

**NORTHWEST FEDERAL CREDIT UNION  
AND SUBSIDIARY**

**FINANCIAL STATEMENTS**  
December 31, 2025 and 2024

NORTHWEST FEDERAL CREDIT UNION  
AND SUBSIDIARY

FINANCIAL STATEMENTS  
December 31, 2025 and 2024

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## 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, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Northwest Federal Credit Union and Subsidiary as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Federal Credit Union and Subsidiary's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

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## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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 23, 2026

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
December 31, 2025 and 2024  
(in thousands)

	<u>2025</u>	<u>2024</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 74,410	\$ 145,898
Investments:		
Equity securities	24,279	17,560
Available-for-sale	1,245,878	744,317
Held-to-maturity	67,400	85,984
Other	26,644	11,318
Loans held-for-sale	1,568	3,005
Loans, net of allowance for credit losses of \$20,535 and \$18,890	2,890,204	2,832,457
Accrued interest receivable	22,372	11,806
Property and equipment, net	47,763	48,669
NCUSIF deposit	28,447	27,931
Other assets	<u>124,546</u>	<u>137,462</u>
 Total assets	 <u>\$ 4,553,511</u>	 <u>\$ 4,066,407</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Members' share and savings accounts	\$ 3,538,603	\$ 3,404,800
Borrowed funds	501,000	171,000
Accrued expenses and other liabilities	<u>63,343</u>	<u>91,954</u>
Total liabilities	4,102,946	3,667,754
<b>MEMBERS' EQUITY</b>		
Undivided earnings	532,185	517,391
Accumulated other comprehensive loss	<u>(81,620)</u>	<u>(118,738)</u>
Total members' equity	<u>450,565</u>	<u>398,653</u>
 Total liabilities and members' equity	 <u>\$ 4,553,511</u>	 <u>\$ 4,066,407</u>

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2025 and 2024  
(in thousands)

	<u>2025</u>	<u>2024</u>
<b>Interest income</b>		
Loans	\$ 153,575	\$ 143,640
Investments and cash equivalents	<u>42,448</u>	<u>59,954</u>
Total interest income	196,023	203,594
<b>Interest expense</b>		
Members' share and savings accounts	59,835	56,849
Borrowed funds	<u>13,022</u>	<u>33,467</u>
Total interest expense	<u>72,857</u>	<u>90,316</u>
Net interest income	123,166	113,278
<b>Provision (credit) for credit losses</b>	<u>8,093</u>	<u>(1,086)</u>
Net interest income after provision (credit) for credit losses	115,073	114,364
<b>Noninterest income</b>		
Fees and service charges	6,321	6,374
Interchange income, net	9,912	9,774
Gain on sale of loans, net	685	913
Gain on available-for-sale investments	11	-
Gain on equity securities, net	60	56
Other income	<u>28,940</u>	<u>25,278</u>
Total noninterest income	45,929	42,395
<b>Noninterest expense</b>		
Employee compensation and benefits	79,578	77,026
Operations and occupancy	27,840	25,187
Advertising and promotion	13,282	9,474
Loan servicing	10,587	9,417
Legal and professional services	3,710	4,072
Education, travel, and officials	639	524
Other expenses	<u>10,572</u>	<u>8,323</u>
Total noninterest expense	<u>146,208</u>	<u>134,023</u>
<b>Net income</b>	<u>\$ 14,794</u>	<u>\$ 22,736</u>

See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2025 and 2024  
(in thousands)

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	<u>2025</u>	<u>2024</u>
<b>Net Income</b>	\$ 14,794	\$ 22,736
<b>Other comprehensive income</b>		
Securities available-for-sale		
Unrealized holding gains during the period	37,129	7,239
Reclassification for gains included in net income	<u>(11)</u>	<u>-</u>
Total other comprehensive income	<u>37,118</u>	<u>7,239</u>
<b>Total comprehensive income</b>	<u>\$ 51,912</u>	<u>\$ 29,975</u>

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See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
Years ended December 31, 2025 and 2024  
(in thousands)

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	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>Balance at January 1, 2024</b>	\$ 501,036	\$ (125,977)	\$ 375,059
Net income	22,736	-	22,736
Member loyalty bonus dividend	(6,381)	-	(6,381)
Other comprehensive income	<u>-</u>	<u>7,239</u>	<u>7,239</u>
<b>Balance at December 31, 2024</b>	517,391	(118,738)	398,653
Net income	14,794	-	14,794
Other comprehensive income	<u>-</u>	<u>37,118</u>	<u>37,118</u>
<b>Balance at December 31, 2025</b>	<u>\$ 532,185</u>	<u>\$ (81,620)</u>	<u>\$ 450,565</u>

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See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2025 and 2024  
(in thousands)

	<u>2025</u>	<u>2024</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 14,794	\$ 22,736
Adjustments to reconcile net income to net cash from by operating activities		
Provision (credit) for credit losses	8,093	(1,086)
Depreciation and amortization	5,398	5,369
(Accretion) amortization of premium and discounts on investment securities, net	1,342	477
Fair value adjustment of mortgage servicing rights	1,948	1,457
Capitalization of mortgage servicing rights	(260)	(380)
(Gain) loss on sale of available-for-sale investments	(11)	-
Net gain on equity securities	(60)	(56)
Net gain on sale of loans	(685)	(913)
Proceeds from sale of loans held-for-sale	38,442	45,815
Loans originated for sale	(36,320)	(45,926)
Net change in:		
Accrued interest receivable	(10,566)	(1,114)
Other assets	15,020	(49,703)
Accrued expenses and other liabilities	(28,709)	(17,812)
Net cash provided by (used in) operating activities	<u>8,426</u>	<u>(41,136)</u>
<b>Cash flows from investing activities</b>		
Net decrease in deposits in other financial institutions	-	2,000
Purchase of securities - held-to-maturity	-	(188,448)
Purchase of securities – available-for-sale	(694,079)	-
Proceeds from maturities and paydowns of securities		
Available-for-sale	228,305	133,384
Held-to-maturity	18,584	227,404
Proceeds from sales of securities - available-for-sale	-	-
Purchase of equity securities	(7,686)	(1,279)
Proceeds from sale of equity securities	1,027	558
Net change in other investments	(15,326)	(7,509)
Net change in loans	(69,534)	24,861
Decrease in NCUSIF deposit	(516)	610
Purchases of property and equipment	(4,492)	(4,766)
Net cash (used in) provided by investing activities	<u>(543,717)</u>	<u>186,815</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowed funds	350,000	300,000
Payments made on borrowed funds	(20,000)	(844,163)
Net change in members' share and savings accounts	<u>133,803</u>	<u>33,669</u>
Net cash provided (used in) provided by financing activities	463,803	(510,494)
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(71,488)</u>	<u>(364,815)</u>
Cash and cash equivalents - beginning of year	<u>145,898</u>	<u>510,713</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 74,410</u>	<u>\$ 145,898</u>

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2025 and 2024  
(in thousands)

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	<u>2025</u>	<u>2024</u>
<b>Supplemental cash flow information:</b>		
Interest paid on members' share and savings accounts	\$ 59,857	\$ 52,813
Interest paid on borrowed funds	\$ 17,089	\$ 22,966
<b>Supplemental noncash disclosures:</b>		
Transfer from loans to repossessed assets	\$ 3,792	\$ 3,358

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See accompanying notes to financial statements.

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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 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 classified as 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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 \$411 and \$619 at December 31, 2025 and 2024, 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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-basis 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 compared to 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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 List 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 up to date 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, based on 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 using 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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 losses 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 of 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025 and 2024  
(in thousands)

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**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 consolidated statements of income 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.

Under the fair value measurement method, the Credit Union measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur and are included with 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 reported 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. Servicing fees totaled \$2,055 and \$3,283 for the years ended December 31, 2025 and 2024, 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 which are 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**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 borrowed funds 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 (1%) 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 collateral assigned split dollar loan agreements with members of top management. A term note is executed between the executive and the Credit Union to fund the premiums on the insurance policy. The Credit Union is the beneficiary of the policy, and the note is collateralized by an assignment of the policy. The note is recourse to the executive officers. The note is recorded at the amount that is due to the Credit Union and is recorded in other assets on the consolidated statements of financial condition. The loan balance, including accrued interest, for the agreements was \$14,740 and \$14,326 as of December 31, 2025 and 2024, respectively.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**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 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 Credit Union employees were enrolled in the plan as of December 31, 2025 and 2024. Expenses associated with the plan totaled \$7,192 and \$6,550 for the years ended December 31, 2025 and 2024, 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. As of December 31, 2025 and 2024, accrued expenses and other liabilities includes an accrued liability related to this plan of \$800 and \$811, respectively.

Retirement Plan: 401(k) plan – The Credit Union provides a 401(k) plan, which covers substantially all Credit Union's employees who are eligible as to age and length of service. Participants are always 100% vested in 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, 2025 and 2024, the Credit Union contributed a matching contribution of up to 7% of employee compensation. The Credit Union's net contributions to the plan were approximately \$3,199 and \$3,075 for the years ended December 31, 2025 and 2024, respectively.

Members' Share and Savings Accounts: 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 the 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.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**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 is not subject to federal and state income taxes.

FASB Codification Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken while preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year.

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For the years ended December 31, 2025 and 2024, the Credit Union has determined that there were no material uncertain tax positions. The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as noninterest expense. No interest or penalties were recognized for the years ended December 31, 2025 and 2024.

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 are such matters that will have a material effect on the consolidated financial statements.

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 23, 2026, 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:

	<u>2025</u>	<u>2024</u>
Mutual funds	\$ <u>24,279</u>	\$ <u>17,560</u>
Total	\$ <u>24,279</u>	\$ <u>17,560</u>

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

	<u>2025</u>	<u>2024</u>
Net gains recognized during the year on equity securities	\$ 60	\$ 56
Less: net realized losses on sales of equity securities	<u>2</u>	<u>38</u>
Unrealized gains recognized during the reporting period on equity securities	<u>\$ 58</u>	<u>\$ 18</u>

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(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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(in thousands)

**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, 2025			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Available-for-sale:				
U.S. government obligations and federal agencies securities	\$ 597,332	\$ 1,361	\$ (390)	\$ 598,303
SBA loan pools	7,985	-	(151)	7,834
Mortgage-backed securities	721,184	137	(82,577)	638,744
Corporate bonds	<u>997</u>	<u>-</u>	<u>-</u>	<u>997</u>
Total	<u>\$ 1,327,498</u>	<u>\$ 1,498</u>	<u>\$ (83,118)</u>	<u>\$ 1,245,878</u>

	December 31, 2024			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
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	<u>10,012</u>	<u>-</u>	<u>(102)</u>	<u>9,910</u>
Total	<u>\$ 863,055</u>	<u>\$ 56</u>	<u>\$ (118,794)</u>	<u>\$ 744,317</u>

	December 31, 2025			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Held-to-maturity:				
SBA loan pools	\$ 51,461	\$ -	\$ (236)	\$ 51,225
Mortgage-backed securities	<u>15,939</u>	<u>-</u>	<u>(18)</u>	<u>15,921</u>
Total	<u>\$ 67,400</u>	<u>\$ -</u>	<u>\$ (254)</u>	<u>\$ 67,146</u>

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 2 – SECURITIES AND OTHER INVESTMENTS (Continued)**

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

As of December 31, 2025 and 2024, securities carried at approximately \$67,145 and \$32,640, respectively, were pledged as collateral. As of December 31, 2025 and 2024, securities were pledged for FHLB advances. See further information in Note 7.

At year-end 2025 and 2024, 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. Investments as of December 31, 2025 and 2024 were immaterial.

The amortized cost and fair value of securities available-for-sale and held-to-maturity as of December 31, 2025 and 2024, 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	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>2025</u>				
Due one year or less	\$ 2,997	\$ 2,975	\$ -	\$ -
Due in one to five years	5,000	4,860	-	-
Due in five to ten years	590,331	591,463	-	-
SBA loan pools	7,986	7,836	51,461	51,225
Mortgage-backed securities	<u>721,184</u>	<u>638,744</u>	<u>15,939</u>	<u>15,921</u>
Total	<u>\$ 1,327,498</u>	<u>\$ 1,245,878</u>	<u>\$ 67,400</u>	<u>\$ 67,146</u>
<u>2024</u>				
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	<u>816,608</u>	<u>698,834</u>	<u>19,276</u>	<u>19,247</u>
Total	<u>\$ 863,055</u>	<u>\$ 744,317</u>	<u>\$ 85,984</u>	<u>\$ 85,556</u>

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**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:

	<u>Less Than Twelve Months</u>		<u>Greater Than Twelve Months</u>		<u>Total Unrealized Losses</u>
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	
<u>December 31, 2025</u>					
U.S government obligations and federal agencies securities	\$ (229)	\$ 204,507	\$ (161)	\$ 6,839	\$ (390)
SBA loan pools	-	-	(151)	7,573	(151)
Mortgage-backed securities	<u>(3)</u>	<u>1,436</u>	<u>(82,574)</u>	<u>626,436</u>	<u>(82,577)</u>
Total	<u>\$ (232)</u>	<u>\$ 205,943</u>	<u>\$ (82,886)</u>	<u>\$ 640,848</u>	<u>\$ (83,118)</u>
<u>December 31, 2024</u>					
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	<u>-</u>	<u>-</u>	<u>(102)</u>	<u>9,910</u>	<u>(102)</u>
Total	<u>\$ (77)</u>	<u>\$ 5,253</u>	<u>\$ (118,717)</u>	<u>\$ 722,406</u>	<u>\$ (118,794)</u>

The Credit Union does not believe that the available-for-sale securities that were in an unrealized loss position as of December 31, 2025 or 2024, which were comprised of 462 and 520 individual securities, respectively, 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 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, 2025 and 2024.

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 2 – SECURITIES AND OTHER INVESTMENTS (Continued)**

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

	<u>2025</u>	<u>2024</u>
FHLB Stock	\$ <u>26,644</u>	\$ <u>11,318</u>
Total	<u>\$ 26,644</u>	<u>\$ 11,318</u>

*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:

	<u>2025</u>	<u>2024</u>
Consumer		
New indirect	\$ 582,879	\$ 557,873
Used indirect	898,512	879,331
New vehicle	33,427	44,236
Used vehicle	112,603	114,952
Unsecured	47,213	48,700
Credit cards	72,524	73,670
Other secured	<u>2,549</u>	<u>2,893</u>
Total consumer	1,749,707	1,721,655
Residential real estate		
First mortgages	716,039	730,663
Second mortgages	161,223	159,801
Home equity	<u>170,428</u>	<u>142,250</u>
Total residential real estate	1,047,690	1,032,714
Commercial		
Real estate	47,437	35,454
Other	30,452	26,561
Purchased participations	<u>3,575</u>	<u>4,671</u>
Total commercial	<u>81,464</u>	<u>66,686</u>
Total loans	2,878,861	2,821,055
Deferred loan costs, net	31,878	30,292
Allowance for credit losses	<u>(20,535)</u>	<u>(18,890)</u>
Loans, net	<u>\$ 2,890,204</u>	<u>\$ 2,832,457</u>

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**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, 2025 and 2024, accrued interest receivable for loans totaled \$10,506 and \$9,834, 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 \$33,363 and \$83,303 at December 31, 2025 and 2024, respectively.

The following tables present the activity in the allowance for credit losses on loans by portfolio segment for the years ended December 31, 2025 and 2024:

	<u>Consumer</u>	<u>Residential real estate</u>	<u>Commercial</u>	<u>Total</u>
<u>December 31, 2025</u>				
Allowance for credit losses on loans				
Beginning balance	\$ 14,744	\$ 3,771	\$ 375	\$ 18,890
Provision for credit losses	7,923	(31)	103	7,995
Charge-offs	(8,823)	(215)	(115)	(9,153)
Recoveries	<u>2,661</u>	<u>142</u>	<u>-</u>	<u>2,803</u>
Ending balance	<u>\$ 16,505</u>	<u>\$ 3,667</u>	<u>\$ 363</u>	<u>\$ 20,535</u>
<u>December 31, 2024</u>				
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	<u>2,110</u>	<u>72</u>	<u>71</u>	<u>2,253</u>
Ending balance	<u>\$ 14,744</u>	<u>\$ 3,771</u>	<u>\$ 375</u>	<u>\$ 18,890</u>

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 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, 2025 and 2024 was \$598 and \$500, respectively.

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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(in thousands)

**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:

	<u>2025</u>	<u>2024</u>
Loans	\$ 7,995	\$ (1,337)
Unfunded commitments	<u>98</u>	<u>251</u>
Total provision for credit losses	<u>\$ 8,093</u>	<u>\$ (1,086)</u>

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, 2025 and 2024 are as follows:

	<u>Consumer</u>	<u>Residential real estate</u>	<u>Commercial</u>	<u>Total</u>
<u>2025</u>				
Allowance for credit losses	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2</u>
Loans	<u>\$ -</u>	<u>\$ 751</u>	<u>\$ 6,788</u>	<u>\$ 7,539</u>
<u>2024</u>				
Allowance for credit losses	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 6</u>
Loans	<u>\$ -</u>	<u>\$ 1,107</u>	<u>\$ 4,954</u>	<u>\$ 6,061</u>

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.

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NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**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:

	<u>Real estate</u>	<u>Other</u>	<u>Purchased participations</u>	<u>Total</u>
<u>December 31, 2025</u>				
Pass	\$ 35,902	\$ 22,930	\$ 2,781	\$ 61,613
Watchlist	11,535	7,522	524	19,581
Special Mention	<u>-</u>	<u>-</u>	<u>270</u>	<u>270</u>
Total	<u>\$ 47,437</u>	<u>\$ 30,452</u>	<u>\$ 3,575</u>	<u>\$ 81,464</u>
<u>December 31, 2024</u>				
Pass	\$ 30,732	\$ 21,743	\$ 4,390	\$ 56,865
Watchlist	<u>4,722</u>	<u>4,818</u>	<u>281</u>	<u>9,821</u>
Total	<u>\$ 35,454</u>	<u>\$ 26,561</u>	<u>\$ 4,671</u>	<u>\$ 66,686</u>

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 whether these loans are performing or nonperforming. Management tracks the loan's performance, and when the loan becomes 90 days past due, these loans are classified as nonperforming.

	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
<u>December 31, 2025</u>			
Consumer:			
New indirect	\$ 582,323	\$ 556	\$ 582,879
Used indirect	897,248	1,264	898,512
New vehicle	33,396	31	33,427
Used vehicle	112,549	54	112,603
Unsecured	46,833	380	47,213
Credit cards	72,245	279	72,524
Other secured	<u>2,549</u>	<u>-</u>	<u>2,549</u>
Total consumer	<u>\$ 1,747,143</u>	<u>\$ 2,564</u>	<u>\$ 1,749,707</u>
Residential real estate:			
First mortgages	\$ 714,621	\$ 1,418	\$ 716,039
Second mortgages	160,974	249	161,223
Home equity	<u>170,025</u>	<u>403</u>	<u>170,428</u>
Total residential real estate	<u>\$ 1,045,620</u>	<u>\$ 2,070</u>	<u>\$ 1,047,690</u>

(Continued)

NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 3 – LOANS TO MEMBERS, NET (Continued)**

	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
<u>December 31, 2024</u>			
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	<u>2,893</u>	<u>-</u>	<u>2,893</u>
Total consumer	<u>\$ 1,719,281</u>	<u>\$ 2,374</u>	<u>\$ 1,721,655</u>
Residential real estate:			
First mortgages	\$ 728,545	\$ 2,118	\$ 730,663
Second mortgages	159,334	467	159,801
Home equity	<u>141,850</u>	<u>400</u>	<u>142,250</u>
Total residential real estate	<u>\$ 1,029,729</u>	<u>\$ 2,985</u>	<u>\$ 1,032,714</u>

The following tables present the aging of the amortized costs basis in past due loans as of December 31, 2025 and 2024 by class of loans:

<u>December 31, 2025</u>	<u>Accruing Interest</u>			<u>Nonaccrual Greater Than 90 Days</u>	<u>Total Loans</u>
	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>		
Consumer:					
New indirect	\$ 577,314	\$ 4,505	\$ 504	\$ 556	\$ 582,879
Used indirect	887,104	8,426	1,718	1,264	898,512
New vehicle	33,260	133	3	31	33,427
Used vehicle	111,843	613	93	54	112,603
Unsecured	46,393	291	149	380	47,213
Credit cards	71,155	794	296	279	72,524
Other secured	<u>2,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,549</u>
Total consumer	1,729,618	14,762	2,763	2,564	1,749,707
Residential real estate:					
First mortgages	713,378	859	384	1,418	716,039
Second mortgages	159,915	650	409	249	161,223
Home equity	<u>168,967</u>	<u>1,004</u>	<u>54</u>	<u>403</u>	<u>170,428</u>
Total residential real estate	1,042,260	2,513	847	2,070	1,047,690
Commercial:					
Real estate	43,182	-	-	4,255	47,437
Other	30,220	-	-	232	30,452
Purchased participations	<u>3,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,575</u>
Total commercial	<u>76,977</u>	<u>-</u>	<u>-</u>	<u>4,487</u>	<u>81,464</u>
Total	<u>\$ 2,848,855</u>	<u>\$ 17,275</u>	<u>\$ 3,610</u>	<u>\$ 9,121</u>	<u>\$ 2,878,861</u>

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

December 31, 2024	Accruing Interest			Nonaccrual Greater Than 90 Days	Total Loans
	Current	30-59 Days	60-89 Days		
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	<u>2,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,893</u>
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	<u>141,097</u>	<u>362</u>	<u>391</u>	<u>400</u>	<u>142,250</u>
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	<u>4,659</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>4,671</u>
Total commercial	<u>61,497</u>	<u>12</u>	<u>3</u>	<u>5,174</u>	<u>66,686</u>
Total	<u>\$ 2,789,824</u>	<u>\$ 16,562</u>	<u>\$4,136</u>	<u>\$ 10,533</u>	<u>\$ 2,821,055</u>

Interest income recognized on nonaccrual loans during the years December 31, 2025 and 2024 was immaterial.

All nonaccrual loans had an allowance for credit losses for the years ended December 31, 2025 and 2024.

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, 2025 and 2024, 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 \$1,201,287 and \$1,346,623 as of December 31, 2025 and 2024, 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, 2025 and 2024, the Credit Union held \$6,216 and \$5,787, respectively, in escrow related to the loans serviced.

The fair value of mortgage servicing rights was determined using weighted average discount rates of 8.04% and 8.20% and weighted average prepayment speeds of 5.40% and 4.90% for the years ended December 31, 2025 and 2024, respectively.

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NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**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 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 19,633	\$ 20,740
Servicing assets capitalized	260	380
Fair value adjustment	<u>(1,948)</u>	<u>(1,457)</u>
Balance, end of year	<u>\$ 17,945</u>	<u>\$ 19,633</u>

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

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

	<u>2025</u>	<u>2024</u>
Land	\$ 17,447	\$ 17,447
Buildings	40,560	40,560
Leasehold improvements	27,628	24,846
Computer equipment	30,293	28,920
Furniture and equipment	<u>8,043</u>	<u>7,709</u>
Subtotal	123,971	119,482
Accumulated depreciation and amortization	<u>(76,208)</u>	<u>(70,813)</u>
Total	<u>\$ 47,763</u>	<u>\$ 48,669</u>

The Credit Union has leased office space at its main office location under a non-cancellable operating lease. Rental income under the operating leases, included in noninterest income, were \$1,804 and \$1,313 for the years ended December 31, 2025 and 2024, respectively.

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

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

	<u>2025</u>	<u>2024</u>
Share draft accounts	\$ 819,433	\$ 739,279
Shares and equivalents	714,857	701,634
Money Market accounts	840,780	820,230
Individual Retirement Accounts (IRA) shares	40,290	43,424
Share and IRA Certificates of Deposit	<u>1,123,243</u>	<u>1,100,233</u>
Total	<u>\$ 3,538,603</u>	<u>\$ 3,404,800</u>

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NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 6 – MEMBERS’ SHARE AND SAVINGS ACCOUNTS** (Continued)

Share and IRA certificates by maturity are summarized as follows:

2026		\$ 864,196
2027		73,409
2028		86,758
2029		76,838
2030		<u>22,042</u>
 Total		 <u>\$ 1,123,243</u>

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 \$385,443 and \$368,533 as of December 31, 2025 and 2024, respectively.

**NOTE 7 – BORROWED FUNDS**

As of December 31, 2025 and 2024, 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 lines of credit agreements as of December 31, 2025 and 2024.

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 \$1,065,089. There were no amounts outstanding under this agreement as of December 31, 2025 and 2024.

As of December 31, 2025 and 2024, the Credit Union had access to a pre-approved line of credit for \$1,332,660 and \$1,031,500, respectively, from the FHLB, secured by specific mortgage loans and investment securities totaling approximately \$636,762 and \$605,417, respectively. As of December 31, 2025 and 2024, the Credit Union has advanced \$501,000 and \$171,000, respectively, under the terms of this agreement. The notes carry adjustable interest rates between 3.61% and 4.50%.

Payments over the next five years are as follows:

		<u>Year Ending December 31,</u>
2026		\$ 250,000
2027		250,000
2028		1,000
2029		-
2030		<u>-</u>
 Total		 <u>\$ 501,000</u>

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NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 8 – LEASES**

The Credit Union leases seven branch facilities under non-cancelable 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:

	<u>2025</u>	<u>2024</u>
Operating lease cost	\$ 409	\$ 406
Variable lease cost	<u>938</u>	<u>984</u>
Total lease cost	<u>\$ 1,347</u>	<u>\$ 1,390</u>

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

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,107	\$ 1,102
Operating cash flows from financing leases	92	93
Financing cash flows from financing leases	183	161
Weighted-average remaining lease term - operating leases, in years	5 years	6 years
Weighted-average remaining lease term - financing leases, in years	1 year	1 year
Weighted-average discount rate - operating leases	3.39%	3.29%
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 \$7,214 and \$5,981 for the years ended December 31, 2025 and 2024, respectively.

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2025, are as follows:

	<u>Operating Lease</u>	<u>Financing Lease</u>
2026	\$ 1,355	\$ 1
2027	1,541	-
2028	1,583	-
2029	1,383	-
2030	1,137	-
Thereafter	<u>1,454</u>	<u>-</u>
Total undiscounted lease payments	8,453	1
Less imputed interest	<u>(1,239)</u>	<u>-</u>
Net lease liabilities	<u>\$ 7,214</u>	<u>\$ 1</u>

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**NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES**

Off-Balance Sheet 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 more than 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 if 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 as of December 31 are summarized as follows:

	<u>2025</u>	<u>2024</u>
Credit card	\$ 314,834	\$ 304,247
Commercial	22,190	15,986
Home equity	203,433	192,512
Overdraft protection	29,306	28,429
Other consumer	<u>13,609</u>	<u>44,195</u>
Total	<u>\$ 583,372</u>	<u>\$ 585,369</u>

As of December 31, 2025 and 2024, the Credit Union had first mortgage loans in the amount of \$13,607 and \$4,086, 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).

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NORTHWEST FEDERAL CREDIT UNION AND SUBSIDIARY  
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**NOTE 10 – REGULATORY NET WORTH REQUIREMENTS (Continued)**

As of December 31, 2025, 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
<u>December 31, 2025</u>						
Net worth	\$ 532,185	11.69%	\$ 273,211	6.00%	\$ 318,746	7.00%
Risk-based capital ratio	\$ 524,273	19.52%	\$ 214,864	8.00%	\$ 268,580	10.00%
<u>December 31, 2024</u>						
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%

**NOTE 11 – RELATED-PARTY TRANSACTIONS**

Most 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 as of December 31, 2025 and 2024 were \$20,683 and \$19,886, respectively. The aggregate principal advances and principal repayments are not significant. Loans to related parties include 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, 2025 and 2024 are \$8,467 and \$12,481.

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**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 input 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 could 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 active; 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 matrix 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 exceeds fair value, impairment is recorded on that tranche so 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.

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(Continued)

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**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
<u>December 31, 2025</u>				
Equity securities	\$ 24,279	\$ -	\$ -	\$ 24,279
U.S. government obligations and federal agencies securities	-	598,303	-	598,303
SBA loan pools	-	7,834	-	7,834
Mortgage-backed securities	-	638,744	-	638,744
Corporate bonds	-	997	-	997
Mortgage servicing rights	-	-	17,945	17,945
	<u>\$ 24,279</u>	<u>\$ 1,245,878</u>	<u>\$ 17,945</u>	<u>\$ 1,288,102</u>
<u>December 31, 2024</u>				
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
	<u>\$ 17,560</u>	<u>\$ 744,317</u>	<u>\$ 19,633</u>	<u>\$ 781,510</u>

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

	<u>December 31, 2025</u>			
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Average)</u>
Mortgage servicing rights	\$ 17,945	Discounted cash flow method	Prepayment speeds	0.72% - 1.91%
	<u>December 31, 2024</u>			
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Average)</u>
Mortgage servicing rights	\$ 19,633	Discounted cash flow method	Prepayment speeds	0.79% - 1.96%

(Continued)

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

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

	Carrying Value			Impairment Loss
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>December 31, 2025</u>				
Collateral dependent loans	\$ _____ -	\$ _____ -	\$ 7,537	\$ _____ (2)
<u>December 31, 2024</u>				
Collateral dependent loans	\$ _____ -	\$ _____ -	\$ 6,055	\$ _____ (6)

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)
<u>December 31, 2025</u>				
Collateral dependent loans				
Residential real estate	\$ 749	Valuation of collateral	Sales comparison approach	Not meaningful
Commercial	\$ 6,788	Valuation of collateral	Sales comparison approach	Not meaningful
<u>December 31, 2024</u>				
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

(Continued)

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**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:

	<u>2025</u>	<u>2024</u>
In scope of ASC 606		
Services charges on deposits	\$ 5,726	\$ 5,791
Interchange income, net	9,912	9,774
Investment advisory fees	17,897	18,875
Broker-dealer referral fees	1,693	1,442
Title and escrow services	-	155
Other	<u>4,120</u>	<u>3,731</u>
Noninterest income in scope of ASC 606	39,348	39,768
Noninterest income not within the scope of ASC 606 (a)	<u>6,581</u>	<u>2,627</u>
 Total noninterest income	 <u>\$ 45,929</u>	 <u>\$ 42,395</u>

(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.

**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 in 2027. 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 determined at the date of opening. The Credit Union had no further liability or expense 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 1<sup>st</sup> to March 31<sup>st</sup>. The first year of the agreement was recognized from the effective date of August 29, 2024, through March 31, 2025. The remaining years of the agreement will be recognized from April 1<sup>st</sup> through March 31<sup>st</sup> of each respective period. There is a 4.5% annual increase for each year of the 8-year agreement.