UNIVERSITY OF WISCONSIN CREDIT UNION

FINANCIAL STATEMENTS
December 31, 2024 and 2023

UNIVERSITY OF WISCONSIN CREDIT UNION
Madison, Wisconsin

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December 31, 2024 and 2023

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Independent Auditor's Report

To the Board of Directors
University of Wisconsin Credit Union

Opinion

We have audited the financial statements of University of Wisconsin Credit Union (the "Credit Union"), which comprise the statements of financial condition as of December 31, 2024 and 2023 and the related statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2024 and 2023 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 Audits of the Financial Statements* section of our report. We are required to be independent of the Credit Union 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 financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audits of the Financial Statements

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

To the Board of Directors
University of Wisconsin Credit Union

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audits procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

March 12, 2025

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2024 and 2023
(In thousands)

	2024	2023
ASSETS		
Cash and cash equivalents	$ 556,139	$ 305,568
Securities available-for-sale	605,505	585,100
Securities held-to-maturity	-	300,289
Loans held for sale, at fair value	42,836	32,433
Loans to members, net	4,070,916	3,710,662
Federal Home Loan Bank stock, at cost	10,943	6,000
Accrued interest receivable	21,820	20,284
Premises and equipment, net	242,493	243,579
National Credit Union Share Insurance Fund deposit	43,490	41,833
Mortgage servicing rights	19,382	21,026
Other assets	39,620	36,942
	$ 5,653,144	$ 5,303,716
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' deposits	$ 4,861,832	$ 4,577,290
Outstanding drafts payable	15,578	17,846
Federal Reserve advances	-	150,000
Federal Home Loan Bank advances	200,000	-
Accrued interest payable and other liabilities	72,800	88,084
	5,150,210	4,833,220
Members' equity		
Regular reserve	113,910	113,910
Undivided earnings	410,364	378,537
Accumulated other comprehensive loss	(21,340)	(21,951)
	502,934	470,496
	$ 5,653,144	$ 5,303,716

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Interest income		
Loans	$ 240,162	$ 184,426
Securities and interest-earning deposits	49,386	26,858
	289,548	211,284
Interest expense		
Members' deposits	82,824	56,425
Borrowed funds	12,734	2,503
	95,558	58,928
Net interest income	193,990	152,356
Credit loss expense	32,808	13,042
Net interest income after credit loss expense	161,182	139,314
Non-interest income		
Service charges and fees	5,306	5,015
Fees on loans	8,773	7,571
Card and ATM interchange	46,168	44,024
Net gain on sale of loans	7,667	5,078
Net gain on sale of premises and equipment	4,020	-
Other	7,873	8,886
	79,807	70,574
Non-interest expense		
Salaries and employee benefits	96,414	87,226
Office occupancy	15,432	12,579
Office operations	13,726	12,410
Loan and credit card processing	16,845	16,030
Credit card member rewards	15,419	13,284
Card program interchange and processing	8,050	7,804
Data processing	12,093	9,719
Professional services	4,875	4,479
Marketing and advertising	12,708	11,128
Net loss on sale of securities	5,342	-
Other	8,258	7,110
	209,162	181,769
Net income	31,827	28,119
Other comprehensive (loss) income:		
Change in unrealized (loss) gain on securities	(4,731)	10,314
Reclassification adjustments for losses recognized in income	5,342	154
Other comprehensive income	611	10,468
Comprehensive income	$ 32,438	$ 38,587

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2024 and 2023
(In thousands)

	Regular Reserve	Undivided Earnings	Accumulated Other Compre-hensive Loss	Total Members' Equity
Balance at January 1, 2023	$ 113,910	$ 356,897	$ (32,419)	$ 438,388
Cumulative effect of change in accounting principle	-	(6,479)	-	(6,479)
Net income	-	28,119	-	28,119
Other comprehensive income	-	-	10,468	10,468
Balance at December 31, 2023	113,910	378,537	(21,951)	470,496
Net income	-	31,827	-	31,827
Other comprehensive income	-	-	611	611
Balance at December 31, 2024	$ 113,910	$ 410,364	$ (21,340)	$ 502,934

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN CREDIT UNION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities		
Net income	$ 31,827	$ 28,119
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	15,337	11,673
Credit loss expense	32,808	13,042
Amortization of mortgage servicing rights	6,362	6,088
Net amortization on securities	4,365	7,664
Net loss on sale of securities	5,342	154
Net gain on sale of loans	(7,667)	(5,078)
Net (gain) loss on sale of premises and equipment	(4,020)	26
Proceeds from sale of loans held for sale	512,870	328,151
Origination of loans held for sale, net	(520,324)	(344,504)
Net change in:		
Accrued interest receivable	(1,536)	(4,733)
Other assets	(2,318)	(5,495)
Outstanding drafts payable	(2,268)	2,783
Accrued interest payable and other liabilities	(15,284)	17,368
Net cash provided by operating activities	55,494	55,258
Cash flows from investing activities		
Proceeds from maturities, calls, and paydowns of securities available-for-sale	190,559	46,234
Proceeds from maturities, calls, and paydowns of securities held to maturity	300,000	300,000
Proceeds from sale of securities available-for-sale	99,677	28,309
Purchases of securities available-for-sale	(319,448)	(169,799)
Proceeds from the sale of premises and equipment	14,157	251
Purchase of premises and equipment	(24,388)	(69,252)
(Purchase) redemption of Federal Home Bank stock	(4,943)	3,219
Net change in:		
Loans to members	(393,422)	(322,098)
NCUSIF deposit	(1,657)	(2,112)
Net cash used in investing activities	(139,465)	(185,248)
Cash flows from financing activities		
Net change in members' deposits	284,542	156,248
Advances from the Federal Reserve Bank	350,000	250,001
Advances from the FHLB	200,000	495,000
Repayment of the Federal Reserve Bank advances	(500,000)	(100,001)
Repayment of the FHLB advances	-	(695,000)
Net cash provided by financing activities	334,542	106,248
Net change in cash and cash equivalents	250,571	(23,742)
Cash and cash equivalents at beginning of year	305,568	329,310
Cash and cash equivalents at end of year	$ 556,139	$ 305,568
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 94,775	$ 59,000
Loans transferred to other real estate owned	360	-

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Concentrations of Credit Risk: The Credit Union is a state-chartered, federally insured cooperative located in Madison, Wisconsin, with various branch locations to conveniently service its members in the Madison metropolitan area and also in Green Bay, LaCrosse, Milwaukee, Stevens Point, Oshkosh and Whitewater, Wisconsin. The Credit Union is organized under the laws of the state of Wisconsin for the purpose of promoting thrift among and creating a source of credit for its members. The Credit Union's primary services include accepting deposits and making loans. The Credit Union grants consumer (including credit card), education, mortgage, and home equity loans to its members. The majority of the loans are secured by collateral including autos and other types of vehicles, members' deposits, real estate, and other consumer assets. There are no significant concentrations of loans to any one industry or member. However, the members' ability to repay their loans is dependent on the general economic conditions in the area. The Credit Union primarily operates in the Madison and Milwaukee Wisconsin metro areas. Concentration in these markets in which the Credit Union does business represents a potential for significant impact should adverse economic events occur within this limited market.

Field of Membership: Any current or former employee of the University of Wisconsin System, Edgewood College or Madison Area Technical College (MATC), Madison, Wisconsin; any Wisconsin resident who is currently enrolled or has attended any accredited institution of higher education; any current or former employee of the Credit Union, or an affiliate of the University of Wisconsin System, or of Covance Clinical Research Units, Inc., Madison, Wisconsin; or of the Wisconsin Interscholastic Athletic Association; persons residing, employed, enrolled in or attending school within a five-mile radius of the headquarters' office or any branch location; a public depositor; and any member of the immediate family of any other eligible person may become a member of the Credit Union in the manner provided in the bylaws. Any organization or association may become a member of the Credit Union if a majority of the directors, owners or members thereof are eligible for membership in the Credit Union. In addition, any organization or association that has a business location within the geographic areas described earlier in this paragraph is eligible for membership in the Credit Union. Furthermore, any trust may become a member of the Credit Union if a majority of the persons who are trustee(s) and beneficiary(ies) are eligible for membership in the Credit Union.

Subsequent Events: The Credit Union has evaluated subsequent events for recognition and disclosure, through March 12, 2025, which is the date the financial statements were available to be issued.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: To prepare 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 financial statements and the disclosures provided, and actual results could differ from those estimates. The allowance for credit losses in particular is susceptible to significant change in the near term.

Cash and Cash Equivalents: Cash and cash equivalents include the Credit Union's cash on hand and balances on deposit in other institutions with original maturities of three months or less. The Credit Union reports net cash flows for member loan and share transactions, interest-bearing deposits in other financial institutions and the NCUSIF deposit. At December 31, 2024 and 2023, cash and cash equivalents include approximately $507,145 and $255,979 of deposits at the Federal Reserve Bank of Chicago, respectively.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities classified as available for sale are those debt securities that the Credit Union intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Credit Union's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value with unrealized holding gains or losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. For premiums on callable debt securities, the premium is amortized against income over the period until the earlier of the first call date or maturity. Gains and losses on sales are recorded on the trade date and based on the amortized cost of the security sold.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. All held-to-maturity securities were in U.S government bonds and have an explicit guarantee by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. No allowance for credit losses has been recorded for held-to-maturity debt securities.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Credit Union evaluates its available-for-sale (AFS) investment securities portfolio on an annual basis for indicators of credit impairment. The Credit Union assesses whether credit impairment has occurred when the fair value of a debt security is less than the amortized cost at the balance sheet date. Management starts with a qualitative analysis by reviewing the amount of unrealized loss, the credit rating history, market trends of similar security classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially be impaired. If there is insufficient evidence from the qualitative analysis that credit losses do not exist, the Credit Union uses a discounted cash flow analysis at the security level, which includes evaluating the timing and amount of the expected cash flows. Non-credit-related impairment results from other factors, including increased liquidity spreads and higher interest rates. The credit portion of the impairment is recognized through an allowance in noninterest income while the noncredit portion is recognized in OCI. No allowance for credit losses has been recorded for available-sale investment securities.

Loans Held for Sale: Loans held for sale are recorded at fair value as of the statement of financial condition date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights retained. 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: Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at the amount of unpaid principal, net of deferred loan origination costs, reduced by an allowance for credit losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Since uncollectible interest is charged off in a timely manner, accrued interest receivable is not included in the amortized cost basis.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan fees and direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the level-yield method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans**.** Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance for credit losses on loans with similar characteristics using relevant available information, from internal and external sources, related to past 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 underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, gross domestic product, property values, or other relevant factors to quantify the impact of current and forecasted economic conditions on expected loan performance. The forecast period represents the time frame from the current period end through the point in time that we can reasonably forecast and support entity and environmental factors that are expected to impact the performance of our loan portfolio. Ideally, the economic forecast period would encompass the contractual terms of all loans; however, the ability to produce a forecast that is considered reasonable and supportable becomes more difficult or may not be possible in later periods. The contractual term generally excludes potential extensions, renewals and modifications. Subsequent to the end of the forecast period, we revert to historical loan data based on an ongoing evaluation of each economic forecast in relation to then current economic conditions as well as any developing loan loss activity and resulting historical data.

The remaining life methodology is used for the unsecured line of credit segment due to its relatively small size and short-term nature. The remaining life methodology applies an average loss rate to the segment balance over its remaining life. The Credit Union utilizes a discounted cashflow approach to determine the allowance for credit losses for all loan segments except the unsecured line of credit segment. The discounted sum of expected cashflows is compared to the amortized cost and any shortfall is recorded as reserve.

The Credit Union segments its loan portfolio into different categories when evaluating risk characteristics that could impact the Allowance for Credit losses. The following summarizes the risk characteristics that are relevant to each portfolio segment.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Secured Loans:
Residential real estate loans include loans to borrowers where the underlying collateral is the borrower's primary residence or multifamily rental real estate, including those in the construction phase. The repayment of residential mortgage loans depends on the individual borrower's capacity. A deterioration in the market value of residential real estate could result in a greater risk of loss if actions such as foreclosure become necessary to collect the loan.

Consumer Loans:
Consumer loans include direct and indirect auto loans, and unsecured loans. Auto loans tend to be secured by depreciating collateral. Consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, illness or personal bankruptcy.

Education Loans:
Education loans include in-school and refinance private student loans. There is no underlying collateral associated with these loans. Collections are dependent on the borrows' continuing financial stability and are more likely to be adversely affected by job loss, illness or federal programs.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not 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 term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower or 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.

<u>Other Real Estate Owned</u>: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. At December 31, 2024 and 2023, the Credit Union had other real estate owned of $695 and $0, respectively.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock: The Credit Union, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in the capital stock of the FHLB. No ready market exists for the stock and has no quoted market value. The stock is redeemable at par by the FHLB and is therefore carried at cost and periodically evaluated for impairment. The Credit Union records dividends in income on the ex-dividend date.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the asset's useful lives on the straight-line basis. Maintenance and repairs are expensed, and major improvements are capitalized. Gains and losses on disposition are included in non-interest income.

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

Mortgage Servicing Rights: Mortgage servicing rights are initially recorded at fair value. Servicing rights are recognized separately when they are acquired through sales of loans. Fair value is primarily based on a valuation model that estimates the present value of estimated future net servicing income.. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is included as an offset to noninterest income. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Any changes in valuation allowances would be reported with other non-interest income on the income statement. 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. At December 31, 2024 and 2023 there is no valuation allowance for impairment of mortgage servicing rights.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Derivatives**:** Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. The Credit Union enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. The Credit Union does not designate these derivatives as hedging instruments and accordingly, recognizes the change in their fair value in earnings. Changes in the fair values of these derivatives are included in net gains on sales of loans.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, 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 the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Members' Deposits: Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest rates on members' deposit accounts are based on available earnings at the end of an interest period. Interest rates on members' deposit accounts are set by management in accordance with the policies set forth and approved by the Board of Directors, based on an evaluation of current and estimated future market conditions.

Members' Equity: The Credit Union was required by regulation to maintain a statutory reserve (regular reserve). This reserve, which represents a regulatory restriction of members' equity, was not available for the payment of interest to members. The Credit Union is no longer required to transfer undivided earnings to regular reserves during 2024 and 2023.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union does, however, pay sales tax, property tax, payroll taxes, and federal and state income tax on unrelated business activities.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Internal Revenue Service (IRS) and certain taxing authorities are evaluating what, if any, products and services provided by state chartered credit unions or their credit union service organizations are subject to unrelated business income tax (UBIT). There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has issued certain technical advice memorandums identifying certain activities as being subject to UBIT. As a result, at this time there is uncertainty regarding whether state chartered credit unions should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which credit unions were granted non-taxable status. The tax liability recorded by the Credit Union as of December 31, 2024 and 2023 attributed to unrelated business activities was not material.

Retirement Savings Plan: The Credit Union sponsors a retirement savings plan covering substantially all employees eligible as to age and length of service. The amount of the contribution to the plan is determined annually at the discretion of the Board of Directors and complies with the requirements of the plan agreement.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of members' equity.

Off-Balance-Sheet Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and lines of credit, issued to meet member-financing needs. The face amount for these items represents the exposure to loss, before considering collateral or ability to repay. Such financial instruments are recorded when they are funded.

Allowance for Credit Losses on Off-Balance Sheet Credit Financial Instruments : The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. 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 off-balance sheet commitment liability is recorded within the accrued interest payable and other liabilities section of the Credit Union's statement of financial condition. The off-balance sheet commitment liability totaled $42 and $0 for the years ended 2024 and 2023, respectively.

(Continued)

(In thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment 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 the estimates.

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.

NOTE 2 – DEBT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at December 31, 2024 and 2023.

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. government sponsored entities and agencies	$ 40,000	$ 22	$ (3,871)	$ 36,151
Corporate bonds	17,054	105	(1,702)	15,457
Agency collateralized mortgage obligations-residential	83,048	139	(1,105)	82,082
Agency mortgage-backed securities-residential	287,083	152	(9,095)	278,140
Agency mortgage-backed securities-commercial	199,660	383	(6,368)	193,675
Total available-for-sale	$ 626,845	$ 801	$ (22,141)	$ 605,505

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. government bonds	$ 64,498	$ -	$ (3,312)	$ 61,186
U.S. government sponsored entities and agencies	110,000	56	(4,312)	105,744
Corporate bonds	33,513	121	(2,808)	30,826
Agency collateralized mortgage obligations-residential	47,326	539	(454)	47,411
Agency mortgage-backed securities-residential	131,923	1,386	(3,311)	129,998
Agency mortgage-backed securities-commercial	219,791	253	(10,109)	209,935
Total available-for-sale	$ 607,051	$ 2,355	$ (24,306)	$ 585.100

(Continued)

(In thousands)

NOTE 2 – DEBT SECURITIES (Continued)

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. government bonds	$ 300,289	$ -	$ (7,090)	$ 293,199
Total held-to-maturity	$ 300,289	$ -	$ (7,090)	$ 293,199

In 2024, the Credit Union received proceeds of $99,677 with a net loss of $5,342 for securities sold during the year for the year. In 2023, the Credit Union received proceeds of $28,309 with a net loss of $154 for securities sold during the year.

At December 31, 2024, amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Available-for-sale		
Within one year	$ -	$ -
One to five years	44,083	40,338
Five to ten years	12,971	11,270
Mortgage-backed securities and collateralized mortgage obligations	569,791	553,897
Total	$ 626,845	$ 605,505

(In thousands)

NOTE 2 – DEBT SECURITIES (Continued)

The following tables summarizes securities with unrealized and unrecognized losses at December 31, 2024 and 2023 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2024						
Available-for-sale						
U.S. government sponsored entities and agencies	$ -	$ -	$ 31,129	$ (3,871)	$ 31,129	$ (3,871)
Corporate bonds	-	-	11,269	(1,702)	11,269	(1,702)
Agency collateralized mortgage obligations-residential	49,046	(1,090)	2,067	(15)	51,113	(1,105)
Agency mortgage-backed securities – residential	226,652	(6,349)	33,873	(2,746)	260,525	(9,095)
Agency mortgage-backed securities - commercial	9,707	(261)	133,397	(6,107)	143,104	(6,368)
Total available-for-sale	$ 285,405	$ (7,700)	$ 211,735	$ (14,441)	$ 497,140	$ (22,141)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Available-for-sale						
U.S. government bonds	$ -	$ -	$ 61,186	$ (3,312)	$ 61,186	$ (3,312)
U.S. government sponsored entities and agencies	49,985	(15)	30,703	(4,297)	80,688	(4,312)
Corporate bonds	-	-	26,603	(2,808)	26,603	(2,808)
Agency collateralized mortgage obligations-residential	-	-	16,901	(454)	16,901	(454)
Agency mortgage-backed securities – residential	807	(7)	81,702	(3,304)	82,509	(3,311)
Agency mortgage-backed securities - commercial	22,522	(465)	167,729	(9,644)	190,251	(10,109)
Total available-for-sale	$ 73,314	$ (487)	$ 384,824	$ (23,819)	$ 458,138	$ (24,306)

(Continued)

(In thousands)

NOTE 2 – DEBT SECURITIES (Continued)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
December 31, 2023						
Held-to-maturity						
U.S. government bonds	$ -	$ -	$ 293,199	$ (7,090)	$ 293,199	$ (7,090)
Total held-to-maturity	$ -	$ -	$ 293,199	$ (7,090)	$ 293,199	$ (7,090)

The majority of unrealized losses at December 31, 2024 are related to U.S. government sponsored entities and agency securities, agency mortgage-backed securities and corporate bonds. Agency-issued securities are generally guaranteed by a U.S. government agency, such as the Government National Mortgage Association. Government-sponsored entities, such as the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Small Business Administration, have an implied guarantee by the U.S. government. At December 31, 2024, all of the mortgage-backed securities held by the Credit Union were issued by U.S. government-sponsored entities and agencies.

Unrealized losses on corporate bonds have not been recognized into income because the issuers' bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

Securities pledged at December 31, 2024 and 2023 had a carrying amount of $245,956 and $361,474, respectively, and were pledged to secure a line of credit at the Federal Reserve.

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET

Year-end loans to members were as follows:

	2024	2023
Real Estate Secured Loans		
First mortgage real estate – consumer	1,611,576	1,512,200
First mortgage real estate – business	23,792	345
Second mortgage	65,019	53,532
Home equity line of credit	752,695	609,652
	2,453,082	2,175,729
Consumer Loans		
Direct auto loans	232,268	229,185
Indirect auto loans	918,212	843,848
Credit card loans	253,640	233,918
Unsecured term loans	100,313	94,079
Unsecured line of credit	14,981	14,193
	1,519,414	1,415,223
Education loans, unguaranteed	111,223	123,794
	4,083,719	3,714,746
Net deferred loan origination costs	23,562	21,343
Allowance for credit losses	(36,365)	(25,427)
	$ 4,070,916	$ 3,710,662

The following tables present the activity in the allowance for credit losses by portfolio segment:

December 31, 2024	Real Estate Secured Loans	Consumer Loans	Education Loans	Total
Allowance for Credit Losses:				
Beginning Balance	$ 10,950	$ 13,445	$ 1,032	$ 25,427
Credit loss (recovery)	(4,411)	35,954	1,224	32,767
Loans Charged Off	(406)	(22,863)	(1,035)	(24,304)
Recoveries	95	2,181	199	2,475
Total Ending Allowance Balance	$ 6,228	$ 28,717	$ 1,420	$ 36,365

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

December 31, 2023	Real Estate Secured Loans	Consumer Loans	Education Loans	Total
Allowance for Loan Losses:				
Beginning Balance	$ 209	$ 18,109	$ 1,700	$ 20,018
Cumulative Effect of Change in Accounting Principle	11,276	(4,369)	(428)	6,479
Credit loss expense	(642)	13,454	230	13,042
Loans Charged Off	(75)	(15,381)	(697)	(16,153)
Recoveries	182	1,632	227	2,041
Total Ending Allowance Balance	$ 10,950	$ 13,445	$ 1,032	$ 25,427

The following table presents the amortized cost in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2024:

	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing	Interest Income Recognized
First mortgage real estate	$ 2,230	$ 2,230	$ -	$ 33
First mortgage business	-	-	-	-
Second mortgage	139	139	-	8
Home equity line of credit	3,384	3,468	-	123
Direct auto loan	-	805	-	58
Indirect auto loan	-	5,722	-	618
Credit card loans	-	2,330	-	317
Unsecured term	-	669	-	86
Unsecured line of credit	-	113	-	10
Education loans	-	911	-	73
Total	$ 5,753	$ 16,387	$ -	$ 1,326

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

The following tables present the amortized cost in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2023:

	January 1, 2023 Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing	Interest Income Recognized
First mortgage real estate	$ 1,402	$ 3,495	$ 3,495	$ -	$ 54
First mortgage business	-	-	-	-	-
Second mortgage	-	-	-	-	-
Home equity line of credit	540	2,005	2,005	-	14
Direct auto loan	508	-	667	-	69
Indirect auto loan	3,306	-	3,979	-	397
Credit card loans	1,434	-	1,764	-	235
Unsecured term	455	-	580	-	76
Unsecured line of credit	151	-	91	-	17
Education loans	492	-	536	-	36
Total	$ 8,288	$ 5,500	$ 13,117	$ -	$ 898

Nonaccrual loans and loans past due 89 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified loans.

The following tables present the amortized cost in collateral-dependent loans by collateral type and class of loans for Residential real estate as of December 31:

	2024	2023
First mortgage real estate	$ 3,700	$ 4,499
Home equity line of credit	5,752	2,446
Second mortgage real estate	179	-
Balance at end of year	$ 9,631	$ 6,945

For collateral dependent loans that were individually analyzed, there was no significant allowance recorded due the collateral value securing the loans for both the years ended 2024 and 2023.

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

The Credit Union monitors credit quality based on the aging of past due loans. The following tables present the aging of the amortized cost in past due loans as of December 31, 2024 and 2023 by class:

December 31, 2024	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
First mortgage real estate	$ 4,268	$ 1,470	$ 2,230	$ 7,968	$ 1,606,418	$ 1,614,386
First mortgage business	-	-	-	-	23,743	23,743
Second mortgage	211	40	139	390	64,660	65,050
Home equity line of credit	3,440	2,284	3,468	9,192	746,259	755,451
Direct auto loan	1,879	559	805	3,243	230,190	233,433
Indirect auto loan	15,612	4,253	5,722	25,587	908,006	933,593
Credit card loans	2,452	1,523	2,330	6,305	247,335	253,640
Unsecured term	962	652	669	2,283	98,978	101,261
Unsecured line of credit	203	145	113	461	14,520	14,981
Education loans	903	209	911	2,023	109,722	111,745
Total	$ 29,930	$ 11,135	$ 16,387	$ 57,452	$ 4,049,829	$ 4,107,281

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
First mortgage real estate	$ 4,265	$ 1,004	$ 3,495	$ 8,764	$ 1,506,079	$ 1,514,843
First mortgage business	-	-	-	-	345	345
Second mortgage	20	-	-	20	53,536	53,556
Home equity line of credit	3,448	441	2,005	5,894	606,224	612,118
Direct auto loan	1,564	517	667	2,748	227,445	230,193
Indirect auto loan	11,953	3,837	3,979	19,769	837,713	857,482
Credit card loans	2,050	1,149	1,764	4,963	228,955	233,918
Unsecured term	779	498	580	1,857	93,108	94,965
Unsecured line of credit	198	137	91	426	13,767	14,193
Education loans	721	270	536	1,527	122,949	124,476
Total	$ 24,998	$ 7,853	$ 13,117	$ 45,968	$ 3,690,121	$ 3,736,089

Occasionally, the Credit Union modifies loans to borrowers in financial distress by providing a change of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a combination of both. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

(Continued)

(In thousands)

NOTE 3 - LOANS TO MEMBERS, NET (Continued)

The following table presents loans at December 31 2024 and 2023, that were both experiencing financial difficulty and modified during the year ended December 31 2024 and 2023, by class and type of modification. The percentage of the loans that were modified to borrowers in financial distress as compared to each class of financing receivable is presented below:

December 31, 2024	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Direct auto loan	$ 170	$ -	$ 42	.09%
Indirect auto loan	217	111	118	.05
Unsecured term	234	50	6	.29
Total	$ 621	$ 161	$ 166	$ .02%

December 31, 2023	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Direct auto loan	$ 34	$ -	$ -	.01%
Indirect auto loan	183	19	103	.04
Unsecured term	70	-	-	.07
Total	$ 287	$ 19	$ 103	$ .01%

The Credit Union closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months for the year ending December 31 2024 and 2023:

December 31, 2024	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
Direct auto loan	42	-	21	63
Indirect auto loan	4	52	71	127
Unsecured term	18	32	-	50
Total	$ 64	$ 84	$ 92	$ 240

(Continued)

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

December 31, 2023	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
Direct auto loan	$ 16	$ 6	$ 20	$ 42
Indirect auto loan	29	-	49	78
Unsecured term	14	-	-	14
Total	$ 59	$ 6	$ 69	$ 134

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the years ended December 31, 2024 and 2023:

December 31, 2024	Weighted-Average Term Extension (reduction)	Weighted-Average Interest Rate Reduction (increase)
Direct auto loan	0.81	(2.9) %
Indirect auto loan	0.70	2.8
Unsecured term	(0.44)	(2.0)

December 31, 2023	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction
Direct auto loan	0.57	- %
Indirect auto loan	1.48	6.2
Unsecured term	2.04	-

(Continued)

(In thousands)

NOTE 3 – LOANS TO MEMBERS, NET (Continued)

The following table presents loans that had a payment default during the year ended December 31, 2024 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

December 31, 2024	Term Extension	Interest Rate Reduction	Combination Extension and Interest Rate Reduction
Direct auto loan	$ 40	$ -	$ -
Indirect auto loan	45	43	19
Unsecured term	41	-	-
Total	$ 126	$ 43	$ 19

December 31, 2023	Term Extension	Interest Rate Reduction	Combination Extension and Interest Rate Reduction
Direct auto loan	$ 23	$ -	$ -
Indirect auto loan	-	-	36
Unsecured term	-	9	-
Total	$ 23	$ 9	$ 36

Loans to credit union directors, committee members, and officers totaled $2,508 and $3,436 as of December 31, 2024 and 2023, respectively.

(Continued)

(In thousands)

NOTE 4 - MORTGAGE SERVICING RIGHTS

Activity for mortgage servicing rights is as follows:

	2024	2023
Balance at beginning of year	$ 21,026	$ 24,120
Additions	4,718	2,994
Amortization	(6,362)	(6,088)
Balance at end of year	$ 19,382	$ 21,026

Mortgage loans serviced for others are not reported as assets. The unpaid principal balances of these loans at year-end 2024 and 2023 were $3,850,403 and $3,696,945, respectively. The Credit Union receives servicing and other ancillary income on the loans serviced for others. The income recognized was $9,534 and $9,289 in 2024 and 2023, respectively, and included in fees on loans on the statement of income. Custodial escrow balances maintained in connection with serviced loans were $15,581 and $16,864 at year-end 2024 and 2023, respectively.

The fair value of servicing rights was $45,358 and $46,984 at year-end 2024 and 2023, respectively. Fair value at year-end 2024 and 2023 was determined using a discount rate of 10.0% and 9.4%, default rates of 2.09% and 2.05% and prepayment speeds ranging from 4.2% to 37.5% and 4.6% to 21.6% respectively, depending on the stratification of the specific right.

NOTE 5 - MORTGAGE BANKING DERIVATIVES

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third-party investors are considered derivatives. It is the Credit Union’s practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships.

(Continued)

(In thousands)

NOTE 5 - MORTGAGE BANKING DERIVATIVES, Continued

At year-end 2024 and 2023, the Credit Union had approximately $24,635 and $18,503 of interest rate lock commitments and $63,633 and $46,455 of forward commitments for the future delivery of residential mortgage loans, respectively. The fair value of these mortgage banking derivatives are reflected by a derivative asset of $768 and $726 and a derivative liability of $7 and $782 for 2024 and 2023, respectively. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage-banking derivatives are included in net gains on sales of loans on the Statements of Income and Comprehensive Income.

The net gains relating to free-standing derivative instruments used for risk management are summarized below as of December 31:

	Location	2024	2023
Interest rate lock commitments	Net (loss) gain on sale of loans	$ (202)	$ 283
Forward contracts related to mortgage loans held for sale	Net gain (loss) on sale of loans	$ 1,019	$ (611)

The following table reflects the amount and market value of mortgage banking derivatives included in the Statements of Financial Condition as of December 31:

	2024		2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Total included in other assets:				
Interest rate lock commitments	$ 24,635	$ 222	$ 18,503	$ 424
Forward contracts	$ 55,533	$ 546	$ 5,530	$ 302
Total included in other liabilities:				
Forward contracts	$ 8,100	$ 7	$ 40,925	$ 782

(Continued)

(In thousands)

NOTE 6 - PREMISES AND EQUIPMENT, NET

Year-end premises and equipment were as follows:

	2024	2023
Land	$ 51,771	$ 39,026
Buildings	186,495	131,279
Furniture and equipment	50,448	45,396
Data processing system	15,714	17,656
Leasehold improvements	8,134	8,198
Construction in progress	5,405	78,506
	317,967	320,061
Accumulated depreciation	(75,474)	(76,482)
	$ 242,493	$ 243,579

Since 2022 the Credit Union purchased several properties and began construction on two new branches. The total cost of construction as of December 31, 2024 is $4,375, which is included in construction in progress. The estimated cost to complete the construction is $9,584. The construction for these buildings will be completed by 2025 and placed into service.

NOTE 7 - LEASES

The Credit Union enters into leases in the normal course of business primarily for branches, back-office operations, and information technology data center locations. The Credit Union's leases have remaining terms ranging from 1 to 18 years, some of which include renewal options to extend the lease for up to 10 years. Lease extension options are included in the lease term if it is reasonably certain the Credit Union will exercise the option.

Right-of-use assets (included in other assets) and lease liabilities (included in accrued interest payable and other liabilities) are as follows:

	2024	2023
Right-of-use assets (operating leases)	$7,489	$8,727
Lease liabilities (operating leases)	7,926	9,189

(Continued)

(In thousands)

NOTE 7 – LEASES, Continued

Lease Obligations

Future undiscounted lease payments with initial terms of one year or more as of December 31, 2024 are as follows:

2025	$ 1,786
2026	1,424
2027	1,382
2028	1,089
2029	732
Thereafter	2,678
Total undiscounted lease payments	9,091
Less: imputed interest	(1,165)
Net Lease Liabilities	$ 7,926

Supplemental Lease Information

	2024	2023
Operating lease weighted average remaining term (years)	7.85	8.1
Operating lease weighted average discount rate	2.35%	2.13%
Cash paid for amounts included in the measurement of Lease liabilities (statement of cash flows)	$1,757	$1,976
Rent expense	1,795	2,078

NOTE 8 - MEMBERS' DEPOSITS

Members' deposits at year end are summarized as follows:

	2024	2023
Money market accounts	$ 1,432,065	$ 1,293,758
Share certificates	990,010	787,612
Share draft accounts	1,179,239	1,172,624
Share savings accounts	1,180,525	1,248,160
Individual retirement accounts		
Share certificates	57,159	49,730
Share savings	22,834	25,406
	$ 4,861,832	$ 4,577,290

(Continued)

(In thousands)

NOTE 8 - MEMBERS' DEPOSITS, Continued

Share certificates and individual retirement account certificates as of December 31, 2024 mature as follows:

2025	$ 984,339
2026	46,980
2027	6,609
2028	4,167
2029	5,074
	$1,047,169

The total of members' share certificate accounts over $250 was $218,920 and $163,242 as of December 31, 2024 and 2023, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to make loans and open-end revolving lines of credit to members. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and open-end revolving lines of credit is represented by the contractual amount of those instruments. The Credit Union uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

Outstanding loan commitments and unused open-end revolving lines of credit at year end are as follows:

	2024	2023
Unused open-end lines of credit	$ 1,947,950	$ 1,726,275
Basic reserve overdraft protection	87,997	88,222
First mortgage commitments	24,635	18,503
	$ 2,060,582	$ 1,833,000

(Continued)

(In thousands)

NOTE 9 - COMMITMENTS AND CONTINGENCIES, Continued

Since many commitments to make loans and unused open-end revolving lines of credit expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. No material losses are anticipated as a result of these transactions. Collateral may be obtained upon exercise of the commitment and is determined using management's credit evaluation of the borrower and may include real estate, consumer assets, business assets, deposits, and other items.

NOTE 10 - BORROWED FUNDS

At December 31, 2024 and 2023, the Credit Union had borrowing agreements with the Federal Reserve and Federal Home Loan Bank.

At year end, advances from the Federal Home Loan Bank were as follows:

	2024	2023
Fixed 4.74% rate, maturing January 2025	$ 50,000	$ -
Fixed 4.76% rate, maturing January 2025	50,000	-
Fixed 4.67% rate, maturing February 2025	100,000	-
	$ 200,000	$ -

Each advance is payable at its maturity date. The advances were collateralized by $2,450,288 and $2,187,197 of first mortgage and home equity loans under a blanket lien arrangement at year-end 2024 and 2023, respectively. Based on this collateral the Credit Union is eligible to borrow up to a total of $1,666,474 and $1,454,339 at year-end 2024 and 2023, respectively.

At year end, advances from the Federal Reserve were as follows:

	2024	2023
Fixed 4.83% rate, matured June 2024	$ -	$ 50,000
Fixed 4.83% rate, matured Dec 2024	-	100,000
	$ -	$ 150,000

Each advance was paid at its maturity date. The advances were collateralized by $245,956 and $361,474 of U.S. government bonds. Based on this collateral the Credit Union is eligible to borrow up to a total of $231,990 and $358,324 at year-end 2024 and 2023, respectively.

(Continued)

(In thousands)

NOTE 11 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Credit Union's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Credit Union's sources of Non-Interest Income for the twelve months ended December 31, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

	Year Ended December 31, 2024	Year Ended December 31, 2023
Non-interest income		
Service charges and fees		
Overdraft and insufficient funds fees	$ 754	$ 862
Negotiables and treasury services fees	822	809
Line of credit overdraft advance and balance transfer fees	1,840	1,694
Other	1,890	1,650
Fees on loans [a]	8,773	7,571
Card and ATM interchange	46,168	44,024
Net gain on sale of premises and equipment [a]	4,020	-
Net gain on sale of loans [a]	7,667	5,078
Other		
Wealth management and investment fees	4,873	3,952
Credit insurance fees	1,315	1,069
Other[b]	1,685	3,865
Total non-interest income	$ 79,807	$ 70,574

[a] Not within the scope of ASC 606.

[b] The other category includes card processing incentives totaling $1,252 and $2,917, which is within the scope of ASC 606; the remaining balance of $433 and $948 is outside the scope of ASC 606 for 2024 and 2023, respectively.

Service charges and fees: 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, statement rendering, 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 to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Balance transfer and overdraft service fees are recognized at the point in time that the overdraft occurs. Services charges on deposits are withdrawn from the member's account balance.

(Continued)

NOTE 11 - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Card and ATM interchange: The Credit Union earns interchange fees from debit, credit and ATM transactions conducted through the VISA and other payment networks. Interchange fees from transactions represent a flat amount or percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Wealth management and investment fees (Gross): The Credit Union earns wealth management and investment brokerage fees from its contracts with brokerage members to manage assets for investment and to transact on their accounts. These fees are primarily earned over time as the Credit Union provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e. trade date. Other related services provided include financial planning services and the fees the Credit Union earns, which are based on a fixed fee schedule, are recognized when services are rendered.

Credit insurance fees: The Credit Union earns fees from the sale of credit insurance products including credit life and disability, gap, and mechanical breakdown. These fees are generally earned over time as members pay premiums for coverage, which is also the period in which the service is provided.

NOTE 12 - EMPLOYEE BENEFITS, COMPENSATION AND RETIREMENT SAVINGS PLAN

Substantially all employees of the Credit Union are eligible to participate in the Credit Union's retirement savings plan. The Credit Union provides a matching funds contribution for participating employees. In 2024 and 2023, the Credit Union made a 100% matching contribution of the first 4% and an additional 50% matching contribution on the next 2% of the employee contributions. In addition, the Credit Union provided a discretionary contribution to all participant accounts equal to 4% of each employee's eligible compensation in 2024 and 2023. The expense related to the plan was $5,909 and $5,410 for the years ending December 31, 2024 and 2023, respectively.

(Continued)

NOTE 12 - EMPLOYEE BENEFITS, COMPENSATION AND RETIREMENT SAVINGS PLAN (Continued)

The Credit Union provides a non-qualified deferred compensation plan as allowed under Internal Revenue Code Section 457(b) to certain higher compensated employees. This plan offers a before-tax savings opportunity to participants. The maximum amount of deferral per participant was $23.0 and $22.5 for 2024 and 2023, respectively. The participants individually direct the investment of deferred compensation fund balances. Contributions are not matched by the Credit Union, and therefore, no expense was recorded for this plan in 2024 and 2023. At December 31, 2024 and 2023, the outstanding liability under the plan was $4,309 and $3,839, respectively.

The President of the Credit Union is retained by the Board of Directors and serves at the pleasure of the Board of Directors. As provided by the Bylaws, the President is the Chief Executive Officer of the Credit Union and is in active charge of managing the Credit Union's day-to-day operations under the direction of the Board, Bylaws, Federal and Wisconsin rules, regulations, and statutes applicable to federally insured Wisconsin state-chartered credit unions. As prescribed by the Bylaws, the Board of Directors sets the compensation of the President. The Board has executed a formal employment contract with the President, which provides that either party may terminate the agreement at any time. Per the terms of the contract, the Board sets the compensation of the President using independently obtained data to benchmark the market value of the position. All employees of the Credit Union, including the President, are eligible to receive a base pay as well as a variable pay bonus based on the attainment of organizational goals, which include member satisfaction, and financial stewardship. The President receives the same life, medical, disability, and dental insurance, and 401(k) benefits that are available to all full-time employees of the Credit Union. The President is provided with other benefits, which include a supplemental disability insurance policy, and is provided an automobile allowance. The annual value of all supplemental benefits received by the President over those generally available to all full-time employees of the Credit Union was $18 and $18 in 2024 and 2023, respectively. The base and variable compensation of the President was $1,033 and $937 in 2024 and 2023, respectively.

The Board established a Deferred Compensation Plan dated September 25, 2018 (2018 Plan). The 2018 plan is designed to compensate for benefits not eligible under the 401(k) plan as a result of limitations imposed by the IRS on allowable contributions, contribution limitations for Social Security, as well as to provide a long-term incentive for sustained performance. Deferred compensation expense under the 2018 Plan is accrued monthly, and for the year ending December 31, 2024 and 2023 was $361 and $328, respectively. At December 31, 2024 and 2023 the outstanding liability under the plan was $2,364 and $1,882, respectively.

Cumulative deferred compensation payable to the President is a general creditor obligation of the Credit Union. Future disbursements (if any) of the cumulative deferred compensation payable are contingent on the conditions established by the plan.

NOTE 12 - EMPLOYEE BENEFITS, COMPENSATION AND RETIREMENT SAVINGS PLAN (Continued)

Wisconsin Statutes permit Officers of the Board of Directors to receive compensation for service as well as reimbursement of expenses. However, no members of the Board of Directors received compensation in 2024 and 2023. Board members do not participate in the Credit Union's employee benefits.

NOTE 13 - FAIR VALUES

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or 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 a reporting entity'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:

<u>Investment Securities</u>: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value 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).

<u>Loans Held for Sale, at Fair Value</u>: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2 inputs).

<u>Derivatives</u>: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2 inputs).

(Continued)

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

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

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, at December 31, 2024:			
Securities available-for-sale			
U.S. government bonds	$ -	$ -	$ -
U.S. government sponsored entities and agencies	-	36,151	$ -
Corporate bonds	-	15,457	-
Agency collateralized mortgage obligations – residential	-	82,082	-
Agency mortgage-backed securities – residential	-	278,140	-
Agency mortgage-backed securities - commercial	-	193,675	-
Total securities available-for-sale	$ -	$ 605,505	$ -
Loans held for sale, at fair value	$ -	$ 42,836	$ -
Mortgage banking derivatives	$ -	$ 768	$ -
Liabilities, at December 31, 2024:			
Mortgage banking derivatives	$ -	$ (7)	$ -

(Continued)

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, at December 31, 2023:			
Securities available-for-sale			
U.S. government bonds	$ 61,186	$ -	$ -
U.S. government sponsored entities and agencies	-	105,744	-
Corporate bonds	-	30,826	-
Agency collateralized mortgage obligations – residential	-	47,411	-
Agency mortgage-backed securities – residential	-	129,998	-
Agency mortgage-backed securities - commercial	-	209,935	-
Total securities available-for-sale	$ 61,186	$ 523,914	$ -
Loans held for sale, at fair value	$ -	$ 32,433	$ -
Mortgage banking derivatives	$ -	$ 726	$ -
Liabilities, at December 31, 2023:			
Mortgage banking derivatives	$ -	$ (782)	$ -

There were no transfers between Level 1 and Level 2 during 2024 and 2023.

(In thousands)

NOTE 13 - FAIR VALUES (Continued)

The Credit Union also has assets that, under certain conditions, are subject to measurement on a non-recurring basis. These assets include other real estate owned and individually evaluated loans. The Credit Union estimates the fair values of individually evaluated loans based on the present value of expected future cash flows using management's best estimates of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals). The numerical range of unobservable inputs for these valuation assumptions is not meaningful to this presentation. At December 31, 2024 and 2023 net carrying value of individually evaluated loans was $9,612 and $6,945, respectively.

The Credit Union has elected the fair value option for loans held for sale. These loans are intended for sale and the Credit Union believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on contractual terms of the loan and in accordance with the Credit Union’s policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2024 and 2023.

As of December 31, 2024 and 2023, the aggregate fair value, contractual balance (including interest) and gain or loss was as follows:

	2024	2023
Aggregate fair value	$ 42,836	$ 32,433
Contractual balance	42,513	31,381
Gain	323	1,052

The total amount of gains and losses from changes in fair value included in Net gain on sale of loans and interest income included on the Statements of Income and Comprehensive Income for the years ended December 31, 2024 and 2023 for loans held for sale were:

	2024	2023
Interest income	$ 4,091	$ 2,626
Change in fair value	(729)	842
Total	$ 3,362	$ 3,468

(Continued)

NOTE 14 - CAPITAL 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 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-balance-sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In 2015 the National Credit Union Administration (NCUA) issued a final rule establishing a risk-based capital framework. In 2021, the NCUA issued a final rule that provides for an optional, simplified measure of capital adequacy, the Complex Credit Union Leverage Ratio (CCULR) for qualifying credit unions. The final rules became effective January 1, 2022 and was elected by the Credit Union as of December 31, 2024 and 2023. The CCULR removes the requirement for qualifying credit unions to calculate and report risk-based capital, but rather only requires a net worth to average assets (leverage) ratio. Qualifying credit unions that elect to use the CCULR framework, and that maintain a leverage ratio greater than required minimums, will be considered to have satisfied the generally applicable risk based and leverage capital requirement in the NCUA's capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements. Under the final rule the CCULR minimum requirement is 9.0% as of December 31, 2024 and 2023.

As of December 31, 2024 and 2023, the most recent call-reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balances.

(In thousands)

NOTE 14 - CAPITAL REQUIREMENTS (Continued)

Actual and required capital amounts and ratios at December 31 are presented below as follows:

	Actual		Minimum Required to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
2024				
Complex credit union leverage ratio	$ 526,412	9.31%	$ 508,975	9.00%
2023				
Complex credit union leverage ratio	$ 496,788	9.36%	$ 477,725	9.00%