

Consolidated Financial Statements and Independent Auditor's Report

Pennsylvania State Employees Credit Union

December 31, 2024 and 2023

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Independent Auditor's Report

To the Board of Directors and Members
Pennsylvania State Employees Credit Union

Opinion

We have audited the consolidated financial statements of Pennsylvania State Employees Credit Union and its subsidiary (collectively, the "Credit Union"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023 and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Credit Union and to meet our 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 Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors and Members
Pennsylvania State Employees Credit Union

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

February 25, 2025

Pennsylvania State Employees Credit Union
Consolidated Balance Sheets
(in thousands)

	December 31	
	2024	2023
ASSETS		
Cash and due from financial institutions	\$ 810,872	\$ 416,118
Federal funds sold	4,366	6,473
Repurchase agreement	50,000	50,000
Available-for-sale investment securities (amortized cost of \$1,136,966 and \$1,131,264 at December 31, 2024 and 2023, respectively)	1,086,868	1,066,041
Held-to-maturity investment securities (fair value of \$0 and \$1,212 at December 31, 2024 and 2023, respectively)	-	1,229
Equity securities	20,921	25,422
Other investments	24,123	24,012
Loans, net of allowance of \$140,894 and \$126,993 at December 31, 2024 and 2023, respectively)	6,460,534	6,399,593
Deposit for federal share insurance	69,830	68,249
Accrued interest receivable	29,239	26,417
Property and equipment, net	70,102	72,493
Operating lease right of use asset	1,497	894
Other assets, net	92,923	70,831
	<u>\$ 8,721,275</u>	<u>\$ 8,227,772</u>
LIABILITIES AND MEMBERS' EQUITY		
Members' share accounts	\$ 7,800,857	\$ 7,422,037
Non member share accounts	248	-
Accounts payable	11,128	10,828
Operating lease liability	1,444	828
Other liabilities	52,875	38,677
	<u>7,866,552</u>	<u>7,472,370</u>
Members' equity		
Additional paid-in capital	693	693
Retained earnings	902,158	817,983
Accumulated other comprehensive income/(loss)	(48,128)	(63,274)
	<u>854,723</u>	<u>755,402</u>
	<u>\$ 8,721,275</u>	<u>\$ 8,227,772</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pennsylvania State Employees Credit Union
Consolidated Statements of Comprehensive Income
(in thousands)

	Year ended December 31	
	2024	2023
Interest income		
Interest on loans, including fees	\$ 404,396	\$ 349,899
Interest on investments	40,907	40,980
Interest on cash and due from banks	28,820	17,163
Other	3,822	5,523
Total interest income	477,945	413,565
Interest expense		
Dividends on members' share accounts	168,877	129,667
Net interest income	309,068	283,898
Provision for credit losses	115,611	133,831
Net interest income after provision for credit losses	193,457	150,067
Noninterest income		
Credit card interchange fees	9,113	9,534
Check card interchange fees	23,120	21,588
Checking account fees	5,655	4,842
ATM income	3,587	4,349
Gain on VISA Class B stock sale	36,800	-
Loss on sale of available-for-sale investment securities	(392)	-
Gains (losses) recognized on equity securities	4,261	4,006
Other	13,919	10,788
Total noninterest income	96,063	55,107
Noninterest expenses		
Salaries and employee benefits	97,595	88,155
Office occupancy expenses	4,177	4,034
Office operation expenses	27,056	24,014
ATM expenses	9,804	10,214
Check card program expense	11,663	11,159
Loan servicing expenses	12,413	13,890
Depreciation and amortization	6,628	8,733
Other operating expenses	36,009	37,543
Total operating expenses	205,345	197,742
Net income	84,175	7,432
Other comprehensive income/(loss)		
Change in net unrealized gains/(losses) on investment securities during the year	15,119	18,886
Change in benefit plan liabilities	27	(1,280)
Total other comprehensive income/(loss)	15,146	17,606
Total comprehensive income (loss)	\$ 99,321	\$ 25,038

Pennsylvania State Employees Credit Union
Consolidated Statements of Changes in Members' Equity
(in thousands)

	Additional Paid-in Capital	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2023	\$ 693	836,724	(80,880)	756,537
Adoption of ASU 2016-13	-	(26,173)	-	(26,173)
Net income	-	7,432	-	7,432
Other comprehensive income (loss), net of reclassification adjustments	-	-	17,606	<u>17,606</u>
Total comprehensive income (loss)				<u>25,038</u>
Balance at December 31, 2023	693	817,983	(63,274)	755,402
Net income	-	84,175	-	84,175
Other comprehensive income (loss), net of reclassification adjustments	-	-	15,146	<u>15,146</u>
Total comprehensive income (loss)				<u>99,321</u>
Balance at December 31, 2024	<u>\$ 693</u>	<u>\$ 902,158</u>	<u>\$ (48,128)</u>	<u>\$ 854,723</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pennsylvania State Employees Credit Union
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31	
	2024	2023
Operating activities:		
Net income	\$ 84,175	\$ 7,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	115,611	133,831
Depreciation and amortization	6,628	8,733
Amortization of deferred loan origination fees and costs, net	18,549	14,805
Amortization of securities, net	3,888	4,678
Amortization of operating lease right of use assets	(603)	435
Loss on sale of available-for-sale equity securities	392	-
(Gain)/loss on equity securities	(4,261)	(4,006)
(Gain)/loss on foreclosed real estate	3	159
(Gain) on VISA Class B stock sale	(36,800)	-
Originations of mortgage loans for sale	(2,179)	(1,530)
Proceeds from mortgage loan sales	2,179	1,530
Net change in:		
Accrued interest receivable	2,822	(4,966)
Accounts payable	300	(21,033)
Operating lease liability	616	(414)
Other, net	(1,416)	(5,413)
Net cash provided by operating activities	<u>189,904</u>	<u>134,241</u>
Investing activities:		
Proceeds from maturities/calls of held-to-maturity securities	1,229	1,197
Proceeds from sales/maturities/calls of available-for-sale securities	208,151	185,994
Proceeds from sales of equity securities	8,763	2,016
Proceeds from VISA Class B stock sale	36,800	-
Purchases of available-for-sale securities	(217,742)	(67,439)
Purchase of other investments	(111)	(617)
Purchase of equity securities	-	(1,995)
Net change in repurchase agreements	-	(50,000)
Purchase of life insurance	(24,000)	(35,845)
Net change in deposit for federal share insurance	1,581	(170)
Net change in loans to members	(195,457)	(487,906)
Purchases of property and equipment	4,237	(5,409)
Proceeds from sale of foreclosed real estate	472	258
Net cash used in investing activities	<u>(176,077)</u>	<u>(459,916)</u>
Financing activities:		
Net change in members' share accounts	378,820	174,512
Net cash provided by (used in) financing activities	<u>378,820</u>	<u>174,512</u>
Net change in cash and cash equivalents	392,647	(151,163)
Cash and cash equivalents at beginning of year	<u>422,591</u>	<u>573,754</u>
Cash and cash equivalents at end of year	<u>\$ 815,238</u>	<u>\$ 422,591</u>
Cash and due from financial institutions	\$ 810,872	\$ 416,118
Federal funds sold	<u>4,366</u>	<u>6,473</u>
Cash and cash equivalents at December 31	<u>\$ 815,238</u>	<u>\$ 422,591</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 168,877</u>	<u>\$ 129,667</u>
Schedule of non-cash transactions		
Transfer of loans to foreclosed real estate	8	\$ 598

The accompanying notes are an integral part of these consolidated financial statements.

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023
(Amounts in thousands, except as noted)

NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

For all periods presented, the accompanying consolidated financial statements include the accounts of Pennsylvania State Employees Credit Union (the “Credit Union”) and its wholly-owned subsidiary, PSECU Protect, LLC which was established during 2021 to fulfill the insurance needs of both existing and potential members of the Credit Union. As of December 31, 2024 the accounts and activities of the wholly-owned subsidiary established in 2021 were not material to warrant separate disclosure. All material intercompany accounts and transactions have been eliminated in consolidation.

The Credit Union is a Pennsylvania State chartered credit union and a non-profit organization which strives to provide its members with high quality, convenient financial products and services. The Credit Union’s operations are principally related to holding members’ shares and making loans to eligible members. The field of membership generally include Pennsylvania groups, along with the prior approval of the Department of Banking, other occupational and associated groups as provided by law; and exclusively for share services, organizations composed principally of the same groups as the Credit Union membership.

The accounting and reporting policies of the Credit Union conform with accounting principles generally accepted in the United States of America (“GAAP”). The Credit Union recognizes revenues and expenses based on the accrual basis of accounting.

1. Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

The Credit Union considers all investments with a maturity of three months or less when purchased to be cash equivalents. Balances include cash on hand, balances due from banks, interest-bearing deposits with banks, and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured amounts.

3. Repurchase Agreement

The Credit Union enters into agreements under which it purchases securities subject to an obligation to sell the same or similar securities. Under these arrangements, the Credit Union may obtain legal control over the assets through an agreement that both entitles and obligates the Credit Union to sell the assets.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the counterparty be in default (e.g., fails to make an interest payment to the Credit Union). The collateral is held by a correspondent bank in the counterparty’s custodial account. The Credit Union has the right to sell or repledge the investment securities. Interest is recorded on a monthly basis as it is received.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
Continued

4. Investment Securities

All debt securities must be classified as held-to-maturity, trading, or available-for-sale. Management determines the appropriate classification of debt securities at the time of purchase. Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Securities bought and held primarily for the purpose of selling in the near term are classified as trading and recorded at fair value, which is based on quoted market prices. Changes in fair value would be recorded through the income statement. The Credit Union did not carry trading securities during 2024 or 2023.

Debt securities not classified as held-to-maturity or trading are classified as available for sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of members' equity. Purchase premiums and discounts are recognized in interest income using the interest method. Premiums are amortized into income over the earlier of the call date or the maturity date of the related security. Discounts are accreted into interest income over the estimated maturity of the related security.

At December 31, 2024 and 2023, the balance in accumulated other comprehensive income (loss) associated with unrealized gains and losses from available-for-sale investment securities totaled \$(50,098) and \$(65,223), respectively.

The Credit Union evaluates available-for-sale securities and held-to-maturity securities for impairment each reporting period. When evaluating investment securities for impairment, the Credit Union first considers if the fair value of the security is less than its amortized cost. If the fair value is less than the amortized cost, the Credit Union next evaluates whether it intends to sell, or if it is more likely than not it will be required to sell the security before it recovers its amortized cost basis. If either criteria is met, an impairment loss is recognized in earnings. If neither criteria is met, the Credit Union then assesses whether the decline in fair value is due to credit losses or other factors, including evaluation of bond credit ratings. If the Credit Union determines a credit loss exists, the Credit Union compares the present value of the cash flows expected to be collected to the amortized cost basis. An allowance for credit loss is recognized for the amount the amortized costs basis of the security exceeds the present value of the expected future cash flows, limited by the amount of the unrealized loss on the security at that date. There were no investment securities with an allowance for credit loss at December 31, 2024 and 2023.

The Credit Union has elected not to measure an allowance for credit losses for accrued interest receivable on its investment securities.

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NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
 Continued

5. Equity Securities

The Credit Union holds equity securities, which are accounted for in accordance with ASU No. 2020-01, *Investment – Equity Securities (Topic 321)*. Equity securities are carried at fair value, with changes in fair value reported in net income. The following table summarizes the portion of unrealized gains and losses for the period related to equity securities still held at December 31, 2024 and 2023:

	December 31	
	2024	2023
Net gains and (losses) recognized during the period on equity securities	\$ 4,261	\$ 4,006
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	300	3,844
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 3,961</u>	<u>\$ 162</u>

In October 2007, Visa completed a reorganization in which Visa USA, Visa International, Visa Canada, and Inovant became Visa Inc in anticipation of its initial public offering, which occurred during March 2008. As a result, the Credit Union became a shareholder of Class B common stock of Visa Inc. The Credit Union does not have any value recognized in its consolidated financial statements for its ownership interest in this stock. In March 2024, the Credit Union sold its Class B common stock of Visa Inc. and recognized a \$36,800 gain.

6. Other Investments

Other investments have no readily available markets and thus do not have a quoted market value. Therefore, other investments are carried at cost and tested annually for impairment. At December 31, 2024 and 2023, the Credit Union had investments of \$1,000 in capital shares in corporate credit unions which have restrictions on redemption. The Credit Union invests in the NCUA’s Central Liquidity Facility. At December 31, 2024 and 2023, this investment was \$20,419 and \$20,314, respectively. In addition, the Credit Union maintains a borrowing relationship with the Federal Home Loan Bank (FHLB). As a result of this relationship, at December 31, 2024 and 2023, the Credit Union held \$2,704 and \$2,698 in capital shares in the FHLB, respectively. At December 31, 2024 and 2023, other investments are not impaired.

7. Loans and Allowance for Credit Losses

Loans which management intends to hold to maturity are stated at the amount of unpaid principal net of an allowance for credit losses and net deferred loan origination fees and costs. Deferred loan origination fees and costs are amortized on the interest method and straight-line basis, based on the loan type, over the term of the loan. Interest on loans is calculated using the simple-interest method on principal amounts outstanding.

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NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
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Allowance for Credit Losses - Loans

On January 1, 2023, the Credit Union adopted ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applied to financial assets measured at amortized costs, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

The Credit Union adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$24,495, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$1,678, which is recorded within Other Liabilities. The Credit Union recorded a net decrease to retained earnings of \$26,173 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above.

The Credit Union elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Credit Union believes that the collection of interest is doubtful. The Credit Union has concluded that this policy results in the timely reversal of uncollectible interest.

The Credit Union's portfolio consists of pools of commercial and homogeneous consumer loans. These homogeneous pools are categorized by type and payment status, i.e. current or age of delinquency, for evaluation in management's allowance for credit loss analysis in accordance with GAAP. Generally, loans are charged-off when they are 180 days past due, or if in the opinion of management, collection becomes doubtful. Charge-offs are applied against the allowance for credit losses, and recoveries on previously charged-off loans are added to the allowance.

The allowance for credit losses represents management’s estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts.

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NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
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The Credit Union measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Credit Union calculates the allowance for credit losses for its residential real estate and consumer loan segments using the weighted average remaining maturity method (WARM). WARM uses an average annual charge-off rate and includes historical loss experience over the weighted average remaining life of the loan segment. The average annual charge-off rate is applied to the contractual term, adjusted for prepayment considerations, to arrive at the unadjusted historical charge-off rate for the remaining balance of the loan segment. The Credit Union then adjusts for current conditions and reasonable and supportable forecasts as deemed necessary to arrive at an estimate for expected credit losses.

Residential real estate loans consist of mortgage and real estate equity loans. These loans are subject to risk due primarily to general economic conditions and lien position.

Consumer loans may entail greater credit risk than consumer real estate loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The Credit Union calculates the allowance for credit losses for its commercial real estate loan segments using the discounted cash flow method (DCF). The DCF method projects future cash flows over the life of the loan, adjusted for certain assumptions (e.g., prepayments, expected loss, recovery timing, etc). Future cash flows are discounted to present value using a discount rate. The discount rate is used is the effective interest rate of the loan. The difference between the amortized cost basis of the loan and the present value of the adjusted future cash flows represents the estimate for expected credit losses.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.

Commercial real estate loans are risk rated. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of watch, special mention, substandard, doubtful, and loss. Loans classified as watch have acceptable credit quality, but borrower is perceived to be experiencing a temporary setback or adverse information has been received. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans classified doubtful have all the weaknesses inherent in loan

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classified substandard with the added characteristic that collection or liquidation in full, on the bases of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for credit losses. Any loans not classified as noted above are rated pass.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for external economic environment factors, lending management factors, internal policy factors, loan collateral factors, and charge-off and delinquency trends.

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans to meet member financing needs. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Credit Union records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments to the Credit Union's income statement. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments is included in other liabilities on the Credit Union's balance sheet.

8. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to operating expense as incurred.

9. Leases

The Credit Union accounts for leases in accordance with ASU No. 2016-02, *Leases* (Topic 842), and all subsequent ASUs that modified Topic 842, which primarily affected the accounting treatment for operating lease agreements in which the Credit Union is the lessee. Operating and finance lease right-of-use assets, as well as operating lease liabilities, are presented as separate line items on the Consolidated Balance Sheets,

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NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
Continued

while finance lease liabilities are classified as a component of long-term debt. The Credit Union does not have any finance leases as of December 31, 2024 and 2023. The Credit Union has elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheets.

Leases are classified as operating or finance leases at the lease commencement date. The Credit Union leases certain locations (ATMs and e-Centers). The Credit Union records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. At lease inception, the Credit Union determines the lease term by considering the minimum lease term and all optional renewal periods that the Credit Union is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Credit Union's leases do not contain residual value guarantees or material variable lease payments that will require the Credit Union to incur additional expenses. Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in office occupancy expense on the Credit Union's Consolidated Statements of Comprehensive Income. Rent expense was approximately \$374 and \$384 for the years ended December 31, 2024 and 2023, respectively. The Credit Union's variable lease expense include rent escalators that are based on market conditions.

10. Assets Held For Sale

Property acquired through foreclosure or other means is recorded at the fair value of the property at the transfer date less estimated selling costs and recorded in other assets. Subsequent to transfer, assets held for sale are recorded at the lower of cost or fair value of the property less estimated selling costs. Costs to maintain these assets are expensed as incurred. Assets held for sale are recorded at fair value on a non-recurring basis. Fair value is usually determined based on an independent appraised value of the supporting collateral and adjusted for necessary liquidation expenses. Total assets held for sale are \$2,441 and \$1,589 at December 31, 2024 and 2023, respectively and are included in Other assets, net, on the consolidated balance sheet.

11. Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies. The policies are recorded at cash surrender value and increases or decreases in cash surrender values are included in other noninterest income. The total cash surrender value of the policies was \$62,581 and \$35,845 as of December 31, 2024 and 2023, respectively and is included in Other assets, net, on the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2024 and 2023

(Amounts in thousands, except as noted)

**NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
Continued**

12. Dividends on Members' Shares

Dividends are calculated from date of deposit to date of withdrawal, are paid according to the terms of the original contract and are credited to members' shares on the last day of each month. Dividends on members' shares are determined monthly. Dividend rates are determined based on the current interest rate environment.

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$6,798 and \$7,185 for 2024 and 2023, respectively.

14. Income Taxes

The Credit Union is exempt from federal income taxes under Internal Revenue Code Section 501(c)(14) and state income taxes under Pennsylvania state income tax laws. However, the Credit Union may be required to pay income taxes in the event the Credit Union generates unrelated business income.

15. Revenue from Contracts with Customers

The Credit Union receives a portion of its non-interest income from contracts with customers, which is accounted for in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). A portion of the Credit Union's interchange fees, checking account fees, and ATM income is derived from contracts with customers, and as such, the revenue recognized depicts the transfer of promised services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The Credit Union considers the terms of the contract and all relevant facts and circumstances when applying this guidance.

16. Transfer of Financial Assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE A – DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES –
Continued**

17. Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements at December 31, 2024 and 2023.

18. Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities and changes in postretirement benefit plan obligations, are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net income, are considered components of comprehensive income.

NOTE B – LOANS TO MEMBERS

	<u>2024</u>	<u>2023</u>
Commercial real estate	\$ <u>37,525</u>	\$ <u>40,271</u>
Residential mortgage		
Mortgage	1,780,256	1,666,994
Real estate equity	349,082	242,013
HELOC	<u>573,656</u>	<u>575,152</u>
Total residential mortgage	<u>2,702,994</u>	<u>2,484,159</u>
Consumer		
Direct auto	788,835	836,208
Indirect auto	1,837,970	1,770,094
Visa	817,227	839,534
Other Secured	2,064	2,439
Other Unsecured	<u>414,813</u>	<u>553,881</u>
Total consumer	<u>3,860,909</u>	<u>4,002,156</u>
Gross loans	6,601,428	6,526,586
Less allowance for credit losses	<u>140,894</u>	<u>126,993</u>
	<u>\$ 6,460,534</u>	<u>\$ 6,399,593</u>

Pennsylvania State Employees Credit Union
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NOTE B – LOANS TO MEMBERS – Continued

Gross loans include net deferred origination costs and fees. At December 31, 2024 and 2023 net deferred origination costs and fees totaled \$39,850 and \$35,002, respectively.

The following table summarizes commercial real estate risk ratings as of December 31, 2024 and 2023:

	<u>Pass</u>	<u>Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
2024						
Commercial Real Estate	\$ 22,566	\$ -	\$ -	\$ 10,909	\$ 4,050	\$ 37,525
2023						
Commercial Real Estate	\$ 25,084	\$ -	\$ 11,286	\$ -	\$ 3,901	\$ 40,271

At December 31, 2024 and 2023, certain directors, officers and employees were indebted to the Credit Union in the aggregate amount of \$18,438 and \$17,848, respectively. Related party loans are made on the same terms, including interest rates and collateral, as those prevailing at the time of origination for comparable transactions with unrelated persons.

NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the activity related to the allowance for credit losses (ACL) for the year ended December 31, 2024 and 2023 respectively, under the CECL methodology.

	<u>Commercial Real Estate</u>	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Total</u>
December 31, 2022	\$ 1,706	\$ 1,195	\$ 55,747	\$ 58,648
Cumulative effect of change in accounting principle	250	3,936	20,309	24,495
Loans charged off	-	(179)	(103,075)	(103,254)
Loan recoveries	-	251	13,695	13,946
Net loans charged off	-	72	(89,380)	(89,308)
Provision charged to operations	253	(779)	133,684	133,158
December 31, 2023	\$ 2,209	\$ 4,424	\$ 120,360	\$ 126,993
Loans charged off	-	(399)	(116,015)	(116,414)
Loan recoveries	-	292	16,361	16,653
Net loans charged off	-	(107)	(99,654)	(99,761)
Provision charged to operations	3,825	2,659	107,178	113,662
December 31, 2024	\$ 6,034	\$ 6,976	\$ 127,884	\$ 140,894

Pennsylvania State Employees Credit Union
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NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES – Continued

The delinquency status of loans at December 31, 2024 and 2023, is as follows:

	2024			
	Nonaccrual & Greater than 90 days	60-90 days	Less than 60 days	Total
	Balance	Balance	Balance	Balance
Commercial real estate	\$ 3,901	\$ -	\$ 33,624	\$ 37,525
Residential mortgage				
Mortgage	2,860	1,917	1,775,479	1,780,256
Real estate equity	324	378	348,380	349,082
HELOC	4,363	2,906	566,387	573,656
Total residential mortgage	<u>7,547</u>	<u>5,201</u>	<u>2,690,246</u>	<u>2,702,994</u>
Consumer				
Direct auto	1,178	1,319	786,338	788,835
Indirect auto	5,306	5,484	1,827,180	1,837,970
Visa	8,541	2,779	805,907	817,227
Other Secured	-	-	2,064	2,064
Other Unsecured	10,047	3,513	401,253	414,813
Total consumer	<u>\$ 25,072</u>	<u>\$ 13,095</u>	<u>\$ 3,822,742</u>	<u>\$ 3,860,909</u>
	2023			
	Nonaccrual & Greater than 90 days	60-90 days	Less than 60 days	Total
	Balance	Balance	Balance	Balance
Commercial real estate	\$ 3,901	\$ -	\$ 36,370	\$ 40,271
Residential mortgage				
Mortgage	1,700	2,778	1,662,516	1,666,994
Real estate equity	163	145	241,705	242,013
HELOC	3,884	1,671	569,597	575,152
Total residential mortgage	<u>5,747</u>	<u>4,594</u>	<u>2,473,818</u>	<u>2,484,159</u>
Consumer				
Direct auto	1,732	1,288	833,188	836,208
Indirect auto	6,471	6,911	1,756,712	1,770,094
Visa	8,782	4,132	826,620	839,534
Other Secured	-	-	2,439	2,439
Other Unsecured	13,971	5,938	533,972	553,881
Total consumer	<u>\$ 30,956</u>	<u>\$ 18,269</u>	<u>\$ 3,952,931</u>	<u>\$ 4,002,156</u>

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES - Continued

The following collateral types align with the respective class descriptions in the table below. Collateral dependent loans individually evaluated for purposes of ACL by collateral type were as follows at December 31, 2024 and 2023:

	2024	2023
Commercial real estate	\$ <u>14,959</u>	<u>3,901</u>
Residential mortgage		
Mortgage	3,437	445
Real estate equity	72	70
HELOC	<u>2,346</u>	<u>1,699</u>
Total residential mortgage	<u>5,855</u>	<u>2,214</u>
Consumer		
Direct auto	200	79
Indirect auto	<u>285</u>	<u>328</u>
Total consumer	<u>485</u>	<u>407</u>
Total	\$ <u>21,299</u>	<u>6,522</u>

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE C – ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES – Continued

Occasionally, the Credit Union will modify a certain loan by providing a concession. Concessions that the Credit Union currently offers include a term extension. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. The following table presents the amortized cost basis as of December 31, 2024 and 2023, of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans.

	2024		2023	
	Amortized Cost Basis	% of Total Loan Type	Amortized Cost Basis	% of Total Loan Type
Commercial Real Estate	-	0.00%	-	0.00%
Residential Mortgage				
Mortgage	-	0.00%	4,349	0.26%
Real Estate Equity	-	0.00%	195	0.08%
HELOC	249	0.04%	2,755	0.48%
Total residential mortgage	249	0.04%	7,299	0.29%
Consumer				
Direct auto	728	0.09%	2,280	0.27%
Indirect auto	2,472	0.13%	5,993	0.34%
Visa	4,200	0.51%	4,327	0.52%
Other Secured	83	4.02%	-	0.00%
Other Unsecured	2,185	0.53%	3,287	0.59%
Total consumer	9,668	0.25%	15,887	0.40%
Total	\$ 9,917	0.15%	\$ 23,186	0.36%

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE D – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31, 2024 and 2023 are as follows:

	2024			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held-to-maturity investment securities:				
State and political subdivision security	\$ -	\$ -	\$ -	\$ 0
Total held-to-maturity investment securities	\$ -	\$ -	\$ -	\$ -
Available-for-sale investment securities:				
Agency residential mortgage backed securities	\$ 361,976	\$ 340	\$ (20,145)	\$ 342,171
Agency collateralized mortgage obligations	138,527	1	(3,497)	135,031
Agency commercial mortgage backed securities	541,670	57	(22,317)	519,410
Non agency residential mortgage backed securities	18,959	-	(1,415)	17,544
Certificate of deposits	-	-	-	0
Government securities	-	-	-	0
Corporate bonds	70,754	79	(2,722)	68,111
Corporate subordinated debts	5,080	-	(479)	4,601
Total available-for-sale investment securities	\$ 1,136,966	\$ 477	\$ (50,575)	\$ 1,086,868
	2023			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held-to-maturity investment securities:				
State and political subdivision security	\$ 1,229	\$ -	\$ (17)	\$ 1,212
Total held-to-maturity investment securities	\$ 1,229	\$ -	\$ (17)	\$ 1,212
Available-for-sale investment securities:				
Agency residential mortgage backed securities	\$ 202,432	\$ 68	\$ (19,072)	\$ 183,428
Agency collateralized mortgage obligations	154,424	-	(8,305)	146,119
Agency commercial mortgage backed securities	674,938	410	(30,940)	644,408
Non agency residential mortgage backed securities	22,669	-	(2,081)	20,588
Certificate of deposits	1,865	2	(155)	1,712
Government securities	544	6	(1)	549
Corporate bonds	69,312	396	(4,186)	65,522
Corporate subordinated debts	5,080	-	(1,365)	3,715
Total available-for-sale investment securities	\$ 1,131,264	\$ 882	\$ (66,105)	\$ 1,066,041

Pennsylvania State Employees Credit Union
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NOTE D – INVESTMENT SECURITIES - Continued

The amortized cost and estimated fair value of investment securities at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are classified based on their final maturity date.

	2024	
	Amortized Cost	Fair Value
Available-for-sale investment securities:		
Due within one year	\$ 107,300	\$ 106,824
Due after one year through five years	276,951	265,135
Due after five years through ten years	250,021	245,818
Due after ten years	502,694	469,091
Total available-for-sale investment securities	<u>\$ 1,136,966</u>	<u>\$ 1,086,868</u>

Pennsylvania State Employees Credit Union
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NOTE D – INVESTMENT SECURITIES - Continued

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023:

Description of Securities	2024					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity investment securities:						
State and political subdivision security	\$ -	-	-	-	-	-
Total held-to-maturity investment securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Available-for-sale investment securities:						
Agency residential mortgage backed securities	\$ 163,473	\$ (1,041)	133,789	(19,104)	\$ 297,262	\$ (20,145)
Agency collateralized mortgage obligations	3,047	(114)	130,641	(3,383)	133,688	(3,497)
Agency commercial mortgage backed securities	66,227	(987)	428,792	(21,330)	495,019	(22,317)
Non agency residential mortgage backed securities	2,617	(13)	14,927	(1,402)	17,544	(1,415)
Certificate of deposits	-	-	-	-	-	-
Government securities	-	-	-	-	-	-
Corporate bonds	10,800	(229)	47,451	(2,493)	58,251	(2,722)
Corporate subordinated debts	-	-	4,601	(479)	4,601	(479)
Total available-for-sale investment securities	\$ 246,164	\$ (2,384)	\$ 760,201	\$ (48,191)	\$ 1,006,365	\$ (50,575)

Description of Securities	2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity investment securities:						
State and political subdivision security	\$ 0	-	1,212.00	(17.00)	1,212	(17)
Total held-to-maturity investment securities	\$ -	\$ -	\$ 1,212	\$ (17)	\$ 1,212	\$ (17)
Available-for-sale investment securities:						
Agency residential mortgage backed securities	\$ -	\$ -	\$ 154,322	\$ (19,072)	\$ 154,322	\$ (19,072)
Agency collateralized mortgage obligations	603	(5)	145,516	(8,300)	146,119	(8,305)
Agency commercial mortgage backed securities	2,165	(1)	618,419	(30,939)	620,584	(30,940)
Non agency residential mortgage backed securities	-	-	20,588	(2,081)	20,588	(2,081)
Certificate of deposits	1,712	(155)	-	-	1,712	(155)
Government securities	96	(1)	-	-	96	(1)
Corporate bonds	48,854	(4,186)	-	-	48,854	(4,186)
Corporate subordinated debts	3,715	(1,365)	-	-	3,715	(1,365)
Total available-for-sale investment securities	\$ 57,145	\$ (5,713)	\$ 938,845	\$ (60,392)	\$ 995,990	\$ (66,105)

Management does not believe that any individual unrealized loss as of December 31, 2024, represents a credit loss. Unrealized losses on securities have not been recognized in income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market rates. The fair value is expected to recover as the securities approach the maturity date. No allowance for credit losses on securities was recorded as of December 31, 2024 and 2023.

Pennsylvania State Employees Credit Union
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NOTE E – REPURCHASE AGREEMENT

Repurchase agreements were \$50,000 at December 31, 2024 and 2023, respectively. The aggregate amount of maturities of repurchase agreements at December 31, 2024 and 2023 are as follows:

	2024				
	Remaining Contractual Maturity of Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
Treasury Securities	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage Backed Securities	-	9,030	-	-	9,030
Collateralized Mortgage Obligations	-	40,970	-	-	40,970
	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>
	2023				
	Remaining Contractual Maturity of Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
Treasury Securities	\$ -	\$ 3,901	\$ -	\$ -	\$ 3,901
Mortgage Backed Securities	-	41,506	-	-	41,506
Collateralized Mortgage Obligations	-	4,593	-	-	4,593
	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>

The repurchase agreement matured after the December 31, 2024, and was subsequently reinvested into a new repurchase agreement with a maturity date of 90 days.

NOTE F – DEPOSIT FOR FEDERAL SHARE INSURANCE

Each federally insured credit union is required to maintain with the National Credit Union Share Insurance Fund (“NCUSIF”) a refundable deposit equal to one percent of insured members’ shares. Deposits will be returned to the Credit Union if insurance coverage is terminated or obtained elsewhere, or the operation of the fund is transferred to another source. The ultimate refundability of the deposit depends on continued favorable experience of the NCUSIF. Adjustments in the amount of \$(388) and \$1,969 were refunded and paid to the fund in April 2024 and October 2024. These adjustments were based on total insured members’ shares as of December 31, 2023 and June 30, 2024, respectively. Adjustments in the amount of \$(2,037) and \$2,207 were paid to the fund in April 2023 and October 2023. These adjustments were based on total insured members’ shares as of December 31, 2022 and June 30, 2023, respectively. Members’ shares are insured by the NCUSIF to a maximum of \$250 for each member.

Individual Retirement Accounts (“IRAs”) and Keogh accounts each carry an additional \$250 of coverage.

Pennsylvania State Employees Credit Union
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NOTE G – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Estimated Useful Life	December 31	
		2024	2023
Land		\$ 4,442	\$ 4,442
Land Improvements	10 Years	4,818	4,795
Building and improvements	3 - 50 Years	74,497	74,165
Furniture and equipment	3 - 10 Years	36,887	38,405
Data processing software	3 - 10 Years	34,845	32,787
		<u>155,489</u>	<u>154,594</u>
Less accumulated depreciation and amortization		<u>85,387</u>	<u>82,101</u>
		<u>\$ 70,102</u>	<u>\$ 72,493</u>

Depreciation and amortization charged to income was \$6,628 and \$8,733 for 2024 and 2023, respectively.

NOTE H – MEMBERS’ SHARE ACCOUNTS

A summary of members’ shares accounts is as follows:

	December 31	
	2024	2023
Regular shares	\$ 1,455,570	\$ 1,476,800
IRA shares	58,430	61,048
Money handler/checking shares	1,633,185	1,644,646
Vacation/Christmas shares	165,869	163,822
Share certificates	2,537,762	2,269,092
Escrow shares	18,378	17,308
Money market shares	1,931,663	1,789,321
	<u>\$ 7,800,857</u>	<u>\$ 7,422,037</u>

At December 31, 2024 and 2023, the Credit Union held the deposits of certain directors, officers and employees in the aggregate amount of \$17,325 and \$18,656, respectively. Related party deposits are held on the same terms as those prevailing at the time for comparable transactions with unrelated persons.

All eligible accounts are insured at least up to \$250 each. The aggregate amount of uninsured members’ shares including time deposits was \$735,432 and \$635,904 at December 31, 2024 and 2023, respectively.

Pennsylvania State Employees Credit Union
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NOTE H – MEMBERS’ SHARE ACCOUNTS – Continued

The aggregate amount of maturities of share certificates and IRA shares at December 31, 2024, were as follows:

2025	\$ 2,315,231
2026	81,490
2027	79,113
2028	58,271
2029	36,156
Thereafter	<u>25,931</u>
	<u>\$ 2,596,192</u>

NOTE I – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Credit Union is a party to financial instruments with off-balance sheet risk in meeting the financing needs of its members. These financial instruments, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet, consist primarily of unused portions of unsecured personal lines of credit.

The Credit Union’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the amount of unused lines of credit which totaled \$2,307,329 and \$2,192,018 and the Credit Union’s estimate of commitments to extend credit which totaled \$358,593 and \$328,432 as of December 31, 2024 and 2023, respectively.

These financial instruments are agreements to lend money to a member as long as there is no violation of any conditions established in the contract. Total on-balance sheet loans cannot exceed 90% of total members’ shares, according to the limit, as defined by the Credit Union, and it reserves the right to discontinue advances on personal lines of credit. Therefore, the amount of unused lines of credit does not necessarily represent future cash requirements.

The Credit Union uses the same credit policies in extending lines of credit as it does for making on-balance sheet loans. The amount of collateral obtained by the Credit Union is based on the type of loan requested by the member. Collateral, when required, primarily consists of single-family residences and motor vehicles.

The Credit Union’s lending activity is with its members who primarily reside in Pennsylvania. The loan portfolio is otherwise well diversified, and the Credit Union does not have any significant concentrations of credit risk, except unsecured loans which, by their nature, increase the risk of loss compared to those loans which are collateralized.

Pennsylvania State Employees Credit Union
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**NOTE I – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND
 CONCENTRATIONS OF CREDIT RISK – Continued**

The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on historical funding data derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in Note A. The allowance for credit losses for unfunded loan commitments were \$4,300 and \$2,351 at December 31, 2024 and 2023 respectively, is recorded within other liabilities on the consolidated balance sheet.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023 and 2024.

	<u>Total ACL Unfunded Commitments</u>
Balance at beginning of the year Jan. 1, 2023	\$ -
Cumulative effect of change in accounting principle	1,678
Provision for unfunded commitments	673
Balance at end of the year Dec. 31, 2023	<u>\$ 2,351</u>
Provision for unfunded commitments	1,949
Balance at end of the year Dec. 31, 2024	<u>\$ 4,300</u>

NOTE J – AVAILABLE LINES OF CREDIT

Available lines of credit at December 31, 2024, are as follows:

Federal Reserve Bank, Discount Window	\$ 1,603
Vizo Financial Corporate Credit Union	75,000
Wells Fargo Bank, Federal Funds Line of Credit	25,000
Federal Home Loan Bank	1,663,427
	<u>\$ 1,765,030</u>

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(Amounts in thousands, except as noted)

NOTE J – AVAILABLE LINES OF CREDIT - Continued

The Credit Union maintains a discount window relationship with the Federal Reserve Bank in Philadelphia. The Credit Union has a line of credit with the FHLB. Maximum borrowing capacity with the FHLB is determined based on eligible qualifying collateral which is comprised of security interest in mortgage and real estate equity loans. The Credit Union has uncommitted lines of credit with Vizo Financial Corporate Credit Union and Wells Fargo Bank. No collateral was pledged for any of the above lines of credit at December 31, 2024 and 2023.

The Credit Union had no borrowings under these agreements at December 31, 2024 and 2023.

NOTE K – BENEFIT PLANS

1. Defined Contribution Plans

The Credit Union has contributory 401(k) retirement plans for both bargaining unit and management employees. The Credit Union made matching contributions to the 401(k) plans of \$7,333 and \$6,720 in 2024 and 2023, respectively.

2. Defined Benefit Plans

The Credit Union also has a defined benefit pension plan (“pension plan”) and a defined benefit postretirement plan (“postretirement plan”). The pension plan is for bargaining unit employees who elected to remain in the pension plan rather than transfer to the money purchase plan when it was established in 2001.

These employees are not eligible to participate in the bargaining unit money purchase plan, and they are not eligible for the employer matching contribution in the bargaining unit 401(k) plan. At December 31, 2024, there are 9 active employees in the plan and 29 total participants.

The pension plan benefit formulas generally base payments to retired employees upon the length of service and a percentage of qualifying compensation. Contributions are intended to provide not only for benefits attributed to service but also for those expected to be earned in the future.

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE K – BENEFIT PLANS – Continued

The weighted-average target and actual asset allocations for the pension plan at December 31, 2024 and 2023, by asset category are as follows:

Asset category	Target	Actual	
		2024	2023
Equity securities (Level 1)	50%	41.00%	46.00%
Debt securities (Level 2)	42%	49.00%	45.00%
Real estate (Level 1)	8%	10.00%	9.00%
		<u>100.00%</u>	<u>100.00%</u>

Equity securities consist primarily of large cap stocks and debt securities consist primarily of federal agency, federal treasury, mortgage-backed and corporate securities of established companies.

The Credit Union’s noncontributory postretirement plan is for employees who reached age 50 as of December 31, 2008, the Credit Union provides medical benefits to retirees at age 55 with at least 25 years of service or at age 60 with at least 15 years of service. Retirees contribute 50% of the medical and prescription drug premiums and 100% of the dental and vision premiums. Employees are also eligible for health benefits at age 55 with at least five years of service but must contribute 100% of the premiums. Future retirees who had not yet reached age 50 as of December 31, 2008, and retire with at least age 55 and 25 years of service are eligible for benefits but must contribute 50% of the medical and prescription drug premiums and 100% of the dental and vision premiums. A plan change was adopted as of May 1, 2012, such that participation in the plan ends once a retiree (and/or spouse) becomes Medicare eligible.

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE K – BENEFIT PLANS – Continued

The components of projected and accumulated benefit obligation for the pension plan and the postretirement plan, respectively, and accrued costs as of December 31, 2024 and 2023, are as follows:

	Pension Plan		Postretirement Plan	
	2024	2023	2024	2023
Change in projected/accumulated benefit obligation				
Benefit obligation at beginning of year	\$ 5,736	\$ 5,441	\$ 6,223	\$ 5,821
Service cost	12	23	412	353
Interest cost	253	280	290	274
Net (gain) loss	(195)	158	(91)	(238)
Change in plan assumptions	(174)	182	(478)	218
Benefits paid	(907)	(348)	(216)	(205)
Benefit obligation at end of year	\$ 4,725	\$ 5,736	\$ 6,140	\$ 6,223
Funded status at end of year	\$ (762)	\$ (1,326)	\$ (6,140)	\$ (6,223)

The funded status for the pension plan and the postretirement plan, respectively, is included in other liabilities on the consolidated balance sheet.

The accumulated benefit obligation for the pension plan was \$4,597 and \$5,560 at December 31, 2024 and 2023, respectively.

The components of net periodic cost recognized in other comprehensive income at December 31, 2024 and 2023, were as follows:

	Pension Plan		Postretirement Plan	
	2024	2023	2024	2023
Service cost	\$ 12	\$ 23	\$ 412	\$ 353
Interest cost	253	280	291	274
Expected return on plan assets	(335)	(311)	-	-
Amortization of prior service costs	-	-	(1,009)	(1,009)
Amortization of net loss	98	141	65	64
Net periodic benefit cost	\$ 28	\$ 133	\$ (241)	\$ (318)

Pennsylvania State Employees Credit Union
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NOTE K – BENEFIT PLANS – Continued

The components of net periodic benefit cost are included in the line item salaries and employee benefits in the Consolidated Statements of Comprehensive Income.

The balance in accumulated other comprehensive income at December 31, 2024 and 2023, were as follows:

	Pension Plan		Postretirement Plan	
	2024	2023	2024	2023
Beginning accumulated other comprehensive income (loss)	\$ (1,237)	\$ (882)	\$ 3,186	\$ 4,111
Amortization of prior service cost	-	-	(1,009)	(1,009)
Amortization of net gain or (loss)	98	141	64	64
Asset (gain) or loss	(64)	(157)	-	-
Change in experience	195	(157)	91	238
Change in assumptions	174	(182)	478	(218)
Total recognized in other comprehensive income	403	(355)	(376)	(925)
Ending accumulated other comprehensive income (loss)	\$ (834)	\$ (1,237)	\$ 2,810	\$ 3,186

The weighted-average discount rate used to calculate benefit obligations for the pension plan was 5.38% in 2024 and 4.73% in 2023. The weighted-average discount rate used to calculate benefit obligations for the postretirement plan was 5.52% in 2024 and 4.83% in 2023.

The Credit Union utilized a health care inflation trend rate for the postretirement plan of 7.0% in 2024 and 2025 6.5% in 2026, and 6.0% in 2027 and 5.5% in 2028. Rates gradually decrease from 5.4% in 2029 to 4.0% in 2075 and later.

The impact of a one percentage point increase and a one percentage point decrease in the assumed health care cost trend rates for the postretirement plan would be as follows:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	\$ 148	\$ 118
Effect on total postretirement benefit obligation	911	762

Pennsylvania State Employees Credit Union
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NOTE K – BENEFIT PLANS – Continued

Estimated future benefit payments for the pension and postretirement plans over the course of the next ten years, which reflect expected future service, as appropriate, are expected to be paid as follows:

	<u>Pension Plan</u>	<u>Postretirement Plan</u>
2025	\$ 688	\$ 251
2026	656	298
2027	670	278
2028	703	279
2029	284	305
Years 2030-2033	1,320	1,897

An estimated net loss of \$73 and \$35 for the pension and postretirement plan, respectively, and prior service cost of \$1,009 for the postretirement plan is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year.

NOTE L – OTHER COMMITMENTS

The university eCenter leases also include other commitments for scholarships, marketing, and donations to the various universities.

The aggregate amount of future other commitments is as follows:

	<u>Other Commitments</u>
2025	\$ 355
2026	269
2027	190
2028	-
2029	-
Thereafter	-
	<u>\$ 814</u>

NOTE M – COLLECTIVE BARGAINING AGREEMENT

A collective bargaining agreement covers approximately 44% of the Credit Union’s workforce. The agreement expired on April 30, 2022 and was renewed through April 30, 2025.

Pennsylvania State Employees Credit Union
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NOTE N – FAIR VALUE DISCLOSURE

The Credit Union measures certain assets and liabilities at fair value in accordance with GAAP. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. In some cases, the inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following is a description of the Credit Union's valuation methodologies for assets carried at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting dates.

Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. If quoted prices are not available, securities are classified in Level 2. The Credit Union utilized market pricing from a third party vendor for securities in Level 2. The methodology used in the pricing includes institutional bond quotes, which are evaluations based on various market and industry inputs or quoted prices for identical or similar assets in markets that are not active.

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NOTE N – FAIR VALUE DISCLOSURE – Continued

Assets Measured at Fair Value on a Recurring Basis

The following tables present the financial instruments carried at fair value at December 31, 2024 and 2023, on the consolidated balance sheet by GAAP valuation hierarchy.

	2024			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Agency residential mortgage backed securities	\$ -	\$ 342,171	\$ -	\$ 342,171
Agency collateralized mortgage obligations	-	135,031	-	135,031
Agency commercial mortgage backed securities	-	519,410	-	519,410
Non agency residential mortgage backed securities	-	17,544	-	17,544
Certificate of deposit	-	0	-	0
Government securities	-	0	-	0
Corporate bonds	-	68,111	-	68,111
Corporate subordinated debts	-	4,601	-	4,601
Available-for-sale investment securities	<u>\$ -</u>	<u>\$ 1,086,868</u>	<u>\$ -</u>	<u>\$ 1,086,868</u>
Equity securities	<u>\$ 20,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,921</u>

	2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Agency residential mortgage backed securities	\$ -	\$ 183,428	\$ -	\$ 183,428
Agency collateralized mortgage obligations	-	146,119	-	146,119
Agency commercial mortgage backed securities	-	644,408	-	644,408
Non agency residential mortgage backed securities	-	20,588	-	20,588
Certificate of deposit	-	1,712	-	1,712
Government securities	-	549	-	549
Corporate bonds	-	65,522	-	65,522
Corporate subordinated debts	-	3,715	-	3,715
Available-for-sale investment securities	<u>\$ -</u>	<u>\$ 1,066,041</u>	<u>\$ -</u>	<u>\$ 1,066,041</u>
Equity securities	<u>\$ 25,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,422</u>

Pennsylvania State Employees Credit Union
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE N – FAIR VALUE DISCLOSURE – Continued

The Credit Union also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date and adjusted for selling costs as appropriate. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria including discounting of appraisals based on age or changes in property or market conditions. Collateral values are also discounted for estimated selling costs. Estimated cash flows are discounted considering the loan rate and current market rates. Due to the significance of the Level 3 inputs, individually evaluated loans fair values have been classified as Level 3. Through December 31, 2024, the fair value of individually evaluated loans is estimated primarily using discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments exceed the recorded investments in such loans. Individually evaluated loans are categorized as Level 3 assets because the values are based on customized discounting criteria, if deemed necessary. The change in fair value of individually evaluated loans is accounted for in the allowance for credit losses.

The following table summarizes the fair value as of December 31, 2024 and 2023:

**Assets Measured at Fair Value on a Nonrecurring Basis at
December 31, 2024**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans	\$ -	\$	\$ 10,420	\$ 10,420

**Assets Measured at Fair Value on a Nonrecurring Basis at
December 31, 2023**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans	\$ -	\$	\$ 3,980	\$ 3,980

Pennsylvania State Employees Credit Union
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NOTE O – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration (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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components and other factors.

Under the regulations, a credit union is considered complex when it has more than \$500 million in assets. Complex credit unions are required to calculate a risk-based capital (RBC) ratio which establishes whether or not the Credit Union will be considered well-capitalized under the regulatory framework. The RBC ratio became effective for the Credit Union on January 1, 2022. The NCUA issued a final rule that defines the complex credit union leverage ratio (CCULR) framework and provides an option for qualifying federally-insured credit unions to meet their risk-based net worth requirement without calculating an RBC ratio. The final rule became effective on January 1, 2022 and is applicable to all credit unions with more than \$500 million in total assets when certain qualifying criteria are met. The final rule was elected by the Credit Union. The CCULR ratio removes the requirement to calculate and report risk-based capital under section 702.104(a)-(c) and, instead, only requires a net worth ratio.

The minimum CCULR ratio is 9 percent. If the minimum ratio is met, credit unions adopting the framework are considered well-capitalized for prompt corrective action purposes. A qualifying complex credit union may opt into and out of the CCULR ratio framework at the end of each calendar quarter. The final rule allows for a two-quarter grace period to correct a ratio that falls below the required amount and allows for the reversion back to the risk-weighting framework without restriction.

Management believes, as of December 31, 2024 and 2023, the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the NCUA categorized the Credit Union as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, a credit union must maintain minimum net worth ratio(s), as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Credit Union's category.

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NOTE O – CAPITAL REQUIREMENTS – Continued

The Credit Union is eligible for the CECL transition provisions under NCUA rule 702.703 in determining its net worth category. The CECL transitional amount is equal to the difference between the Credit Union’s retained earnings as of the end of the fiscal year in which the Credit Union adopts CECL and the Credit Union’s retained earnings as of the beginning of its next fiscal year. In determining the net worth category of a credit union, the NCUA shall increase retained earnings and total assets as reported on the call report by sixty-seven percent of its CECL transitional amount. The Credit Union’s retained earnings and total assets was increased by \$8,636 as of December 31, 2024.

The Credit Union's capital amounts and ratios as of December 31, 2024 and 2023 are as follows:

	Actual		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Net Worth	Ratio	Net Worth	Ratio
2024	\$ 911,486	10.44%	\$ 785,692	9.00%
2023	\$ 836,211	10.14%	\$ 740,500	9.00%

NOTE P – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through February 25, 2025, the date the consolidated financial statements were available to be issued. The Credit Union is not aware of any other subsequent events which require recognition or disclosure in the audited consolidated financial statements.