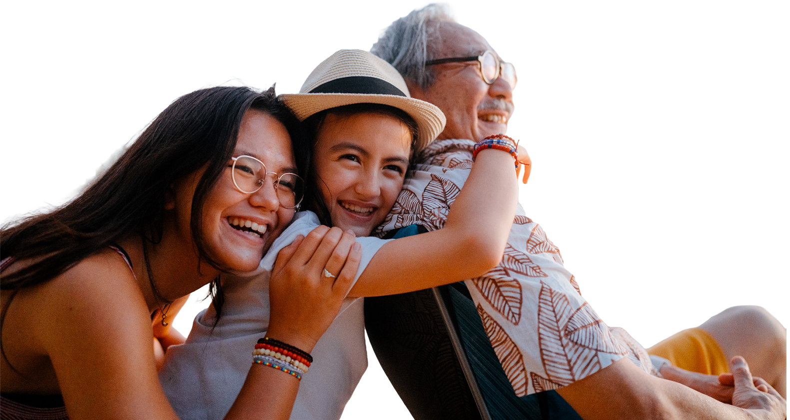
FARMERS INSURANCE
FEDERAL CREDIT UNION

Since 1936

Bridging The Gap

2024 ANNUAL REPORT



2024 Highlights

TOTAL NET LOANS

2024	$1,331,837,948
2023	$1,397,784,292
2022	$1,279,927,758

TOTAL SHARES AND DEPOSITS

2024	$1,215,827,722
2023	$1,262,825,933
2022	$1,131,282,668

RETAINED EARNINGS

2024	$126,559,352
2023	$136,127,084
2022	$140,081,576

TOTAL ASSETS

2024	$1,443,980,693
2023	$1,537,391,071
2022	$1,367,031,420

NET INCOME

($9,567,732)

2023 $7,319,528
2022 $7,954,311

TOTAL MEMBERS

65,103

2023 63,110
2022 59,091

NPS SCORE
80.46%

FARMERS INSURANCE FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023
(With Independent Auditor's Report Thereon)

DoerenMayhew
ASSURANCE

FARMERS INSURANCE FEDERAL CREDIT UNION

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DoerenMayhew
ASSURANCE

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee, Board of Directors and Management
Farmers Insurance Federal Credit Union

Opinion

We have audited the financial statements of Farmers Insurance Federal 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, 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, 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 (GAAP).

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 Assurance

Tampa, Florida
April 25, 2025

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2024 AND 2023

Assets	**2024**	**2023**
Cash and cash equivalents	$ 53,136,926	$ 78,361,403
Interest bearing deposits	-	747,000
Available-for-sale debt securities (Note 2)	228,896	269,439
Credit Union Service Organizations (CUSO)	10,487,602	7,900,973
Federal Home Loan Bank (FHLB) stock	4,953,000	4,417,900
Loans, net of allowance for credit losses of $26,188,859 and $19,742,581 as of December 31, 2024 and 2023, respectively (Note 3)	1,331,837,948	1,397,784,292
Accrued interest receivable	8,019,108	7,812,020
Property and equipment (Note 4)	6,349,456	6,550,296
Prepaid and other assets	16,874,544	21,957,617
National Credit Union Share Insurance Fund (NCUSIF) deposit	12,093,213	11,590,131
Total assets	$ 1,443,980,693	$ 1,537,391,071
Liabilities and Members' Equity		
Liabilities		
Members' shares and savings accounts (Note 5)	$ 1,215,827,722	$ 1,262,825,933
Borrowed funds (Note 6)	82,650,000	115,850,000
Accrued expenses and other liabilities	18,942,185	22,591,318
Total liabilities	1,317,419,907	1,401,267,251
Commitments and contingent liabilities (Note 8)		
Members' equity		
Undivided earnings	126,559,352	136,127,084
Accumulated other comprehensive income (loss)	1,434	(3,264)
Total members' equity	126,560,786	136,123,820
Total liabilities and members' equity	$ 1,443,980,693	$ 1,537,391,071

See accompanying notes to financial statements

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Interest income		
Loans to members	$ 101,057,129	$ 88,354,635
Investments and cash and cash equivalents	4,524,177	4,801,998
Total interest income	105,581,306	93,156,633
Interest expense		
Members' shares and savings accounts	34,034,224	25,299,793
Borrowed funds	2,981,960	2,463,527
Total interest expense	37,016,184	27,763,320
Net interest income	68,565,122	65,393,313
Provision for credit losses (Note 3)	26,969,002	11,918,050
Net interest income after provision for credit losses	41,596,120	53,475,263
Non-interest income		
Overdraft and share draft fees	2,692,679	2,856,907
Interchange income	3,859,362	4,085,301
Service charges and other fees	1,161,929	1,150,808
Gain on sale of VISA stock (Note 1)	-	1,955,410
Other income	299,224	253,203
Total non-interest income	8,013,194	10,301,629
Non-interest expenses		
Compensation and benefits	33,603,990	31,865,886
Office operating costs	11,786,523	10,422,260
Other expenses	3,659,531	4,834,312
Loan servicing	3,219,646	2,760,653
Professional and outside services	2,664,060	2,574,620
Office occupancy	2,320,554	2,275,023
Educational and promotional	1,922,742	1,724,610
Total non-interest expenses	59,177,046	56,457,364
Net (loss) income	$ (9,567,732)	$ 7,319,528

See accompanying notes to financial statements

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Net (loss) income	$ (9,567,732)	$ 7,319,528
Other comprehensive income		
Available-for-sale debt securities		
Net unrealized holding gains on available-for-sale debt securities	4,698	4,345
Other comprehensive income	4,698	4,345
Comprehensive income	$ (9,563,034)	$ 7,323,873

See accompanying notes to financial statements

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2024 AND 2023

	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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 1, 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
Net loss	(9,567,732)	-	(9,567,732)
Other comprehensive income	-	4,698	4,698
Balance December 31, 2024	$ 126,559,352	$ 1,434	$ 126,560,786

See accompanying notes to financial statements

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Cash flows from operating activities		
Net income	$ (9,567,732)	$ 7,319,528
Adjustments		
Provision for credit losses	26,969,002	11,918,050
Loss attributable to investments in CUSOs	113,372	1,178,122
Depreciation and amortization	1,943,674	1,513,108
Decrease (increase) in assets		
Accrued interest receivable	(207,088)	(2,011,837)
Prepaid and other assets	5,083,073	(3,652,693)
Increase (decrease) in liabilities		
Accrued expenses and other liabilities	(3,649,133)	1,566,533
Total adjustments	30,252,900	10,511,283
Net cash provided from operating activities	20,685,168	17,830,811

See accompanying notes to financial statements

FARMERS INSURANCE FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Cash flows from investing activities		
Proceeds from interest bearing deposits	$ 747,000	$ 498,000
Proceeds from maturities and repayments of available-for-sale debt securities	45,241	41,329
Investment in CUSOs	(5,000,001)	(530,000)
Decrease in loans to CUSO	2,300,000	1,200,000
Purchase of FHLB stock	(535,100)	(849,100)
Net change in loans to members	38,977,342	(141,048,604)
Expenditures for property and equipment	(1,742,834)	(4,775,229)
Increase in NCUSIF deposit	(503,082)	(1,450,799)
Net cash provided from (used in) investing activities	34,288,566	(146,914,403)
Cash flows from financing activities		
Net change in members' shares and savings accounts	(46,998,211)	131,543,265
Proceeds from borrowed funds	-	55,000,000
Repayment of borrowed funds	(33,200,000)	(13,800,000)
Net cash (used in) provided from financing activities	(80,198,211)	172,743,265
Net change in cash and cash equivalents	(25,224,477)	43,659,673
Cash and cash equivalents - beginning	78,361,403	34,701,730
Cash and cash equivalents - ending	$ 53,136,926	$ 78,361,403

Supplemental Information

Interest paid	$ 37,050,430	$ 27,799,929

See accompanying notes to financial statements

Note 1 – Nature of Business and Significant Accounting Policies

Organization

Farmers Insurance 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 agents or former agents, as well as employees or former employees, affiliated with 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 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.

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). 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.

As of December 31, 2024 and 2023, 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, 2024, CMF’s assets and liabilities approximated $8,506,000 and $1,618,000, respectively. As of December 31, 2023, CMF’s assets and liabilities approximated $11,943,000 and $4,587,000, respectively. CMF reported net losses of approximately $372,000 and $22,000 during the years ended December 31, 2024 and 2023, 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.

Continued

The line of credit is variable rate and matures on June 17, 2026. As of December 31, 2024 and 2023, the outstanding balance of the line of credit was approximately $500,000 and $2,000,000, respectively. In 2025, the Credit Union purchased the remaining 50% stake in CMF and owns 100% of the company subsequent to December 31, 2024.

As of December 31, 2023, 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 $13,562,000 and $14,705,000, respectively. CDP reported net losses of approximately ($9,777,000) during the year ended December 31, 2023. During the year ended December 31, 2023, the Credit Union provided CDP a line of credit of $2,000,000. The line of credit will mature on March 31, 2028. As of December 31, 2023, the outstanding balance of the line of credit was approximately $800,000.

During the year December 31, 2024, the Credit Union's shares in CDP were converted into shares of Carina Equity. Additionally, the Credit Union invested another $2,000,000 and converted a $2,000,000 note receivable to shares in Carina Equity for a total ownership percentage of 25.28% as of December 31, 2024. Carina Equity is a holding company for shares of ownership in CDP. Carina Equity owns approximately 45% of CDP as of December 31, 2024. As of December 31, 2024, CDP's assets and liabilities approximated $12,963,000 and $10,087,000, respectively. CDP reported net losses of approximately ($7,044,000) during the year ended December 31, 2024.

As of December 31, 2024 and 2023, 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.

In March 2024, the Credit Union made a $1,000,001 investment in Coviance, Inc. (Coviance), a fintech that specializes in streamlining the home equity lending experience process. The investment secured a 2% ownership stake made up of shares and warrants and is being carried at cost. As of December 31, 2024, Coviance's assets approximated $9,568,000. Coviance also reported net losses of ($4,869,000) during the year ended December 31, 2024.

<u>Federal Home Loan Bank (FHLB) Stock</u>

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.

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:

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.

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.

Continued

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 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 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.

Continued

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.

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.

During the year ended December 31, 2024, the allowance increased approximately $6,446,000. The increase was mainly driven by increased charge-offs, specifically in the Farmers Agency unsecured class of loans.

Continued

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.

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 $6,830,000 and $8,051,000 as of December 31, 2024 and 2023, respectively, and are included within prepaid and other assets in the statements of financial condition. Lease liabilities were approximately $7,111,000 and $8,275,000 as of December 31, 2024 and 2023, 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 $525,000. 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.

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.

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.

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.

Continued

Subsequent Events

Management has evaluated subsequent events through April 25, 2025, 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, 2024:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Mortgage-backed securities	$ 227,462	$ 1,487	$ (53)	$ 228,896

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

As of December 31, 2024, 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, 2024, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Mortgage-backed securities	$ -	$ -	$ 14,765	$ (53)	$ 14,765	$ (53)

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:

Description of Securities	Continuing Unrealized Losses for Less Than 12 Months Fair Value	Unrealized Losses	Continuing Unrealized Losses for 12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available-for-sale						
Mortgage-backed securities	$ -	$ -	$ 269,439	$ (3,264)	$ 269,439	$ (3,264)

Note 3 – Loans to Members

The composition of loans to members as of December 31, 2024 and 2023 is as follows:

	2024	2023
Consumer		
Unsecured	$ 129,728,805	$ 139,528,575
Automobile	62,516,701	93,735,932
Other secured	2,255,589	1,406,818
Total consumer	194,501,095	234,671,325
Residential real estate		
First mortgage	318,332,002	325,044,854
Second mortage	94,136,687	79,537,572
HELOC	66,767,362	58,755,795
Total residential real estate	479,236,051	463,338,221
Commercial		
Agency secured	205,221,683	224,113,840
Agency unsecured	227,679,963	235,667,533
Real estate	251,388,015	259,735,954
Total commercial	684,289,661	719,517,327
Total loans	1,358,026,807	1,417,526,873
Less: Allowance for credit losses	(26,188,859)	(19,742,581)
Loans to members, net	$ 1,331,837,948	$ 1,397,784,292

Continued

Net deferred loan origination (fees) and costs are included within the loan principal balances above. These deferred (fees) and costs approximated $2,178,000 and $3,796,000 as of December 31, 2024 and 2023, respectively.

Allowance for Credit Losses

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, 2024:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for credit losses				
Beginning balance	$ 4,863,239	$ 8,590,683	$ 6,288,659	$ 19,742,581
Provision for credit losses	11,785,227	564,864	14,399,732	26,749,823
Recoveries	1,183,454	14,749	850,999	2,049,202
Charge-offs	(11,525,044)	(180,238)	(10,647,465)	(22,352,747)
Ending allowance	$ 6,306,876	$ 8,990,058	$ 10,891,925	$ 26,188,859

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 for credit losses				
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

During the year ended December 31, 2024 and 2023, the provision for credit losses for unfunded lending commitments approximated $220,000 and $658,000. The ending balance of the allowance for unfunded lending commitments as of December 31, 2024 and 2023, was approximately $877,000 and $658,000 and is reported as a component of accrued expenses and other liabilities in the statement of financial condition.

Continued

Collateral-Dependent Loans

The table below summarizes the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024:

	Collateral Type					
	Real Estate	Other Commercial Assets	Total	Without an Allowance	With an Allowance	Allowance Allocation
Consumer						
Unsecured	$ -	$ 1,109,859	$ 1,109,859	$ -	$ 1,109,859	$ 585,072
Automobile	$ -	$ 260,804	$ 260,804	$ -	$ 260,804	$ 88,530
Residential real estate						
First mortgage	$ -	$ 4,972,855	$ 4,972,855	$ -	$ 4,972,855	$ 2,645
Second mortage	$ -	$ 1,300,233	$ 1,300,233	$ -	$ 1,300,233	$ 331,263
HELOC	$ -	$ 1,583,406	$ 1,583,406	$ -	$ 1,583,406	$ 18,447
Commercial:						
Agency secured	$ -	$ 4,678,783	$ 4,678,783	$ -	$ 4,678,783	$ 1,545,123
Agency unsecured	$ -	$ 13,495,343	$ 13,495,343	$ -	$ 13,495,343	$ 5,579,885
Totals						
Consumer	$ -	$ 1,370,663	$ 1,370,663	$ -	$ 1,370,663	$ 673,602
Residential real estate	-	7,856,494	7,856,494	-	7,856,494	352,355
Commercial	-	18,174,126	18,174,126	-	18,174,126	7,125,008
Grand total	$ -	$ 27,401,283	$ 27,401,283	$ -	$ 27,401,283	$ 8,150,965

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	$ -	$ 84,749	$ 4,694
Residential real estate	-	11,207,278	11,207,278	-	11,207,278	361,720
Grand total	$ -	$ 11,292,027	$ 11,292,027	$ -	$ 11,292,027	$ 366,414

Continued

Loan Modifications

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

	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Consumer			
Unsecured	$ 83,392	$ 610,672	0.54%
Automobile	-	200,818	0.32%
Residential real estate			
HELOC	-	129,781	0.19%
Commercial			
Agency secured	644,344	2,218,057	1.39%
Agency unsecured	2,275,840	6,581,307	3.89%
Total	$ 3,003,576	$ 9,740,635	

The amount of defined modifications to borrowers during the year ended December 31, 2023, was deemed insignificant and intentionally omitted for disclosure purposes.

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, 2024:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer						
Unsecured	$ 1,770,169	$ 1,126,271	$ 1,117,253	$ 4,013,693	$ 125,715,112	$ 129,728,805
Automobile	406,349	185,195	143,385	734,929	61,781,772	62,516,701
Other secured	-	-	-	-	2,255,589	2,255,589
Total	2,176,518	1,311,466	1,260,638	4,748,622	189,752,473	194,501,095
Residential real estate						
First mortgage	5,764,993	1,917,505	5,868,460	13,550,958	304,781,218	318,332,176
Second mortage	1,659,313	312,817	1,019,553	2,991,683	91,145,004	94,136,687
HELOC	1,260,283	702,519	751,106	2,713,908	64,053,454	66,767,362
Total	8,684,589	2,932,841	7,639,119	19,256,549	459,979,676	479,236,225
Commercial						
Agency secured	480,008	222,130	540,787	1,242,925	203,978,758	205,221,683
Agency unsecured	3,269,909	609,834	1,131,384	5,011,127	222,668,836	227,679,963
Real estate	-	-	-	-	251,388,015	251,388,015
Total	3,749,917	831,964	1,672,171	6,254,052	678,035,609	684,289,661
Grand total	$ 14,611,024	$ 5,076,271	$ 10,571,928	$ 30,259,223	$ 1,327,767,758	$ 1,358,026,981

Loans on which the accrual of interest has been discontinued or reduced approximated $10,572,000 as of December 31, 2024. There were no loans 90 days or more past due and still accruing interest as of December 31, 2024.

Continued

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.

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, 2024:

	Other Secured	Unsecured	Automobile	Total
Credit grade				
V1	$ 2,248,250	$ 75,907,888	$ 56,741,122	$ 134,897,260
V2	-	24,502,962	3,357,853	27,860,815
V3	-	11,026,480	1,265,343	12,291,823
V4	-	7,022,049	406,206	7,428,255
V5	-	2,545,197	219,722	2,764,919
V6	-	1,391,650	128,955	1,520,605
V7	-	1,584,616	106,068	1,690,684
V8	-	910,565	55,172	965,737
V9	-	3,182,173	218,857	3,401,030
No risk grade	7,339	1,655,225	17,403	1,679,967
Total	$ 2,255,589	$ 129,728,805	$ 62,516,701	$ 194,501,095

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

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, 2024:

	First Mortgage	Second Mortgage	HELOC	Total
Credit grade				
V1	$ 305,930,033	$ 89,186,264	$ 59,794,678	$ 454,910,975
V2	3,769,666	1,834,474	2,297,384	7,901,524
V3	3,540,213	1,425,170	1,537,112	6,502,495
V4	1,222,461	423,369	1,831,288	3,477,118
V5	1,118,838	423,083	346,318	1,888,239
V6	81,345	212,490	433,433	727,268
V7	-	297,398	320,157	617,555
V8	-	49,545	48,835	98,380
V9	-	82,904	149,940	232,844
No risk grade	2,669,620	201,990	8,217	2,879,827
Total	$ 318,332,176	$ 94,136,687	$ 66,767,362	$ 479,236,225

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

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, 2024:

	Agency Agency Agency Secured	Agency Agency Unsecured	Real Estate	Total
Credit grade				
V1	$ 200,179,842	$ 164,732,624	$ 128,175,397	$ 493,087,863
V2	2,761,817	30,914,151	71,893,906	105,569,874
V3	1,133,028	16,149,447	39,446,394	56,728,869
V4	581,945	8,936,104	11,872,318	21,390,367
V5	122,231	1,882,719	-	2,004,950
V6	198,639	338,527	-	537,166
V7	94,221	1,535,188	-	1,629,409
V8	15,283	1,407,644	-	1,422,927
V9	134,677	1,748,868	-	1,883,545
No risk grade	-	34,691	-	34,691
Total	$ 205,221,683	$ 227,679,963	$ 251,388,015	$ 684,289,661

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

Continued

Note 4 – Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2024 and 2023 by major classification as follows:

	2024	2023
Furniture and equipment	$ 16,927,720	$ 15,972,976
Leasehold improvements	5,069,436	4,603,320
	21,997,156	20,576,296
Less accumulated depreciation and amortization	(15,647,700)	(14,026,000)
	$ 6,349,456	$ 6,550,296

Depreciation and amortization charged to office operating costs was approximately $1,944,000 and $1,513,000 for the years ended December 31, 2024 and 2023, respectively.

Note 5 – Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2024 and 2023:

	2024	2023
Share accounts	$ 353,549,998	$ 365,326,626
Share draft accounts	180,295,572	204,406,935
Money market accounts	68,930,931	94,805,955
Individual retirement accounts (IRAs)	16,761,250	18,976,496
Share and IRA certificates	596,289,971	579,309,921
	$ 1,215,827,722	$ 1,262,825,933

As of December 31, 2024, scheduled maturities of share and IRA certificates are as follows:

	2024
Within one year	$ 314,928,579
1 to 2 years	128,291,976
2 to 3 years	68,386,079
3 to 4 years	63,515,548
4 to 5 years	21,167,789
	$ 596,289,971

Continued

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $264,099,000 as of December 31, 2024.

Included in share and IRA certificates above are non-member time deposits of approximately $212,929,000 and $257,502,000 as of December 31, 2024 and 2023, respectively.

Note 6 – Borrowed Funds

CCFCU

As of December 31, 2024 and 2023, 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 $30,000,000 and $18,000,000 as of December 31, 2024 and 2023, respectively.

Corporate One Federal Credit Union

As of December 31, 2024 and 2023, 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, 2024 and 2023.

Federal Reserve Bank of San Francisco

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 $4,799,000 and $82,521,000 as of December 31, 2024 and 2023, respectively. Based on the collateral pledged, the maximum unused line of credit as of December 31, 2024 and 2023 was approximately $3,308,000 and $60,739,000, respectively.

FHLB

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 $617,047,000 and $567,934,000 as of December 31, 2024 and 2023, respectively. Based on the collateral pledged, the maximum available line of credit as of December 31, 2024 and 2023 was approximately $322,987,000 and $291,422,000, respectively, of which approximately $190,968,000 and $116,522,000, respectively, was available. During December 31, 2024 and 2023, the Credit Union maintained a letters of credit reimbursement agreement with the FHLB. 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 $49,369,000 and $59,050,000 as of December 31, 2024 and 2023, respectively.

Continued

As of December 31, 2024 and 2023, 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 2.88% and 3.25% as of December 31, 2024 and 2023, respectively. The repayment schedule of the advances as of December 31, 2024 is as follows:

	2024
Within one year	$ 57,700,000
1 to 2 years	15,000,000
2 to 3 years	4,100,000
3 to 4 years	2,750,000
4 to 5 years	3,100,000
	$ 82,650,000

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. Effective January 1, 2025, all employees previously leased from Farmers were transitioned to become direct employees of the Credit Union. As a result, the Credit Union is no longer participating in Farmers' retirement plan as of 1/1/2025. The Credit Union transitioned to a comparable 401(k) plan through its new professional employer organization (PEO), Insperity.

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, 2024 and 2023 were approximately $1,936,000 and $2,061,000, respectively.

Continued

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 $1,806,000 and $1,794,000 for the years ended December 31, 2024 and 2023, respectively.

Supplemental lease information is as follows for the years ended December 31, 2024 and 2023:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,337,768	$ 1,250,501
Right-of-use assets obtained in exchange for operating lease liabilities	$ -	$ 1,644,626
Weighted-average remaining lease term	5.44 years	6.40 years
Weighted-average discount rate	2.33%	2.30%

Remaining lease payments approximate the following as of December 31, 2024:

Year Ending December 31st	Amount
2025	$ 1,372,000
2026	1,407,000
2027	1,444,000
2028	1,497,000
2029	1,240,000
Thereafter	660,000
Total minimum lease payments	7,620,000
Less: imputed interest	(508,000)
Present value of lease liabilities	$ 7,112,000

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.

Continued

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, 2024, the total unfunded commitments under such lines of credit was approximately $246,570,000. 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 the NCUA. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Credit Union's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines involving quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weights and other factors.

Federally insured, natural-person credit unions defined as "complex" have to comply with the NCUA's risk-based capital ("RBC") rule or the 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 would have a minimum 9 percent leverage ratio. 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.

The Credit Union has elected to use the Complex Credit Union Leverage Ratio as the determining net worth classification for regulatory purposes as of December 31, 2024 and 2023. The Credit Union has the option to change this election on a quarterly basis. As of December 31, 2024 and 2023, 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 Credit Union's category.

Continued

The Credit Union's actual and required net worth amounts and ratios as of December 31, 2024 and 2023 are as follows:

	As of December 31, 2024		As of December 31, 2023	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth and CCULR	$ 130,279,778	9.00%	$ 143,680,678	9.30%
Amount needed to be classified as "well capitalized"	$ 101,339,078	7.00%	$ 108,146,127	7.00%
Amount needed to be classified as "adequately capitalized"	$ 86,862,067	6.00%	$ 92,696,680	6.00%

To calculate the net worth ratio as of December 31, 2024 and 2023, the Credit Union used the quarter-end option, as permitted by regulation, in performing its calculation of total assets. The net worth ratio as of December 31, 2024 and 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, 2024 and 2023, undivided earnings and total assets were increased by $3,720,426 (33%) and $7,553,594 (67%), respectively, of the CECL transition provision, as required by regulation.

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.

Continued

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, 2024			
	Level 1	Level 2	Level 3	Total
Available-for-sale debt				
Mortgage-backed securities	$ -	$ 228,896	$ -	$ 228,896

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