# NORTHWEST FEDERAL CREDIT UNION
# AND SUBSIDIARY

## FINANCIAL STATEMENTS
December 31, 2024 and 2023

NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY

FINANCIAL STATEMENTS
December 31, 2024 and 2023

CONTENTS


INDEPENDENT AUDITORS' REPORT ..... 1

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION ..... 3

CONSOLIDATED STATEMENTS OF INCOME ..... 4

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ..... 5

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY ..... 6

CONSOLIDATED STATEMENTS OF CASH FLOWS ..... 7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ..... 9

Crowe LLP
Independent Member Crowe Global

# INDEPENDENT AUDITOR'S REPORT

Supervisory Committee and Board of Directors
Northwest Federal Credit Union and Subsidiary
Herndon, Virginia

## *Opinion*

We have audited the consolidated financial statements of Northwest Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2024, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Northwest Federal Credit Union and Subsidiary as of December 31, 2024, and the results of its operations and its cash flows for the year 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northwest Federal Credit Union and Subsidiary 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.

## *Other Matter*

The financial statements of Northwest Federal Credit Union and Subsidiary for the year ended December 31, 2023, were audited by other auditors, who expressed an unmodified opinion on those statements on March 26, 2024.

## *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 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 Northwest Federal Credit Union and Subsidiary's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

***Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Northwest Federal Credit Union and Subsidiary'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Federal Credit Union and Subsidiary'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.

Crowe LLP

Crowe LLP

Oakbrook Terrace, Illinois
March 24, 2025

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 145,898 | $ 510,713 |
| Deposits in other financial institutions | - | 2,000 |
| Investments: | | |
| Equity securities | 17,560 | 16,783 |
| Available-for-sale | 744,317 | 870,939 |
| Held-to-maturity | 85,984 | 124,940 |
| Other | 12,184 | 4,675 |
| Loans held-for-sale | 3,005 | 1,981 |
| Loans, net | 2,832,457 | 2,859,590 |
| Accrued interest receivable | 11,806 | 10,692 |
| Property and equipment, net | 48,669 | 49,272 |
| NCUSIF deposit | 27,931 | 28,541 |
| Other assets | 136,596 | 84,612 |
| Total assets | $ 4,066,407 | $ 4,564,738 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| Members' share and savings accounts | $ 3,404,800 | $ 3,364,750 |
| Borrowed funds | 171,000 | 715,163 |
| Accrued expenses and other liabilities | 91,954 | 109,766 |
| Total liabilities | 3,667,754 | 4,189,679 |
| **MEMBERS' EQUITY** | | |
| Undivided earnings | 517,391 | 501,036 |
| Accumulated other comprehensive loss | (118,738) | (125,977) |
| Total members' equity | 398,653 | 375,059 |
| Total liabilities and members' equity | $ 4,066,407 | $ 4,564,738 |

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|---|---|
| **Interest income** | | |
| Loans | $ 143,640 | $ 128,161 |
| Investments and cash equivalents | 59,954 | 50,278 |
| Total interest income | 203,594 | 178,439 |
| **Interest expense** | | |
| Members' share and savings accounts | 56,849 | 42,151 |
| Borrowed funds | 33,467 | 27,166 |
| Total interest expense | 90,316 | 69,317 |
| Net interest income | 113,278 | 109,122 |
| **Provision (credit) for credit losses** | (1,086) | 2,501 |
| Net interest income after provision (credit) for credit losses | 114,364 | 106,621 |
| **Noninterest income** | | |
| Fees and service charges | 6,374 | 6,482 |
| Interchange income, net | 9,774 | 9,609 |
| Gain on sale of loans, net | 913 | 781 |
| Gain (loss) on available-for-sale investments | - | (30) |
| Gain on equity securities, net | 56 | 351 |
| Other income | 25,278 | 28,455 |
| Total noninterest income | 42,395 | 45,648 |
| **Noninterest expense** | | |
| Employee compensation and benefits | 77,026 | 72,019 |
| Operations and occupancy | 25,187 | 23,301 |
| Advertising and promotion | 9,474 | 3,771 |
| Loan servicing | 9,417 | 11,916 |
| Legal and professional services | 4,072 | 3,524 |
| Education, travel, and officials | 524 | 561 |
| Other expenses | 8,323 | 8,560 |
| Total noninterest expense | 134,023 | 123,652 |
| **Net income** | $ 22,736 | $ 28,617 |

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|---|---|
| **Net Income** | $ 22,736 | $ 28,617 |
| **Other comprehensive income** | | |
| Securities available-for-sale | | |
| Unrealized holding gains during the period | 7,239 | 19,496 |
| Reclassification for losses included in net income | - | 30 |
| Total other comprehensive income | 7,239 | 19,526 |
| **Total comprehensive income** | $ 29,975 | $ 48,143 |

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2024 and 2023
(in thousands)

| | Undivided Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|
| **Balance at January 1, 2023** | $ 490,599 | $ (145,503) | $ 345,096 |
| Cumulative change in accounting principle – ASC 326 adoption | (18,180) | - | (18,180) |
| **Balance at January 1, 2023 after change in accounting principle** | 472,419 | (145,503) | 326,916 |
| Net income | 28,617 | - | 28,617 |
| Other comprehensive income | - | 19,526 | 19,526 |
| **Balance at December 31, 2023** | 501,036 | (125,977) | 375,059 |
| Net income | 22,736 | - | 22,736 |
| Member loyalty bonus dividend | (6,381) | - | (6,381) |
| Other comprehensive income | - | 7,239 | 7,239 |
| **Balance at December 31, 2024** | $ 517,391 | $ (118,738) | $ 398,653 |

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 22,736 | $ 28,617 |
| Adjustments to reconcile net income to net cash from by operating activities | | |
| Provision (credit) for credit losses | (1,086) | 2,501 |
| Depreciation and amortization | 5,369 | 5,574 |
| (Accretion) amortization of premium and discounts on investment securities, net | 477 | (3,928) |
| Fair value adjustment of mortgage servicing rights | 1,457 | (2,503) |
| Capitalization of mortgage servicing rights | (380) | (399) |
| (Gain) loss on sale of available-for-sale investments | - | 30 |
| Net gain on equity securities | (56) | (351) |
| Net gain on sale of loans | (913) | (781) |
| Proceeds from sale of loans held-for-sale | 45,815 | 41,585 |
| Loans originated for sale | (45,926) | (40,099) |
| Net change in: | | |
| Accrued interest receivable | (1,114) | (1,642) |
| Other assets | (49,703) | (5,292) |
| Accrued expenses and other liabilities | (17,812) | 23,669 |
| Net cash (used in) provided by operating activities | (41,136) | 46,981 |
| **Cash flows from investing activities** | | |
| Net decrease in deposits in other financial institutions | 2,000 | - |
| Purchase of securities - held-to-maturity | (188,448) | (268,901) |
| Proceeds from maturities and paydowns of securities | | |
| Available-for-sale | 133,384 | 159,489 |
| Held-to-maturity | 227,404 | 150,000 |
| Proceeds from sales of securities - available-for-sale | - | 548 |
| Purchase of equity securities | (1,279) | (12,798) |
| Proceeds from sale of equity securities | 558 | 8,111 |
| Net change in other investments | (7,509) | 12,074 |
| Net change in loans | 24,861 | (56,047) |
| Decrease in NCUSIF deposit | 610 | 894 |
| Purchases of property and equipment | (4,766) | (5,847) |
| Proceeds from disposal of property and equipment | - | 87 |
| Net cash used in (provided by) investing activities | 186,815 | (12,390) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowed funds | 300,000 | 851,500 |
| Payments made on borrowed funds | (844,163) | (231,337) |
| Net change in members' share and savings accounts | 33,669 | (221,828) |
| Net cash provided (used in) provided by financing activities | (510,494) | 398,335 |
| **Net (decrease) increase in cash and cash equivalents** | (364,815) | 432,926 |
| Cash and cash equivalents - beginning of year | 510,713 | 77,787 |
| **Cash and cash equivalents - end of year** | $ 145,898 | $ 510,713 |

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|---|---|
| **Supplemental noncash disclosures:** | | |
| Interest paid on members' share and savings accounts | $ 52,813 | $ 42,151 |
| Interest paid on borrowed funds | $ 22,966 | $ 27,166 |
| Transfer from loans to repossessed assets | $ 3,358 | $ 2,935 |
| Cumulative change in accounting principle - ASC 326 (Note 1) | $ - | $ 18,180 |

See accompanying notes to financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Northwest Federal Credit Union (the Credit Union) is a cooperative association holding a federal charter in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among and creating a source of credit for its members. The principal operations of the Credit Union are located in Northern Virginia, Suburban Maryland, and Washington, D.C. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Principles of Consolidation: The consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, NW Capital Management, LLC, a Credit Union Service Organization (CUSO). The CUSO provides insurance and wealth management services to Credit Union members. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates: To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of investment securities, and the fair value of mortgage servicing rights.

Concentrations of Credit Risk: The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in Northern Virginia, Suburban Maryland, and Washington, D.C.

Cash Flows: Cash and cash equivalents include cash, deposits in other financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Deposits in other financial institutions may, at times, exceed federally insured limits.

Deposits in Other Financial Institutions: Deposits in other financial institutions include certificates of deposit, which are stated at cost and mature within one year.

Investments: Securities held in mutual funds are classified as equity securities and are reported separately on the consolidated statements of financial condition. Equity securities have readily determinable fair values and are reported at fair value with changes in fair value included in noninterest income.

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized using methods approximating the interest method over the period to maturity. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales of securities are determined using the specific identification method on the trade date.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Allowance for Credit Losses – Available-for-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized costs basis is written down to fair value through income. If these criteria are not met, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as a provision for credit loss. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses – Held-to-Maturity Securities: Management measures expected credit losses on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $619 and $19 at December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Other Investments: Other investments are carried at cost and are evaluated annually for impairment. In addition, the Credit Union has investments in various CUSOs. As a practical expedient, these investments are carried at cost, less impairment, and changes observable price changes.

Loans Held-For-Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of the mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans to Members, Net: The Credit Union grants consumer, residential real estate, and commercial loans to members. In addition, the Credit Union purchases participation loans originated by various other Credit Unions. The ability of the members to honor their contracts is dependent upon the real estate value and general economic conditions facing the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized into interest income using the level-yield method without anticipating prepayments.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. Interest received is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-bases method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses on Loans: The allowance for credit losses on loans is a valuation account that is deducted from or added to the amortized cost basis to present the net amount expected to be collected on loans. Loans are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans, not to exceed the aggregate of amounts previously charged off and expected to be charged off.

The Credit Union estimates the allowance using relevant available information from internal and external sources, relating to historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, business conditions, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Factors that may be considered in aggregating loans for this purpose include product or collateral type and origination type (direct, indirect or purchased). For loans that do not share similar risk characteristics with other loans, such as collateral dependent loans, expected credit losses are estimated on an individual basis.

The Credit Union maintains multiple loan portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: These loans are usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Commercial: These loans generally possess a higher inherent risk of loss than the consumer and residential real estate portfolio segments. Adverse economic developments or oversupply impact commercial real estate projects. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. The Credit Union monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass: A Pass credit is a loan with no significant existing or known potential credit weaknesses deserving the Credit Union's close attention.

Watch List: A Watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local or market industry, adverse changes in local or regional employer, management changes (including illness, disability and death) and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

Special Mention: A Special Mention credit is a loan that has potential weaknesses that deserve close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan or in the Credit Union's position at some future date. Special Mention credits are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard: Credits classified as Substandard are loans considered inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Such loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful: Credits classified as Doubtful are loans that have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss: Credits classified as Loss are loans considered uncollectible and charged-off.

The allowance for credit losses on loans estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model and other environmental factors. The model includes both current and forecast unemployment rates. The Credit Union utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Credit Union uses a 2-year reasonable and supportable forecast period in estimating the allowance for credit losses on loans. After the reasonable and supportable forecast period, the model reverts to long-term mean loss on a straight-line basis over 6 months.

The Credit Union utilizes the Discounted Cash Flow (DCF) method in determining expected future credit losses for each of the loan categories. This technique calculates the present value of the expected cash flows for pools of loans that share similar risk characteristics and compares the results of this calculation to the amortized cost basis to determine its allowance for credit loss. The contractual term used in projecting the cash flows of a loan is based on the maturity date of a loan and is adjusted for prepayment or curtailment assumptions which may shorten that contractual time period. The key inputs to the DCF model are: probability of default, loss given default, prepayment and curtailment rates, reasonable and supportable economic forecast, forecast reversion period, expected recoveries on charged off loans, and discount rate.

Qualitative reserves reflect the Credit Union's estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The qualitative factors include, but are not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses.

The Credit Union individually evaluates loans which do not share similar risk characteristics with the loans evaluated using a collective or pooled basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit loss are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Allowance for Credit Losses on Off-Consolidated Statement of Financial Condition Credit Exposures: In the ordinary course of business, the Credit Union has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

The Credit Union estimates expected credit losses over the contractual period for which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses is adjusted through provision for credit losses. The estimate includes consideration the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The liability for credit losses on these credit exposures is presented within accrued expenses and other liabilities on the consolidated statements of financial condition.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) assets have been legally isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets.

Servicing Rights: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans, net. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Change in valuation allowance are reported within other income on the consolidated statements of income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reporting on the consolidated statements of income as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $3,283 and $3,479 for the years ended December 31, 2024 and 2023, respectively. Late fees and ancillary fees related to loan servicing are not material.

Property and Equipment, Net: Land and construction in progress are carried at cost. Land includes amounts for grounds improvements depreciated using the straight-line method over an estimated useful life of 20 years. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the useful lives of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Impairment of Long-Lived Assets: The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Credit Union leases certain locations and equipment. The Credit Union records leases on the consolidated statements of financial condition in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. The Credit Union does not record short term leases with an initial lease term of one year or less on the consolidated statements of financial condition

At lease inception, the Credit Union determines the lease term by considering the noncancelable lease term and all optional renewal periods that the Credit Union is reasonably certain to renew. The lease term is also used to calculate straight-line lease expense. Leasehold improvements, except for those relating to leases between entities under common control, are amortized over the shorter of the useful life and the estimated lease term. Leasehold improvements relating to leases between entities under common control are amortized over the useful life of the improvements to the common control group. The Credit Union’s leases do not contain residual value guarantees or material variable lease payments that will cause the Credit Union to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease expense, and any impairment of the right-of-use asset. Lease expense is included in operations and occupancy expense on the Credit Union's consolidated statements of income. The Credit Union's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. The amortization of the right-of-use asset arising from finance leases is expensed through operations and occupancy expense and the interest on the related lease liability is expensed through interest expense on borrowings on the Credit Union's consolidated statements of income.

The Credit Union has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

NCUSIF Deposit: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured member deposits. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converted its insurance coverage to another source, or the operations of the fund are transferred from the NCUA Board.

Split Dollar Life Insurance: The Credit Union has made loans for life insurance premium payments to members of top management. The loans are collateralized by the assignment of the policy death benefits and cash values, of each respective life insurance policy. The policies are owned by the executives and the executives have the right to name the beneficiaries for amounts not secured by the assignments. The loans are considered non-recourse and as such, the Credit Union has recorded the balance as the lower of the outstanding loan balance, plus accrued interest, or the cash surrender value of the life insurance policies. The loan balance, including accrued interest, for the arrangements was $14,326 and $8,273 as of December 31, 2024 and 2023, respectively. The cash surrender value and related accounts funded by the credit union was $14,408 and $8,273 as of December 31, 2024 and 2023, respectively. The lower of the cash surrender value of the plans or loans is included in other assets on the consolidated statements of financial condition.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Self-Insured Group Medical Insurance Plan: The Credit Union sponsors a self-insured group medical insurance plan. The plan is designed to provide a specified level of coverage, with stop-loss coverage provided by a commercial insurer in order to limit the Credit Union's exposure. The Credit Union's maximum claim exposure is limited to $150 per person per policy year. Substantially all of the Credit Union employees are enrolled in the plan at December 31, 2024 and 2023. Expenses associated with the plan totaled $6,550 and $5,372 for the years ended December 31, 2024 and 2023, respectively. The Credit Union provides accruals based on the aggregate amount of the liability for reported claims and an estimated liability for claims incurred but not reported. At December 31, 2024 and 2023, accrued expenses and other liabilities includes an accrued liability related to this plan of $811 and $839, respectively.

Retirement Plan: 401(k) plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. Participants are always 100% vested in the voluntary contributions. The Credit Union may make discretionary matching contributions equal to a uniform percentage of an employee's salary deferral and/or discretionary profit sharing contribution. Credit Union contributions vest at 33% after one year of service, 67% after two years of service and 100% after three years of service. During the years ended December 31, 2024 and 2023, the Credit Union contributed a matching contribution of up to 7% of employee compensation. The Credit Union's net contributions to the plan approximated $3,075 and $3,065 for the years ended December 31, 2024 and 2023, respectively.

Members' Share and Savings Accounts: Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity: The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities, which are also recognized as separate components of equity.

Revenue From Contracts: The Credit Union recognizes revenue in accordance with *Revenue from Contracts with Customers* (Topic 606). The Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest income such as deposit related fees and interchange fees. Significant components of noninterest income considered to be within the scope of Topic 606 are discussed below.

*Service Charges on Deposits* - The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the performance obligation is satisfied. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

*Interchange Income, Net* - When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network. Interchange fees are recorded net of the related member rewards program costs.

*Investment Advisory Fees* - Revenue from investment advisory and financial planning services are paid by clients three months in advance and deferred and recognized as revenue over the subsequent three months from date of payment. The performance obligation is fulfilled at the end of each month as financial advisors perform their fiduciary responsibilities. Advisory revenues collected prior to when the performance obligation has been fulfilled are recorded as contract liabilities in the consolidated statements of financial condition.

*Broker-Dealer Referral Fees* - Commission fee revenue from the Company's securities broker-dealer operations consist of referral fees from LPL Financial, LLC and are recorded on a trade-date basis as that is when the performance obligation, which is the purchase or sale of securities to investors, is deemed to have been fulfilled, and normally settled within 30 days.

*Title and Escrow Services* - Revenue generated from the sale of title insurance policies consists of a commission on the sale of the policy as well as loan closing and processing fees, which are recorded upon the loan settlement. The Credit Union acts as a broker between the customer and the underwriter of the title insurance and the Credit Union has no future obligations to the customer. The closing and processing fees are a one-time cost paid by the customer upon settlement of the loan.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The income from the CUSOs, organized as single member LLCs, flows through to the Credit Union, and therefore are not subject to federal and state income taxes.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Subsequent Events: The Credit Union has evaluated subsequent events and transactions for recognition and disclosure through March 24, 2025, which is the date the consolidated financial statements were available to be issued.

Reclassifications: Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year consolidated net income or members' equity.

**NOTE 2 – SECURITIES AND OTHER INVESTMENTS**

Equity Securities: Equity securities are comprised of mutual fund investments. Such investments are recorded at fair value with changes in fair value reflected in gain on equity securities, net, in the consolidated statements of income. The fair values of equity securities as of December 31 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Mutual funds | $ 17,560 | $ 16,783 |
| Total | $ 17,560 | $ 16,783 |

The following table shows a reconciliation of realized and unrealized (losses) gains for the years ended December 31:

| | 2024 | 2023 |
|---|---|---|
| Net gains recognized during the year on equity securities | $ 56 | $ 351 |
| Less: net realized losses on sales of equity securities | 38 | 179 |
| Unrealized gains recognized during the reporting period on equity securities | $ 18 | $ 172 |

(Continued)

**NOTE 2 – SECURITIES AND OTHER INVESTMENTS** (Continued)

Available-for-Sale Investments: The following tables summarize the amortized cost and fair value of available-for-sales securities and securities held-to-maturity and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss and gross unrecognized gains and losses:

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| U.S. government obligations and federal agencies securities | $ 23,646 | $ 14 | $ (608) | $ 23,052 |
| SBA loan pools | 12,189 | - | (267) | 11,922 |
| Mortgage-backed securities | 816,608 | 42 | (117,816) | 698,834 |
| Municipal bonds | 600 | - | (1) | 599 |
| Corporate bonds | 10,012 | - | (102) | 9,910 |
| Total | $ 863,055 | $ 56 | $ (118,794) | $ 744,317 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| U.S. government obligations and federal agencies securities | $ 28,645 | $ 29 | $ (1,117) | $ 27,557 |
| SBA loan pools | 16,633 | - | (383) | 16,250 |
| Mortgage-backed securities | 926,475 | 5 | (123,871) | 802,609 |
| Municipal bonds | 9,103 | - | (193) | 8,910 |
| Corporate bonds | 16,060 | - | (447) | 15,613 |
| Total | $ 996,916 | $ 34 | $ (126,011) | $ 870,939 |

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Held-to-maturity: | | | | |
| SBA loan pools | $ 66,708 | $ - | $ (399) | $ 66,309 |
| Mortgage-backed securities | 19,276 | - | (29) | 19,247 |
| Total | $ 85,984 | $ - | $ (428) | $ 85,556 |

(Continued)

**NOTE 2 – SECURITIES AND OTHER INVESTMENTS** (Continued)

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Held-to-maturity: | | | | |
| U.S. treasury bills | $ 99,955 | $ 16 | $ - | $ 99,971 |
| U.S. government obligations and federal agencies securities | 24,985 | 4 | - | 24,989 |
| Total | $ 124,940 | $ 20 | $ - | $ 124,960 |

There were no sales of securities available-for-sale during the year ended December 31, 2024. Sales of securities available-for-sale resulted in gross losses of approximately $30 during the year ended December 31, 2023.

At December 31, 2024 and 2023, securities carried at approximately $32,640 and $700,856, respectively, were pledged as collateral. At December 31, 2024, securities were pledged for FHLB advances. At December 31, 2023, securities were pledged for FHLB advances and the BTFP borrowing. See further information in Note 7.

At year-end 2024 and 2023, there were no holding of securities with any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of members' equity.

The Credit Union is generally restricted from investing in certain security types as defined in the NCUA Rules and Regulations under 12 CFR Sec 703. The Credit Union has invested in otherwise non-permissible securities for the purposes of benefit prefunding and charitable contributions in accordance with 12 CFR Sec 701.19(c) and Sec 721.3(2). All investments in mutual funds, equity securities, municipal bonds, and corporate bonds were acquired for the purposes of benefit prefunding and charitable contributions.

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2024 and 2023, by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| 2024 | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due one year or less | $ 25,255 | $ 24,993 | $ - | $ - |
| Due in one to five years | 9,003 | 8,568 | - | - |
| SBA loan pools | 12,189 | 11,922 | 66,708 | 66,309 |
| Mortgage-backed securities | 816,608 | 698,834 | 19,276 | 19,247 |
| Total | $ 863,055 | $ 744,317 | $ 85,984 | $ 85,556 |
| 2023 | | | | |
| Due in one year or less | $ 19,514 | $ 19,101 | $ 124,940 | $ 124,960 |
| Due in one to five years | 34,294 | 32,979 | - | - |
| SBA loan pools | 16,633 | 16,250 | - | - |
| Mortgage-backed securities | 926,475 | 802,609 | - | - |
| Total | $ 996,916 | $ 870,939 | $ 124,940 | $ 124,960 |

(Continued)

**NOTE 2 – SECURITIES AND OTHER INVESTMENTS** (Continued)

Gross unrealized losses on securities available-for-sale and held-to-maturity and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

| | Less Than Twelve Months | | Greater Than Twelve Months | | |
|---|---|---|---|---|---|
| December 31, 2024 | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Unrealized Losses |
| U.S government obligations and federal agencies securities | $ - | $ - | $ (608) | $ 13,038 | $ (608) |
| SBA loan pools | - | - | (267) | 11,521 | (267) |
| Mortgage-backed securities | (77) | 5,253 | (117,739) | 687,338 | (117,816) |
| Municipal bonds | - | - | (1) | 599 | (1) |
| Corporate bonds | - | - | (102) | 9,910 | (102) |
| Total | $ (77) | $ 5,253 | $ (118,717) | $ 722,406 | $ (118,794) |
| December 31, 2023 | | | | | |
| U.S government obligations and federal agencies securities | $ - | $ - | $ (1,117) | $ 17,528 | $ (1,117) |
| SBA loan pools | (1) | 546 | (382) | 15,704 | (383) |
| Mortgage-backed securities | - | - | (123,871) | 802,072 | (123,871) |
| Municipal bonds | - | - | (193) | 8,910 | (193) |
| Corporate bonds | - | - | (447) | 15,613 | (447) |
| Total | $ (1) | $ 546 | $ (126,010) | $ 859,827 | $ (126,011) |

The Credit Union does not believe that the available-for-sale securities that were in an unrealized loss position as of December 31, 2024, which were comprised of 520 individual securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. For municipal and corporate bonds, the Credit Union monitors the credit ratings monthly and determines if any significant changes that resulted in credit downgrades would require an allowance for credit losses to be recorded. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Credit Union does not intend to sell the investment securities that were in an unrealized loss position, and it is not more likely than not that the Credit Union will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Substantially all of the Credit Union's held-to-maturity securities are issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Therefore, the Credit Union did not record an allowance for credit losses for these securities as of December 31, 2024 and 2023.

(Continued)

**NOTE 2 – SECURITIES AND OTHER INVESTMENTS** (Continued)

Other Investments: Other investments at December 31 are summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Investments in CUSOs | $ 866 | $ 799 |
| FHLB Stock | 11,318 | 3,876 |
| Total | $ 12,184 | $ 4,675 |

*Investments in CUSOs* - The Credit Union has noncontrolling equity ownership interest in other credit union service organizations (CUSOs). As a practical expedient, such investments are carried at cost, less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

*FHLB Stock* - The Credit Union has an investment in Federal Home Loan Bank (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and is therefore reported at cost, subject to impairment. FHLB stock has no contractual maturity.

**NOTE 3 – LOANS TO MEMBERS, NET**

The composition of loans to members as of December 31 is as follows:

| | 2024 | 2023 |
|---|---|---|
| Consumer | | |
| New indirect | $ 557,873 | $ 586,461 |
| Used indirect | 879,331 | 845,923 |
| New vehicle | 44,236 | 63,141 |
| Used vehicle | 114,952 | 132,644 |
| Unsecured | 48,700 | 52,817 |
| Credit cards | 73,670 | 76,857 |
| Other secured | 2,893 | 2,757 |
| Total consumer | 1,721,655 | 1,760,600 |
| Residential real estate | | |
| First mortgages | 730,663 | 773,864 |
| Second mortgages | 159,801 | 133,764 |
| Home equity | 142,250 | 120,106 |
| Total residential real estate | 1,032,714 | 1,027,734 |
| Commercial | | |
| Real estate | 35,454 | 31,774 |
| Other | 26,561 | 29,993 |
| Purchased participations | 4,671 | 5,977 |
| Total commercial | 66,686 | 67,744 |
| Total loans | 2,821,055 | 2,856,078 |
| Deferred loan costs (fees) | 30,292 | 29,249 |
| Allowance for credit losses | (18,890) | (25,737) |
| Loans, net | $ 2,832,457 | $ 2,859,590 |

(Continued)

**NOTE 3 – LOANS TO MEMBERS, NET** (Continued)

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2024 and 2023, accrued interest receivable for loans totaled $9,834 and $8,995 respectively, and is included in accrued interest receivable on the consolidated statements of financial condition.

The Credit Union has purchased loan participations originated by various other financial institutions which are secured by commercial property and real estate. These loan participations were purchased without recourse and the originating financial institutions perform all loan servicing functions on these loans. The total purchased participation loans are included in the purchased participations segment above.

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property and automobiles of the Credit Union's members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the consumer new and used indirect, residential first and second mortgages, commercial real estate, and commercial other loan segments above totaled $83,303 and $186,296 at December 31, 2024 and 2023, respectively.

The following tables present the activity in the allowance for credit losses on loans by portfolio segment for the years ended December 31, 2024 and 2023:

| | Consumer | Residential real estate | Commercial | Total |
|---|---|---|---|---|
| December 31, 2024 | | | | |
| Allowance for credit losses on loans | | | | |
| Beginning balance | $ 23,815 | $ 1,461 | $ 461 | $ 25,737 |
| Provision for credit losses | (3,468) | 2,238 | (107) | (1,337) |
| Charge-offs | (7,713) | - | (50) | (7,763) |
| Recoveries | 2,110 | 72 | 71 | 2,253 |
| Ending balance | $ 14,744 | $ 3,771 | $ 375 | $ 18,890 |
| December 31, 2023 | | | | |
| Allowance for credit losses on loans | | | | |
| Beginning balance | $ 7,476 | $ 515 | $ 385 | $ 8,376 |
| Adoption of CECL | 18,180 | - | - | 18,180 |
| Provision for credit losses | 1,407 | 785 | 60 | 2,252 |
| Charge-offs | (5,248) | - | (104) | (5,352) |
| Recoveries | 2,000 | 161 | 120 | 2,281 |
| Ending balance | $ 23,815 | $ 1,461 | $ 461 | $ 25,737 |

In addition to the allowance for credit losses on loans above, the Credit Union has established an allowance for credit losses on unfunded commitments, classified in accrued expenses and other liabilities on the consolidated statements of financial condition. This allowance is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of December 31, 2024 and 2023 was $500 and $249, respectively.

(Continued)

**NOTE 3 – LOANS TO MEMBERS, NET** (Continued)

The components of the provision for credit losses included in the consolidated statements of income for the years ended December 31 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Loans | $ (1,337) | 2,252 |
| Unfunded commitments | 251 | 249 |
| Total provision for credit losses | $ (1,086) | $ 2,501 |

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The amortized cost and allowance for credit losses for loans considered to be collateral dependent as of December 31, 2024 and 2023 are as follows:

| | Consumer | Residential real estate | Commercial | Total |
|---|---|---|---|---|
| 2024 | | | | |
| Allowance for credit losses | $ - | $ 5 | $ 1 | $ 6 |
| Loan | $ - | $ 1,107 | $ 4,954 | $ 6,061 |
| 2023 | | | | |
| Allowance for credit losses | $ 162 | $ - | $ - | $ 162 |
| Loans | $ 509 | $ 2,289 | $ 1,731 | $ 4,529 |

Collateral dependent consumer loans are mainly comprised of vehicle loans. The collateral value is based on estimated fair value reduced for selling costs. Collateral dependent residential real estate loans are comprised of first or second mortgage loans. The collateral value is based on the estimated fair value of the property reduced for estimated sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Collateral dependent commercial real estate loans, both owner occupied, and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

(Continued)

**NOTE 3 – LOANS TO MEMBERS, NET** (Continued)

Commercial Credit Quality Indicators: As part of the ongoing monitoring of the credit quality of the Credit Union's commercial loan portfolio, management tracks certain credit quality indicators including trends related to the risk ratings of commercial loans; the level of classified loans; net charge-offs; nonperforming loans; and the general economic conditions in the market area. Refer to Note 1 for risk rating definitions.

The following tables present the commercial loan portfolio segments allocated by management's internally assigned risk ratings:

| | Real estate | Other | Purchased participations | Total |
|---|---|---|---|---|
| December 31, 2024 | | | | |
| Pass | $ 30,732 | $ 21,743 | $ 4,390 | $ 56,865 |
| Watchlist | 4,722 | 4,818 | 281 | 9,821 |
| Total | $ 35,454 | $ 26,561 | $ 4,671 | $ 66,686 |
| December 31, 2023 | | | | |
| Pass | $ 20,239 | $ 22,471 | $ 5,462 | $ 48,172 |
| Watchlist | 11,535 | 7,522 | 515 | 19,572 |
| Total | $ 31,774 | $ 29,993 | $ 5,977 | $ 67,744 |

The following tables present the classes within the residential real estate and consumer portfolio segments allocated by credit quality. Management tracks certain credit quality indicators based on if these loans are performing or nonperforming. Management tracks the loans performance and when the loan becomes 90 days past due, these loans are classified as nonperforming loans.

| | Performing | Nonperforming | Total |
|---|---|---|---|
| December 31, 2024 | | | |
| Consumer: | | | |
| New indirect | $ 557,298 | $ 575 | $ 557,873 |
| Used indirect | 878,353 | 978 | 879,331 |
| New vehicle | 44,192 | 44 | 44,236 |
| Used vehicle | 114,918 | 34 | 114,952 |
| Unsecured | 48,344 | 356 | 48,700 |
| Credit cards | 73,283 | 387 | 73,670 |
| Other secured | 2,893 | - | 2,893 |
| Total consumer | $ 1,719,281 | $ 2,374 | $ 1,721,655 |
| Residential real estate: | | | |
| First mortgages | $ 728,545 | $ 2,118 | $ 730,663 |
| Second mortgages | 159,334 | 467 | 159,801 |
| Home equity | 141,850 | 400 | 142,250 |
| Total residential real estate | $ 1,029,729 | $ 2,985 | $ 1,032,714 |

(Continued)

**NOTE 3 – LOANS TO MEMBERS, NET** (Continued)

| | Performing | Nonperforming | Total |
|---|---|---|---|
| December 31, 2023 | | | |
| Consumer: | | | |
| New indirect | $ 586,182 | $ 279 | $ 586,461 |
| Used indirect | 844,748 | 1,175 | 845,923 |
| New vehicle | 63,140 | 1 | 63,141 |
| Used vehicle | 132,502 | 142 | 132,644 |
| Unsecured | 52,498 | 319 | 52,817 |
| Credit cards | 76,592 | 265 | 76,857 |
| Other secured | 2,757 | - | 2,757 |
| Total consumer | 1,758,419 | 2,181 | 1,760,600 |
| Residential real estate: | | | |
| First mortgages | 772,855 | 1,009 | 773,864 |
| Second mortgages | 133,682 | 82 | 133,764 |
| Home equity | 119,791 | 315 | 120,106 |
| Total residential real estate | $ 1,026,328 | $ 1,406 | $ 1,027,734 |

The following tables present the aging of the amortized costs basis in past due loans as of December 31, 2024 and 2023 by class of loans:

| | Accruing Interest | | | Nonaccrual Greater Than | |
|---|---|---|---|---|---|
| December 31, 2024 | Current | 30-59 Days | 60-89 Days | 90 Days | Total Loans |
| Consumer: | | | | | |
| New indirect | $ 552,455 | $ 4,398 | $ 445 | $ 575 | $ 557,873 |
| Used indirect | 867,925 | 8,923 | 1,505 | 978 | 879,331 |
| New vehicle | 43,945 | 247 | - | 44 | 44,236 |
| Used vehicle | 114,050 | 565 | 303 | 34 | 114,952 |
| Unsecured | 47,381 | 424 | 539 | 356 | 48,700 |
| Credit cards | 72,196 | 790 | 297 | 387 | 73,670 |
| Other secured | 2,893 | - | - | - | 2,893 |
| Total consumer | 1,700,845 | 15,347 | 3,089 | 2,374 | 1,721,655 |
| Residential real estate: | | | | | |
| First mortgages | 727,892 | - | 653 | 2,118 | 730,663 |
| Second mortgages | 158,493 | 841 | - | 467 | 159,801 |
| Home equity | 141,097 | 362 | 391 | 400 | 142,250 |
| Total residential real estate | 1,027,482 | 1,203 | 1,044 | 2,985 | 1,032,714 |
| Commercial: | | | | | |
| Real estate | 30,500 | - | - | 4,954 | 35,454 |
| Other | 26,338 | - | 3 | 220 | 26,561 |
| Purchased participations | 4,659 | 12 | - | - | 4,671 |
| Total commercial | 61,497 | 12 | 3 | 5,174 | 66,686 |
| Total | $ 2,789,824 | $ 16,562 | $4,136 | $ 10,533 | $ 2,821,055 |

(Continued)

**NOTE 3 – LOANS TO MEMBERS, NET** (Continued)

| | Accruing Interest | | | Nonaccrual Greater Than | |
|---|---|---|---|---|---|
| December 31, 2023 | Current | 30-59 Days | 60-89 Days | 90 Days | Total Loans |
| Consumer: | | | | | |
| New indirect | $ 580,929 | $ 4,723 | $ 530 | $ 279 | $ 586,461 |
| Used indirect | 836,492 | 7,502 | 754 | 1,175 | 845,923 |
| New vehicle | 62,912 | 228 | - | 1 | 63,141 |
| Used vehicle | 131,878 | 581 | 43 | 142 | 132,644 |
| Unsecured | 51,510 | 795 | 193 | 319 | 52,817 |
| Credit cards | 75,875 | 511 | 206 | 265 | 76,857 |
| Other secured | 2,740 | 12 | 5 | - | 2,757 |
| Total consumer | 1,742,336 | 14,352 | 1,731 | 2,181 | 1,760,600 |
| Residential real estate: | | | | | |
| First mortgages | 769,255 | 3,546 | 54 | 1,009 | 773,864 |
| Second mortgages | 133,092 | 590 | - | 82 | 133,764 |
| Home equity | 119,087 | 704 | - | 315 | 120,106 |
| Total residential real estate | 1,021,434 | 4,840 | 54 | 1,406 | 1,027,734 |
| Commercial: | | | | | |
| Real estate | 24,364 | 3,263 | - | 4,147 | 31,774 |
| Other | 28,130 | 24 | - | 1,839 | 29,993 |
| Purchased participations | 5,846 | 131 | - | - | 5,977 |
| Total commercial | 58,340 | 3,418 | - | 5,986 | 67,744 |
| Total | $ 2,822,110 | $ 22,610 | $ 1,785 | $ 9,573 | $ 2,856,078 |

Interest income recognized on nonaccrual loans during the years December 31, 2024 and 2023 was immaterial.

All nonaccrual loans had an allowance for credit losses for the year ended December 31, 2024. The amortized costs basis for loans on nonaccrual status for which there is no related allowance for credit losses was $787 for the year ended December 31, 2023.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Modifications during the year ended December 31, 2024 and 2023, were insignificant to the consolidated financial statement disclosures.

**NOTE 4 – LOAN SERVICING**

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for others were $1,346,623 and $1,357,063 as of December 31, 2024 and 2023, respectively.

Custodial funds in escrow represent member payments for principal and interest, as well as for taxes and insurance. These amounts are held in escrow, with a corresponding liability recorded until the date that such funds are released by the Credit Union for their intended purpose. As of December 31, 2024 and 2023, the Credit Union held $5,787 and $5,113, respectively, in escrow related to the loans serviced.

The fair value of mortgage servicing rights was determined using weighted average discount rates of 8.20% and 7.70% and weighted average prepayment speeds of 4.90% and 4.70% for the years ended December 31, 2024 and 2023, respectively.

(Continued)

**NOTE 4 – LOAN SERVICING** (Continued)

A summary of the changes in the balance of mortgage servicing rights included in other assets in the consolidated statements of financial condition in 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ 20,740 | $ 17,838 |
| Servicing assets capitalized | 380 | 399 |
| Fair value adjustment | (1,457) | 2,503 |
| Balance, end of year | $ 19,633 | $ 20,740 |

**NOTE 5 – PROPERTY AND EQUIPMENT, NET**

Property and equipment, net at December 31 is summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Land | $ 17,447 | $ 17,447 |
| Buildings | 40,560 | 40,560 |
| Leasehold improvements | 24,846 | 23,668 |
| Computer equipment | 28,920 | 26,189 |
| Furniture and equipment | 7,709 | 6,929 |
| Subtotal | 119,482 | 114,793 |
| Accumulated depreciation and amortization | (70,813) | (65,521) |
| Total | $ 48,669 | $ 49,272 |

The Credit Union has leased office space at its main office location under a noncancellable operating lease. Rental income under the operating leases, included in noninterest income, were $1,287 and $1,234 for the years ended December 31, 2024 and 2023, respectively.

**NOTE 6 – MEMBERS' SHARE AND SAVINGS ACCOUNTS**

Members' share and savings accounts at December 31 are summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Share draft accounts | $ 739,279 | $ 731,377 |
| Shares and equivalents | 701,634 | 726,827 |
| Money Market accounts | 820,230 | 890,347 |
| Individual Retirement Accounts (IRA) shares | 43,424 | 50,036 |
| Share and IRA Certificates of Deposit | 1,100,233 | 966,163 |
| Total | $ 3,404,800 | $ 3,364,750 |

(Continued)

**NOTE 6 – MEMBERS' SHARE AND SAVINGS ACCOUNTS** (Continued)

Share and IRA certificates by maturity are summarized as follows:

| | |
|---|---|
| 2025 | $ 849,661 |
| 2026 | 74,962 |
| 2027 | 34,374 |
| 2028 | 75,151 |
| 2029 | 66,085 |
| Total | $ 1,100,233 |

The NCUSIF insures members' accounts and individual retirement accounts up to $250. The aggregate amount of certificates of deposit in denominations of $250 or more was $368,533 and $315,803 at December 31, 2024 and 2023, respectively.

**NOTE 7 – BORROWED FUNDS**

As of December 31, 2024 and 2023, the Credit Union maintained $175,000 in unsecured and secured line of credit agreements with various institutions, which are secured by a blanket security interest in the Credit Union's investment and loan portfolio. No amounts were outstanding on these line of credit agreements as of December 31, 2024 and 2023.

The Credit Union has entered into an agreement with the Federal Reserve Bank of Richmond that allows the Credit Union to obtain advances and to pledge and grant a security interest in the Credit Union's assets to a Federal Reserve Bank. Borrowings are secured by indirect vehicle loans totaling approximately $1,022,496. There were no amounts outstanding under this agreement as of December 31, 2024 and 2023.

In March 2023, the Credit Union borrowed from the Bank Term Funding Program (BTFP). At year end December 31, 2023, the outstanding principal balance totaled $694,163. The BTFP borrowings have a maturity of 12 months and can be refinanced at any time without penalty. The BTFP borrowings were scheduled to begin maturing in March 2024. In January 2024, the Credit Union repaid all outstanding balances and made new borrowings in the amount of $694,000 at 4.76%. The new borrowings were scheduled to mature in January 2025 but were repaid in November 2024.

As of December 31, 2024 and 2023, the Credit Union had access to a pre-approved line of credit for $1,031,500 and $1,116,532, respectively, from the FHLB, secured by specific mortgage loans and investment securities totaling approximately $605,417 and $678,342, respectively. As of December 31, 2024 and 2023, the Credit Union has advanced $171,000 and $21,000, respectively, under the terms of this agreement. The notes carry adjustable interest rates between 3.69% and 4.79%.

Payments over the next five years is as follows:

| Year Ending December 31, | |
|---|---|
| 2025 | $ 20,000 |
| 2026 | 150,000 |
| 2027 | - |
| 2028 | 1,000 |
| 2029 | - |
| Total | $ 171,000 |

(Continued)

## NOTE 8 – LEASES

The Credit Union leases seven branch facilities under noncancelable operating leases and is required to pay increases in real estate taxes on these facilities in addition to the minimum rents.

The cost components of the Credit Union's operating leases were as follows for the year ending December 31:

| | 2024 | 2023 |
|---|---|---|
| Operating lease cost | $ 406 | $ 405 |
| Variable lease cost | 984 | 1,061 |
| Total lease cost | $ 1,390 | $ 1,466 |

The following table summarizes other information related to the Credit Union's operating leases for the year ending December 31:

| | 2024 | 2023 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | $ 1,102 | $ 931 |
| Operating cash flows from financing leases | 93 | 96 |
| Financing cash flows from financing leases | 161 | 83 |
| Initial recognition of right-of-use assets | - | 1,060 |
| Initial recognition of lease liabilities | - | 1,060 |
| Weighted-average remaining lease term - operating leases, in years | 6 years | 3 years |
| Weighted-average remaining lease term - financing leases, in years | 1 year | 2 years |
| Weighted-average discount rate - operating leases | 3.29% | 2.47% |
| Weighted-average discount rate - financing leases | 1.46% | 1.46% |

The right of use asset and lease liability, which are included in other assets and other liabilities in the consolidated statements of financial condition, respectively, totaled $5,981 and $3,988 for the years ended December 31, 2024 and 2023, respectively.

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2024, are as follow:

| | Operating Lease | Financing Lease |
|---|---|---|
| 2025 | $ 1,107 | $ 96 |
| 2026 | 1,136 | 1 |
| 2027 | 1,166 | - |
| 2028 | 1,208 | - |
| 2029 | 1,008 | - |
| Thereafter | 1,220 | - |
| Total undiscounted lease payments | 6,845 | 97 |
| Less imputed interest | (953) | (4) |
| Net lease liabilities | $ 5,892 | $ 89 |

(Continued)

## NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities: The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and may expire without being used.

Unfunded loan commitments at December 31 are summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Credit card | $ 304,247 | $ 297,647 |
| Commercial | 15,986 | 10,571 |
| Home equity | 192,512 | 179,971 |
| Overdraft protection | 28,429 | 27,133 |
| Other consumer | 44,195 | 50,279 |
| Total | $ 585,369 | $ 565,602 |

At December 31, 2024 and 2023, the Credit Union had first mortgage loans in the amount of $4,086 and $4,169, respectively, which had been approved but not yet disbursed.

## NOTE 10 – REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-consolidated statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation).

(Continued)

**NOTE 10 – REGULATORY NET WORTH REQUIREMENTS** (Continued)

As of December 31, 2024, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. In addition, the credit union must maintain a minimum risk-based capital ratio of 10% or greater. Management believes there are no conditions or events that have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios are presented in the following table.

| | Actual | | Action Provision | | Action Provision | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2024 | | | | | | |
| Net worth | $ 523,390 | 12.85% | $ 244,344 | 6.00 % | $ 285,068 | 7.00% |
| Risk-based capital ratio | $ 508,350 | 20.10% | $ 202,298 | 8.00 % | $ 252,869 | 10.00% |
| December 31, 2023 | | | | | | |
| Net worth | $ 513,216 | 11.24% | $ 273,884 | 6.00% | $ 319,532 | 7.00% |
| Risk-based capital ratio | $ 498,021 | 19.91% | $ 200,063 | 8.00% | $ 250,078 | 10.00% |

The Credit Union adopted ASC 326 during the year ended December 31, 2023, and applied the regulatory CECL transition provisions (12 CFR Part 702.703). This provision requires a three-year phase into regulatory net worth associated with the cumulative effect adjustment. As of December 31, 2024, $5,999 was added to the Credit Union's consolidated members' equity to determine the regulatory net worth ratio.

**NOTE 11 – RELATED-PARTY TRANSACTIONS**

The majority of employees and all members of the Board of Directors and the Supervisory Committee have member accounts at the Credit Union, including share, deposit and loan accounts.

In the normal course of business, the Credit Union extends credit to the Board of Directors, Supervisory Committee members, and executive officers. The aggregate loans to related parties at December 31, 2024 and 2023 are $19,886 and $14,915, respectively. The aggregate principal advances and principal repayments are not significant. Loans to related parties includes loans to executives for life insurance premium payments.

Deposits from Credit Union's Board of Directors, Supervisory Committee members, and executive officers held by the Credit Union as of December 31, 2024 is $12,481. Amounts as of December 31, 2023 are not significant.

(Continued)

## NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1* – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Credit Union has the ability to access as of the measurement date.

*Level 2* – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not actives; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* – Significant unobservable inputs that reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Credit Union used the following methods and significant assumptions to estimate fair value:

Securities – Equity and Available for Sale: The fair value of investments securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matric pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Mortgage Servicing Rights: On a quarterly basis, mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amounts. If the carrying amount of an individual tranche exceed fair value, impairment is recorded on that tranche sot that servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimate future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participations would use in estimating future net servicing income and that can be validated against available market date (Level 2).

Collateral Dependent Loans: Collateral dependent residential real estate loans are comprised of first or second mortgage loans. The collateral value is based on the estimated fair value of the property reduced for estimated sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value.

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

(Continued)

**NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Asset and liabilities measured at fair value on a recurring basis, are summarized below:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| December 31, 2024 | | | | |
| Equity securities | $ 17,560 | $ - | $ - | $ 17,560 |
| U.S. government obligations and federal agencies securities | - | 23,052 | - | 23,052 |
| SBA loan pools | - | 11,922 | - | 11,922 |
| Mortgage-backed securities | - | 698,834 | - | 698,834 |
| Municipal bonds | - | 599 | - | 599 |
| Corporate bonds | - | 9,910 | - | 9,910 |
| Mortgage servicing rights | - | - | 19,633 | 19,633 |
| Total | $ 17,560 | $ 744,317 | $ 19,633 | $ 781,510 |
| December 31, 2023 | | | | |
| Equity securities | $ 16,783 | $ - | $ - | $ 16,783 |
| U.S. government obligations and federal agencies securities | - | 27,557 | - | 27,557 |
| SBA loan pools | - | 16,250 | - | 16,250 |
| Mortgage-backed securities | - | 802,609 | - | 802,609 |
| Municipal bonds | - | 8,910 | - | 8,910 |
| Corporate bonds | - | 15,613 | - | 15,613 |
| Mortgage servicing rights | - | - | 20,740 | 20,740 |
| Total | $ 16,783 | $ 870,939 | $ 20,740 | $ 908,462 |

The following table presents quantitative information about recurring Level 3 fair value measurements:

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | Fair Value | Valuation Technique | Unobservable Input | Range (Average) |
| Mortgage servicing rights | $ 19,633 | Discounted cash flow method | Prepayment speeds | 0.79% - 1.96% |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Fair Value | Valuation Technique | Unobservable Input | Range (Average) |
| Mortgage servicing rights | $ 20,740 | Discounted cash flow method | Prepayment speeds | 1.25% - 1.54% |

(Continued)

**NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

| | Carrying Value | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Impairment Loss |
| December 31, 2024 | | | | |
| Collateral dependent loans | $ | $ | $ 6,055 | $ (6) |
| December 31, 2023 | | | | |
| Collateral dependent loans | $ - | $ - | $ 347 | $ (162) |

The following tables present quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis:

| | Fair Value | Valuation Technique | Unobservable Input | Range (Average) |
|---|---|---|---|---|
| December 31, 2024 | | | | |
| Collateral dependent loans | | | | |
| Residential real estate | $ 1,102 | Valuation of collateral | Sales comparison approach | Not meaningful |
| Commercial | $ 4,953 | Valuation of collateral | Sales comparison approach | Not meaningful |
| December 31, 2023 | | | | |
| Collateral dependent loans | | | | |
| Consumer | $ 347 | Valuation of collateral | Estimation of value | Not meaningful |

**NOTE 13 – REVENUE FROM CONTRACTS**

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31:

| | 2024 | 2023 |
|---|---|---|
| In scope of ASC 606 | | |
| Services charges on deposits | $ 5,791 | $ 5,862 |
| Interchange income, net | 9,774 | 9,609 |
| Investment advisory fees | 18,875 | 15,872 |
| Broker-dealer referral fees | 1,442 | 1,373 |
| Title and escrow services | 155 | 102 |
| Other | 3,731 | 3,469 |
| Noninterest income in scope of ASC 606 | 39,768 | 36,287 |
| Noninterest income not within the scope of ASC 606 (a) | 2,627 | 9,361 |
| Total noninterest income | $ 42,395 | $ 45,648 |

(a) This revenue is not within the scope of ASC 606, and includes fees related to loan servicing fees, gain on sale of mortgages, and credit card fees.

(Continued)

## NOTE 14 – NAMING RIGHTS

In 2019, the Credit Union entered into an agreement with the Northern Virginia Science Center Foundation (doing business as Children's Science Center) to purchase the naming rights of a science center which is anticipated to be opened no sooner than 2024. The Credit Union will retain the naming rights for 99 years. In accordance with GAAP, the Credit Union has recorded these expenses as prepaid marketing expenses, included in other assets on the consolidated statements of financial condition. The Credit Union will amortize these expenses ratably over a period of time determined at the date of opening. As of December 31, 2024 and 2023, the Credit Union had prepaid marketing expenses of $10,000 and $10,000, respectively. The Credit Union had no further liability after December 31, 2023.

In 2024, the Credit Union entered into an agreement with WFI STADIUM LLC and PRO-FOOTBALL LLC, doing business as the Washington Commanders, granting the Credit Union naming rights and marketing benefits for the stadium located in Landover, Maryland. The agreement was effective August 22, 2024, and ends on March 31, 2032, unless earlier terminated or extended in accordance with the terms of the agreement. The one-year terms are from April 1st to March 31st. The first year of the agreement is being recognized from the effective date of August 29, 2024, through March 31, 2025. The remaining years of the agreement will be recognized from April 1st through March 31st of each respective period. There is a 4.5% annual increase for each year of the 8-year agreement.