

**SAFE CREDIT UNION**  
Folsom, California

**FINANCIAL STATEMENTS**  
December 31, 2024 and 2023

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## INDEPENDENT AUDITOR'S REPORT

Audit Committee  
SAFE Credit Union  
Folsom, California

**Opinion**

We have audited the financial statements of SAFE Credit Union, which comprise the statements of financial condition as of December 31, 2024 and 2023, and the related statements of net income and 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 SAFE 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 Audit of the Financial Statements section of our report. We are required to be independent of SAFE Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

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

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

**Auditor's Responsibilities for the Audit 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.

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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 an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SAFE 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 SAFE 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 audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

*Crowe LLP*  
Crowe LLP

Sacramento, California  
March 7, 2025

SAFE CREDIT UNION  
STATEMENTS OF FINANCIAL CONDITION  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 223,872	\$ 295,443
Investments:		
Available-for-sale	652,943	789,957
Other	15,057	15,057
Loans held for sale, at fair value	33,331	8,203
Loans, net of allowance \$27,080 and \$29,531 as of December 31, 2024 and 2023, respectively	3,113,112	3,286,300
Property and equipment, net	52,005	53,707
Share insurance deposits	38,882	40,472
Goodwill	13,282	13,282
Other intangible assets	12	25
Accrued interest receivable	10,566	10,740
Other assets	<u>152,358</u>	<u>124,188</u>
 Total assets	 <u>\$ 4,305,420</u>	 <u>\$ 4,637,374</u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities		
Members' shares	\$ 3,884,296	\$ 3,933,315
Public unit shares	31,079	31,081
Short Term Borrowings	-	300,000
Accrued expenses and other liabilities	<u>44,978</u>	<u>62,858</u>
 Total liabilities	 <u>3,960,353</u>	 <u>4,327,254</u>
 Commitments and contingent liabilities (Note 10)		
Members' equity		
Retained earnings, restricted	427,994	403,433
Accumulated other comprehensive loss	<u>(82,927)</u>	<u>(93,313)</u>
 Total members' equity	 <u>345,067</u>	 <u>310,120</u>
 Total liabilities and members' equity	 <u>\$ 4,305,420</u>	 <u>\$ 4,637,374</u>

See accompanying notes.

SAFE CREDIT UNION  
 STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME  
 For the Years Ended December 31, 2024 and 2023.  
 (Dollar amounts in thousands)

	<u>2024</u>	<u>2023</u>
Interest income:		
Interest on loans	\$ 148,032	\$ 128,886
Interest on investments and cash equivalents	<u>39,400</u>	<u>37,425</u>
	<u>187,432</u>	<u>166,311</u>
Interest expense:		
Dividends on members' and public unit shares	72,264	56,584
Interest expense on borrowed and escrowed funds	<u>12,514</u>	<u>10,202</u>
	<u>84,778</u>	<u>66,786</u>
Net interest income	102,654	99,525
Provision for credit losses	<u>8,107</u>	<u>9,980</u>
Net interest income after provision for credit losses	<u>94,547</u>	<u>89,545</u>
Noninterest income:		
ATM and debit card income	26,060	26,806
Account service fees	17,209	17,497
Loan fees	8,235	8,561
Securities and insurance fees	6,473	5,790
Net gain on sale of loans	470	807
Other noninterest income	<u>8,790</u>	<u>4,014</u>
Total noninterest income	<u>67,237</u>	<u>63,475</u>
Noninterest expenses:		
Salaries and benefits	83,926	80,247
Professional services	23,443	22,977
Office occupancy and operations	15,542	15,858
Other noninterest expense	<u>14,312</u>	<u>15,708</u>
Total noninterest expenses	<u>137,223</u>	<u>134,790</u>
Net income	<u>24,561</u>	<u>18,230</u>
Other comprehensive income:		
Unrealized gain (loss) on investments available-for-sale	<u>10,386</u>	<u>13,004</u>
Total other comprehensive income (loss)	<u>10,386</u>	<u>13,004</u>
Comprehensive income (loss)	<u>\$ 34,947</u>	<u>\$ 31,234</u>

See accompanying notes.

SAFE CREDIT UNION  
STATEMENTS OF MEMBERS' EQUITY  
For the Years Ended December 31, 2024 and 2023  
(Dollar amounts in thousands)

	Retained Earnings				Accumulated Other Comprehensive Loss	Total
	Regular Reserve	Other Appropriated	Unappropriated	Total		
Balance, January 1, 2023	\$ 38,700	\$ 356,894	\$ -	\$ 395,594	\$ (106,317)	\$ 289,277
Cumulative change in accounting Principle	<u>(10,391)</u>	<u>                    </u>	<u>                    </u>	<u>(10,391)</u>	<u>                    </u>	<u>(10,391)</u>
Balance, January 1, 2023 (as adjusted for change in accounting principle) \$	28,309	\$ 356,894	\$	\$ 385,203	\$ (106,317)	\$ 278,886
Net income			18,230	18,230		18,230
Net change in unrealized gain/(loss) on available-for-sale investments					13,004	13,004
Appropriations	<u>                    </u>	<u>18,230</u>	<u>(18,230)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, December 31, 2023	28,309	375,124	-	403,433	(93,313)	310,120
Net income			24,561	24,561		24,561
Net change in unrealized gain/(loss) on available-for-sale investments					10,386	10,386
Appropriations	<u>                    </u>	<u>24,561</u>	<u>(24,561)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, December 31, 2024	<u>\$ 28,309</u>	<u>\$ 399,685</u>	<u>\$ -</u>	<u>\$ 427,994</u>	<u>\$ (82,927)</u>	<u>\$ 345,067</u>

See accompanying notes.

SAFE CREDIT UNION  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2024 and 2023  
(Dollar amounts in thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net income	\$ 24,561	\$ 18,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	864	764
Amortization of investment premiums and discounts, net	3,663	3,221
Provision for credit losses	8,107	9,980
Depreciation and amortization	4,486	4,818
Amortization of intangibles	13	109
Net loss/(gain) on disposition of property and equipment	37	339
Net (gain)/loss on sale of other real estate owned	(18)	-
Net (gain)/loss on sale of available-for-sale investments	5,995	-
Gain on sale of investment Visa B stock	(10,499)	-
Change in fair value of loans held for sale	485	(369)
Net gain on sale of loans	(470)	(807)
Originations of loans held for sale	(127,013)	(71,876)
Proceeds from sale of loans held for sale	101,870	80,427
Net change in:		
Cash surrender value of company-owned life insurance policies	1,585	726
Accrued interest receivable	174	(1,961)
Other assets	(25,135)	(1,468)
Accrued expenses and other liabilities	(17,880)	8,416
<b>Net cash from operating activities</b>	<b><u>(29,175)</u></b>	<b><u>50,549</u></b>
Cash flows from investing activities		
Proceeds from sale of available-for-sale investments	38,308	-
Proceeds from prepayments and maturities of available-for-sale investments	105,429	131,787
Net change in loans	164,693	(194,522)
Net change in share insurance deposits	1,590	214
Proceeds from sale of other real estate owned	406	-
Purchase of company-owned life insurance	(980)	-
Proceeds from company-owned life insurance	-	8,294
Purchases of property and equipment	(2,821)	(3,050)
<b>Net cash from investing activities</b>	<b><u>306,625</u></b>	<b><u>(57,277)</u></b>
Cash flows from financing activities		
Net (decrease)/increase in members' shares	(49,019)	48,363
Net (decrease)/increase in public unit shares	(2)	(48,995)
Proceeds from borrowings	-	100,000
Repayment of borrowings	(300,000)	-
<b>Net cash from financing activities</b>	<b><u>(349,021)</u></b>	<b><u>99,368</u></b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(71,571)</b>	<b>92,640</b>
Cash and cash equivalents, beginning of year	<u>295,443</u>	<u>202,803</u>
Cash and cash equivalents, end of year	<u>\$ 223,872</u>	<u>\$ 295,443</u>

(Continued)



SAFE CREDIT UNION  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2024 and 2023  
(Dollar amounts in thousands)

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	<u>2024</u>	<u>2023</u>
Supplemental disclosures of cash flow information		
Lease liabilities arising from obtaining right-of-use assets	\$ 734	\$ 2,315
Cash Dividends paid on members' and public unit shares and		
Cash Interest paid on borrowed and escrowed funds	\$ 84,515	\$ 66,302
Loans transferred to other real estate owned	\$ 388	\$ -

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See accompanying notes.

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS**

Nature of Operations: SAFE Credit Union (Credit Union) is a state-chartered credit union organized under the provisions of the California Financial Code and California Corporation Code. Participation in the Credit Union is limited to those individuals who qualify for membership, which is defined in the Credit Union's Charter and Bylaws.

The Credit Union provides financial services through its branches in Sacramento and the surrounding counties. Its primary member share products are checking, savings, and term certificate accounts, and its primary lending products are residential real estate, vehicle, and commercial loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or member. However, the members' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Significant Accounting Policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes generally accepted accounting principles (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to GAAP issued by the FASB in these notes are to the *FASB Accounting Standards Codification*, commonly referred to as the Codification or ASC.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Subsequent Events: The Credit Union has evaluated all subsequent events for recognition and disclosure through March 7, 2025, the date on which the financial statements were available to be issued.

Concentrations of Credit Risk: Most of the Credit Union's business activity is with its members, many of whom live, work, or worship in the following counties: Amador, Alameda, Butte, Contra Costa, El Dorado, Nevada, Placer, Sacramento, San Joaquin, Solano, Sutter, Yolo, and Yuba. The Credit Union may be exposed to credit risk resulting from these geographic concentrations. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the geographic regions in which borrowers reside. Management continually monitors the Credit Union's operations, including the loan portfolio, for potential impairment and other accounting consequences associated with concentration risk.

Fair Value: The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

Cash and Cash Equivalents: For the purpose of the statements of financial condition and cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

Investments – Held-to-Maturity Securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale. As of December 31, 2024 and 2023, the Credit Union held no debt securities classified as held-to-maturity.

Investments – Available-for-Sale Securities: Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income or (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Credit Union evaluates available for sale securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Credit Union intends to sell an impaired available for sale security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. During the years ended December 31, 2024 and 2023, no allowance for credit losses nor impairment recognized in earnings related to available for sale investment securities was recorded.

Visa Class B Common Stock. The Credit Union obtained 27,843 of Visa Class B common stock that were issued by Visa to institutions that issued Visa debit or credit cards as part of their 2008 IPO. Visa B common stock had transfer restrictions and no readily available market or reliable price, resulting in a historical carrying value of \$0. In 2024 the Credit Union entered into a contract with a broker to sell all its shares of Visa B common stock, resulting in a gain on sale of \$10,525,000. The gain is recognized in Other Non-Interest Income on the Income Statement.

Other investments primarily consist of Federal Home Loan Bank (FHLB) stock and are classified separately and are stated at cost.

FHLB Stock: The Credit Union is a member of the FHLB of San Francisco and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. Cash dividends are reported as income when declared.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market, for which the fair value option has been elected, are recorded at fair value as of December 31, 2024 and 2023. The fair value includes the servicing value of the loans.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans includes the value of the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

Derivatives: A derivative contract of a recognized asset or liability or of an unrecognized firm commitment is accounted for as a fair value hedge. The gain or loss on a derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as the fair value changes. Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged.

The Credit Union formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Credit Union also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are designated are highly effective in offsetting changes in fair values of the hedged items. The Credit Union discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative is settled or terminates at the end of the contract, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income or expense. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

The Credit Union is exposed to losses if a counterparty fails to make its payments under a contract in which the Credit Union is in the net receiving position. The Credit Union anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All contracts to which the Credit Union is a party settle annually. In addition, the Credit Union obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon gross position of the hedge.

Mortgage Derivatives: Interest rate lock commitments (IRLC) for mortgage loans to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the IRLC is recorded at the time the rate is locked based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the rate lock commitment. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of To Be Announced (TBA) mortgage-backed securities (MBS). The forward sales commitments are typically entered into at the time the interest rate lock commitment is made. The value of the forward sales commitments moves in opposite direction of the value of the interest rate lock commitments and mortgage loans held for sale. Fair values of these mortgage derivatives are estimated based on changes in interest rates from the date of the interest rate lock commitment. The cash flows from these forward sales agreements are classified as operating activities in the statements of cash flows.

Loans, Net: The Credit Union grants mortgage, vehicle, commercial, and other consumer loans to members. In addition, the Credit Union purchases participation loans originated by various other credit unions and sells participation loans to other financial institutions. Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for credit losses and net deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

The accrual of interest income on all classes of loans other than credit cards is discontinued at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. In addition, interest is not recognized on commercial loans when interest is discontinued and the collection of both principal and interest is considered doubtful. Other personal loans are typically charged off at approximately 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued, but not collected, for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, payments have been made in accordance with the terms of the loan for approximately five months or more, future payments are reasonably assured, and the Credit Union elects accrual status. Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the estimated life of the loans.

Allowance For Credit Losses - Loans: The allowance for credit losses (ACL) is a valuation allowance for estimated expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit as of the balance sheet date. The allowance is established through a provision for credit losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

The ACL is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans, using relevant available information from internal and external sources, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. Historical credit loss experience also provides an initial reference point for the estimation of expected credit losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The starting point for the Credit Union's estimate was cumulative loss rates covering the contractual terms of the loans within portfolio segments that share similar risk characteristics. The cumulative loss rates used as the basis for estimate of credit losses is comprised of the calculated loss rate adjusted for qualitative factors. The calculated loss rate is estimated based on various factors including: the historical relationship between the unemployment rate and loan defaults from 2004 to 2023, excluding the six quarters of 2020 and early 2021 due to the COVID-19 pandemic, the forecasted unemployment rate, estimated loss given defaults, prepayment and curtailment speeds, and the recovery lag. The unemployment rate is forecasted for the next four quarters; afterwards it reverts to the long-term average using an eight-quarter straight-line reversion. Qualitative factor adjustments reflect management's belief that there exists, expected losses inherent in the portfolio, due to economic and external risk factors, which are not captured in the calculated expected loss rates.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS** (Continued)

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral.

The ACL on collateral dependent loans is measured using the fair value of the underlying collateral, adjusted for costs to sell when applicable, less the amortized cost basis of the financial asset. If the value of underlying collateral is determined to be less than the recorded amount of the loan, a charge-off will be taken. The ACL on borrowers experiencing financial difficulties is measured using the same method as all other portfolio loans. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the current interest rate of the loan.

The Credit Union has identified the following portfolio segments to evaluate and measure the ACL:

*Residential Real Estate* – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

*Commercial Real Estate* – Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate project and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

*Vehicle* – Vehicle loans are generally underwritten based on the creditworthiness of the borrowers and are secured by vehicles. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends and declining collateral values may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

*Credit Card and Other Consumer Loans* – Credit card and other consumer loans are generally unsecured and possess a higher risk of loss than other classes of loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating. For Credit Cards, the Credit Union's exposure to credit loss is represented by the outstanding balance of the commitments, as unfunded obligations are unconditionally cancellable by the Credit Union.

Loan Servicing: Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans where servicing is retained, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. The valuation allowance is reported in other assets. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans and is included in other noninterest income. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure is held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Property and Equipment: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the term of the related lease or the life of the asset.

Leases: The Credit Union records leases on the balance sheet at the lease commencement date in the form of a lease liability for the present value of future minimum payments under the lease terms, and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Credit Union could obtain for similar loans as of the date of commencement or renewal. The Credit Union does not record leases on the balance sheets that are classified as short term (less than one year).

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 cause the Credit Union to incur additional expenses. Substantially all the Credit Union's leases are comprised of operating leases in which the Credit Union is lessee of real estate property for branches and ATM locations.

The Credit Union has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

The Credit Union's variable lease expense includes rent escalators that are based on market conditions. Non-lease components include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. Total operating lease expense consists of lease costs allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, non-lease components, and any impairment of the right-of-use asset. Operating lease expenses are included in occupancy and equipment expense on the Credit Union's statements of income.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

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

Company-Owned Life Insurance: The Credit Union has purchased life insurance policies on certain key executives. Company-owned life insurance (COLI) is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. In 2024 the Credit Union funded \$980,000 in additional COLI. In 2023, the Credit Union liquidated two policies totaling \$8,294,000. Cash surrender values were \$35,186,000 and \$32,621,000 on December 31, 2024 and 2023, respectively, and are included in other assets on the statements of financial condition. Income earned on these policies, net of expenses, totaled \$1,585,000 and \$726,000 for the years ended December 31, 2024 and 2023, respectively.

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 federally insured credit union in an amount equal to one percent of its insured members' shares. The deposit would be refunded to the credit union if its insurance coverage were terminated, if it converts its insurance coverage to another source, or if management of the fund were transferred from the NCUA Board.

Goodwill and Other Intangible Assets: Identifiable assets, liabilities, and contingent liabilities in entities acquired are measured at fair value at the date of acquisition. Identifiable intangible assets are recognized if they can be separated or arise from a contractual right and the fair value can be reliably measured. Any excess of the cost of business combination over the fair value of the acquired identifiable assets, liabilities, and contingent liabilities is recognized as goodwill. Goodwill is assessed for impairment at least annually and more frequently if events or changes in circumstance indicate that the carrying value may not be recoverable. Goodwill is the only intangible asset with an indefinite life on the statements of financial condition. Other intangible assets consist of the premium recognized on the value of a book of client investment accounts acquired during 2015, which is amortized over the estimated life of the asset and evaluated for impairment on at least an annual basis.

Unfunded Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, issued to meet member financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded on the balance sheet when they are funded. There is no ACL associated with these financial instruments as they are unconditionally cancelable.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation.

Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

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(Continued)



SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)**

Marketing Costs: Marketing costs are expensed as incurred.

Income Taxes: The Credit Union is exempt, by statute, from federal income taxes. The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, the Credit Union is subject to taxes related to unrelated business income, certain excise expenses and political donations.

FASB Codification Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. For the years ended December 31, 2024 and 2023, management has determined that there are no material uncertain tax positions.

Retirement Plans: Employee 401(k) and profit-sharing plan expense is the amount of matching and discretionary contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

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, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management was not aware of any loss contingencies that will have a material effect on the financial statements.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or members' equity.

No new Accounting Standards were adopted in 2024.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 2 - INVESTMENTS**

Investments classified as available-for-sale consist of the following (in thousands):

<u>December 31, 2024</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ 6,138	\$ -	\$ (201)	\$ 5,937
U.S. Government sponsored agency Mortgage-backed securities, residential	<u>729,732</u>	<u>23</u>	<u>(82,749)</u>	<u>647,006</u>
	<u>\$ 735,870</u>	<u>\$ 23</u>	<u>\$ (82,950)</u>	<u>\$ 652,943</u>
<u>December 31, 2023</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ 6,947	\$ -	\$ (404)	\$ 6,543
U.S. Government sponsored agency Mortgage-backed securities, residential	<u>876,323</u>	<u>2</u>	<u>(92,911)</u>	<u>783,414</u>
	<u>\$ 883,270</u>	<u>\$ 2</u>	<u>\$ (93,315)</u>	<u>\$ 789,957</u>

There was no allowance for credit losses recorded for available-for-sale securities for the year ended December 31, 2024 and 2023, respectively.

During the period ended December 31, 2024 the Credit Union sold available-for-sale securities with a carrying value of \$38,308,000, resulting in a gross loss of \$5,995,000. The loss is recognized in Other Non-Interest Income on the Income Statement. There were no sales or calls of securities for the year ended December 31, 2023.

Investments by maturity as of December 31, 2024 are summarized as follows (in thousands):

	<u>Available-for-Sale</u>		
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Other</u>
No contractual maturity	\$ -	\$ -	\$ 15,057
U.S. Government sponsored agency collateralized mortgage obligations, residential	6,138	5,937	-
U.S. Government sponsored agency mortgage-backed securities, residential	<u>729,732</u>	<u>647,006</u>	<u>-</u>
	<u>\$ 735,870</u>	<u>\$ 652,943</u>	<u>\$ 15,057</u>

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 2 - INVESTMENTS** (Continued)

Investments by maturity as of December 31, 2023, are summarized as follows (in thousands):

	<u>Available-for-Sale</u>		
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Other</u>
No contractual maturity	\$ -	\$ -	\$ 15,057
U.S. Government sponsored agency collateralized mortgage obligations, residential	6,947	6,543	-
U.S. Government sponsored agency mortgage-backed securities, residential	<u>876,323</u>	<u>783,414</u>	<u>-</u>
	<u>\$ 883,270</u>	<u>\$ 789,957</u>	<u>\$ 15,057</u>

Expected maturities of U.S. Government sponsored agency collateralized mortgage obligations and U.S. Government sponsored agency mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are therefore classified separately with no specific maturity date. FHLB stock and certain other investments have been classified with no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position were as follows (in thousands):

	<u>Fair Value Associated With Unrealized Losses Existing for:</u>		<u>Continuous Unrealized Losses Existing for:</u>		<u>Total Unrealized Losses</u>
	<u>Less Than 12 Months</u>	<u>12 Months or Longer</u>	<u>Less Than 12 Months</u>	<u>12 Months or Longer</u>	
<u>December 31, 2024</u>					
Available-for-sale:					
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ -	\$ 5,937	\$ -	\$ (201)	\$ (201)
U.S. Government sponsored agency mortgage-backed securities, residential	<u>22,149</u>	<u>615,754</u>	<u>(41)</u>	<u>(82,708)</u>	<u>(82,749)</u>
Total available-for-sale	<u>\$ 22,149</u>	<u>\$ 621,691</u>	<u>\$ (41)</u>	<u>\$ (82,909)</u>	<u>\$ (82,950)</u>

	<u>Fair Value Associated With Unrealized Losses Existing for:</u>		<u>Continuous Unrealized Losses Existing for:</u>		<u>Total Unrealized Losses</u>
	<u>Less Than 12 Months</u>	<u>12 Months or Longer</u>	<u>Less Than 12 Months</u>	<u>12 Months or Longer</u>	
<u>December 31, 2023</u>					
Available-for-sale:					
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ 1,091	\$ 5,452	\$ (41)	\$ (364)	\$ (405)
U.S. Government sponsored agency mortgage-backed securities, residential	<u>-</u>	<u>779,951</u>	<u>-</u>	<u>(92,910)</u>	<u>(92,910)</u>
Total available-for-sale	<u>\$ 1,091</u>	<u>\$ 785,403</u>	<u>\$ (41)</u>	<u>\$ (93,274)</u>	<u>\$ (93,315)</u>

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 2 - INVESTMENTS (Continued)**

At December 31, 2024 the investment portfolio included 97 securities, 3 which had a current unrealized gain that has existed for less than one year, 1 which had a current unrealized gain that has existed for more than one year, 4 which had a current unrealized loss that has existed for less than one year, and 89 of which had unrealized losses that have existed for more than one year. All the securities were considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

The Credit Union did not have any credit losses embedded in the 2024 or 2023 available-for-sale securities.

Other investments consist of the following on December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
FHLB stock	\$ 15,000	\$ 15,000
Other investments	<u>57</u>	<u>57</u>
	<u>\$ 15,057</u>	<u>\$ 15,057</u>

The fair value of other investments and FHLB stock is not practical to determine due to restrictions placed on its transferability.

The Credit Union views its investment in the FHLB stock as a long-term investment, is carried at cost and evaluated for impairment. The Credit Union reviews the FHLB of San Francisco's financial statements when released and based on certain factors, management has concluded that the stock was not impaired on December 31, 2024 or 2023.

Securities totaling \$327,237,000 and \$358,410,000 have been pledged as collateral to secure borrowings with the Federal Reserve Bank of San Francisco, as disclosed in Note 8 on December 31, 2024 and 2023, respectively. Securities totaling \$301,719,000 and \$360,041,000 are available to be pledged as collateral to secure FHLB advances, as more fully disclosed in Note 8, on December 31, 2024 and 2023, respectively.

**NOTE 3 - LOANS**

Loans consist of the following on December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Residential real estate	\$ 1,792,447	\$ 1,820,851
Commercial	354,101	324,242
Vehicle	861,817	1,031,393
Credit card and other consumer	<u>121,315</u>	<u>123,187</u>
Loans receivable, gross	3,129,680	3,299,673
Deferred net loan origination costs	10,512	16,158
Allowance for credit losses	<u>(27,080)</u>	<u>(29,531)</u>
	<u>\$ 3,113,112</u>	<u>\$ 3,286,300</u>

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 3 - LOANS** (Continued)

The following presents, by portfolio segment, the changes in the ACL, for the years ended December 31, 2024 and 2023, respectively (in thousands):

<u>December 31, 2024</u>	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Vehicle</u>	<u>Credit Card and Other Consumer</u>	<u>Total</u>
Allowance for credit losses:					
Beginning balance	\$ 15,599	\$ 8,311	\$ 3,174	\$ 2,447	\$ 29,531
Provision for credit losses	(2,162)	(6,409)	6,804	9,874	8,107
Charge-offs	-	(79)	(6,644)	(6,233)	(12,956)
Recoveries	53	12	1,765	568	2,398
Ending Balance	<u>\$ 13,490</u>	<u>\$ 1,835</u>	<u>\$ 5,099</u>	<u>\$ 6,656</u>	<u>\$ 27,080</u>
<u>December 31, 2023</u>	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Vehicle</u>	<u>Credit Card and Other Consumer</u>	<u>Total</u>
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	\$ 5,964	\$ 1,618	\$ 6,876	\$ 3,529	\$ 17,987
Impact of adopting ASC326	8,442	4,138	(2,050)	(139)	10,391
Provision for credit losses	1,161	2,679	1,742	4,398	9,980
Charge-offs	-	(130)	(4,885)	(5,801)	(10,816)
Recoveries	32	6	1,491	460	1,989
Ending Balance	<u>\$ 15,599</u>	<u>\$ 8,311</u>	<u>\$ 3,174</u>	<u>\$ 2,447</u>	<u>\$ 29,531</u>

The following tables present the book value of loans on nonaccrual status and loans past due 90 or more days still accruing as of December 31, 2024 and 2023:

<u>December 31, 2024</u>	<u>Nonaccrual With No Allowance for Credit Loss</u>	<u>Nonaccrual</u>	<u>Loans Past Due 90 or More Days Still Accruing</u>
Residential real estate	\$ 1,496	\$ 4,568	\$ -
Commercial	1,508	1,508	-
Vehicle	-	5,457	-
Credit card and other consumer	-	57	316
Total	<u>\$ 3,004</u>	<u>\$ 11,590</u>	<u>\$ 316</u>

<u>December 31, 2023</u>	<u>Nonaccrual With No Allowance for Credit Loss</u>	<u>Nonaccrual</u>	<u>Loans Past Due 90 or More Days Still Accruing</u>
Residential real estate	\$ -	\$ 9,189	\$ -
Commercial	1,615	1,615	-
Vehicle	-	2,643	-
Credit card and other consumer	-	42	438
Total	<u>\$ 1,615</u>	<u>\$ 13,489</u>	<u>\$ 438</u>

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

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**NOTE 3 - LOANS (Continued)**

The following tables present the book value of collateral-dependent loans by class of loans as of December 31, 2024 (in thousands):

	<u>Collateral Dependent Loans</u>
Residential real estate	\$ 1,718
Commercial and small business	1,508
Vehicle	-
Credit card and other consumer	<u>-</u>
Total	<u>\$ 3,226</u>

The following tables present the book value of collateral-dependent loans by class of loans as of December 31, 2023 (in thousands):

	<u>Collateral Dependent Loans</u>
Residential real estate	\$ -
Commercial and small business	1,615
Vehicle	-
Credit card and other consumer	<u>-</u>
Total	<u>\$ 1,615</u>

The Credit Union has nine collateral dependent residential real estate loans and two collateral dependent commercial loans with outstanding book values of \$1,718,000 and \$1,508,000 on December 31, 2024. These loans are collateralized by residential real estate and commercial real estate with valuations totaling \$6,000,000 and \$3,500,000, respectively. The Credit Union had two collateral dependent commercial loans with outstanding book values of \$1,615,000 on December 31, 2023. These loans were collateralized by commercial real estate with valuations totaling \$3,500,000. These loans are determined to be collateral dependent because repayment is expected to come from the sale or operation of the collateral securing the loans, rather than from cash flow from the borrowers. Based on the analysis, there is no required reserve on these loans.

Occasionally, the Credit Union modifies loans to borrowers in financial distress by providing term extensions, interest rate reductions and principal forgiveness. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses, unless ordered otherwise by a legal judgement.

In some cases, the Credit Union provides multiple types of concessions on one loan. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness and/or an interest rate reduction.

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

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 3 - LOANS (Continued)**

	<u>Principal Forgiveness</u>	<u>Payment Delay</u>	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Combination Principal Forgiveness and Interest Rate Reduction</u>	<u>Combination Term Extension and Interest Rate Reduction</u>	<u>Total Class of Financing Receivable</u>
Residential real estate	\$ -	\$ 1,260	\$ -	\$ -	\$ -	\$ -	0.07%
Commercial and small business	-	-	-	-	-	-	-
Vehicle	47	-	110	24	5	101	0.03%
Commercial	-	-	-	-	-	-	-
Credit card and other consumer	-	-	-	-	-	37	0.03%
<b>Total</b>	<u>\$ 47</u>	<u>\$ 1,260</u>	<u>\$ 110</u>	<u>\$ 24</u>	<u>\$ 5</u>	<u>\$ 138</u>	<u>0.13%</u>

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

	<u>Principal Forgiveness</u>	<u>Payment Delay</u>	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Combination Principal Forgiveness and Interest Rate Reduction</u>	<u>Combination Term Extension and Interest Rate Reduction</u>	<u>Total Class of Financing Receivable</u>
Residential real estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Commercial and small business	-	-	-	-	-	-	-
Vehicle	9	-	110	-	3	49	0.02%
Commercial	-	-	-	-	-	-	-
Credit card and other consumer	-	-	-	-	-	-	-
<b>Total</b>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 110</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 49</u>	<u>0.02%</u>

The Credit Union has committed to lend additional amounts totaling \$69,000 in 2024 and \$0 in 2023 to the borrowers included in the previous tables.

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

	<u>30 - 59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 89 Days Past Due</u>	<u>Total Past Due</u>
Residential real estate	\$ -	\$ -	\$ -	\$ -
Vehicle	-	12	22	34
Commercial	-	-	-	-
Credit card and other consumer	-	-	-	-
<b>Total</b>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 22</u>	<u>\$ -</u>

The loans that were modified in the last 12 months were all current to the modified terms as of December 31, 2023.

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands)

**NOTE 3 - LOANS** (Continued)

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

	<u>Principal Forgiveness</u>	<u>Weighted Average Interest Rate Reduction</u>	<u>Weighted Average Term Extension (In Months)</u>
Residential real estate	\$ -	-	\$ -
Vehicle	18	(2.94%)	55
Commercial	-	-	-
Credit card and other consumer	-	-	-
Total	<u>\$ 18</u>	<u>\$ (2.94%)</u>	<u>\$ 55</u>

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

	<u>Principal Forgiveness</u>	<u>Weighted Average Interest Rate Reduction</u>	<u>Weighted Average Term Extension (In Months)</u>
Residential real estate	\$ -	-	\$ -
Vehicle	11	(3.69%)	39
Commercial	-	-	-
Credit card and other consumer	-	-	-
Total	<u>\$ 11</u>	<u>\$ (3.69%)</u>	<u>\$ 39</u>

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

	<u>Principal Forgiveness</u>	<u>Payment Delay</u>	<u>Term Extension</u>	<u>Interest Rate Reduction</u>
Residential real estate	\$ -	\$ -	\$ -	\$ -
Vehicle	5	-	10	19
Commercial	-	-	-	-
Credit card and other consumer	-	-	-	-
Total	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 19</u>

There were no loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

(Continued)



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**NOTE 3 - LOANS (Continued)**

**Credit Quality Indicators:**

The Credit Union categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Credit Union analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$50,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Credit Union's internal risk grading system definitions are as follows:

- Satisfactory—loans that are protected by the current net worth and paying capacity of the obligor(s) or by the value of the underlying collateral.
- Special Mention—loans with potential weaknesses that require close attention. If left uncorrected, the weaknesses may result in deterioration of the repayment prospects for the asset, or in the future loan credit position.
- Substandard—loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.
- Doubtful—a loan classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: sale or liquidation actions; other forms of income or assistance; perfecting liens on collateral; and refinancing plans.
- Loss—a loan classified as a loss is considered uncollectible and of such little value that its continuance as a loan is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this asset even though partial recovery may occur in the future.

Commercial loans less than \$50,000 are pass rated at origination and are included in groups of homogeneous loans. Loans less than \$50,000 that become 30 days delinquent will automatically be rated Substandard and loans delinquent 60 days or more will be rated doubtful. Despite classification, they will remain in the pool of homogeneous loans and not individually evaluated.

The following presents, by credit quality indicator, the commercial portfolio as of December 31, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Satisfactory	\$ 348,678	\$ 315,563
Special mention	2,120	6,413
Substandard	3,303	2,263
Doubtful	-	3
Loss	-	-
	<u>\$ 354,101</u>	<u>\$ 324,242</u>

(Continued)

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**NOTE 3 - LOANS** (Continued)

Management reviews the performance of the loan portfolio on a regular basis. Non-commercial loans are evaluated on the basis of performing and nonperforming status. Nonperforming loans are defined as being greater than 60 days past due.

The following presents, by credit quality indicator, the residential real estate, vehicle, and credit card and other consumer loan portfolio as of December 31, 2024 and 2023 (in thousands):

<u>December 31, 2024</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Residential real estate	\$ 1,785,856	\$ 6,591	\$ 1,792,447
Vehicle	856,036	5,781	861,817
Credit card and other consumer	<u>120,406</u>	<u>909</u>	<u>121,315</u>
	<u>\$ 2,762,298</u>	<u>\$ 13,281</u>	<u>\$ 2,775,579</u>
<u>December 31, 2023</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Residential real estate	\$ 1,811,693	\$ 9,158	\$ 1,820,851
Vehicle	1,026,534	4,859	1,031,393
Credit card and other consumer	<u>122,054</u>	<u>1,133</u>	<u>123,187</u>
	<u>\$ 2,960,281</u>	<u>\$ 15,150</u>	<u>\$ 2,975,431</u>

The following represents an aging analysis of past due loans as of December 31, 2024 and 2023 (in thousands):

<u>December 31, 2024</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loan Receivable, Gross</u>	<u>Loans in Which Interest Has Been Discontinued</u>
Residential real estate	\$ 7,956	\$ 3,051	\$ 3,540	\$ 14,547	\$ 1,777,900	\$ 1,792,447	\$ 4,568
Commercial	3	-	-	3	354,098	354,101	1,508
Vehicle	10,819	3,344	2,437	16,600	845,217	861,817	5,457
Credit card and other consumer	<u>1,257</u>	<u>552</u>	<u>357</u>	<u>2,166</u>	<u>119,149</u>	<u>121,315</u>	<u>57</u>
	<u>\$ 20,035</u>	<u>\$ 6,947</u>	<u>\$ 6,334</u>	<u>\$ 33,316</u>	<u>\$ 3,096,364</u>	<u>\$ 3,129,680</u>	<u>\$ 11,590</u>
<u>December 31, 2023</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loan Receivable, Gross</u>	<u>Loans in Which Interest Has Been Discontinued</u>
Residential real estate	\$ 8,296	\$ 828	\$ 8,330	\$ 17,454	\$ 1,803,397	\$ 1,820,851	\$ 9,189
Commercial	1,923	3	-	1,926	322,316	324,242	1,615
Vehicle	12,934	2,733	2,126	17,793	1,013,600	1,031,393	2,643
Credit card and other consumer	<u>1,235</u>	<u>663</u>	<u>470</u>	<u>2,368</u>	<u>120,819</u>	<u>123,187</u>	<u>42</u>
	<u>\$ 24,388</u>	<u>\$ 4,227</u>	<u>\$ 10,926</u>	<u>\$ 39,541</u>	<u>\$ 3,260,132</u>	<u>\$ 3,299,673</u>	<u>\$ 13,489</u>

There were \$316,000 and \$438,000 in loans that were on accrual status and 90 days or more past due on December 31, 2024 and 2023, respectively.

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 - LOAN SERVICING**

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans on December 31, are summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Mortgage loan portfolios serviced for others	\$ 770,617	\$ 744,100

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in member shares, were \$4,366,000 and \$4,219,000 on December 31, 2024 and 2023, respectively.

Mortgage servicing rights are recorded within other assets on the statements of financial condition. A summary of the changes in the balance of mortgage servicing rights for the years ended December 31 was as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Balance, beginning of the year	\$ 5,715	\$ 5,722
Servicing assets recognized during the year	687	649
Amortization of servicing rights	(864)	(764)
Change in valuation allowance	<u>30</u>	<u>108</u>
Balance, end of year	<u>\$ 5,568</u>	<u>\$ 5,715</u>
Fair value of mortgage servicing rights	<u>\$ 8,193</u>	<u>\$ 8,102</u>

The aggregate changes in the valuation allowances for mortgage servicing rights for the years ended December 31, were as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Balance, beginning of the year	\$ 286	\$ 394
Additions	291	172
Reductions	<u>(321)</u>	<u>(280)</u>
Balance, end of year	<u>\$ 256</u>	<u>\$ 286</u>

The key economic assumptions used in determining the fair value of mortgage servicing rights on December 31, were as follows:

	<u>2024</u>	<u>2023</u>
Prepayment speed	15.75%	15.09%
Weighted-average life (years)	7.03	7.83
Yield to maturity discount rate	10.50%	11.38%

(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - PROPERTY AND EQUIPMENT, NET**

Property and equipment on December 31 are summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Land	\$ 10,023	\$ 10,023
Building	49,241	48,674
Leasehold improvements	3,824	4,137
Furniture and equipment	<u>47,283</u>	<u>48,017</u>
	110,371	110,851
Accumulated depreciation and amortization	<u>(58,366)</u>	<u>(57,144)</u>
	<u>\$ 52,005</u>	<u>\$ 53,707</u>

Depreciation and amortization expense was \$4,476,000 and \$4,809,000 for 2024 and 2023, respectively.

**NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS**

The Credit Union completed a merger transaction with American River HealthPro Credit Union that became effective on July 1, 2009. This merger was accounted for as a purchase business combination. As the purpose of this merger was to achieve growth and economies of scale among these mutual enterprises, no payment considerations were involved, contingent or otherwise. The goodwill of \$13,282,000 associated with this merger, arising from expected synergies from the combined operations, for the years ended December 31, 2024 and 2023, is subject to an annual impairment test. Management assesses goodwill for impairment on November 30, 2024 and has determined that there was no goodwill impairment for 2024 or 2023.

In 2015, the Credit Union purchased a book of client investment accounts, which resulted in an intangible asset of \$196,000 as of December 31, 2015. This intangible asset is amortized over a period of 10 years beginning January 2016. During the fourth quarter of 2017, it was determined that the client investment accounts were not performing as originally expected. Analysis indicated that future earnings were less than the carrying amount resulting in an other-than-temporary impairment write down of \$58,000, which was recorded in other noninterest expense. The remaining amortization period on this intangible was not impacted. The intangible asset balance related to the purchase of client investment accounts was \$12,000 and \$25,000 for the years ended December 31, 2024 and 2023, respectively.

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(Continued)

SAFE CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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(Dollar amounts in thousands)

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**NOTE 7 - MEMBERS' AND PUBLIC UNIT SHARES**

Members' shares on December 31 are summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Regular share accounts	\$ 650,682	\$ 710,255
Share draft accounts	869,063	876,583
Money market accounts	1,439,537	1,371,847
Certificate accounts	813,893	861,291
Individual retirement accounts	30,595	33,972
Individual retirement certificate accounts	<u>80,526</u>	<u>79,367</u>
	<u>\$ 3,884,296</u>	<u>\$ 3,933,315</u>

Certificates by maturity as of December 31, 2024 are summarized as follows (in thousands):

Zero to one year maturity	\$ 813,714
One to two years maturity	44,804
Two to three years maturity	13,331
Three to four years maturity	10,590
Four to five years maturity	11,623
Over five years maturity	<u>357</u>
	<u>\$ 894,419</u>

Regular share accounts, share draft accounts, money market accounts, and individual retirement accounts have no contractual maturity. Certificate accounts have maturities of six years or less.

The NCUSIF ensures members' shares, including individual retirement accounts up to \$250,000.

The aggregate amount of certificate accounts in denominations of \$250,000 or more on December 31, 2024 and 2023 was \$210,793,000 and \$226,296,000, respectively.

On December 31, 2024 and 2023, overdraft demand shares reclassified to loans totaled \$1,674,000 and \$1,487,000, respectively.

The Credit Union maintains public unit money market and certificate share accounts. These funds are interest bearing and subject to immediate withdrawal for money market accounts or at maturity for certificates. The balance in public unit share accounts was \$31,079,000 and \$31,081,000 on December 31, 2024 and 2023, respectively.

The Credit Union has pledged collateral for public unit shares in the form of letter of credit agreements totaling \$34,050,000 on December 31, 2024 and 2023. The letters of credit are collateralized by first mortgage loans under a blanket lien arrangement with the FHLB. The letters of credit are as follows (in thousands):

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(Continued)

SAFE CREDIT UNION  
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**NOTE 7 - MEMBERS' AND PUBLIC UNIT SHARES** (Continued)

	<u>2024</u>	<u>2023</u>
Maturing April 2025, with an annual maintenance charge of 10 basis points	\$ 33,025	\$ -
Maturing November 2025, with an annual maintenance charge of 10 basis points	\$ 1,025	\$ -
Maturing April 2024 with an annual maintenance charge of 10 basis points	\$ -	\$ 33,025
Maturing November 2024 with an annual maintenance charge of 10 basis points	\$ -	\$ 1,025

**NOTE 8 - BORROWINGS ARRANGEMENTS**

Advances at the Federal Home Loan Bank can be collateralized by either first mortgage loans under a blanket lien arrangement or by certain investments held in safekeeping by the FHLB. At December 31, 2024 and 2023, the Credit Union had no advances collateralized by first mortgage loans.

There were no advances from the Federal Home Loan Bank on December 31, 2024.

Based on the collateral currently pledged and the Credit Union's holdings of FHLB stock, the Credit Union is eligible to borrow up to a total of \$1,246,165,000 at year-end 2024.

The Federal Reserve Board authorized the Federal Reserve Bank of San Francisco (FRBSF) to establish the Bank Term Funding Program (BTFFP) in 2023 to make available additional funding against high-quality securities. In 2024 the BTFFP was discontinued and new advances were no longer available. The eligible collateral under the BTFFP was limited to collateral eligible for purchase by the Federal Reserve in open market per 12 CFR 201.108(b) and valued at its par value. Advances are prepayable with all principal and interest due at time of payoff, or at maturity. The rate for term advances under the BTFFP was the one-year overnight index swap rate plus 10 basis points on December 31, 2023, and at refinancing of the borrowings in January of 2024. The Credit Union paid off its advance in the latter half of 2024. On December 31, 2024 and 2023 the Credit Union had a term advance collateralized by government backed investment securities held in safekeeping at FRBSF of \$0 and \$300,000,000.

The Credit Union is also authorized to use the Discount Window with the FRBSF to borrow money on the terms and security required per the FRBSF's Operating Circular No. 10, effective July 16, 2013, as amended and supplemented from time to time thereafter ("OC-10"). The agreement is reviewed for continuation by the FRBSF and the Credit Union annually.

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(Continued)

SAFE CREDIT UNION  
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**NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES**

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

The Credit Union has approved 1<sup>st</sup> mortgage residential real estate and equity loans in processing that were not yet funded on December 31, 2024 and 2023 of \$4,655,000 and \$7,851,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Residential real estate	\$ 114,603	\$ 98,029
Commercial	1,918	2,554
Credit card and other consumer	<u>480,652</u>	<u>446,900</u>
	<u>\$ 597,173</u>	<u>\$ 547,483</u>

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 and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

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(Continued)

SAFE CREDIT UNION  
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**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Credit Union is party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

On August 13, 2019, the Credit Union entered into a non-cancellable Agreement with the City of Sacramento for Naming Rights to the City of Sacramento's Convention Center and Performing Arts District. The agreement calls for the Credit Union to make annual payments over a twenty-five-year period beginning in 2019 with total payments of \$22,988,000 to be paid by the Credit Union over the life of the contract. As of December 31, 2024 there was \$18,150,000 remaining to be paid under the Naming Rights Agreement as follows (in thousands):

Years Ending December 31, <u>    </u>		
2025	\$	850
2026		850
2027		850
2028		850
2029		950
Subsequent Years		<u>13,800</u>
	<u>\$</u>	<u>18,150</u>

As part of the Naming Rights agreement, the City of Sacramento maintains \$30,000,000 in interest bearing deposits with the Credit Union. Total deposits were \$30,076,000 on December 31, 2024 due to interest earned through year-end. These deposits are treated as public unit shares.

**NOTE 11 - EMPLOYEE BENEFITS**

The Credit Union has a defined-contribution 401(k) benefit and profit-sharing plan and a 457(b) plan, where substantially all or certain employees can defer a portion of their salary into the plans. The Credit Union is not required to make matching and profit-sharing contributions to the 401(k) plan. All benefit plan and profit-sharing plan costs are accrued and funded on a current basis. The Credit Union voluntarily contributed \$2,287,000 and \$2,396,000 to the 401(k) plan for the years ended December 31, 2024 and 2023, respectively. In 2023, the Credit Union began making contributions to the 457(b) plans on behalf of certain executives. The expense recognized under these plans was \$23,000 and \$130,000 in 2024 and 2023, respectively.

The Credit Union maintains supplemental executive retirement plans to provide certain retirement benefits for key executives. The contributions into the plans are either accrued as compensation expense and funded on a current basis or recognized as additional COLI. The expense recognized under these plans was \$454,000 and \$269,000 for the years ended December 31, 2024 and 2023, respectively. The Credit Union had \$148,000 and \$52,000 accrued under these plans on December 31, 2024 and 2023, respectively.

The Credit Union recognized \$2,764,000 and \$2,795,000 in compensation and benefit expense for all plans for the years ended December 31, 2024 and 2023, respectively.

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(Continued)



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**NOTE 12 - MEMBERS' EQUITY**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA and the California Department of Financial Protection and Innovation (DFPI). 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 that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2022, all federally insured, natural person credit unions defined as "complex" are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as "complex" and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed \$500 million, as reflected in its most recent call report. A "complex" credit union may calculate its risk-based capital measure either by using the risk-based capital ratio, or for a qualifying complex credit union, opting into the CCULR framework. To be considered well-capitalized by the NCUA, credit unions will have to have a minimum RBC ratio of 10%, as well as a net worth to assets ratio of 7% (or opt into the CCULR framework and have a net worth of 9% or greater).

As of December 31, 2024 the Credit Union followed the RBC rule. The Credit Union's RBC ratio and net worth ratio was 15.99 percent and 9.98 percent, respectively, as of December 31, 2024. The Credit Union's RBC ratio and net worth ratio as of December 31, 2023, was 14.60 percent and 8.81 percent respectively. The Credit Union is classified as a "well capitalized" institution on December 31, 2024 and 2023. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Other appropriated retained earnings represent a restriction of retained earnings as established by the Board of Directors.

**NOTE 13 - RELATED-PARTY TRANSACTIONS**

In the normal course of business, the Credit Union extends credit to the Board of Directors and executive officers. The aggregate loans to related parties on December 31, 2024 and 2023 were \$2,174,000 and \$2,386,000, respectively. Member shares from related parties on December 31, 2024 and 2023 amounted to \$685,000 and \$2,815,000, respectively.

**NOTE 14 - DERIVATIVES**

The Credit Union utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Credit Union had interest rate swaps with notional amounts totaling \$10,000,000 as of December 31, 2024. The Credit Union entered into a two-year interest rate swap agreement with a notional amount of \$10,000,000 designated as a fair value hedge of certain fixed rate real estate loans. The hedge was determined to be effective for 2024 and is expected to remain so over the remaining term of the swap.

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(Continued)

SAFE CREDIT UNION  
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**NOTE 14 - DERIVATIVES** (Continued)

The following table presents the amounts recorded on the balance sheet related to the cumulative basis adjustments for the fair value hedge as of December 31, 2024 (in thousands):

<u>Line Item in the Balance Sheet in Which the Hedge Item is Included</u>	Carrying Amount of the Hedge Assets (Liabilities) <u>2024</u>	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities) <u>2024</u>
Loans, net of Allowance	\$ <u>24,044</u>	\$ <u>81</u>

The amounts above represent the amortized cost basis of the closed portfolio used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedge period. On December 31, 2024 and 2023, the amortized cost of the closed portfolio used in the hedging relationship was \$23,963,000 and \$0, respectively, inclusive of accrued interest. The cumulative basis adjustment associated with the hedging relationship was \$81,000 and \$0, and the amounts of the designated hedged items were \$10,000,000 and \$0, on December 31, 2024 and 2023, respectively.

The Credit Union presents derivative positions gross on the balance sheet. The following table reflects the derivative recorded on the balance sheet as of December 31, 2024 (in thousands):

<u>Included in other liabilities:</u>	Notional Amount <u>2024</u>	Fair Value <u>2024</u>
Derivatives designated as hedging instruments:		
Interest rate swaps on fixed rate real estate loans	\$ <u>10,000</u>	\$ <u>56</u>

The total fair value of the swap liability of \$56,000 includes accrued interest of \$25,000.

The effect of fair value hedge accounting on the statements of income for the years ended December 31, 2024 are as follows (in thousands):

	Location and Amount of Gain or Loss Recognized in Income on Fair Value Hedging Relationships Interest Income <u>2024</u>
Gain (Loss) on Fair Value Hedging	
Hedged items	\$ 81
Interest rate contracts designated as hedging relationships	\$ (56)

(Continued)

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**NOTE 14 - DERIVATIVES** (Continued)

The Credit Union is an active participant in the production of mortgage loans that are sold to government sponsored entities (GSE), such as Fannie Mae. These loans are classified as Loans Held for Sale in the Credit Union's Statements of Financial Condition. The value of the Credit Union's IRLCs is exposed to the risk of adverse changes in interest rates between the time of commitment and the time the Credit Union funds the loan at origination. The Credit Union is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered to the GSE. Beginning in 2017, to offset this exposure, the Credit Union entered forward sales commitments to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). These forward sales commitments act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans. The Credit Union does not account for these mortgage derivatives as qualifying accounting hedges and therefore accounts for them as economic hedges. The Credit Union records IRLCs and forward sales commitments as derivative instruments at fair value in its Statements of Financial Condition and records changes in the fair value of those mortgage derivative instruments in current earnings.

On December 31, 2024 and 2023, the Credit Union had interest rate lock commitments of \$7,682,000 and \$17,161,000, respectively, and forward sales commitments for the future delivery of residential mortgage loans totaling \$39,200,000 and \$17,800,000, respectively. The fair value of these mortgage derivatives was reflected by a net derivative asset of \$630,000 and \$164,000 on December 31, 2024 and 2023, respectively. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage derivatives are included in net gains on sales of loans.

The net gains and losses relating to free-standing derivative instruments used for risk management are summarized below as of December 31 (in thousands):

	<u>Location</u>	<u>2024</u>	<u>2023</u>
Forward commitments related to mortgage loans held for sale	Net gain (loss) on sale	\$ 615	\$ (177)
Interest rate lock commitments	Net (loss) gain on sale	\$ (344)	\$ 351

The following tables reflects the amount and fair value of mortgage derivatives included in the Statement of Financial Condition as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Included in other assets:		
Forward commitments related to mortgage loans held for sale	\$ 609	\$ -
Interest rate lock commitments	<u>49</u>	<u>365</u>
Total included in other assets	<u>\$ 658</u>	<u>\$ 365</u>
Included in other liabilities:		
Forward commitments related to mortgage loans held for sale	\$ -	\$ 201
Interest rate lock commitments	<u>27</u>	<u>-</u>
Total included in other liabilities	<u>\$ 27</u>	<u>\$ 201</u>

(Continued)

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**NOTE 15 - FAIR VALUE**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as: quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investments Available-for-Sale: The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument (level 2 inputs).

Loans Held for Sale: The fair value of loans held for sale is determined based on an evaluation of best execution forward sales contract prices sourced from the TBA market, by agency (level 2 inputs).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of the derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party services.

Mortgage Derivatives: The derivative instruments consist of IRLC and forward sale commitments that trade in liquid markets. IRLCs are valued according to prices obtained from the GSE and based on mandatory delivery for a delivery period that corresponds with the number of days remaining in the IRLC. Loan level pricing adjustments, if applicable based on the characteristics of the loan, are added to the price (level 2 inputs). Prices for forward commitments are obtained from the purchasing agency based on loans allocated to the commitments. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgement (level 2 inputs).

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(Continued)

SAFE CREDIT UNION  
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**NOTE 15 - FAIR VALUE** (Continued)

Fair Value on a Recurring Basis: The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	2024			
<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ 5,937	\$ -	\$ 5,937	\$ -
U.S. Government sponsored agency mortgage-backed securities, residential	647,006	-	647,006	-
Loans held for sale, at fair value	33,331	-	33,331	-
Mortgage derivatives (net)	<u>630</u>	<u>-</u>	<u>630</u>	<u>-</u>
	<u>\$ 686,904</u>	<u>\$ -</u>	<u>\$ 686,904</u>	<u>\$ -</u>
 <u>Liabilities</u>				
Interest rate swap derivatives	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>
	2023			
<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government sponsored agency collateralized mortgage obligations, residential	\$ 6,543	\$ -	\$ 6,543	\$ -
U.S. Government sponsored agency mortgage-backed securities, residential	783,414	-	783,414	-
Loans held for sale, at fair value	8,203	-	8,203	-
Mortgage derivatives (net)	<u>164</u>	<u>-</u>	<u>164</u>	<u>-</u>
	<u>\$ 798,324</u>	<u>\$ -</u>	<u>\$ 798,324</u>	<u>\$ -</u>
 <u>Liabilities</u>				
Interest rate swap derivatives	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

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**NOTE 15 - FAIR VALUE** (Continued)

Financial Instruments Recorded Using Fair Value Option: The Credit Union has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Credit Union believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on contractual terms of the loan and in accordance with the Credit Union's policy on mortgage loans held for investment. None of these loans are 90 days or more past due or non-accrual as of December 31, 2024 and 2023 (in thousands).

	<u>2024</u>	<u>2023</u>
Aggregate fair value	\$ 33,331	\$ 8,203
Contractual balance	33,601	7,988
Gain (loss)	(270)	215

Fair Value on a Nonrecurring Basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis. The instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were no instruments carried on the Statement of Financial Condition as of December 31, 2024 and 2023 where a nonrecurring change in fair value was recorded.

Individually Evaluated Loans: The Credit Union records collateral dependent loans at fair value on a non-recurring basis. The fair value of individually evaluated loans is estimated by either an observable market price (if available) or the fair value of the underlying collateral, less selling costs. The fair value of collateral is determined periodically by third party asset valuation models for residential loans and appraisals (by licensed appraisers) for commercial loans. Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Appraisals conducted on collateral securing commercial loans utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, size and quality. Unobservable market data also includes liquidation discounts estimated by appraisers or management.

Appraisals for collateral-dependent loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Credit Union. For commercial properties, the Credit Union reviews the assumptions and approaches utilized in the appraisal to determine the reasonableness of the overall resulting fair value. For residential properties, the appraised value is compared to other sources including Broker Price Opinions and Automated Valuation Models to validate the reasonableness of the appraised amount. On an annual basis, the Credit Union obtains an updated appraisal for collateral-dependent loans and compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

There were no financial instruments measured at fair value on a non-recurring basis as of December 31, 2024 and 2023.

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(Continued)

SAFE CREDIT UNION  
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**NOTE 16 - REVENUE FROM CONTRACTS WITH CUSTOMERS**

**Revenue Recognition:** The majority of the Credit Union's revenues come from interest income from loans and securities and other sources, including derivatives, and loan fees, all of which are outside of the scope of ASC 606. The Credit Union sources of revenue that do fall within the scope of ASC 606 Revenue from Contracts with Customers, are presented in Noninterest Income and are recognized as revenue as the Credit Union satisfies its obligation to its member. Services within the scope of ASC 606 include such items as service charges and related fees on deposit accounts, debit and credit card interchange income, wealth management fees, and if applicable, the sale of other real estate owned. The following table provides a summary of qualifying noninterest income (in thousands):

	<u>2024</u>	<u>2023</u>
Overdraft protection fees	\$ 12,374	\$ 12,089
Checking account fees	3,221	3,778
Money Market and Savings account fees	340	348
Commercial account fees	355	336
Member and consumer fees	919	946
ATM fees	2,214	2,133
Shared branching fees	1,007	917
Other fee income	53	56
Debit card fees	22,202	23,087
Credit Card Interchange fees	5,005	5,124
Investment fees	5,477	4,769
Gain on sale of assets	<u>18</u>	<u>-</u>
	<u>\$ 53,185</u>	<u>\$ 53,583</u>

A brief description of the Credit Union's revenue streams accounted for under ASC 606 is as follows:

**Service Charges and Related Fees on Deposit Accounts:** The Credit Union earns fees for account maintenance, transaction-based services, and overdraft services. Account maintenance fees, which relate primarily to monthly account maintenance, are generally earned over the course of the statement cycle, representing the period over which the Credit Union satisfies the performance obligation. Transaction-based fees include services such as stop payment charges, shared branching services and ATM usage fees. Transaction-based fees are generally recognized at the time the transaction is executed as that is the point in time when the Credit Union fulfills the member request. Overdraft service charges include non-sufficient funds (NSF) and overdraft protection fees and are recognized at the time an NSF item is returned, or overdraft is paid. Depending on the type of service charge or fee, revenue is included on the Statement of Net Income and Comprehensive Income in the following categories: Account Service Fees, ATM and Debit Card Fees and Other Noninterest Income.

**Debit and Credit Card Interchange Income:** The Credit Union earns interchange revenue from debit and credit cardholder transactions conducted through various merchant networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Components of interchange revenue are included in ATM and Debit Card Fees and Loan Fees in the Statement of Net Income and Comprehensive Income.

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SAFE CREDIT UNION  
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**NOTE 16 - REVENUE FROM CONTRACTS WITH CUSTOMERS** (Continued)

Wealth Management Fees: The Credit Union earns wealth management fees from investment brokerage services provided to its members by third party providers. The Credit Union earns fees for the management of member assets (account management fees) and/or transactions on their accounts (transaction-based fees). Account management fees are predominately recognized monthly on a tiered scale based on total assets under management (AUM). A much smaller percentage of account management fees are recognized quarterly and consist of trail commissions on AUM from various third-party investment providers. Transaction-based revenue is recognized at time of trade. Wealth management fees are included with other revenue generated from investment brokerage services in Securities and Insurance Fees in the Statement of Net Income and Comprehensive Income.

**NOTE 17 - LEASES**

The Credit Union enters into leases in the normal course of business primarily for branches and ATM locations. The Credit Union has 19 operating leases that have remaining terms ranging from 1 to 10 years, some of which may include renewal options to extend the lease in up to 5 year increments and provisions requiring the Credit Union to pay property taxes and operating expenses over base time periods. All rental payments are dependent only upon the lapse of time.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows as of December 31 (in thousands).

	<u>Balance Sheet Classification</u>	<u>2024</u>	<u>2023</u>
Right-of-use assets:			
Operating leases	Other Assets	\$ 5,187	\$ 5,434
Lease Liabilities:			
Operating leases	Other Liabilities	\$ 5,763	\$ 6,054

*Lease Expense*

The components of total lease cost were as follows for the period ending December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 1,159	\$ 1,070
Short-term lease cost	29	39
Variable lease cost	<u>417</u>	<u>398</u>
Total lease cost, net	<u>\$ 1,605</u>	<u>\$ 1,507</u>

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(Continued)



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**NOTE 17 - LEASES** (Continued)

*Lease Obligations*

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024 are as follows (in thousands):

	<u>Operating Leases</u>
2025	\$ 1,082
2026	1,053
2027	1,067
2028	946
2029	898
Thereafter	<u>1,461</u>
Total undiscounted lease payments	6,507
Less: imputed interest	<u>(744)</u>
Net lease liabilities	<u>\$ 5,763</u>

*Supplemental Lease Information*

	December 31, <u>2024</u>	December 31, <u>2023</u>
Operating lease weighted average remaining lease term (years)	6.4	7.2
Operating lease weighted average discount rate	3.3%	3.0%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,203	\$ 1,126
Lease liabilities arising from obtaining right-of-use assets	\$ 734	\$ 2,315