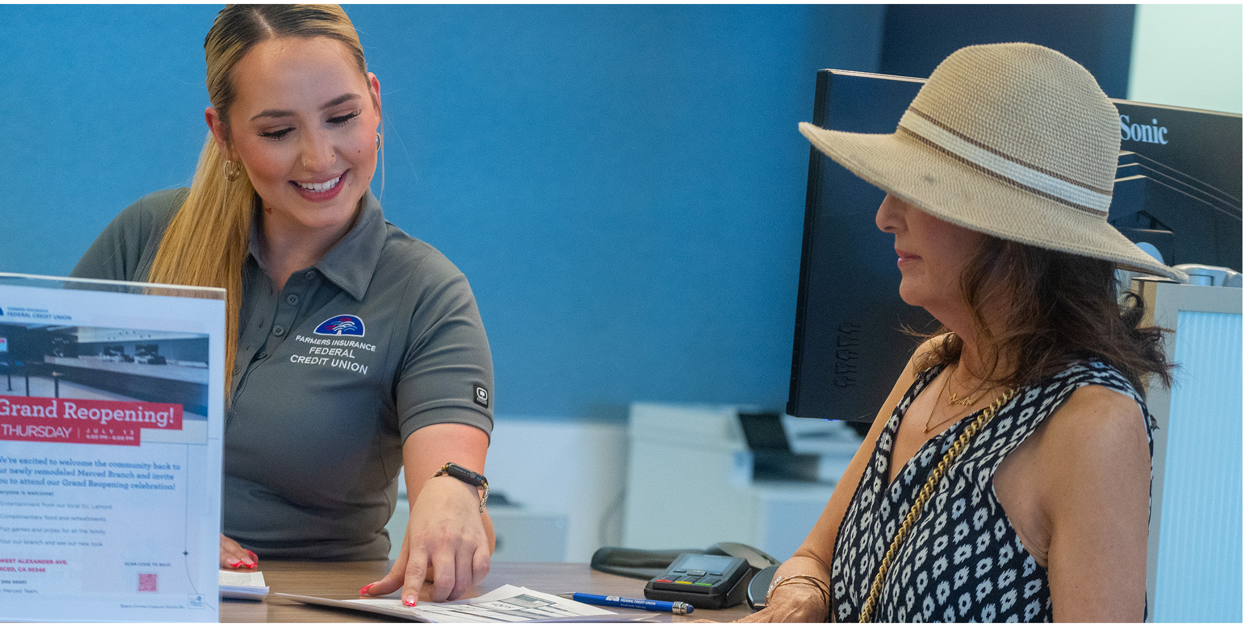

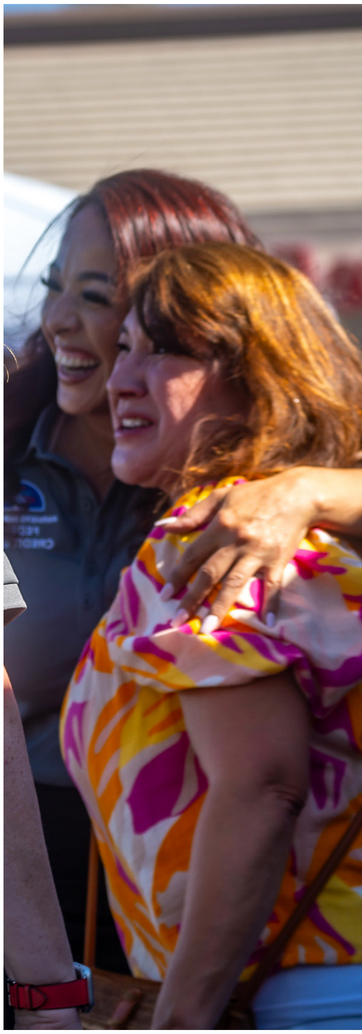

2023 Annual Report

THE POWER TO SERVE

FARMERS INSURANCE
FEDERAL
CREDIT UNION

Since 1936

2023 Highlights

TOTAL NET LOANS

2023 **$1,397,784,292**
2022 $1,279,927,758
2021 $1,014,386,528

MEMBERSHIP SHARES

2023 **$1,262,825,933**
2022 $1,131,282,668
2021 $1,055,358,867

RETAINED EARNINGS

2023 **$143,680,678**
2022 $140,081,576
2021 $132,127,265

TOTAL ASSETS

2023 **$1,537,391,071**
2022 $1,367,031,420
2021 $1,293,726,254

NET INCOME

$7,319,528

2022 $7,954,311
2021 $9,978,589

TOTAL MEMBERS

63,851

2022 59,091
2021 60,270

NPS SCORE

78.6%

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022
(With Independent Auditor's Report Thereon)

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee, Board of Directors and Management of **Farmers Insurance Group Federal Credit Union** ***(Draft Report)***

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Farmers Insurance Group Federal Credit Union (the Credit Union), which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, 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, 2023 and 2022, 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 (GAAP).

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a significant change to the methodology for estimating the allowance for credit losses on loans. Our opinion is not modified with respect to this matter.

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 GAAP, 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 for 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 an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing 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 audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the 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.

Doeren Mayhew
Miami, FL
(Date Pending)

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents	$78,361,403	$34,701,730
Interest bearing deposits	747,000	1,245,000
Available-for-sale debt securities (Note 2)	269,439	306,423
Credit Union Service Organizations (CUSO)	7,900,973	9,749,095
Federal Home Loan Bank (FHLB) stock	4,417,900	3,568,800
Loans, net of allowance for credit losses of $19,742,581 and $10,293,248 as of December 31, 2023 and 2022, respectively (Note 3)	1,397,784,292	1,279,927,758
Accrued interest receivable	7,812,020	5,800,183
Prepaid and other assets	21,957,617	18,304,924
Property and equipment (Note 4)	6,550,296	3,288,175
National Credit Union Share Insurance Fund (NCUSIF) deposit	11,590,131	10,139,332
Total assets	$1,537,391,071	$1,367,031,420
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (Note 5)	$1,262,825,933	$1,131,282,668
Borrowed funds (Note 6)	115,850,000	74,650,000
Accrued expenses and other liabilities	22,591,318	21,024,785
Total liabilities	1,401,267,251	1,226,957,453
Commitments and contingent liabilities		
Members' equity:		
Undivided earnings	136,127,084	140,081,576
Accumulated other comprehensive loss	(3,264)	(7,609)
Total members' equity	136,123,820	140,073,967
Total liabilities and members' equity	$1,537,391,071	$1,367,031,420

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest income:		
Loans to members	$88,354,635	$64,797,259
Investments and cash and cash equivalents	4,801,998	2,014,800
Total interest income	93,156,633	66,812,059
Interest expense:		
Members' shares and savings accounts	25,299,793	8,436,178
Borrowed funds	2,463,527	1,674,688
Total interest expense	27,763,320	10,110,866
Net interest income	65,393,313	56,701,193
Provision for credit losses	11,918,050	10,886,952
Net interest income after provision for credit losses	53,475,263	45,814,241
Non-interest income:		
Overdraft and share draft fees	2,856,907	2,977,304
Interchange income	4,085,301	4,148,658
Service charges and other fees	1,150,808	1,098,371
Gain on sale of VISA stock (Note 1)	1,955,410	—
Other income	253,203	353,313
Gain on sale of CUSO (Note 1)	—	2,729,054
Total non-interest income	10,301,629	11,306,700
Non-interest expenses:		
Compensation and benefits	31,865,886	28,822,655
Office operating costs	10,422,260	9,625,284
Educational and promotional	1,724,610	1,082,335
Professional and outside services	2,574,620	2,396,581
Office occupancy	2,275,023	1,808,023
Other expenses	4,834,312	2,602,676
Loan servicing	2,760,653	2,829,076
Total non-interest expenses	56,457,364	49,166,630
Net income	$7,319,528	$7,954,311

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	$7,319,528	$7,954,311
Other comprehensive income/(loss):		
Available-for-sale debt securities:		
Net unrealized holding gains/(losses) on available-for-sale debt securities	4,345	(19,637)
Other comprehensive income/(loss)	4,345	(19,637)
Comprehensive income	$7,323,873	$7,934,674

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance,				
December 31, 2021	$16,966,743	$115,160,522	$12,028	$132,139,293
Net income	—	7,954,311	—	7,954,311
Other comprehensive loss	—	—	(19,637)	(19,637)
Transfer (Note 1)	(16,966,743)	16,966,743	—	—
Balance,				
December 31, 2022	—	140,081,576	(7,609)	140,073,967
Cumulative effect from change in accounting principle (Note 1)	—	(11,274,020)	—	(11,274,020)
Balance,				
January 01, 2023	—	128,807,556	(7,609)	128,799,947
Net income	—	7,319,528	—	7,319,528
Other comprehensive income	—	—	4,345	4,345
Balance,				
December 31, 2023	$—	$136,127,084	($3,264)	$136,123,820

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Net income	$7,319,528	$7,954,311
Adjustments to net cash provided from operating activities:		
Provision for credit losses	11,918,050	10,886,952
Loss attributable to investments in CUSOs	648,122	1,353,048
Gain on sale of CUSO	—	(2,729,054)
Depreciation and amortization	1,513,108	1,580,137
(Increase)/decrease in:		
Accrued interest receivable	(2,011,837)	(998,514)
Prepaid and other assets	(3,652,693)	(1,972,950)
Increase/(decrease) in:		
Accrued expenses and other liabilities	1,566,533	1,129,136
Total adjustments	9,981,283	9,248,755
Net cash provided from operating activities	17,300,811	17,203,066

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

Cash Flows (Continued)

	2023	2022
Cash flows from investing activities:		
Proceeds from interest bearing deposits	498,000	43,469,997
Purchase of interest bearing deposits	—	(747,000)
Proceeds from sale of equity securities	—	69,724,599
Proceeds from maturities and repayments of available-for-sale debt securities	41,329	67,671
Investment in CUSOs	—	(400,000)
Proceeds from the sale of CUSO	—	4,370,082
Decrease in loans to CUSO	1,200,000	3,000,000
Purchase of FHLB stock	(849,100)	(584,900)
Net change in loans to members	(141,048,604)	(276,428,182)
Expenditures for property and equipment	(4,775,229)	(563,607)
Increase in NCUSIF deposit	(1,450,799)	(331,276)
Net cash used in investing activities	(146,384,403)	(158,422,616)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	131,543,265	75,923,801
Proceeds from borrowed funds	55,000,000	—
Repayment of borrowed funds	(13,800,000)	(20,298,195)
Net cash provided from financing activities	172,743,265	55,625,606
Net change in cash and cash equivalents	43,659,673	(85,593,944)
Cash and cash equivalents - beginning	34,701,730	120,295,674
Cash and cash equivalents - ending	$78,361,403	$34,701,730

<u>Supplemental Information</u>

Interest paid	$27,799,929	$10,110,866
Lease liabilities arising from obtaining right-of-use assets	$—	$8,615,750

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Farmers Insurance Group Federal Credit Union (the Credit Union) is a cooperative association organized 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. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for credit losses. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who are employees or former employees of Farmers Insurance Group, Inc. The Credit Union also may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the state of California. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

Comprehensive Income/(Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in the statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and corporate credit unions (including cash items in the process of clearing) and interest-bearing deposits in banks and corporate credit unions with an original maturity of 90 days or less, including overnight deposits. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions. Time deposits with banks and corporate credit unions may, at times, exceed federally insured limits.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Available-for-Sale Debt Securities

Debt securities are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value in the statements of financial condition. Unrealized gains and losses on available-for-sale debt securities are recognized as direct increases or decreases in other comprehensive income/(loss).

Premiums and discounts are recognized in interest income over the terms of the securities. Gains and losses realized on sales of debt securities are included in non-interest income in the statements of income and are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union evaluates its available-for-sale investment securities portfolio on a quarterly basis for indicators of impairment. The Credit Union assesses whether an impairment has occurred when the fair value of a debt security is less than the amortized cost at the balance sheet date. Management reviews 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. For those debt securities that the Credit Union intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is considered to be impaired and is recognized in the provision for credit losses. For those debt securities that the Credit Union does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment is recognized through an allowance in the provision for credit losses while the noncredit portion is recognized in other comprehensive income/(loss). In determining the credit portion, the Credit Union uses a discounted cash flow analysis, 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. All of the Credit Union's available-for-sale debt securities are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, there is a zero-credit loss expectation on these securities.

Credit Union Service Organizations

The Credit Union has investments in several credit union service organizations (CUSOs). As of December 31, 2023 and 2022, the Credit Union owned 50% of Community Mortgage Funding, LLC (CMF). CMF provides residential mortgage origination, processing, underwriting, closing, funding, and servicing for the benefit of credit unions. As of December 31, 2023, CMF's assets and liabilities approximated $11,943,000 and $4,587,000, respectively. As of December 31, 2022, CMF's assets and liabilities approximated $15,673,000 and $8,260,000, respectively. CMF reported net (loss)/income of approximately ($22,000) and $172,000 during the years ended December 31, 2023 and 2022, respectively. Additionally, the Credit Union has provided CMF a line of credit to facilitate CMF's operations. The line of credit is secured by CMF's cash, receivables and intangible assets. The line of credit is variable rate and matures on June 17, 2026. As of December 31, 2023 and 2022, the outstanding balance of the line of credit was approximately $2,000,000 and $4,000,000, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Union Service Organizations (Continued)

As of December 31, 2023 and 2022, the Credit Union also owned 12.16% of Constellation Digital Partners, LLC (CDP). CDP provides a cloud-based marketplace that enables credit unions and developers to provide digital financial services to credit union members. As of December 31, 2023, CDP's assets and liabilities approximated $11,657,000 and $14,591,000, respectively. As of December 31, 2022, CDP's assets and liabilities approximated $18,401,000 and $10,923,000, respectively. CDP reported net losses of approximately ($9,777,000) and ($10,679,000) during the years ended December 31, 2023 and 2022, respectively. During the year ended December 31, 2023, the Credit Union has provided CDP a line of credit of $2,000,000. The line of credit matures March 31, 2028. As of December 31, 2023, the outstanding balance of the line of credit was approximately $800,000.

As of December 31, 2023 and 2022, the Credit Union also owned 0.79% of Curql Fund I, LLLP (Curql). Curql was formed on October 20, 2020 by Curql Collective, LLC (the "Lead General Partner") and Next Level Ventures GP III LLC (the "Co-General Partner"). Curql's aim is to invest in fintech startups that provide technologies to improve credit union and credit union affiliate operations. Curql was established on March 29, 2021 as a cooperative Credit Union Service Organization.

The Lead General Partner supports collaboration between credit unions and fintech companies to establish a fintech ecosystem that benefits both parties. The Co-General Partner manages Curql's activities. A limited partnership agreement defines Curql's structure and activities (the "LPA"). The LPA gives the Lead General Partner and Co-General Partners joint authority and responsibility for managing the Fund. Curql's limited partners are credit unions, credit union affiliates, and CUSOs.

As of December 31, 2021, the Credit Union also owned 2.67% of CU Railz, LLC (CU Railz). CU Railz offers an enhancement to the Credit Union's electronic bill pay platform and allows members to easily make payments to/from other financial institutions. The investment in CU Railz was accounted for under the cost method based on the Credit Union's percentage of ownership and/or level of influence exercised over the company. Under the cost method, the investment was recorded at its historical cost unless there was evidence of impairment. During the year ended December 31, 2022, the Credit Union sold its entire ownership interest in CU Railz. Proceeds from the sale approximated $4,370,000, resulting in the Credit Union recognizing a gain of approximately $2,729,000, during the year ended December 31, 2022.

Investments accounted for under the equity method of accounting are carried at cost, adjusted for the Credit Union's proportionate share of the CUSO's undistributed earnings or losses. Equity investments without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Dividends received in excess of the Credit Union's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members

Loans, net, are carried at unpaid principal balances, net deferred loan origination costs or fees, and the allowance for credit losses (allowance) on loans. The Credit Union recognizes interest income on loans using the interest method over the life of the loan. Accordingly, the Credit Union defers certain loan origination and commitment fees, and certain loan origination costs, and amortizes the net fee or cost as an adjustment to the loan yield over the term of the related loan. When a loan is sold or repaid, the remaining net unamortized fee or cost is recognized in interest income.

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. A loan generally is classified as a "non-accrual" loan when it is 90 days or more past due or when it is deemed to be impaired because the Credit Union no longer expects to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, management ceases the accrual of interest owed, and previously accrued interest is charged against interest income. A loan is generally returned to accrual status when the loan is current and management has reasonable assurance that the loan will be fully collectible. Interest income on non-accrual loans is recorded when received in cash.

Certain commercial and consumer loans for which repayment is expected to be provided substantially through the operation or sale of the loan collateral are considered to be collateral-dependent.

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment.

Automobile and other consumer loans are generally charged-off at 120-days past due. Residential mortgages and home equity loans are charged-off to the estimated fair value of the collateral at 150-days past due. Commercial loans are generally either charged-off or written down to net realizable value at 90-days past due.

As part of the ongoing monitoring of the credit quality of the Credit Union's loan portfolio, management tracks certain credit quality indicators. The Credit Union uses the P360, Inc. model to monitor credit quality for the consumer, residential real estate, and commercial loan portfolios. The P360, Inc. model analyzes each loan's risk. When analyzing each loan, the model identifies a set of numbers, or vectors, which represent the borrower's probability of default and the loss severity of the loan over a set of different economic scenarios. These vectors are used to calculate the loan risk grade and run risk adjusted cash flows which result in the value-at-risk, pricing, and loan valuation.

The model incorporates over 150 data points covering more than credit score and collateral value. These loan level factors include institution and borrower specific data points as well as economic measures that feed into the risk analysis. They provide value reconciliation when refreshing property values and add updated values for the new and used auto portfolios. They continue to enhance the risk model by incorporating new technologies and applying all loan data available. In addition to credit score, the model incorporates numerous other factors based upon the borrower, collateral, loan performance, environment, institution, and economy as follows:

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

Macro-economic - This segment's data points are used to depict the overall health of the national economy such as: national unemployment, GDP growth, Treasury rate curves and forecasts, industry delinquencies and charge-offs, national credit scores, borrower bankruptcy rates, etc.

Institution - This segment focuses on the Credit Union and is used to model the borrower's profile, stability, and fine tune the risk adjustments to the specific institution. Examples of data points include delinquency rates and trends, charge-offs, and bankruptcies per 1,000 members.

Regional geography - This segment focuses on local economic factors such as unemployment, growth, and real estate values.

Loan - Additional data points added to this analysis are payment trend, auto pay, updated senior balances, last payment amounts, and use of proceeds.

Borrower - Examples of data points in this segment are disposable income, updated cash reserves, employment status, and direct deposit.

Asset - In addition to using different automated valuation model products for the residential portfolio, the model includes new data to improve vehicle valuations for the new and used auto portfolios.

The model assigns a risk grade to all loans. Category ratings are reviewed quarterly, at which time management analyzes the resulting grades, as well as other external statistics and factors, to track loan performance.

The P360, Inc. risk grades are as follows:

V1 - Minimal risk - These loans generally show the ability to cover expenses with a minimal chance of default. The typical characteristics for these loans are long-term Credit Union members with excellent credit history, strong cash flow, quality money management, excellent access to alternative sources of financing, and well collateralized. These loans typically have very low potential loss, no greater than one percent of the loan balance in most cases when factoring the default probability and loss severity.

V2 - Low risk - These loans generally reflect good payment history, a healthy loan to value ratio and are adequately collateralized. The borrowing entity has very good to excellent credit, steady cash flow, quality money management, and good access to alternative sources of financing. As a result, the risk category is highly unlikely to experience a loss. If a loss does occur, it is likely to be minimal.

V3 - Acceptable risk - These loans are better than average loans with a low chance of a loss. The potential loss should be no greater than five percent of the loan balance when factoring default probability and loss severity. Most of the risk attributes for these loans are in line with a low risk profile but are on the fringe of adding risk. Borrower has some access to alternative sources of financing, good money management, and shows control of expenses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

V4 - Moderate risk - These loans have potential weaknesses or may show a propensity to deteriorate further. These loans are the start of the tipping point of the mid-range risk grades (V4 - V6) that tend to move either to a worsening position or a healthier position and is measured by a 10 percent value at risk. This risk grade may include borrowers with only medium to fair credit ratings and a few recent problems. Cash flow is steady and generally adequate to service debt but may be subject to cyclical conditions. The borrower may have limited access to alternative financing.

V5 - Special mention - These loans can prove to be in the most critical stage. Most loans tend to either move up or down from the mid-range risk grades (V4 - V6). Both credit and collateral are substandard, with external economic factors bearing down. The outstanding loan balance may not be entirely protected by equity in the underlying asset with up to a 15 percent potential loss produced by probability and severity. There may be one or more specific weaknesses jeopardizing the loan, and the Credit Union will most likely sustain a loss if the deficiencies are not corrected.

V6 - Increased risk - These loans generally have multiple vulnerable and weak risk factors that could be attributed to local economic factors. On the basis of currently known facts, the combination of weak attributes make collection or liquidation in full highly questionable and improbable. The risk grade is defined by potential losses of up to 20 percent of the loan balance.

V7 - Elevated risk - There is a strong probability that the Credit Union may not be able to recover on these loans. The Credit Union and the member must look at all options, including modification. Liquidation needs to be considered because most of the underlying assets for this risk grade have passed the tipping point. A loss is nearly impossible to avoid on repayment, refinancing, or liquidation for these loans. The value at risk could be upwards of 30 percent of the current loan balance.

V8 - Doubtful - These borrowers are most likely in a loss situation and can be measured by potential value at risk between 30 and 40 percent of the outstanding loan balance. In most cases, assets in this region do not recover and the members and properties are being worked with directly. The most current information on the member and asset has been acquired and the Credit Union has a firm estimate of the loss when the time arrives.

V9 - Inherent loss - Assets in this risk area have an inherent value at risk, north of 40 percent. Modification is impossible without major concessions or write down. Residential and commercial properties have a high probability of becoming other real estate owned. In some cases, the Credit Union may find a glimmer of success in short sale opportunities. Other real estate owned, having extended liquidation times and expenses are most likely in less than optimal locations. Conditions prove challenging to draw respectable tenants and rent.

Adoption of New Accounting Standards

Effective January 1, 2023, the Credit Union adopted ASU 2022-02 Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings (TDR) and Vintage Disclosures, which removed the existing measurement and disclosure requirements for TDR loans and added additional disclosure requirements related to modifications provided to borrowers experiencing financial difficulty. Prior to adoption a change in contractual terms of a loan where a borrower was experiencing financial difficulty and received a concession not available through other sources the loans was required to be disclosed as a TDR, whereas now a borrower that is experiencing financial difficulty and receives a modification

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Adoption of New Accounting Standards (Continued)

in the form of principal forgiveness, interest rate reduction, an other-than-insignificant payment delay or a term extension in the current period needs to be disclosed. The Credit Union may modify loans to borrowers experiencing financial difficulty as a way of managing risk and mitigating credit loss from the borrower. The Credit Union may make various types of modifications and may in certain circumstances use a combination of modification types in order to mitigate future loss. The amount of defined modifications to borrowers was deemed insignificant and intentionally omitted for disclosure purposes.

The Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a significant change to the methodology for estimating the allowance. ASU No. 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet exposures. The Credit Union adopted ASC Topic 326 using the modified retrospective method for all financial assets in scope of the standard. Upon adoption, the Credit Union recorded an increase to the allowance of approximately $11,274,000 and a corresponding decrease to retained earnings of the same amount.

Allowance

The allowance is deducted from the amortized cost basis of a group of financial assets so that the balance sheet reflects the net amount the Credit Union expects to collect. Subsequent changes (favorable and unfavorable) in expected credit losses are recognized immediately in net income as a credit loss expense or a reversal of credit loss expense.

Management estimates the allowance by projecting and multiplying together the probability-of-default and loss-given-default depending on economic parameters for each month of the remaining contractual term. Economic parameters are developed using available information relating to past events, current conditions, and economic forecasts. The Credit Union's economic forecast period is 24 months, and afterwards reverts to a historical average loss rate on a straight-line basis over a 12-month period. Historical credit experience provides the basis for the estimation of expected credit losses, with qualitative adjustments made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency levels and terms, as well as for changes in environmental conditions, such as changes in legislation, regulation, policies, administrative practices or other relevant factors. Expected credit losses are estimated over the contractual term of the loans, adjusted for forecasted prepayments when appropriate. The contractual term excludes potential extensions or renewals. The methodology used in the estimation of the allowance, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality and forecasted economic conditions. Each quarter the Credit Union reassesses the appropriateness of the economic forecasting period, the reversion period and historical mean at the portfolio segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time. The allowance is measured on a collective (pool) basis when similar risk characteristics exist. The portfolio segment represents the level at which a systematic methodology is applied to estimate credit losses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance (Continued)

Loans that do not share risk characteristics are evaluated on an individual basis. These include loans that are in nonaccrual status with balances above management determined materiality thresholds depending on loan class. If a loan is determined to be collateral-dependent or meets the criteria to apply the collateral-dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate.

The Credit Union maintains an allowance on off-balance sheet credit exposures. 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 cancellable by the Credit Union. The allowance on off-balance sheet credit exposures is adjusted as a provision for credit losses 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 their estimated life. The allowance on off-balance sheet credit exposures was deemed insignificant and intentionally omitted for disclosure purposes.

The Credit Union has elected to exclude accrued interest receivable from the measurement of its allowance given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest through interest income.

As of December 31, 2023, the allowance totaled approximately $19,742,581 up $9,449,333 compared to December 31, 2022. The day one impact of the adoption of CECL was an increase of approximately $11,274,000 to the allowance. The remaining net decrease of approximately $1,825,000 was driven by an updated economic outlook and changes in the portfolio composition and quality.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Leases

The Credit Union recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method (finance leases) or on a straight-line basis over the term of the lease (operating leases). Lease and non-lease components of a contract are accounted for as a single lease component. The Credit Union's right-of-use assets and lease liabilities primarily relate to office facilities, branches, and equipment used in connection with long-term contracts. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised.

Right-of-use assets and lease liabilities are recorded at the net present value of future lease payments and include any initial direct costs incurred at lease commencement. The Credit Union has elected to use a risk-free discount rate to determine the net present value of the lease when the rate implicit in the lease is not readily determinable. Right-of-use assets under finance leases are amortized over the life of the lease or, if shorter, the life of the leased asset, on a straight-line basis. Right-of-use assets under operating leases are reduced as lease expense is incurred.

Short-term leases (initial terms less than 12 months) are expensed on a straight-line basis over the lease term. Right-of-use assets were approximately $8,051,000 and $7,580,000 as of December 31, 2023 and 2022, respectively, and are included within prepaid and other assets in the statements of financial condition. Lease liabilities were approximately $8,275,000 and $7,694,000 as of December 31, 2023 and 2022, respectively, and are included within accrued expenses and other liabilities in the statements of financial condition.

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Catalyst Corporate Federal Credit Union (CCFCU) of $600,000. The PCC is not subject to share insurance coverage. The PCC is not releasable due solely to a merger, charter conversion or liquidation and is callable at the option of CCFCU. The PCC has a perpetual maturity and a non-cumulative dividend. The PCC is included within prepaid and other assets in the statements of financial condition.

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. The NCUSIF deposit is required to be periodically reviewed for impairment.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Borrowed Funds

The Credit Union has outstanding borrowings from the FHLB of San Francisco. FHLB borrowings are secured by qualified collateral, as defined in the FHLB Statement of Credit Policy.

Regular Reserve

As of December 31, 2021, the Credit Union was required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represented a regulatory restriction and was not available for the payment of interest. The regular reserve requirement was eliminated on January 1, 2022. The balance of $16,966,743 was transferred to undivided earnings during the year ended December 31, 2022.

Revenue from Contracts with Customers

The Credit Union's revenue in the scope of ASC 606, Revenue from Contracts with Customers, is recognized and disaggregated within non-interest income in the statements of income. A description of the Credit Union's revenue streams accounted for under ASC 606 are as follows.

Overdraft and Share Draft Fees, Service Charges and Other Fees

Fees and charges include charges related to depository accounts under standard service agreements (e.g., courtesy pay fees, insufficient funds charges, late fees, etc.). Transaction-based fees are recognized at the time of transaction which is the point in time the Credit Union fulfills the member's request. Other account maintenance fees are generally earned over the course of a month which is the period the Credit Union satisfies its performance obligation.

Interchange Income

Interchange income includes interchange fees from credit and debit cards processed through card association networks. The Credit Union earns a percentage of the underlying value of each transaction. These fees are recognized daily when the processing service is provided to the member. The costs of related loyalty rewards programs are presented separately in non-interest expenses in the statements of income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Visa Stock Gain

As a prior member of Visa, the Credit Union holds shares of Class B common stock. During the year ended December 31, 2023, the Credit Union sold its Visa stock resulting in a gain of approximately $1,955,000.

Advertising Costs

Advertising costs are expensed as incurred and are reported as Educational and Promotional expenses in the statements of income.

Income Taxes

The Credit Union is exempt, by the Internal Revenue Code Section 501(c)(1)(a)(I), from federal and state income taxes.

Subsequent Events

Management has evaluated subsequent events through ***(Date Pending)***, the date the financial statements were available to be issued.

Note 2 - Investment Securities

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2023:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$272,703	$—	($3,264)	$269,439

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$314,032	$—	($7,609)	$306,423

Note 2 - Investment Securities (Continued)

As of December 31, 2023, the Credit Union's investment portfolio consisted entirely of mortgage-backed securities and collateralized mortgage obligations. These securities return principal based on payments received on the underlying mortgages or assets. These securities have expected weighted average lives ranging from two to seven years. However, return of principal may differ from expectation based on fluctuations in market interest rates, delinquency, foreclosures and the underlying collateral values. Additionally, borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to investments with gross unrealized losses as of December 31, 2023, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$—	$—	$269,439	($3,264)	$269,439	($3,264)

Information pertaining to investments with gross unrealized losses as of December 31, 2022, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$306,423	($7,609)	$—	$—	$306,423	($7,609)

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2023 and 2022 is as follows:

	2023	2022
Consumer:		
Unsecured	$138,070,501	$107,145,694
Automobile	93,735,932	114,863,285
Other secured	1,406,818	1,546,110
	233,213,251	223,555,089
Residential Real Estate:		
First mortgage	322,055,798	278,262,045
Second mortage	79,393,072	63,518,023
HELOC	58,745,339	43,133,398
	460,194,209	384,913,466
Commercial:		
Agency secured	224,113,840	219,088,800
Agency unsecured	235,671,409	198,039,984
Real estate	260,538,562	260,639,852
	720,323,811	677,768,636
Total loans	1,413,731,271	1,286,237,191
Deferred loan origination fees/costs, net	3,795,602	3,983,815
	1,417,526,873	1,290,221,006
Less: Allowance	(19,742,581)	(10,293,248)
Loans to members, net	$1,397,784,292	$1,279,927,758

Note 3 - Loans to Members (Continued)

Allowance

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2023:

	Consumer	Residential Real Estate	Commercial	Total
Allowance:				
Beginning allowance, prior to adoption of ASC 326	$5,242,079	$1,049,426	$4,001,743	$10,293,248
Impact of adopting ASC 326	3,758,009	3,758,006	3,758,006	11,274,021
Beginning balance, restated	9,000,088	4,807,432	7,759,749	21,567,269
Provision for credit losses	3,314,880	3,972,683	3,972,683	11,260,246
Recoveries	985,776	90,593	1,007,516	2,083,885
Charge-offs	(8,437,505)	(280,025)	(6,451,289)	(15,168,819)
Ending allowance	$4,863,239	$8,590,683	$6,288,659	$19,742,581

As of December 31, 2022, the Credit Union's allowance for unfunded lending commitments had a zero balance. During the year ended December 31, 2023, the provision for credit losses for unfunded lending commitments approximated $658,000. The ending balance of the allowance for unfunded lending commitments as of December 31, 2023, was approximately $658,000 and is reported as a component of accrued expenses and other liabilities in the statement of financial condition.

Note 3 - Loans to Members (Continued)

Allowance (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2022:

	Consumer	Residential Real Estate	Commercial	Total
Allowance:				
Beginning allowance	$3,146,448	$1,017,347	$2,740,873	$6,904,668
Charge-offs	(5,659,755)	(7,115)	(3,946,570)	(9,613,440)
Recoveries	1,829,228	—	285,840	2,115,068
Provision for loan losses	5,926,158	39,194	4,921,600	10,886,952
Ending allowance	$5,242,079	$1,049,426	$4,001,743	$10,293,248
Ending balance individually evaluated for impairment	$22	$585,005	$—	$585,027
Ending balance collectively evaluated for impairment	5,242,057	464,421	4,001,743	9,708,221
Ending allowance	$5,242,079	$1,049,426	$4,001,743	$10,293,248

The following table presents a summary of the recorded investments in loans by portfolio segment as of December 31, 2022:

	Consumer	Residential Real Estate	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$174,958	$5,315,995	$—	$5,490,953
Ending balance collectively evaluated for impairment	223,926,911	382,612,079	678,191,063	1,284,730,053
Total loans	$224,101,869	$387,928,074	$678,191,063	$1,290,221,006

Note 3 - Loans to Members (Continued)

Collateral-Dependent Loans

The table below summarizes the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Collateral Type					
	Real Estate	Other Commercial Assets	Total	Without an Allowance	With an Allowance	Allowance Allocation
Consumer:						
Unsecured	$—	$37,648	$37,648	$—	$37,648	$4,477
Automobile	$—	$47,101	$47,101	$—	$47,101	$217
Residential Real Estate:						
First mortgage	$—	$9,094,289	$9,094,289	$—	$9,094,289	$186,360
Second mortage	$—	$1,153,386	$1,153,386	$—	$1,153,386	$173,126
HELOC	$—	$959,603	$959,603	$—	$959,603	$2,234
Totals:						
Consumer	$—	$84,749	$84,749	$169,498	$254,247	$423,745
Residential Real Estate	—	11,207,278	11,207,278	—	11,207,278	361,720
Grand total	$—	$11,292,027	$11,292,027	$169,498	$11,461,525	$785,465

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Residential Real Estate:					
Second mortage	$181,784	$181,784	$—	$181,784	$10,990
With an allowance recorded:					
Consumer:					
Unsecured	$105,641	$105,641	$19	$162,361	$16,885
Automobile	$69,317	$69,317	$3	$82,906	$2,893
Residential Real Estate:					
First mortgage	$5,031,913	$4,957,911	$543,504	$5,143,995	$210,904
HELOC	$102,298	$102,306	$41,501	$102,299	$8,133
Totals:					
Consumer	$174,958	$174,958	$22	$245,267	$19,778
Residential Real Estate	5,315,995	5,242,001	585,005	5,428,078	230,027
Grand total	$5,490,953	$5,416,959	$585,027	$5,673,345	$249,805

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Unsecured	$1,732,410	$1,208,787	$1,399,700	$4,340,897	$135,187,678	$139,528,575
Automobile	789,039	202,810	162,765	1,154,614	92,581,318	93,735,932
Other secured	—	—	—	—	1,406,818	1,406,818
Total	2,521,449	1,411,597	1,562,465	5,495,511	229,175,814	234,671,325
Residential Real Estate:						
First mortgage	6,364,610	2,486,805	5,260,098	14,111,513	310,933,341	325,044,854
Second mortage	619,661	461,327	692,059	1,773,047	77,764,525	79,537,572
HELOC	824,087	24,722	934,881	1,783,690	56,972,105	58,755,795
Total	7,808,358	2,972,854	6,887,038	17,668,250	445,669,971	463,338,221
Commercial:						
Agency secured	530,538	116,571	680,005	1,327,114	222,786,726	224,113,840
Agency unsecured	1,466,876	922,614	1,099,452	3,488,942	232,178,591	235,667,533
Real estate	—	—	—	—	259,735,954	259,735,954
Total	1,997,414	1,039,185	1,779,457	4,816,056	714,701,271	719,517,327
Grand total	$12,327,221	$5,423,636	$10,228,960	$27,979,817	$1,389,547,056	$1,417,526,873

Loans on which the accrual of interest has been discontinued or reduced approximated $10,229,000 as of December 31, 2023. There were no loans 90 days or more past due and still accruing interest as of December 31, 2023.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Unsecured	$1,286,062	$759,522	$1,504,439	$3,550,023	$104,142,451	$107,692,474
Automobile	558,920	171,915	156,366	887,201	113,976,084	114,863,285
Other secured	63,489	—	5,305	68,794	1,477,316	1,546,110
Total	1,908,471	931,437	1,666,110	4,506,018	219,595,851	224,101,869
Residential Real Estate:						
First mortgage	2,282,160	875,779	1,484,438	4,642,377	276,324,825	280,967,202
Second mortage	224,972	60,147	121,637	406,756	63,423,787	63,830,543
HELOC	426,022	13,907	88,392	528,321	42,602,008	43,130,329
Total	2,933,154	949,833	1,694,467	5,577,454	382,350,620	387,928,074
Commercial:						
Agency secured	248,760	694	290,721	540,175	218,548,649	219,088,824
Agency unsecured	1,014,837	307,274	944,162	2,266,273	195,638,663	197,904,936
Real estate	49,940	—	—	49,940	261,147,363	261,197,303
Total	1,313,537	307,968	1,234,883	2,856,388	675,334,675	678,191,063
Grand total	$6,155,162	$2,189,238	$4,595,460	$12,939,860	$1,277,281,146	$1,290,221,006

Loans on which the accrual of interest has been discontinued or reduced approximated $4,595,000 as of December 31, 2022. There were no loans 90 days or more past due and still accruing interest as of December 31, 2022.

Note 3 - Loans to Members (Continued)

Consumer Credit Quality

The Credit Union considers the performance of the consumer loan portfolio and its impact on the allowance. Consumer loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following table presents the recorded investment in consumer loans based on risk rating as of December 31, 2023:

	Other secured	Unsecured	Automobile	Total
Credit Grade:				
V1	$1,406,818	$97,669,961	$92,126,922	$191,203,701
V2	—	16,396,650	576,722	16,973,372
V3	—	9,740,905	445,608	10,186,513
V4	—	6,687,940	209,479	6,897,419
V5	—	1,594,390	141,395	1,735,785
V6	—	975,300	11,763	987,063
V7	—	963,477	174,783	1,138,260
V8	—	992,406	17,399	1,009,805
V9	—	2,893,032	31,861	2,924,893
No risk grade	—	1,614,514	—	1,614,514
Total	$1,406,818	$139,528,575	$93,735,932	$234,671,325

The following table presents the recorded investment in consumer loans based on risk rating as of December 31, 2022:

	Other secured	Unsecured	Automobile	Total
Credit Grade:				
V1	$1,546,110	$69,962,480	$111,108,756	$182,617,346
V2	—	14,945,197	2,393,515	17,338,712
V3	—	10,441,626	526,099	10,967,725
V4	—	6,089,118	293,690	6,382,808
V5	—	1,370,964	180,664	1,551,628
V6	—	836,320	47,134	883,454
V7	—	758,674	88,511	847,185
V8	—	381,169	71,425	452,594
V9	—	2,458,105	153,187	2,611,292
No risk grade	—	448,821	304	449,125
Total	$1,546,110	$107,692,474	$114,863,285	$224,101,869

Note 3 - Loans to Members (Continued)

Residential Real Estate Credit Quality

The Credit Union considers the performance of the residential real estate loan portfolio and its impact on the allowance. Residential real estate loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following table presents the recorded investment in residential real estate loans based on risk rating as of December 31, 2023:

	First Mortgage	Second Mortgage	HELOC	Total
Credit Grade:				
V1	$311,691,048	$75,774,752	$53,324,309	$440,790,109
V2	2,557,105	1,688,715	1,874,763	6,120,583
V3	2,239,123	786,162	415,446	3,440,731
V4	1,724,190	535,348	1,762,664	4,022,202
V5	998,291	196,996	415,012	1,610,299
V6	342,094	187,752	99,494	629,340
V7	823,844	18,519	24,722	867,085
V8	—	50,697	—	50,697
V9	—	96,239	295,757	391,996
No risk grade	4,669,159	202,392	543,628	5,415,179
Total	$325,044,854	$79,537,572	$58,755,795	$463,338,221

The following table presents the recorded investment in residential real estate loans based on risk rating as of December 31, 2022:

	First Mortgage	Second Mortgage	HELOC	Total
Credit Grade:				
V1	$277,226,497	$62,973,841	$41,863,812	$382,064,150
V2	1,597,722	295,373	460,192	2,353,287
V3	1,004,436	344,771	75,991	1,425,198
V4	—	175,537	256,537	432,074
V5	749,500	—	69,810	819,310
V6	—	—	354,448	354,448
V7	—	14,520	—	14,520
V8	389,047	7,852	13,907	410,806
V9	—	18,649	—	18,649
No risk grade	—	—	35,632	35,632
Total	$280,967,202	$63,830,543	$43,130,329	$387,928,074

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the commercial loan portfolio and its impact on the allowance. Commercial loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following table presents the recorded investment in commercial loans based on risk rating as of December 31, 2023:

	Agency Secured	Agency Unsecured	Real Estate	Total
Credit Grade:				
V1	$224,109,766	$170,148,346	$89,659,515	$483,917,627
V2	3,854	49,589,354	70,845,539	120,438,747
V3	8	9,028,455	51,506,394	60,534,857
V4	212	3,182,958	28,198,282	31,381,452
V5	—	793,128	11,306,604	12,099,732
V6	—	193,364	5,138,220	5,331,584
V7	—	584,793	425,716	1,010,509
V8	—	460,628	—	460,628
V9	—	1,686,507	2,336,563	4,023,070
No risk grade	—	—	319,121	319,121
Total	$224,113,840	$235,667,533	$259,735,954	$719,517,327

The following table presents the recorded investment in commercial loans based on risk rating as of December 31, 2022:

	Agency Secured	Agency Unsecured	Real Estate	Total
Credit Grade:				
V1	$219,084,746	$147,276,209	$113,987,368	$480,348,323
V2	3,384	37,881,028	74,365,191	112,249,603
V3	—	7,554,552	43,010,900	50,565,452
V4	—	2,838,275	27,619,395	30,457,670
V5	694	393,506	2,177,397	2,571,597
V6	—	352,972	—	352,972
V7	—	296,050	—	296,050
V8	—	106,784	—	106,784
V9	—	1,205,560	—	1,205,560
No risk grade	—	—	37,052	37,052
Total	$219,088,824	$197,904,936	$261,197,303	$678,191,063

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2023 and 2022 by major classification as follows:

	2023	2022
Furniture and equipment	$15,972,976	$13,182,803
Leasehold improvements	4,603,320	3,648,497
	20,576,296	16,831,300
Less accumulated depreciation and amortization	(14,026,000)	(13,543,125)
	$6,550,296	$3,288,175

Depreciation and amortization charged to office operating costs was approximately $1,513,000 and $1,580,000 for the years ended December 31, 2023 and 2022, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2023 and 2022:

	2023	2022
Share accounts	$365,326,626	$352,737,403
Share draft accounts	204,406,935	220,367,973
Money market accounts	94,805,955	157,163,626
Individual retirement accounts (IRAs)	18,976,496	22,015,937
Share and IRA certificates	579,309,921	378,997,729
	$1,262,825,933	$1,131,282,668

As of December 31, 2023, scheduled maturities of share and IRA certificates are as follows:

	2023
Within one year	$347,995,301
1 to 2 years	94,845,458
2 to 3 years	73,345,103
3 to 4 years	19,180,839
4 to 5 years	43,943,220
	$579,309,921

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $283,154,000 as of December 31, 2023.

Included in share and IRA certificates above are non-member time deposits of approximately $257,502,000 and $235,268,000 as of December 31, 2023 and 2022, respectively.

Note 6 - Borrowed Funds

Lines of Credit

As of December 31, 2023 and 2022, the Credit Union maintained an unused line of credit with CCFCU. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. The total unused line of credit under this agreement approximated $18,000,000 and $16,345,000 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the Credit Union maintained an unused line of credit with Corporate One Federal Credit Union. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. The total unused line of credit under this agreement approximated $50,000,000 as of December 31, 2023 and 2022.

The Credit Union maintains a credit availability agreement with the Federal Reserve Bank of San Francisco to comply with NCUA regulations Part 741.12: Maintaining Access to Emergency Liquidity. This credit availability agreement allows the Credit Union to borrow against its vehicle loan portfolio. The Credit Union is able to borrow according to the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. The carrying amount of the pledged collateral was approximately $82,521,000 and $81,922,000 as of December 31, 2023 and 2022, respectively. Based on the collateral pledged, the maximum unused line of credit as of December 31, 2023 and 2022 was approximately $60,739,000 and $58,098,000, respectively.

As a member of the FHLB, the Credit Union has access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its eligible collateral, as defined in the FHLB Statement of Credit Policy. The agreement requires the pledging of eligible collateral for borrowing capacity. The carrying amount of the pledged collateral was approximately $433,163,000 and $497,609,000 as of December 31, 2023 and 2022, respectively. Based on the collateral pledged, the maximum available line of credit as of December 31, 2023 and 2022 was approximately $291,422,000 and $262,837,000, respectively, of which approximately $116,522,000 and $188,187,000, respectively, was available. During September 2023, the Credit Union entered into a letters of credit reimbursement agreement with the Federal Home Loan Bank. The letters are being maintained to induce a counterparty to enter into a Swap Agreement or for the benefit of a counterparty or vendor of mortgage loans or public agency or instrumentality or for the benefit of another party in a transaction furthering one of the other purposes stated in the agreement. The agreement provides a maximum commitment for letters of credit of $59,050,000.

As of December 31, 2023 and 2022, the Credit Union had outstanding borrowings with the FHLB at interest rates ranging between 0.91% and 5.13%. All borrowings have a fixed rate of interest and the weighted average interest rates were 3.25% and 1.99% as of December 31, 2023 and 2022, respectively. The repayment schedule of the advances as of December 31, 2023 is as follows: During September 2023, the Credit Union entered into a letters of credit reimbursement agreement with the Federal Home Loan Bank. The letters are being maintained to induce a counterparty to enter into a Swap Agreement or for the benefit of a counterparty or vendor of mortgage loans or public agency or instrumentality or for the benefit of another party in a transaction furthering one of the other purposes stated in the agreement. The agreement provides a maximum commitment for letters of credit of $59,050,000.

Note 6 - Borrowed Funds (Continued)

	2023
Within one year	$33,200,000
1 to 2 years	57,700,000
2 to 3 years	15,000,000
3 to 4 years	4,100,000
4 to 5 years	2,750,000
Thereafter	3,100,000
	$115,850,000

Note 7 - Employee Benefits

Retirement Plans

Credit Union management and staff are employed by the Credit Union's sponsor, Farmers, and leased back to the Credit Union. As such, Credit Union employees participate in Farmers' retirement plans and the Credit Union reimburses Farmers for the retirement plan expenses associated with the leased employees. As of January 1, 2019, the Credit Union implemented a matching 401(k) plan with an additional 4% base company contribution. The 401(k) matching plan through Farmers allows employees to defer a portion of their salary into the 401(k) plan up to certain limits established by the Internal Revenue Service. The Credit Union makes discretionary matching contributions each payroll period, with quarterly adjustments as needed. Participants are always 100% vested in all their voluntary contributions. The Credit Union's matching contributions and the 4% base company contributions become fully vested at the completion of three years of service.

Retirement plan costs are accrued and funded on a current basis. Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2023 and 2022 were approximately $2,061,000 and $1,557,000, respectively.

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases certain office facilities under long-term, non-cancellable operating leases that expire at various dates through 2032, some of which may include options to extend the leases for up to 11 years. Monthly payments range from $2,000 to $77,000, with certain leases requiring annual increases based on the Consumer Price Index and a monthly charge for common area maintenance based on actual costs incurred.

The total cost of operating leases, included in office occupancy expenses, was approximately $1,794,000 and $1,433,000 for the years ended December 31, 2023 and 2022, respectively.

Note 8 - Commitments and Contingent Liabilities (Continued)

Supplemental lease information is as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Weighted-average remaining lease term	6.40 years	6.87 years
Weighted-average discount rate	2.30%	1.75%
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$1,250,501	$1,065,226
Right-of-use assets obtained in exchange for operating lease liabilities	$1,644,626	$8,615,750

Remaining lease payments approximate the following as of December 31, 2023:

Year ending December 31,	Amount
2024	$1,338,000
2025	1,372,000
2026	1,407,000
2027	1,444,000
2028	1,497,000
Thereafter	1,900,000
Total minimum lease payments	8,958,000
Less: imputed interest	(683,000)
Present value of lease liabilities	$8,275,000

Off Balance-Sheet Risk

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2023, the total unfunded commitments under such lines of credit was approximately $259,085,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

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 (PCA), 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 generally accepted accounting practices. 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.

Effective January 1, 2022, federally insured, natural-person credit unions defined as "complex" have to comply with the NCUA's risk-based capital ("RBC") final rule which amends NCUA's PCA regulations, part 702, or the newly created Complex Credit Union Leverage Ratio ("CCULR") rule. A credit union is defined as "complex" if the credit union's quarter-end total assets exceed $500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA's current regulations to establish an RBC ratio measure that is the percentage of a credit union's capital divided by the credit union's defined risk weighted asset base. This RBC rule more closely aligns NCUA's risk weights with those assigned by other Banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for "well capitalized" credit unions, and an 8 percent RBC ratio level for "adequately capitalized" credit unions.

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule have a minimum 9 percent leverage ratio requirement. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA's PCA regulations, part 702. Management opted into the CCULR framework as of December 31, 2023 and 2022.

As of December 31, 2023, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the CCULR regulatory framework for PCA. To be categorized as "*well capitalized,*" the Credit Union must maintain a minimum net worth ratio of 9.00% of assets. There are no conditions or events since that calculation that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2023		**As of December 31, 2022**	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$143,680,678	9.30%	$140,081,576	10.25%
Amount needed to be classified as "*well capitalized*"	$139,045,020	9.00%	$123,032,828	9.00%

Note 9 - Regulatory Capital (Continued)

In performing its calculation of total assets as of December 31, 2023 and 2022, the Credit Union used the quarter end option, as permitted by regulation.

The net worth ratio as of December 31, 2023 is calculated using the NCUA regulatory capital rule that allows a three-year transition period related to the adoption of CECL on January 1, 2023. As of December 31, 2023, undivided earnings and total assets were increased by 67% of the CECL transition provision, approximately $7,554,000, as required by regulation.

Management believes, as of December 31, 2023 and 2022, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 10 - Fair Value Measurement

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale debt securities:				
Mortgage-backed securities	$—	$269,439	$—	$269,439

Note 10 - Fair Value Measurement (Continued)

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Available-for-sale debt securities:				
Mortgage-backed securities	$—	$306,423	$—	$306,423

*** * * End of Notes * * ***