



2023 ANNUAL REPORT

Creating exceptional financial opportunities for all members
and their families today, and for generations to come.



**F&A Federal
Credit Union**



Richard A. Russell
Board of Directors Chair



Tim Green
President/CEO

CHAIR/CEO REPORT

**Continuing Our Tradition of
Delivering Exceptional Value
and Superior Service**

F&A Remains strong, despite a challenging year in the Financial Services industry.

2023 was a particularly challenging year for the Financial Services industry. The country started the year with a vicious deposit fight as the industry attempted to adjust to the unprecedented Federal Reserve Bank's (FRB) rate increases. We saw the first major bank failures since the Great Recession in Silicon Valley Bank (SVB) followed closely by another large bank failure in First Republic Bank. Consumers continued to search for higher rates and the battle for liquidity continues into 2024.

Despite the difficult backdrop, F&A Federal Credit Union's performance in 2023 was impressive. The Balance Sheet remained extremely strong and stable with moderate asset growth of 2%. We continued to grow our on-balance sheet loans with 10% growth in 2023. Our shares declined 6% year over year which, compared to declines experienced at other high-dividend credit unions, were moderate. A 37% increase in loan income and 47% increase in investment income helped us to continue to put our members' interests first by matching competitive deposit rates and thus increasing deposit costs \$18.5MM or 127%. The combination of lower net interest income (down \$3MM) and higher operating expenses (\$2.2MM) resulted in lower net income for the year of \$11.2MM versus \$16.4MM in 2022. Despite lower net income we were able to

increase our Net Worth ratio by .20% basis points to 14.62%, which demonstrates our financial stability and strong reserves. F&A ended 2023 with the 23rd highest capital ratio in the US, and the second highest in the State of California.

Overall, F&A remains solidly profitable while continuing to pay extremely high dividends and continuing to hold some of the highest reserves of any credit union in the US.

In 2023 we continued to execute our three-year strategic plan in three key focus areas: Digital Transformation, Member Financial Wellness, and Service Excellence.

Each area saw major accomplishments:

DIGITAL TRANSFORMATION

Our digital transformation objective has been to ensure our members have the best technology to accompany our exceptional value and personalized service. F&A employed significant resources in early 2023 to execute the upgrade of our digital banking platform. The upgraded user experience generated very positive feedback in both the adoption rates as well as the app store ratings. Adoption increased from 47% to 62% which is impressive, but in the context of limited member growth,

OUR MISSION

We help our members reach their financial goals at every life stage by providing access to the highest value products, superior service, and trusted advice.

even more impressive. Our app store ratings increased from 3.4 stars with only a handful of reviews, to 4.9 stars with 3,600 reviews. Both numbers demonstrate the membership is clearly in support of the changes we have been making. Our enterprise-wide core banking system conversion project will kick off in early 2024, with a conversion date scheduled for December 2024. Management is pleased with the improvements to our technology infrastructure which are critical for the future success of the Credit Union.

FINANCIAL WELLNESS

To help our members manage their finances with confidence, we have taken a three-phased approach to financial wellness. Our first goal was to provide members with intelligent web-based content tailored to individual needs. We partnered with the award-winning Enrich financial education platform and launched the tools in early 2022. We then added budgeting and spending tools to our digital banking platform to help members monitor their financial habits. In 2023 we certified multiple financial coaches who are prepared to coach members to reach better financial outcomes. Our online education and financial management tools, coupled with in-house personal financial coaching are all designed to ensure F&A equips its members with the knowledge to maximize their financial success.

SERVICE EXCELLENCE

Our team continued to evaluate our internal

processes, analyzing touchpoints, and developing solutions to make it easier to do business with us. We focused on service and efficiency, reducing the time to close a real estate loan from an average of 37 to 27 days. Our consumer loan funding time was also reduced from 4:44 hours to 2:24 hours, making purchasing a home or automobile at F&A as quick and easy as possible. Finally, we deployed a newly formed outbound service team to meet our members in their place of business providing current and prospective members personalized service when and where it is most convenient.

In summary, 2023 was a remarkable year and one the Board of Directors and Management are extremely proud of. All of this is possible because F&A Federal Credit Union has loyal and dedicated members who believe in our vision to create exceptional financial opportunities for all members and their families today, and for generations to come.

On behalf of the Board of Directors and the F&A team, we are grateful for the opportunity to serve our members and help to improve the financial well-being of such an extraordinary group of people. Thank you for your valued membership and trust in us.



Richard A. Russell
Board of Directors Chair



Tim Green
President/CEO



J. Lopez
Supervisory Committee Chair

SUPERVISORY COMMITTEE REPORT

Protecting Our Members' Interests

F&A's Supervisory Committee is composed of five volunteer members appointed by the Board of Directors.

The Committee is charged with ensuring that the Board of Directors and management of the Credit Union:

1. Meet required financial reporting objectives and
2. Establish practices and procedures sufficient to safeguard members' assets.

With the assistance and cooperation of management, the Committee ensures that the Credit Union follows safe and sound business practices and meets the various financial and regulatory requirements. The Committee also monitors the timely execution of an annual internal audit plan that ensures internal controls remain in compliance with applicable laws, rules, and generally accepted accounting practices. In fulfilling these responsibilities, the Committee engaged Turner, Warren, Hwang, and Conrad AC (TWHC) to perform the annual financial statement audit for the year ended December 31, 2023. TWHC's final opinion is that F&A's financial statements are fairly presented in all material respects. Further, the Supervisory Committee contracted with specialized external firms to perform independent reviews and held monthly meetings to review, among other things, internal audit reports, internal

controls and risk management processes, and examinations by regulatory agencies.

Based on the reports from ongoing internal audits and the audits performed during the year by third party firms, the Supervisory Committee reports that F&A Federal Credit Union is operating in a financially sound manner and in accordance with applicable federal and state regulations. Moreover, the Credit Union's internal controls are effectively maintained to reasonably ensure that the Board of Directors' plans, policies, and practices are being properly administered, and that the financial results are fairly and accurately represented in communications to the members. The Credit Union continues to be financially strong and well-managed, and the assets of the Membership are being effectively safeguarded.

I would like to acknowledge the contributions of my fellow Supervisory Committee volunteers: Margaret Kanishock, Raymond Smith, Pablo Valadez and George Wright. They join me in expressing our gratitude to the Credit Union Board of Directors, management, and staff for their dedication to ensuring that F&A Federal Credit Union remains a financially sound financial institution.

J. Lopez

J. Lopez
Chair, Supervisory Committee

2023 FINANCIAL STATEMENTS

Statement of Financial Condition (in thousands) At December 31, 2023 (Unaudited)

Assets	
Loans to members	\$ 850,270
(Less) Credit loss reserve	(2,285)
Total net loans to members	<u>\$ 847,985</u>
Cash and cash equivalents	\$ 132,374
Investments:	
Securities available for sale	\$ 1,033,996
Securities held to maturity	64,070
Other	98,340
Total Investments	<u>\$ 1,196,406</u>
Accrued interest on loans	\$ 2,095
Accrued interest on investments	\$ 3,623
Land and building, net of depreciation	\$ 7,535
Other fixed assets, net of depreciation	\$ 880
National CU Share Insurance Fund deposit	\$ 16,302
Other Assets	42,527
Total Assets	<u>\$ 2,249,727</u>
Liabilities, Member Deposits and Equity	
Term and overnight borrowings	\$ 245,000
Accounts payable and other liabilities	\$ 12,582
Member Shares:	
Regular shares	\$ 300,708
Share drafts	\$ 275,916
Money market accounts	\$ 671,901
Share certificates	\$ 433,276
IRA shares and certificates	81,462
Total member share accounts	<u>\$ 1,763,264</u>
Capital arising from acquisition	
Member equity:	
Undivided earnings	\$ 328,338
Accumulated other comprehensive loss	(100,006)
Capital arising from acquisition	549
Total members' equity	<u>\$ 228,881</u>
Total Liabilities, Member Deposits and Equity	<u>\$ 2,249,727</u>

Statement of Income & Expense (in thousands) For the Year Ended December 31, 2023 (Unaudited)

Interest Income	
Loan receivable	\$ 30,213
Interest-bearing accounts and investments	36,930
Total interest income	<u>\$ 67,143</u>
Interest Expense	
Members' share accounts	\$ 32,985
Borrowed funds	5,432
Total interest expense	<u>\$ 38,417</u>
Credit Loss Expense	
	<u>\$ 865</u>
Net Interest Income after Credit for Loan Loss	\$ 27,861
Non-Interest Income	
	\$ 6,297
Non-Interest Expense	
	<u>\$ 22,955</u>
Net Income	<u>\$ 11,203</u>

F&A Federal Credit Union's capital ratio increased to 14.62%, as of December 31, 2023, from 14.42%, as of December 31, 2022, underscoring our resilience and financial strength as interest rates rose during the year. We remain one of the most financially sound credit unions in the country which allows us to continue delivering market leading value to our members even during volatile financial conditions.

Our return on assets of 0.50% in 2023 remains strong and demonstrates our success navigating the high interest rate environment. At December 31, 2023, our total assets were \$2.2B, a slight increase of 2.15% from the prior year. Member loans grew 10% in 2023 to \$850MM. Member share deposits decreased by 6.1% in 2023 to \$1.76B as members used their deposits which surged in 2020 and 2021. With net income of \$11.2MM for the year ended December 31, 2023, our members' total equity increased by 3.53% from December 31, 2022. We remain committed to serving our members with low loan rates and minimal fees while maintaining very high dividend rates on share deposits.

BOARD OF DIRECTORS



Richard A. Russell
Board Chair



Robert A. Heinzl
Vice Chair



Michael H. Carnes
Secretary/Treasurer



Theresa R. Barrera
Board Member



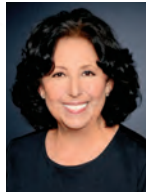
**William "Blackie"
Blackburn**
Board Member



Chris E. Bundesen
Board Member



Andy M. Doyle
Board Member



Mary E. Gutierrez
Board Member



Van Mark Madrigal
Board Member

SUPERVISORY COMMITTEE



J. Lopez
Chair, Supervisory
Committee



Margaret Kanishock
Supervisory
Committee Member



Raymond B. Smith
Supervisory
Committee Member



Pablo Valadez
Supervisory
Committee Member



George W. Wright, Jr.
Supervisory
Committee Member

SENIOR MANAGEMENT



Tim Green
President/Chief
Executive Officer



Michael Harden
EVP/Chief
Investment Officer



Brendan Flannery
SVP/Chief Digital
Transformation &
Information Security
Officer



Michelle Swauger
SVP/Chief
Administrative
Officer



Michael Welch
SVP/Chief
Lending &
Branch Ops.
Officer



Yong Whang
SVP/Chief
Technology
Officer

OUR VALUES



SERVICE

We put our members first.



INTEGRITY

We hold ourselves to the highest ethical standards.



RESPECT

We value each other through teamwork, respect, kindness, and inclusion.



ACCOUNTABILITY

We consistently deliver on our commitments.



EXCELLENCE

We embrace challenges and relentlessly pursue the best solutions.



F&A Federal Credit Union

2625 Corporate Place | Monterey Park, CA 91754,
13303 Hadley Street | Whittier, CA 90601
Phone: 800-222-1226 | Fax: 323-980-5988 | FAFCU.org



Insured by **NCUA**