2021

NAVY FEDERAL CREDIT UNION

ANNUAL REPORT

OUR MEMBERS ARE THE MISSION®

To Our Members:

In 2021, the pandemic continued to be an agent of change. As a nation, we experienced the ups and downs that came along with the long-awaited vaccines and a potential return to normal life, combined with continued economic uncertainties and rising inflation. Higher costs of living tightened the belt on family budgets across America. The effectiveness of the vaccines allowed us to come back together during the holidays, bringing with it a renewed joy in the ability to be truly present in those moments. These conditions put an emphasis on the many changes we've all lived through and to which we continue to adapt.

Despite the changing social and economic climate of the past year, Navy Federal Credit Union has been steadfast in its growth and strength. This is a testament to the loyalty and fortitude of our military families. A renewed vigor for saving and investing came as some members received stimulus payments and tax credits along with the ever-present need to be ready for the unexpected. Our assets grew to $153.4 billion last year, and savings increased $16.6 billion to reach $127.8 billion in total. Navy Federal was proud, poised and prepared not only to be the place members turned to deposit their stimulus funds, but also where they placed their savings and trust. That trust is a cherished badge of service excellence for our team members who consider it their privilege to be able to help members during the best and worst of times.

Many of our members also felt the impacts of the ongoing pandemic, experiencing the higher prices of everyday living expenses and limitations on everyday life. It was and always will be important for us to be a relied-upon partner in the journey to financial wellness. As a result, we've worked hard to ensure members enjoy the best rates possible on all our savings products. And, we helped them get the financing they needed to achieve their goals, as loan balances totaled $95.8 billion at the end of 2021. In addition to providing loans, we ramped up our financial literacy efforts online and in-person to quite literally answer the calls for service and support across the board.

Our focus throughout the past year never wavered from the resolute need to keep up with the changes affecting our members. We advanced our data and technological capacity and capabilities, worked to anticipate the next best solutions for our members, and provided the kind of support in our member communities that fosters well-being overall. Along with our investment in technology, we continued our focus on enhancing security to protect member accounts and information. The moves we made and the results of those efforts outlined in this 2021 Annual Report underscore our mission on behalf of our members. We evolved to better fulfill that mission. And, despite the changes, our commitment to help each and every member achieve their goals remained and will continue to remain the same.

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

In 2021, Navy Federal Credit Union experienced impressive growth within an environment of change—maintaining a strong financial foundation with a focus on growth and member support. We continued to offer low fees and some of the best loan and savings rates in the industry. Here's a summary of our performance and how we served our members in 2021.

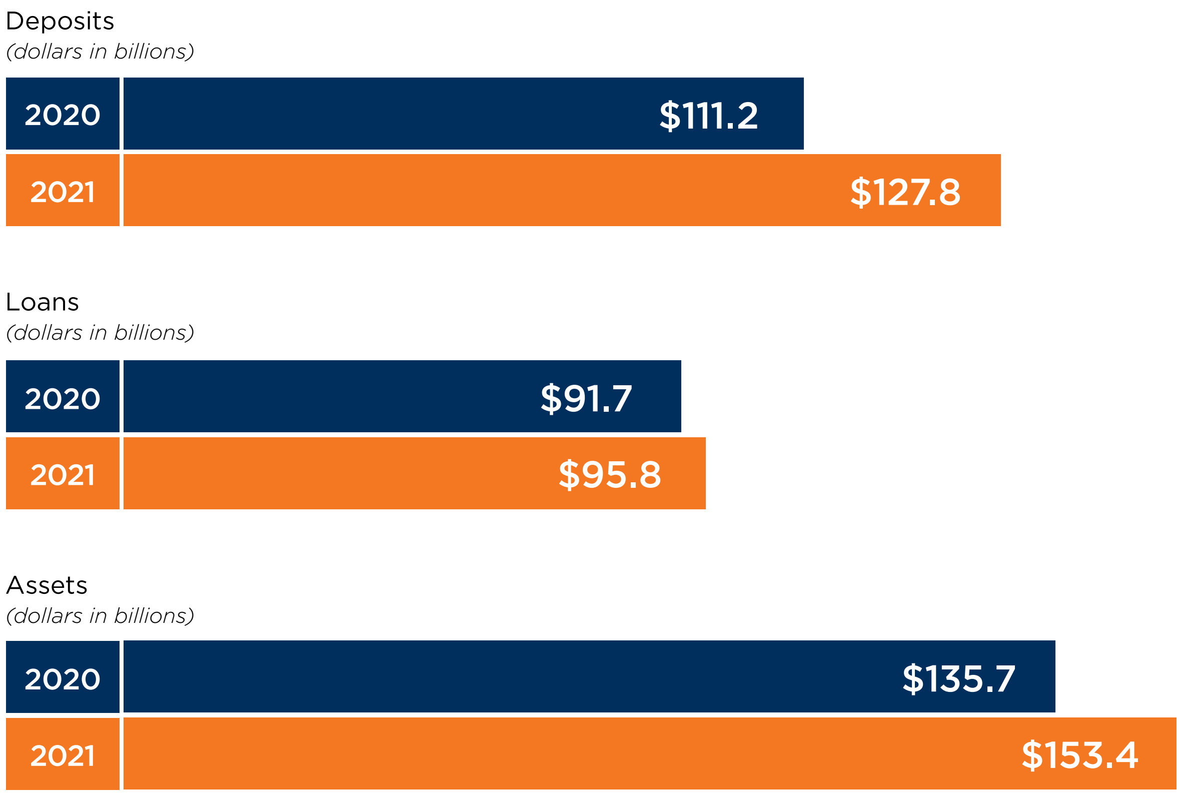
Financial Summary

As of December 31 *(dollars in millions)*	2020	2021
Assets	$ 135,664.1	$ 153,433.0
Loans Outstanding	$ 91,679.9	$ 95,811.3
Savings, Checking, MMSAs, IRAs	$ 81,902.8	$ 103,484.3
Share Certificates	$ 29,302.3	$ 24,275.2
Members' Equity	$ 14,932.4	$ 16,910.2
Gross Income	$ 8,374.0	$ 8,271.7
Non-Interest Expense	$ 3,920.8	$ 4,515.5
Dividends	$ 1,123.3	$ 829.2
Mortgage Loans Serviced	$ 80,585.6	$ 79,515.7
Members	9,927,166	11,133,370

We continued to focus on helping members meet their day-to-day expenses and reach their short- and long-term financial goals.

Ranked by Forrester as #1 in the Leader Banks Multichannel category

Deposit, Loan and Asset Comparisons



Helping Members Achieve Their Goals

We continued to focus on helping members meet their day-to-day expenses and reach their short- and long-term financial goals by offering a variety of saving, investing and financing options.

We saw notable increases in a number of areas. Members showed greater interest in saving and investing last year. Our assets increased $17.8 billion to $153.4 billion in 2021. Savings increased $16.6 billion to $127.8 billion, due in part to members receiving stimulus payments and tax credits. Member investments under Navy Federal Financial Group's[1] management reached $5.1 billion, a 20.3% increase over 2020. And, our total membership reached significant milestones—surpassing both the 10 and 11 million mark, for a year-end total of 11.1 million members (12.2% more than in 2020).

Our overall loan portfolio ended the year at $95.8 billion. Consumer lending increased 9.5%, reaching $27 billion.

Home Loans

Historically low rates continued to prevail in 2021, prompting greater numbers of consumers considering homeownership than in recent years. Over the course of the year, we helped almost 35,000 families get mortgages—more than half of whom were first-time homebuyers.

We also helped nearly 46,000 members refinance their mortgages. This resulted in a record-breaking $24.8 billion in originations.

Auto Loans

We financed a record number of vehicles for more than 461,000 members last year. Those loans totaled $11.9 billion—an increase of 23%. In addition, nearly 107,000 members saved an average of $62 a month[2] by refinancing their existing loans with us.

New partnerships with TrueCar®[3] and Liberty Mutual Insurance®[4] enabled us to offer members a full-service car-buying experience. Our new online auto-buying hub lets members research, finance, buy and insure their next car—all in one place. The hub offers excellent loan rates and car prices, vehicle history reports, and discounts on insurance and in-car entertainment packages. In its first year of operation, members purchased 11,000 cars with this service and received 356,000 free vehicle history reports.

Additional Growth

- Credit card portfolio increased 9.5% to $21.8 billion ($36.3 billion in total spend)
- Debit card transactions reached 2.4 billion, a 26% increase over the prior year
- The number of active checking accounts increased 18% to 7.8 million

We understand that an outstanding member experience begins and ends with our employees.

Recognized by Forbes as one of the 2021 America's Best Large Employers and one of the Best Employers for Veterans

Financial Wellness

We developed innovative ways to support members' financial wellness. Last year, we launched our Mission: Credit Confidence Dashboard, designed to give members a tool to monitor, improve, protect and build their credit. In its first year, a remarkable 2.7 million users took advantage of capabilities such as goal setting, one-click-away education, action-oriented tips and credit simulations. Members were also able to set up security notifications, alerting them to changes in their credit scores, the unauthorized use of lost or stolen cards, and new accounts and credit inquiries.

Championing Community

We believe that as a community, we're stronger together. We're dedicated to embracing diversity and to fostering financial health and well-being for the military, veterans, their families and those in all the communities we serve.

Many of the member businesses we serve are small or even microbusinesses. In 2021, we again participated in the Paycheck Protection Program to help keep small businesses afloat and their staff employed. We also facilitated more than 4,000 new loans for businesses with an average number of 3 employees and an average loan size of $20,000. In addition, we helped members apply for PPP loan forgiveness. In all, over 6,800 different business members had their loans forgiven by the Small Business Administration for a total of $197.6 million.

Navy Federal Credit Union is proud to employ and help military members transition into civilian employment. Throughout the year, we work with charitable organizations that work hard to advance the causes and help meet the challenges that face the military community. Last year, we supported more than 350 nonprofit organizations that support servicemembers, veterans and their families, diversity and inclusion, and a host of other local causes.

In partnership with Hire Heroes USA®, we introduced our Best Careers for Military Spouses initiative. This project focused on identifying industries and career paths for military spouses that are military-friendly and align with values that matter most to them.

Advancing Digital and Technological Evolution

We recognize the ever-increasing demand for digital solutions that make money management simpler, more convenient and even effortless. Through the investment in and adoption of new data technologies, we were better able to anticipate solutions for members and customize communications based on their individual needs. Our investments in technology, staff and security enabled us to keep funds safe and protect members' information. And, for those members who use non-Navy Federal financial apps, we made it more secure for them to conduct seamless transactions without exposing sensitive information.

Members responded to our upgrades enthusiastically, using digital channels at an all-time high of 8.4 million members or 75% of our total membership—15% more than in 2020.

Prioritizing Members and Employees

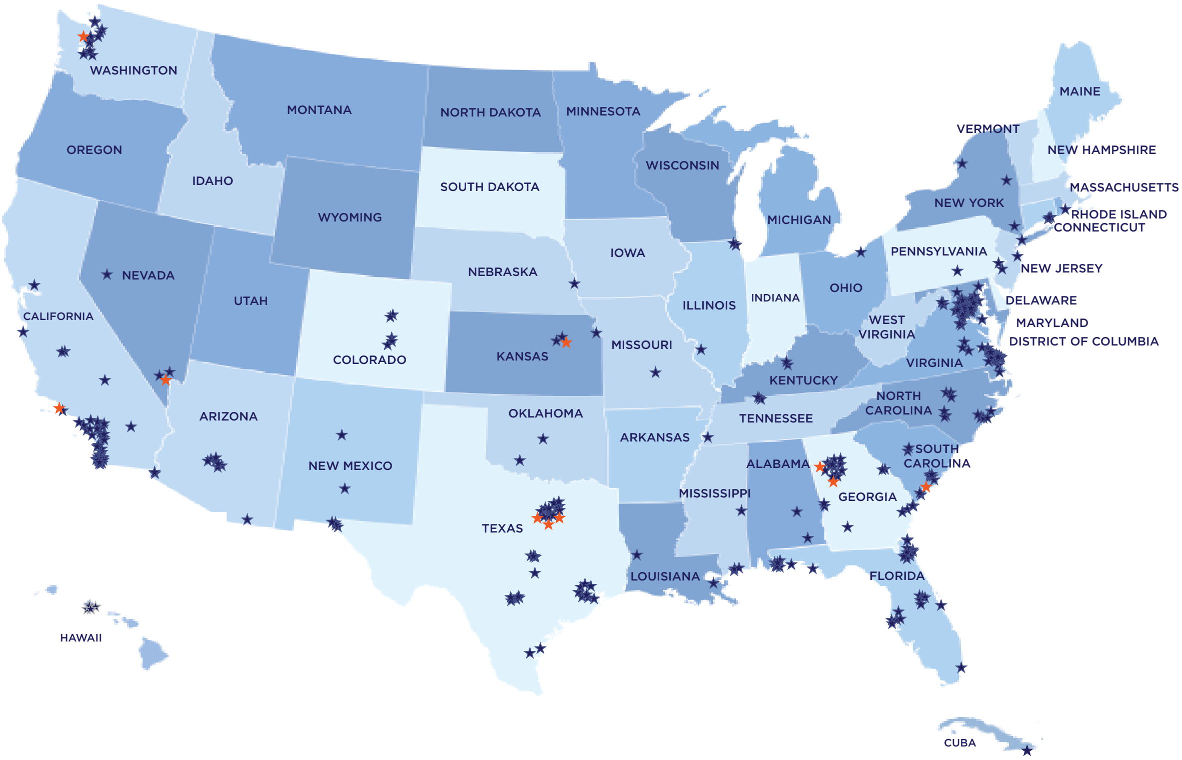
Our members want to be able to speak to a person, not a recording when they have a question or need help. We continue to offer live member support 24/7, because meeting their needs whenever and however they need us is our mission. That support is one of the many things that sets us apart from other financial institutions.

Last year, our contact center representatives answered 45.5 million calls, chats and emails. And, because we know many members also want the option of visiting a nearby branch, we increased our worldwide network of branches to 350 last year, 186 of which are on or near military installations.

We understand that an outstanding member experience begins and ends with our employees. And, making sure we have a positive, employee-centric environment is crucial to their happiness and job satisfaction. That's why we're delighted to report that both member and employee satisfaction ratings remain high.

- Ranked by Forrester[5] as #1 in the Leader Banks Multichannel category
- Named for the 11th time as one of FORTUNE Magazine's 100 Best Companies to Work For in 2021
- Ranked in the top 100 for PEOPLE's 2021 Companies That Care
- Recognized by Forbes as one of the 2021 America's Best Large Employers and one of the Best Employers for Veterans

2021 United States and Cuba Locations



★ **New Branches** ★ **Existing Branches**

ALABAMA
Enterprise
Montgomery

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

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

COLORADO
Aurora
Centennial
Colorado Springs (2)
Fountain

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
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
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*

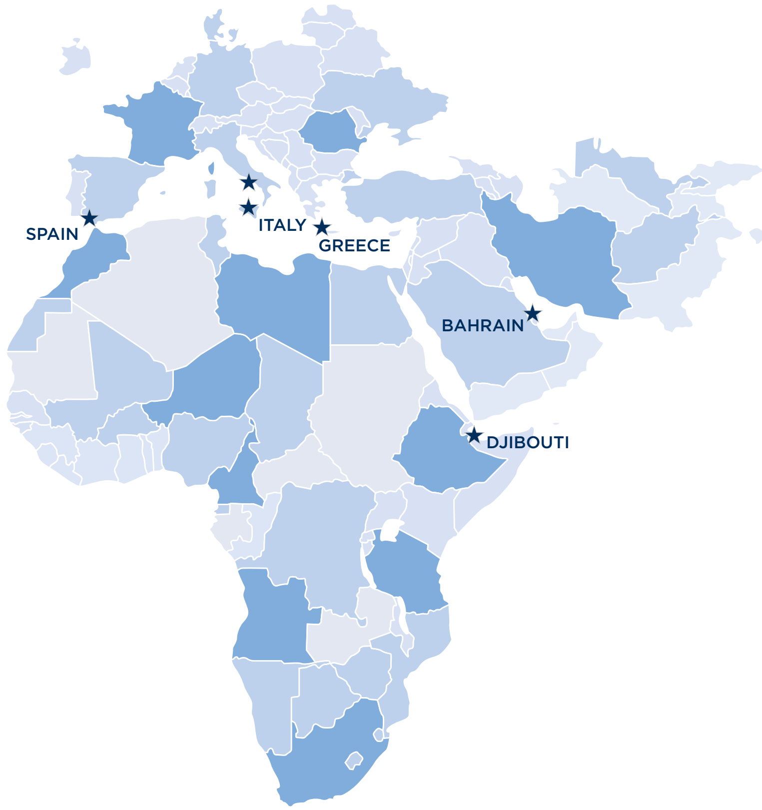
OKLAHOMA
Lawton
Midwest City

PENNSYLVANIA
Carlisle*
Horsham

RHODE ISLAND
Newport*

(continued)

2021 Overseas Locations (All On-Base)



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
El Paso (4)
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
Universal City
Webster
Westworth Village

VIRGINIA
Alexandria (3)
Annandale
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 (5)*
Portsmouth (3)*
Reston
Richmond
Springfield
Stafford (2)
Sterling
Suffolk
Vienna
Virginia Beach (11)*
Williamsburg
Winchester (3)
Woodbridge
Yorktown*

WASHINGTON
Bremerton
Everett*
Lacey
Lakewood
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.**

2021 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 Committee

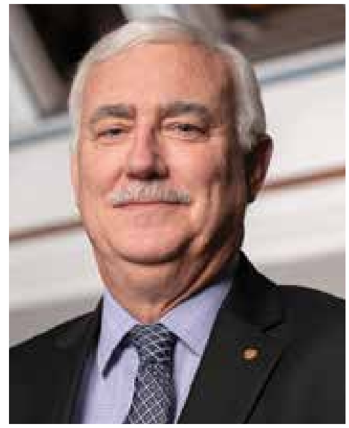
Edward R. Cochrane Jr.
Second Vice Chairman
Executive Committee
Financial Strategy and Investment Committee
Planning and Strategic Direction Committee

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

William P. Mizerak
Colonel, USMC (Ret.)
Secretary
Executive Committee
Financial Strategy and Investment Committee
Planning and Strategic Direction Committee

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

Kirk A. Foster
Rear Admiral, USN (Ret.)
Supervisory Committee
Technology Committee



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

Pasquale M. Tamburrino Jr.
Technology Committee

Supervisory Committee
Input for the 2021 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

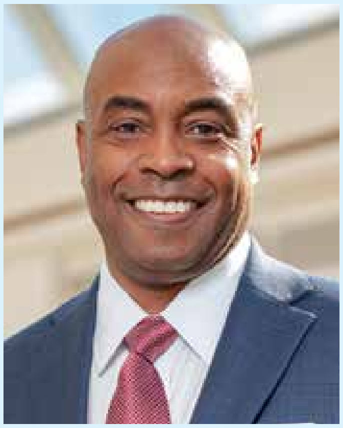
John R. Edwards
Brigadier General, USAF
Supervisory Committee

Kirk A. Foster
Rear Admiral, USN (Ret.)
Supervisory Committee
Technology Committee

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

Karin A. Vernazza
Captain, USN (Ret.)
Supervisory Committee
Technology Committee

Other Committee Members



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

Kelly K. Harrison
Commander, USN
Planning and Strategic Direction Committee

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

Brian E. Luther
Rear Admiral, USN (Ret.)
Planning and Strategic Direction Committee

James L. Moser
Technology Committee

Daniel L. Nega
Planning and Strategic Direction Committee

Diane M. Randon
Financial Strategy and
Investment Committee

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

Jennifer E. Shaar
Colonel, USMC
Planning and Strategic
Direction Committee

Mark R. Taylor
Colonel, USA
Technology Committee

David P. Walt
Captain, USN
Technology Committee

OUR MEMBERS ARE THE MISSION®

EQUAL HOUSING LENDER

[1]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. Digital Investor is offered through NFIS. 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.

[2]Monthly payment savings is based on the average monthly payments our members experienced with their new auto loan booked between January and April 2020 compared to their prior loan payments with another lender. Monthly payment reduction may result from a lower interest rate, a longer term, or both. Individual borrower savings may be different.

[3]Between 1/1/20 and 12/31/20, the average savings off MSRP experienced by consumers who connected with a TrueCar Certified Dealer through a TrueCar-powered auto buying program and who were identified as buying a new vehicle from that Certified Dealer was $3,552. Your actual savings may vary based on multiple factors, including the vehicle you select, region, dealer, and applicable vehicle-specific manufacturer incentives, which are subject to change. MSRP is determined by the manufacturer and may not reflect the price at which vehicles are generally sold in the dealer's trade area, as many vehicles are sold below MSRP. Each dealer sets its own pricing.

[4]TruStage® Auto & Home Insurance Program is made available by TruStage Insurance Agency, LLC. Coverage provided and underwritten by Liberty Mutual Insurance Company or its subsidiaries or affiliates, 175 Berkeley Street, Boston, MA 02116 USA. © 2021 Liberty Mutual Insurance. Discounts are not available in all states, and discounts vary by state. Certain discounts apply to specific coverages only. To the extent permitted by law, applicants are individually underwritten; not all applicants may qualify. A consumer report from a consumer reporting agency and/or motor vehicle report will be obtained on all drivers listed on your policy where state laws and regulations allow. Please consult your policy for specific coverages and limitations. The insurance offered is not a deposit, and is not federally insured, sold or guaranteed by your credit union. Your credit union enables this insurance program to be offered and is entitled to compensation from TruStage Insurance Agency, LLC.

Navy Federal Credit Union is in no way responsible for any products or services provided by or through TruStage, Liberty Mutual or their affiliates, subsidiaries, and insurance company partners.

[5]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, 2021 and 2020

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Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Navy Federal Credit Union and its subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, 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, 2021 and 2020 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 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 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 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

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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 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 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 18, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands)	As of December 31, 2021		2020	
ASSETS				
Cash and cash equivalents	$	24,347,156	$	16,741,137
Available-for-sale debt securities		27,774,948		22,272,676
Held-to-maturity securities		750,025		401,146
Equity securities		551,149		-
Mortgage loans held for sale, at fair value		1,870,977		3,501,444
Loans held for investment ($1,260,542 and $691,241 at fair value, respectively), net of allowance for loan losses of $1,780,355 and $2,620,569, respectively		92,159,921		85,557,837
Accounts receivable and accrued interest		1,295,191		2,672,974
Property, plant and equipment, net		2,303,346		2,359,122
Investments in FHLB		189,638		291,038
NCUSIF deposit		1,123,106		934,930
Mortgage servicing rights		474,649		418,954
Goodwill		58,905		58,905
Other assets		533,972		453,936
Total assets	**$**	**153,432,983**	**$**	**135,664,099**
LIABILITIES AND MEMBERS' EQUITY				
Deposit accounts				
Checking	$	27,356,838	$	23,244,868
Savings		34,574,117		27,439,932
Money market savings		32,772,081		22,774,445
Certificates		24,275,246		29,302,302
Individual retirement accounts		8,781,302		8,443,557
Total deposit accounts		**127,759,584**		**111,205,104**
Liabilities				
Borrowed funds		6,011,141		6,495,000
Accounts payable and accrued expenses		1,919,393		1,600,374
Other liabilities		832,715		1,431,190
Total deposit accounts and liabilities		**136,522,833**		**120,731,668**
Members' equity				
Equity		17,344,616		14,629,545
Accumulated other comprehensive (loss)/income		(434,466)		302,886
Total members' equity		**16,910,150**		**14,932,431**
Total liabilities and members' equity	**$**	**153,432,983**	**$**	**135,664,099**

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, 2021	2020
Interest income		
Loans	$ 5,759,229	$ 5,764,309
Investment securities	524,084	428,430
Other investments	39,888	47,798
Total interest income	**6,323,201**	**6,240,537**
Dividends and interest expense		
Dividends on deposits	829,168	1,123,306
Interest on borrowed funds	192,978	318,777
Total dividends and interest expense	**1,022,146**	**1,442,083**
Net interest income	**5,301,055**	**4,798,454**
Provision for loan losses	(19,042)	(2,201,114)
Net interest income after provision for loan losses	**5,282,013**	**2,597,340**
Non-interest income		
Net gain on mortgage loans	268,385	477,217
Net gain on investments	92,490	256,275
Mortgage servicing revenue	152,815	158,066
Interchange income, net	726,497	567,395
Fee and other income	708,340	674,550
Total non-interest income	**1,948,527**	**2,133,503**
Non-interest expense		
Salaries and employee benefits	2,151,823	1,886,561
Office operations and equipment	513,365	467,925
Servicing expense	237,714	307,028
Professional and outside services	512,716	381,189
Marketing	173,818	153,273
Depreciation and amortization	310,114	271,233
Other	615,919	453,633
Total non-interest expense	**4,515,469**	**3,920,842**
Net income	**$ 2,715,071**	**$ 810,001**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the Years Ended December 31, 2021	2020
Net income	**$ 2,715,071**	**$ 810,001**
Other comprehensive (loss)/income		
Change in unrecognized pension and postretirement amounts	119,572	(129,417)
Change in net unrealized (losses) gains on AFS debt securities	(975,097)	584,443
Change in cash flow hedge derivatives	118,173	(96,219)
Total other comprehensive (loss)/income	**(737,352)**	**358,807**
Total comprehensive income	**$ 1,977,719**	**$ 1,168,808**

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 (Loss)/Income	Total Members' Equity
Balance at December 31, 2019	**$ 13,819,544**	**$ (55,921)**	**$ 13,763,623**
Other comprehensive income	-	358,807	358,807
Net income	810,001	-	810,001
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**

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, 2021	2020
Operating activities		
Net income	$ 2,715,071	$ 810,001
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	19,042	2,201,114
Depreciation and amortization	310,114	271,233
Gain on securities	(78,116)	(256,354)
Loss on extinguishment of debt	182,012	41,501
Amortization of loan origination fees and costs	(20,673)	(9,952)
Loss on valuation of mortgage servicing rights	130,528	220,966
Other adjustments to net income	12,725	50,343
Mortgage loans originated for sale	(10,478,496)	(10,322,148)
Gain on mortgage loans originated for sale	(263,165)	(477,217)
Proceeds from sales of loans held for sale	10,962,946	9,440,805
Accretion and amortization of investment securities	83,868	134,664
Change in accounts receivable and accrued interest	1,362,801	(1,647,892)
Change in mortgage servicing rights	(186,223)	(134,622)
Change in other assets	21,803	(127,448)
Change in accounts payable and accrued expenses	323,140	235,035
Change in other liabilities	151,981	(60,366)
Net cash provided by operating activities	**5,249,358**	**369,663**
Investing activities		
Purchases of AFS debt securities	(11,452,500)	(9,465,423)
Purchases of HTM securities	(499,133)	(149,910)
Purchases of equity securities	(500,000)	-
Proceeds from maturities, paydowns and calls of AFS debt securities	4,345,533	4,677,153
Proceeds from sales of AFS debt securities	572,553	2,480,820
Proceeds from maturities, paydowns and calls of HTM securities	150,245	100,332
Net redemptions of FHLB stock	101,400	159,988
Proceeds from sale of loans held for investment	-	124,271
Net increase in loans held for investment	(5,853,859)	(7,370,021)
Purchases of property, plant and equipment	(259,770)	(360,376)
Increase in NCUSIF deposit	(188,176)	(193,796)
Proceeds from sale of real estate owned and other assets	53,251	56,640
Net cash used in investing activities	**(13,530,456)**	**(9,940,322)**
Financing activities		
Net increase in deposit accounts	16,548,002	25,141,426
Net increase in securities sold under repurchase agreements	1,386,141	-
Proceeds from borrowed funds	3,300,002	10,950,102
Repayments of borrowed funds	(5,352,014)	(14,756,041)
Other, net	-	(58,734)
Net cash provided by financing activities	**15,882,131**	**21,276,753**
Net increase in cash and cash equivalents and restricted cash	7,601,033	11,706,094
Cash and cash equivalents and restricted cash at beginning of year	16,746,223	5,040,129
Cash and cash equivalents and restricted cash at end of year	**$ 24,347,256**	**$ 16,746,223**
Supplemental cash flow information:		
Interest paid	$ 1,031,173	$ 1,458,352
Non-cash activities:		
Transfers of loans held for investment to other assets	$ 46,547	$ 39,093
Loans securitization	-	485,949
Transfer of mortgage loans held for sale to loans originated for investment	781,444	676,011
Transfer of loans originated for investment to mortgage loans held for sale	-	122,625

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, 2021	2020
Cash and cash equivalents on the Consolidated Statements of Financial Condition	$ 24,347,156	$ 16,741,137
Restricted cash included in other assets on the Consolidated Statements of Financial Condition [1]	100	5,086
Total Cash and cash equivalents and restricted cash in the Consolidated Statements of Cash Flows	**$ 24,347,256**	**$ 16,746,223**

[1] Refer to Note 2 for additional details.

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 Brokerage Services is a wholly owned subsidiary of NFFG. Effective January 1, 2022, Navy Federal Brokerage Services, LLC changed its name to Navy Federal Investment Services, LLC. 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 (GAAP). The preparation of financial statements in accordance with 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 significant intercompany accounts and transactions have been eliminated in consolidation.

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, and 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 stated maturities of three months or less, which include federal funds sold and securities purchased under agreements to resell. Cash and cash equivalents exclude restricted cash, which is included in Other assets on the Consolidated Statements of Financial Condition. See Note 2: Restrictions on Cash for details.

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 classified as AFS are carried at fair value, with any unrealized gains and losses recorded in accumulated other comprehensive income (AOCI). 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 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 effective interest method. See Note 3: 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 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 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 carried at fair value, with any unrealized gains and losses recorded in earnings and included in Net gain on investments in the Consolidated Statements of Income. See Note 3: 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. There was no impairment for the years ended December 31, 2021 and 2020.

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, as the transferor does not relinquish effective control over the securities transferred. Navy Federal transfers title to the collateral sold or purchased under repurchase and reverse repurchase agreements, respectively, and monitors the fair value of the underlying financial assets, which are primarily U.S. government and federal agency securities.

Loans

Navy Federal's loan portfolio consists of consumer, credit card and real estate loans. Consumer loans consist of auto 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/payoff, or to sell the loans. 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 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 method 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.

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 (hereafter jointly referred to as the "CARES Act"). Pursuant to the CARES Act 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*. 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.

Navy Federal considered the impact of COVID-19 Loan Accommodations on overall credit losses related to the pandemic. Navy Federal applied qualitative adjustments to the modeled allowance for loan losses to relevant portfolios to ensure sufficient allowance amounts were recorded to adequately capture the impact of COVID-19.

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 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 5: Loan Sales and Continuing Involvement in Assets Transferred for details.

In certain circumstances, 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 to estimated fair value recognized in Net 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 5: 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 4: Loans and Allowance for Loan Losses for details.

The CARES Act provides 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 do not meet the criteria for TDR relief under the CARES Act may be evaluated in accordance with the Interagency Statement, which allows 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 has 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 fixed non-cancelable 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

Navy Federal uses the straight-line method to account for its operating leases. Under this method, Navy Federal divides the total contractual rent by the total term of the lease. The average monthly rent is recorded as rent expense, and the remaining rent amount is deferred. Navy Federal reviews its operating leases at inception, and subsequently on an ongoing basis, for the existence of asset retirement obligations that are accrued, when material, pursuant to ASC 410-20, *Asset Retirement Obligations*.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the FCUA and the 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 at least annually for impairment. In accordance with ASU 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, Navy Federal evaluates goodwill for impairment annually as of our reporting date, December 31, through evaluation of facts and circumstances over the duration of the reporting period, rather than as of the date any potential triggering event is identified. 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. In accordance with ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, Navy Federal has eliminated Step 2 from the goodwill impairment test.

Navy Federal completed its annual impairment assessment as of December 31, 2021 and concluded there was no impairment. Navy Federal did not have any adjustments to goodwill during the years ended December 31, 2021 and 2020.

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 6: 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 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, terminated or exercised; 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. Navy Federal did not discontinue hedge accounting for any hedges for the year ended December 31, 2021. Hedge accounting was discontinued for certain hedges for the year ended December 31, 2020. See Note 6: 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 11: 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 15: 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 gain on mortgage loans, Net 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 $505.8 million and $352 million for the years ended December 31, 2021 and 2020.

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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities on financing and operating leases with terms exceeding 12 months. This is a change from current GAAP, which requires only capital leases to be recognized on the balance sheet. This ASU will also require additional disclosures to help financial statement readers better understand the amount, timing and uncertainty of cash flows arising from leases. The following ASUs comprise Topic 842 and collectively allow entities to elect a simplified transition approach:

- ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*
- ASU 2018-10, *Codification Improvements to Topic 842, Leases*
- ASU 2018-11, *Leases (Topic 842): Targeted Improvements*
- ASU 2019-01, *Leases (Topic 842): Codification Improvements*
- ASU 2019-10, *Financial Instruments: Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*
- ASU 2020-05, *Revenues from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*
- ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*, which amends ASC 842 to allow a lessee that is not a public business entity to elect to use a risk-free rate as its discount rate by class of underlying asset, rather than provide for an election for all leases to use a risk-free rate on an entity-wide level. A lessee that makes the election is required to disclose the class or classes of underlying assets to which it applied the risk-free rate. ASU 2021-09 also requires lessees to use the rate implicit in the lease when it is readily determinable, even if the risk-free rate election is made. Navy Federal is required to apply this ASU when it adopts ASC 842 on January 1, 2022 and does not believe this guidance will have a material impact on its consolidated financial statements.

These ASUs are effective for the annual reporting periods beginning after December 15, 2021. Navy Federal continues to evaluate the impact the ASUs will have on the consolidated financial statements, with implementation efforts ongoing. The review of our lease portfolio is substantially complete, and, based on current estimates, we expect to recognize right-of-use assets and lease liabilities of approximately $312 million.

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 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*

These ASUs are effective for the annual reporting periods beginning after December 15, 2022. Navy Federal is continuing to progress toward adoption of Topic 326 through the oversight of a cross-departmental governance framework. We are continuing to validate and refine the models developed to ensure compliance with the new standard and satisfy relevant disclosure requirements. Implementation of the relevant systems, processes and controls are nearing completion with parallel processing scheduled for 2022. Navy Federal continues to evaluate the impact Topic 326 will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Specifically, the guidance allows hedge accounting to be maintained in connection with replacing the London Inter-Bank Offered Rate (LIBOR) with a replacement benchmark interest rate, when certain criteria are met. The expedients and exceptions provided by the amendments are permitted to be adopted anytime through December 31, 2022. Topic 848 was adopted by Navy Federal in 2021 through election of certain optional expedients intended to simplify the operational impact of applying the ASU to certain transactions impacted by reference rate reform. Adoption of the ASU did not impact the financial results in 2021.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which clarifies that the scope of the initial accounting relief issued by the FASB in March 2020 includes derivative instruments that do not reference a rate that is expected to be discontinued but that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform (commonly referred to as "discounting transition"). The ASU was adopted by Navy Federal on a full retrospective basis upon issuance and did not materially impact financial results in 2021.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which requires business entities to provide disclosure of transactions with a government and the corresponding accounting model applied. Required disclosures include: the nature of the transactions, the related accounting policies used to account for the transactions, the effect of the transactions on an entity's financial statements, and any significant terms and conditions of the transactions. This ASU is effective for financial statements issued for annual periods beginning after December 15, 2021. Navy Federal believes this guidance will not have a material impact on its consolidated financial statements.

Note 2: Restrictions on Cash

Navy Federal had $0.1 million and $5.1 million in restricted cash as of December 31, 2021 and 2020. Restricted cash amounts are included in Other assets on the Consolidated Statements of Financial Condition.

Note 3: Investments

Equity Securities

Navy Federal's equity securities consist of investments in a mutual fund and redeemable common stock. Navy Federal recognized $51.1 million and zero unrealized gains on equity securities during the years ended December 31, 2021 and 2020, respectively.

HTM and AFS Debt Securities

The amortized cost of Navy Federal's HTM debt securities as of December 31, 2021 and 2020 was $750 million and $401.1 million, respectively. Substantially all the HTM debt securities are U.S. government and federal agency securities.

Navy Federal's AFS debt securities as of December 31, 2021 and 2020 were as follows:

	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**

	December 31, 2020							
(dollars in thousands)		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value
Available-for-sale debt securities								
U.S. government and federal agency securities	$	6,506,944	$	292,727	$	(51,910)	$	6,747,761
Residential mortgage-backed securities		10,439,590		236,287		(6,606)		10,669,271
Commercial mortgage-backed securities		472,953		36,913		(170)		509,696
Bank notes and corporate bonds		3,319,185		386,493		(199)		3,705,479
Municipal securities		341,562		44,483		-		386,045
Non-U.S. government securities		232,060		22,364		-		254,424
Total available-for-sale debt securities	**$**	**21,312,294**	**$**	**1,019,267**	**$**	**(58,885)**	**$**	**22,272,676**

Navy Federal sold AFS debt securities with a carrying value of $552.8 million and $2,225.2 million for cash proceeds of $572.6 million and $2,480.8 million for the years ended December 31, 2021 and 2020, respectively. Gross realized gains of $19.7 million and gross realized losses of zero were included in earnings for the year ended December 31, 2021. Gross realized gains of $255.6 million and gross realized losses of zero were included in earnings for the year ended December 31, 2020.

The contractual maturities of Navy Federal's HTM debt securities as of December 31, 2021 were as follows:

	December 31, 2021	
(dollars in thousands)		Amortized Cost
Held-to-maturity debt securities		
Due in one year or less	$	-
Due after one year through five years		650,025
Due after five years through ten years		-
Due after ten years		100,000
Total held-to-maturity debt securities	**$**	**750,025**

The contractual maturities of Navy Federal's AFS debt securities as of December 31, 2021 were as follows:

	December 31, 2021			
(dollars in thousands)		Amortized Cost		Fair Value
Available-for-sale debt securities				
Due in one year or less	$	954,579	$	964,291
Due after one year through five years		5,612,709		5,775,865
Due after five years through ten years		2,786,858		2,828,854
Due after ten years		18,435,670		18,205,938
Total available-for-sale debt securities	**$**	**27,789,816**	**$**	**27,774,948**

Navy Federal held 6 HTM and 246 AFS debt securities in an unrealized loss position at December 31, 2021. 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 based on the following factors: whether Navy Federal intends to sell or hold the security until its amortized costs can be recovered, the nature of the security, the portion of unrealized losses that are attributable to credit losses and the financial condition of the issuer of the security. 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. For one investment, other-than-temporary impairment credit losses of $2.4 million were recognized during the year ended December 31, 2020 resulting from credit-related factors and adverse changes in expected future cash flows. For the remaining investments, 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, 2021 and 2020.

The following tables present HTM and AFS debt securities at fair value and their associated gross unrealized losses broken down by the amount of time the investments have been in a loss position:

	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)**

	December 31, 2020					
	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	**$ 190**	**$ -**	**$ 51**	**$ -**	**$ 241**	**$ -**
Available-for-sale debt securities						
U.S. government and federal agency securities	1,183,366	(51,910)	-	-	1,183,366	(51,910)
Residential mortgage-backed securities	805,372	(6,606)	-	-	805,372	(6,606)
Commercial mortgage-backed securities	27,091	(170)	-	-	27,091	(170)
Bank notes and corporate bonds	24,787	(199)	-	-	24,787	(199)
Total available-for-sale debt securities	**2,040,616**	**(58,885)**	**-**	**-**	**2,040,616**	**(58,885)**
Total debt securities	**$ 2,040,806**	**$ (58,885)**	**$ 51**	**$ -**	**$ 2,040,857**	**$ (58,885)**

As of December 31, 2021 and 2020, Navy Federal had pledged $137.5 million and $186.7 million, respectively, of investment securities as collateral with counterparties for derivative transactions under master netting agreements. As of December 31, 2021 and 2020, Navy Federal pledged $1.4 billion and zero in U.S. Treasury 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. The risk is managed by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions. See Note 10: Borrowed Funds for maturity information of the associated liabilities.

Note 4: 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, 2021 and 2020 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 is frozen during the accommodation period, and as a result, loans may be reported as current in the tables below even if payments are 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, 2021 and 2020 was as follows:

	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
Mortgage loans	43,292,537	251,812	268,419	520,231	(223,084)	43,589,684
Equity loans	1,581,334	13,050	23,199	36,249	13,984	1,631,567
Total loans held for investment	**$ 92,614,944**	**$ 859,703**	**$ 624,323**	**$ 1,484,026**	**$ (158,694)**	**$ 93,940,276**

	December 31, 2020					
(dollars in thousands)	**Current**	**30-89 Days Delinquent**	**90 Days or More Delinquent**	**Total Delinquent Loans**	**Unamortized Cost/ (Deferred Fee)**	**Total Loans**
Consumer loans	$ 24,279,782	$ 203,633	$ 87,804	$ 291,437	$ 45,499	$ 24,616,718
Credit card loans	19,466,912	235,017	179,296	414,313	6,869	19,888,094
Mortgage loans	40,910,782	290,706	290,740	581,446	(213,666)	41,278,562
Equity loans	2,340,410	13,482	21,158	34,640	19,982	2,395,032
Total loans held for investment	**$ 86,997,886**	**$ 742,838**	**$ 578,998**	**$ 1,321,836**	**$ (141,316)**	**$ 88,178,406**

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 are placed on non-accrual under the same policy. As a result, the table below includes loans that are 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, 2021 and 2020 was as follows:

(dollars in thousands)	**2021**	**2020**
Consumer loans	$ 131,098	$ 87,804
Credit card loans	201,607	179,296
Mortgage loans	986,966	3,449,199
Equity loans	37,675	137,882
Total	**$ 1,357,346**	**$ 3,854,181**

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 as an indicator of credit quality for secured consumer loans, which consisted of the following as of December 31, 2021 and 2020:

(dollars in thousands)		December 31, 2021		December 31, 2020
FICO		**Total** [1]		**Total** [2]
Greater than or Equal to 610	$	17,716,957	$	15,874,508
Less than 610		3,388,215		2,676,171
Total	**$**	**21,105,172**	**$**	**18,550,679**

[1] Excludes deferred costs from both secured and unsecured consumer loans of $44.2 million and other adjustments of $18.2 million.
[2] Excludes deferred costs from both secured and unsecured consumer loans of $45.5 million and other adjustments of $11.5 million.

Navy Federal uses delinquency status as an indicator of credit quality for unsecured consumer loans, which consisted of the following as of December 31, 2021 and 2020:

(dollars in thousands)		December 31, 2021		December 31, 2020
Delinquency Status		**Total** [1]		**Total** [2]
Performing	$	5,652,808	$	5,936,451
60+ days and foreclosure		129,981		72,615
Total	**$**	**5,782,789**	**$**	**6,009,066**

[1] Excludes deferred costs from both secured and unsecured consumer loans of $44.2 million and other adjustments of $18.2 million.
[2] Excludes deferred costs from both secured and unsecured consumer loans of $45.5 million and other adjustments of $11.5 million.

Credit Card Loans

Navy Federal uses delinquency status as an indicator of credit quality for credit card loans. Refer to the loan composition and delinquency status table above for information as of December 31, 2021 and 2020.

Mortgage Loans

Navy Federal uses delinquency status as an indicator of credit quality for mortgage loans held for investment. Refer to the loan composition and delinquency status table above for information as of December 31, 2021 and 2020.

Equity Loans

Navy Federal uses delinquency status as an indicator of credit quality for equity loans. Refer to the loan composition and delinquency status table above for information as of December 31, 2021.

Navy Federal used FICO Score as an indicator of credit quality for equity loans, which consisted of the following as of December 31, 2020:

(dollars in thousands)		December 31, 2020
FICO		**Total** [1]
Greater than or Equal to 610	$	2,287,699
Less than 610		97,541
Total	**$**	**2,385,240**

[1] Excludes unamortized cost of $20.0 million and other adjustments of $(10.2) million.

Allowance for Loan Losses

The allowance for credit losses at December 31, 2021 was $1.8 billion, a decrease of $840.2 million compared to December 31, 2020. The decrease in the allowance for credit losses was primarily driven by the improvement in the economic conditions due to recovery from the impact of COVID-19. Changes in the allowance for loan losses during the years ended December 31, 2021 and 2020 were as follows:

	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 (benefit)	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	$ 2,526,147
Ending balance: loans held for investment, collectively evaluated for impairment	$ 26,492,061	$ 21,415,469	$ 43,499,692	$ 91,407,222
Ending balance: loans held for investment, acquired with deteriorated credit quality	$ 1,360	$ -	$ 5,547	$ 6,907

	December 31, 2020			
(dollars in thousands)	**Consumer**	**Credit Cards**	**Real Estate**	**Total**
Allowance for credit losses:				
Balance, beginning of year	$ 508,941	$ 1,037,267	$ 85,643	$ 1,631,851
Provision expense	636,705	1,448,820	115,589	2,201,114
Loans charged off	(554,462)	(884,018)	(10,970)	(1,449,450)
Recoveries	118,742	95,647	10,561	224,950
Net change in allowance for unfunded commitments	1,622	10,482	-	12,104
Balance, end of year	**$ 711,548**	**$ 1,708,198**	**$ 200,823**	**$ 2,620,569**
Ending balance: loans held for investment, individually evaluated for impairment	$ 128,233	$ 208,754	$ 65,173	$ 402,160
Ending balance: loans held for investment, collectively evaluated for impairment	$ 582,489	$ 1,499,444	$ 133,102	$ 2,215,035
Ending balance: loans held for investment, acquired with deteriorated credit quality	$ 826	$ -	$ 2,548	$ 3,374
Loan amount (excluding allowance):				
Ending balance: loans held for investment, individually evaluated for impairment	$ 588,172	$ 456,353	$ 1,531,227	$ 2,575,752
Ending balance: loans held for investment, collectively evaluated for impairment	$ 24,026,954	$ 19,431,741	$ 42,131,635	$ 85,590,330
Ending balance: loans held for investment, acquired with deteriorated credit quality	$ 1,592	$ -	$ 10,732	$ 12,324

Changes in the allowance for unfunded commitments during the years ended December 31, 2021 and 2020 were as follows:

(dollars in thousands)	2021		2020	
Balance, beginning of year	**$**	**42,521**	**$**	**54,625**
Net change in allowance for unfunded commitments		11,892		(12,104)
Balance, end of year	**$**	**54,413**	**$**	**42,521**

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, less any fees received to affect the restructuring, 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, net of 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. In addition, COVID-19 Loan Accommodations granted to members resulting from the effects of the COVID-19 pandemic, who were otherwise in current payment status, are not considered to be TDRs in accordance with the CARES Act and guidance set forth within the Interagency Statement. For additional information regarding the TDR relief provided by the CARES Act and the clarifying TDR accounting guidance from the Interagency Statement, see Note 1: Summary of Significant Accounting Policies.

The following tables summarize the financial impact, by concession type, of loans that became TDRs during the years ended December 31, 2021 and 2020:

	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.*

	2020 [(1)]									
(dollars in thousands)	**Interest Rate Reduction and Term Extension**		**Interest Rate Reduction**		**Term Extension**		**Other [(2)]**		**Total**	
Consumer	$	6,284	$	8,717	$	14,013	$	2,796	$	31,810
Credit card		-		41,006		-		920		41,926
Real estate		4,535		81		9,619		726		14,961
Total	**$**	**10,819**	**$**	**49,804**	**$**	**23,632**	**$**	**4,442**	**$**	**88,697**

(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, 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.

For the year ended December 31, 2020, TDRs that were more than 90 days delinquent within the first 12 months after modification totaled $154.1 million, which included $59.8 million of consumer loans, $66.9 million of credit card loans and $27.4 million of real estate loans.

Impaired Loans

Interest income was not recognized on loans that remained impaired and did not return to performing status during the years ended December 31, 2021 and 2020. 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, 2021 and 2020:

	December 31, 2021				
(dollars in thousands)	**Loan Amount**	**Associated Allowance**	**Average Balance**	**Interest Income (Accrual Basis)**	**Interest Income (Cash Basis)**
Impaired loans with an associated allowance					
Consumer	$ 453,288	$ 89,774	$ 518,525	$ 38,656	$ 42,914
Credit card	349,456	119,130	$ 400,364	40,614	42,077
Real estate	1,389,873	73,023	$ 1,320,399	46,910	44,989
Total impaired loans with an associated allowance	**$ 2,192,617**	**$ 281,927**	**$ 2,239,288**	**$ 126,180**	**$ 129,980**
Impaired loans without an associated allowance					
Consumer	$ 3,714	$ -	$ 4,063	$ 619	$ 651
Credit card	3,677	-	4,379	598	615
Real estate	326,139	-	303,221	8,061	7,978
Total impaired loans without an associated allowance	**$ 333,530**	**$ -**	**$ 311,663**	**$ 9,278**	**$ 9,244**
Total impaired loans	**$ 2,526,147**	**$ 281,927**	**$ 2,550,951**	**$ 135,458**	**$ 139,224**

	December 31, 2020				
(dollars in thousands)	**Loan Amount**	**Associated Allowance**	**Average Balance**	**Interest Income (Accrual Basis)**	**Interest Income (Cash Basis)**
Impaired loans with an associated allowance					
Consumer	$ 583,762	$ 128,233	$ 714,666	$ 55,800	$ 53,575
Credit card	451,271	208,753	528,604	51,172	49,522
Real estate	1,250,924	65,173	1,100,592	30,182	30,851
Total impaired loans with an associated allowance	**$ 2,285,957**	**$ 402,159**	**$ 2,343,862**	**$ 137,154**	**$ 133,948**
Impaired loans without an associated allowance					
Consumer	$ 4,411	$ -	$ 5,331	$ 999	$ 1,002
Credit card	5,081	-	6,824	865	853
Real estate	280,303	-	233,671	5,502	5,790
Total impaired loans without an associated allowance	**$ 289,795**	**$ -**	**$ 245,826**	**$ 7,366**	**$ 7,645**
Total impaired loans	**$ 2,575,752**	**$ 402,159**	**$ 2,589,688**	**$ 144,520**	**$ 141,593**

Loan Transfers

Navy Federal reclassified $781.4 million and $676 million of mortgage loans held for sale to mortgage loans held for investment during the years ended December 31, 2021 and 2020, respectively. Navy Federal transferred these loans to mortgage loans held for investment at fair value and continues to account for them at fair value.

Note 5: 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 originated $24.8 billion and $23.4 billion, and sold/securitized $10.7 billion and $9.6 billion, of first mortgage loans during the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

(dollars in thousands)	2021	2020
Cash from sale of mortgage loans and mortgage-backed securities	$ 10,962,946	$ 9,565,076
Repurchase of previously transferred loans	464,608	1,549,758
Contractual servicing fees received	152,811	158,032

During the year ended December 31, 2021, Navy Federal did not reclassify any mortgage loans from held for investment to mortgage loans held for sale. During the year ended December 31, 2020, Navy Federal reclassified $122.6 million of mortgage loans from held for investment to mortgage loans held for sale. Navy Federal transferred these loans to mortgage loans held for sale at fair value and subsequently sold them for cash proceeds of $124.3 million and recognized MSR assets of $2.5 million for the year ended December 31, 2020.

Gains on the sale of mortgage loans held for sale are included in Net gain on mortgage loans in the Consolidated Statements of Income and totaled $406.9 million and $372.5 million for the years ended December 31, 2021 and 2020, respectively. Navy Federal recorded fair value losses of $138.5 million and gains of $104.8 million for the years ended December 31, 2021 and 2020, respectively, in Net 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. Navy Federal may also incur incremental obligations related to various forms of credit enhancements afforded to third-party investors for securities partially backed by the transferred loans.

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. Issuances and settlements of MSRs for the year ending December 31, 2021 were $186.2 million and $160 million, respectively. Issuances and settlements of MSRs for the year ending December 31, 2020 were $134.6 million and $123.4 million, respectively. MSR value changes resulting primarily from market-driven changes in interest rates for the years ending December 31, 2021 and 2020 were $29.5 million and $97.6 million, respectively. 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 on the following page.

(dollars in thousands)	2021	2020
Weighted-average life (years)	5.93	5.93
Weighted-average CPR	11.53%	11.55%
Decline in fair value from 10% adverse change	$ 22,709	$ 20,098
Decline in fair value from 20% adverse change	43,581	38,674
Option adjusted spread	5.70%	8.84%
Decline in fair value from 10% adverse change	$ 10,477	$ 13,286
Decline in fair value from 20% adverse change	20,490	25,735

See Note 15: 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 $3.4 million of late charges and miscellaneous fees, which is included in Fee and other income in the Consolidated Statements of Income during each of the years ended December 31, 2021 and 2020.

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, 2021 and 2020 totaled $132.6 million and $98.9 million, respectively.

Due to continued borrower requests for COVID-19 Loan Accommodations as a result of the COVID-19 pandemic, the amount of servicing advances of principal and interest remained elevated in 2021 and 2020. The amount of advances may continue to increase if additional COVID-19 Loan Accommodations are provided.

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)	2021	2020
Principal balances of loans serviced [(1)]	$ 34,032,180	$ 35,812,939
Delinquent loans [(1), (2)]	395,475	235,188

[(1)] *Includes loans that are in the GNMA early pool buyback program of $342.8 million and $970.6 million at December 31, 2021 and 2020, respectively.*

[(2)] *Serviced delinquent loans are 60 days or more past due.*

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 3: 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)	2021	2020
Weighted-average CPR	21.71%	32.63%
Anticipated credit losses [(1)]	$ -	$ -
Weighted-average life (years)	3.55	2.29

[(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)	2021	2020
Weighted-average CPR		
Decline in fair value from 10% adverse change	$ 1,394	$ 4,679
Decline in fair value from 20% adverse change	2,636	8,768

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 $471.7 million and $840.4 million as of December 31, 2021 and 2020, 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. COVID-19-related payment deferrals have resulted in an increase in members failing to make payments for three consecutive months and a corresponding increase in loans eligible for repurchase from GNMA securitization pools. 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, $0.5 billion and $1.5 billion were repurchased out of GNMA securities during the years ended December 31, 2021 and 2020, respectively. The loans bought out of GNMA securities are recorded as mortgage loans held for investment. At December 31, 2021 and 2020, amounts associated with the Early Pool Buyback Program recognized in Mortgage loans held for sale and Other liabilities totaled $342.8 million and $970.6 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 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, 2021 and 2020 was $9.9 million and $13.3 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, 2021 and 2020. 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, 2021 and 2020, Navy Federal estimates it is reasonably possible it could incur additional losses in excess of its accrued liability of up to approximately $29.1 million and $32 million, respectively.

The total UPB subject to representations and warranties was $33.2 billion and $34.7 billion as of December 31, 2021 and 2020, 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, 2021 and 2020:

(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
2021	$ 408,167	$ 71,690	$ 236	$ 1,631
2020	912,983	121,809	648	4,959

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 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 6: 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 in a gain or loss position, net of legally enforceable master netting agreements, are reported in Other assets and Other liabilities, respectively, on the Consolidated Statements of Financial Condition as of December 31, 2021 and 2020.

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

	December 31, 2021			December 31, 2020		
	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	$ 1,055,350	$ 21,177	$ 1	$ 2,214,761	$ 88,329	$ 6
Forward sales contracts	2,154,000	1,221	3,227	3,633,500	2,493	29,669
Total derivatives not designated as accounting hedges	**$ 3,209,350**	**$ 22,398**	**$ 3,228**	**$ 5,848,261**	**$ 90,822**	**$ 29,675**
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value interest rate contracts	$ 10,000	$ 1	$ -	$ 10,000	$ -	$ 1
Cash flow interest rate contracts	2,160,000	99	2,267	2,200,000	1	2,564
Total derivatives designated as accounting hedges	**$ 2,170,000**	**$ 100**	**$ 2,267**	**$ 2,210,000**	**$ 1**	**$ 2,565**
Total derivative instruments, gross	**$ 5,379,350**	**$ 22,498**	**$ 5,495**	**$ 8,058,261**	**$ 90,823**	**$ 32,240**
Less: Legally enforceable master netting agreements		(1,221)	(1,221)		(2,493)	(2,493)
Total derivative instruments, net		**$ 21,277**	**$ 4,274**		**$ 88,330**	**$ 29,747**

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, 2021 and 2020, 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, 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.

	December 31, 2020					
				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	$ 88,329	$ -	$ 88,329	$ -	$ -	$ 88,329
Derivative instruments subject to master netting agreements	2,494	(2,493)	1	-	-	1
Total derivative assets	**$ 90,823**	**$ (2,493)**	**$ 88,330**	**$ -**	**$ -**	**$ 88,330**
Financial Liabilities						
Derivative instruments not subject to master netting agreements	$ (6)	$ -	$ (6)	$ -	$ -	$ (6)
Derivative instruments subject to master netting agreements	(32,234)	2,493	(29,741)	28,638	1,103	-
Total derivative liabilities	**(32,240)**	**2,493**	**(29,747)**	**28,638**	**1,103**	**(6)**
Total	**$ 58,583**	**$ -**	**$ 58,583**	**$ 28,638**	**$ 1,103**	**$ 88,324**

(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)		2021	2020
Derivative Instruments	**Location of Gain/(Loss) Recognized in Earnings**		
Interest rate lock commitments	Net gain on mortgage loans	$ (67,148)	$ 66,308
Forward sales contracts	Net gain on mortgage loans	25,170	(23,838)
Total		**$ (41,978)**	**$ 42,470**

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)		2021	2020
Changes in Fair Value	**Location of Changes in Fair Value Recognized in Earnings**		
Interest rate swaps hedging fixed-rate investments	Fee and other income	$ 10	$ (323)
Hedged fixed-rate investments attributable to risk being hedged	Fee and other income	6	409

As of December 31, 2021, the following amounts were recorded on the Consolidated Statements of Financial Condition related to cumulative basis adjustments for fair value hedges:

(dollars in thousands)

Line Item on Statements of Financial Condition in Which Hedged Item is Included	Carrying Amount of Hedged Asset	Cumulative Fair Value Hedging Adjustments Included in Carrying Amount of Hedged Asset
Available-for-sale debt securities	$ 9,982	$ 76

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). Prior to 2021, the existing variable rate debt obligations and anticipating replacement funding repriced based on LIBOR. As explained in Note 1: Summary of Significant Accounting Policies, in 2021, Navy Federal has prospectively adopted Topic 848 and has elected to apply certain optional expedients to simplify the operational impact of reference rate reform. As a result, migration to a new reference rate did not have a material impact on the consolidated financial statements in 2021.

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. During the year ended December 31, 2020, prepayment was made on certain FHLB borrowings, which resulted in the de-designation of a cash flow hedge relationship and the termination of the associated swap. As the hedged forecasted transaction was no longer expected to occur, approximately $57.9 million of losses were reclassified from AOCI into earnings.

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

	2021	2020		2021	2020
(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	$ 61,081	$ (210,554)	Interest on borrowed funds	$ (57,092)	$ (114,335)

During the next 12 months, net losses in AOCI of approximately $47.6 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 11 years.

Note 7: Commitments and Contingencies

Commitments

In the normal course of business, Navy Federal enters into conditional 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, 2021 and 2020, 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, 2021 and 2020 were as follows:

(dollars in thousands)	2021	2020
Credit cards	$ 37,391,303	$ 31,803,023
Home equity lines of credit	1,219,721	1,411,228
Checking lines of credit	1,280,954	1,264,592
Preapproved auto loans	1,340,048	896,314
Other	76,958	75,567
Total	**$ 41,308,984**	**$ 35,450,724**

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 8: Property, Plant and Equipment

The following is a summary of Navy Federal's property, plant and equipment as of December 31, 2021 and 2020:

(dollars in thousands)	2021	2020
Land and buildings	$ 1,982,513	$ 1,957,621
Equipment, furniture and fixtures	737,897	705,498
Computer software and capitalized IT assets	1,102,694	970,152
Leasehold improvements	189,421	188,635
Subtotal	**4,012,525**	**3,821,906**
Less: Accumulated depreciation/amortization	(1,709,179)	(1,462,784)
Total	**$ 2,303,346**	**$ 2,359,122**

Navy Federal has obligations under a number of non-cancelable operating leases. The future minimum payments under the terms of the leases, excluding any optional renewal terms that have not been exercised, as of December 31, 2021 were as follows:

(dollars in thousands)	Amount
2022	$ 29,016
2023	25,832
2024	21,353
2025	17,402
2026	14,215
Thereafter	29,276
Total	**$ 137,094**

Rent expense was $47.2 million and $35.9 million for the years ended December 31, 2021 and 2020, respectively, and is included in Office operations and equipment in the Consolidated Statements of Income.

Note 9: 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 $9.7 billion and $11.3 billion at December 31, 2021 and 2020, respectively.

As of December 31, 2021, scheduled maturities of time deposits for each of the next five years were as follows:

(dollars in thousands)	Amount
2022	$ 19,798,127
2023	5,083,555
2024	4,234,955
2025	944,533
2026	911,421

Overdrafts on demand deposits of $159 million and $53.2 million as of December 31, 2021 and 2020, 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 10: Borrowed Funds

Navy Federal's borrowings as of December 31, 2021 and 2020 were as follows:

	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**				

	December 31, 2020					
(dollars in thousands)	**Amount Outstanding**		**Coupon**	**Fixed/Float**	**Payment**	**Maturities**
FHLB borrowing	$	1,880,000	2.76% - 4.72%	Fixed	Monthly	2022 - 2037
FHLB borrowing		2,415,000	2.90% - 4.62%	Fixed	Quarterly	2023 - 2033
FHLB borrowing		2,200,000	0.22% - 0.32%	Float	Quarterly	2021 - 2021
Total FHLB borrowings	**$**	**6,495,000**				

The following table displays the amount of borrowed funds by maturity for each of the next five years and thereafter as of December 31, 2021:

(dollars in thousands)	Amount	
2022	$	3,546,141
2023		-
2024		-
2025		-
2026		-
Thereafter		2,465,000
Total	**$**	**6,011,141**

During 2021 and 2020, Navy Federal prepaid $1.8 billion and $5.3 billion of its borrowings with the FHLB, respectively. In connection with these prepayments, Navy Federal incurred $182 million and $41.5 million of debt extinguishment costs, respectively, which is included in Other non-interest expense in the Consolidated Statements of Income.

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 investment securities to the FHLB as collateral for the ability to borrow up to $22.5 billion. As of December 31, 2020, Navy Federal pledged $25.5 billion of consumer and credit card loans to the FRB as collateral for the ability to borrow up to $19.6 billion. As of December 31, 2020, Navy Federal pledged $29.1 billion in mortgage loans held for investment and $0.8 billion in investment securities to the FHLB as collateral for the ability to borrow up to $25.2 billion.

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. 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. The 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, 2020, there were no securities sold under repurchase agreements.

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

(dollars in thousands)	2021	2020
Federal Reserve Bank	$ 18,993,238	$ 19,649,854
FHLB	17,878,515	18,730,633
Fed Funds	250,000	250,000
Total	**$ 37,121,753**	**$ 38,630,487**

Note 11: 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)	**2021**	**2020**	**2021**	**2020**
Accumulated benefit obligation at year end	$ 1,537,469	$ 1,516,827	N/A	N/A
Projected benefit obligation at year end	1,801,857	1,748,016	70,173	72,331
Fair value of plan assets at year end	2,079,596	1,894,772	-	-
Over/(under) funded	277,739	146,756	(70,173)	(72,331)
Employer contributions	40,000	65,000	3,218	3,258
Plan participants' contributions	-	-	110	127
Benefits paid	(63,243)	(56,063)	(3,328)	(3,385)
Net periodic benefit cost	24,197	8,247	5,451	5,255

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 plan was mainly driven by the change in the discount rate.

As of December 31, 2020, the change in the projected benefit obligation for the pension and 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 weighted-average 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	
	2021	**2020**	**2021**	**2020**
Discount rate				
Projected benefit obligation	2.95%	2.65%	3.00%	2.80%
Net periodic benefit cost	2.65%	3.35%	2.80%	3.35%
Rate of compensation increase				
Projected benefit obligation	5.16%	5.16%	N/A	N/A
Net periodic benefit cost	4.66%	4.44%	N/A	N/A
Expected long-term rate of return	6.00%	6.50%	N/A	N/A
Cash balance interest crediting rate				
Projected benefit obligation	3.79%	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)	**2021**	**2020**	**2021**	**2020**
Accumulated other comprehensive loss				
Net prior service cost	$ 27,209	$ 17,635	$ 352	$ 591
Net loss	226,402	351,156	16,644	20,797
Accumulated other comprehensive loss	**$ 253,611**	**$ 368,791**	**$ 16,996**	**$ 21,388**

The amounts recognized in AOCI for the years ended December 31, 2021 and 2020 consist of:

	Pension		Retiree Medical	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Amounts amortized during the year				
Net prior service cost	$ (3,665)	$ (4,171)	$ (239)	$ (239)
Net loss	(15,729)	(8,411)	(1,026)	(844)
Amounts arising during the year				
Net prior service cost	13,239	-	-	-
Net (gain)/loss	(109,025)	137,910	(3,127)	5,172
Total recognized in other comprehensive (income)/loss	**$ (115,180)**	**$ 125,328**	**$ (4,392)**	**$ 4,089**

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

(dollars in thousands)	Pension	Retiree Medical
2022	$ 78,611	$ 3,333
2023	82,921	3,358
2024	87,441	3,396
2025	92,299	3,403
2026	97,521	3,395
2027-2031	549,510	17,223

The anticipated employer contribution for 2022 is $25 million for the pension plan and $3.3 million for the retiree medical benefit plan. The measurement date for the pension and retiree medical benefit plan for 2021 and 2020 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, 2021, 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, 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**

(dollars in thousands)	December 31, 2020			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. equity securities	$ 98,083	$ -	-	$ 98,083
Global equity securities	767,267	-	-	767,267
Fixed-income securities	356,174	203,729	-	559,903
Cash and cash equivalents	30,556	-	-	30,556
Total assets in the fair value hierarchy	**$ 1,252,080**	**$ 203,729**	**$ -**	**$ 1,455,809**
Investments measured at net asset value:				438,963
Total investments				**$ 1,894,772**

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 two 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 $84.8 million and $77.6 million for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the total liability related to these plans was $7.2 million and $8.7 million, respectively.

Note 12: 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, 2021 and 2020 were $64.5 million and $58 million, respectively. Total deposit balances of credit union officials as of December 31, 2021 and 2020 were $35.4 million and $33.3 million, respectively. Loans to credit union officials are made under similar terms as loans entered into by all members. Deposit accounts held by credit union officials earn interest at the same rates provided to all other members.

Note 13: Accumulated Other Comprehensive Income/(Loss)

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

	December 31, 2021			
(dollars in thousands)	**Unrecognized Net Pension and Postretirement Amounts**	**Unrealized Net Gains/(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)**

	December 31, 2020			
(dollars in thousands)	**Unrecognized Net Pension and Postretirement Amounts**	**Unrealized Net Losses on Available-for-Sale Debt Securities**	**Unrealized Net Gains/(Losses) on Cash Flow Derivatives**	**Total**
Balance, beginning of year	**$ (260,762)**	**$ 375,713**	**$ (170,872)**	**$ (55,921)**
OCI before reclassifications	(143,082)	840,718	(210,554)	487,082
Amounts reclassified from AOCI to:				
Salaries and employee benefits	13,665	-	-	13,665
Net (gain)/loss on investments	-	(256,275)	-	(256,275)
Interest on borrowed funds	-	-	114,335	114,335
Net change in AOCI	**(129,417)**	**584,443**	**(96,219)**	**358,807**
Balance, end of year	**$ (390,179)**	**$ 960,156**	**$ (267,091)**	**$ 302,886**

Note 14: 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 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.

Quantitative capital adequacy regulations require Navy Federal to maintain minimum capital balances and ratios of net worth to total assets. Credit unions are also required to calculate a risk-based net worth (RBNW) that establishes whether the credit union will be considered "complex" under the regulatory framework. A credit union is defined as "complex" if the credit union's quarter-end total assets exceed $50 million and its RBNW requirement exceeds 6%. Navy Federal's RBNW requirement as of December 31, 2021 and 2020 was 5.97% and 5.67%, respectively. As of December 31, 2021, the RBNW criterion has not been met. Therefore, Navy Federal is not considered complex.

Navy Federal is 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% and 10.78% as of December 31, 2021 and 2020, respectively. To be categorized as “well capitalized”, Navy Federal must maintain a minimum net worth ratio of 7%. 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, 2021 that management believes would have changed Navy Federal’s categorization.

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 opting into the Complex Credit Union Leverage Ratio (CCULR) framework.

A qualifying complex credit union that has opted into the CCULR framework must maintain a minimum CCULR of 9% to be categorized as “well capitalized”. If the CCULR falls below 9%, 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.

Under the risk-based capital measure, a complex credit union with a minimum net worth ratio of 7% must maintain a risk-based capital ratio of 10% or greater to be categorized as “well capitalized”. If the complex credit union has a net worth ratio of 6%–7% and a risk-based capital ratio of 8%-10%, it is categorized as “adequately capitalized”. If the complex credit union has a net worth ratio of below 6% or a risk-based capital ratio of below 8%, it is categorized as “undercapitalized”.

Note 15: 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, 2021 and 2020.

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 assumptions are observable.
- **Residential and Commercial Mortgage-Backed Securities**—These financial instruments include GSEs issued securities, GNMA guaranteed securities and non-agency securities, and are valued based on similar assets in the marketplace and the vintage of the underlying collateral.

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 or 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. Navy Federal uses a third-party valuation firm to value these loans. 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 their 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 OIS rate. Counterparty non-performance risk is considered by discounting future cash flows using the OIS rates 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, 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.*

	December 31, 2020				
(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	$ -	$ 6,747,761	$ -	$ -	$ 6,747,761
Residential mortgage-backed securities	-	10,669,271	-	-	10,669,271
Commercial mortgage-backed securities	-	509,696	-	-	509,696
Bank notes and corporate bonds	-	3,705,479	-	-	3,705,479
Municipal securities	-	386,045	-	-	386,045
Non-U.S. government securities	-	254,424	-	-	254,424
Total available-for-sale debt securities	**-**	**22,272,676**	**-**	**-**	**22,272,676**
Equity securities	-	-	-	-	-
Mortgage loans held for sale	-	3,501,444	-	-	3,501,444
Loans held for investment	-	-	691,241	-	691,241
Mortgage servicing rights	-	-	418,954	-	418,954
Derivatives [2]	-	2,494	88,329	(2,493)	88,330
Total assets at fair value on a recurring basis	**$ -**	**$ 25,776,614**	**$ 1,198,524**	**$ (2,493)**	**$ 26,972,645**
Derivatives [2]	$ -	$ 32,234	$ 6	$ (2,493)	$ 29,747
Total liabilities at fair value on a recurring basis	**$ -**	**$ 32,234**	**$ 6**	**$ (2,493)**	**$ 29,747**

[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, 2021 and 2020 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, 2021 and 2020 were $186.2 million and $134.6 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, 2021 and 2020. Additions during the year only consisted of transfers as noted below. Issuances of interest rate lock derivatives for the years ending December 31, 2021 and 2020 were $316.4 million and $563.7 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, 2021 and 2020, $781.4 million and $676 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, 2021 and 2020.

Note 16: Subsequent Events

Navy Federal evaluated subsequent events through March 18, 2022, 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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