-	3,934,467
Municipal securities	-	766,161	-	-	766,161
Non-U.S. government securities	-	243,971	-	-	243,971
Total available-for-sale debt securities	**-**	**27,774,948**	**-**	**-**	**27,774,948**
Equity securities	551,149	-	-	-	551,149
Mortgage loans held for sale	-	1,870,977	-	-	1,870,977
Loans held for investment	-	-	1,260,542	-	1,260,542
Mortgage servicing rights	-	-	474,649	-	474,649
Derivatives [2]	-	1,321	21,177	(1,221)	21,277
Total assets at fair value on a recurring basis	**$ 551,149**	**$ 29,647,246**	**$ 1,756,368**	**$ (1,221)**	**$ 31,953,542**
Derivatives [2]	$ -	$ (5,494)	$ (1)	$ 1,221	$ (4,274)
Total liabilities at fair value on a recurring basis	**$ -**	**$ (5,494)**	**$ (1)**	**$ 1,221**	**$ (4,274)**

[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 on the Consolidated Statements of Financial Condition.

Items measured as Level 3 in the fair value hierarchy as of December 31, 2022 and 2021 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, 2022 and 2021 were $117.5 million and $186.2 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, 2022 and 2021. Additions during the year only consisted of transfers as noted below. Issuances of interest rate lock derivatives for the years ending December 31, 2022 and 2021 were $61.1 million and $316.4 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, 2022 and 2021, $97 million and $781.4 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, 2022 and 2021.

Note 15: Subsequent Events

Navy Federal evaluated subsequent events through March 17, 2023, 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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