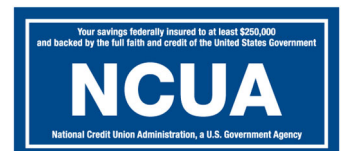


# **STATE EMPLOYEES' CREDIT UNION**

## **2025 CONSOLIDATED FINANCIAL STATEMENTS**

**July 1, 2024 through June 30, 2025**



**STATE EMPLOYEES' CREDIT UNION**  
**TABLE OF CONTENTS**  
**June 30, 2025 AND 2024**

<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>CONSOLIDATED BALANCE SHEETS .....</b>	<b>4</b>
<b>CONSOLIDATED STATEMENTS OF INCOME AND UNDIVIDED EARNINGS.....</b>	<b>5</b>
<b>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....</b>	<b>6</b>
<b>CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY.....</b>	<b>7</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS.....</b>	<b>8</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>9</b>



## INDEPENDENT AUDITORS' REPORT

Audit Committee, Board of Directors, and Members  
State Employees' Credit Union  
Raleigh, North Carolina

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of State Employees' Credit Union (the Credit Union), which comprise the consolidated balance sheets as of June 30, 2025 and 2024, and the related consolidated statements of income and undivided earnings, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of State Employees' Credit Union as of June 30, 2025 and 2024, and the results of their operations and their 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of State Employees' 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 Consolidated Financial Statements***

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

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

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the 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 State Employees' Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about State Employees' 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.

Audit Committee, Board of Directors, and Members  
State Employees' Credit Union

***Supplementary Information***

We have audited the consolidated financial statements of State Employees' Credit Union as of and for the year ended June 30, 2025, and our report thereon dated September 8, 2025, which expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Report of Management, Board of Directors and Contact Information, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 8, 2025

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2025 AND 2024**

<b>ASSETS</b>	<b>2025</b>	<b>2024</b>
Cash and due from financial institutions	\$ 736,716,468	\$ 717,323,724
Federal Reserve Bank deposits	2,639,911,678	7,916,938,685
Investments, net (Note 2)	14,530,369,881	11,779,240,353
Loans to members, net of allowance for credit losses (Notes 3 and 4)	36,186,212,418	33,990,465,453
Accrued interest receivable	233,144,431	203,382,905
Deposit for federal insurance of member accounts (Note 6)	437,284,024	413,631,443
Property and equipment, net (Note 7)	1,214,211,442	1,219,458,161
Other assets	225,384,531	254,767,721
	<u>\$ 56,203,234,873</u>	<u>\$ 56,495,208,445</u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
Member share draft deposits	\$ 7,212,964,443	\$ 7,069,874,898
Member share deposits (Note 8)	43,164,371,303	39,144,116,438
Member mortgage loan escrow deposits	244,243,327	224,630,881
Total member deposits	50,621,579,073	46,438,622,217
Accrued interest payable	78,584,899	198,928,738
Short-term borrowing	-	5,000,000,000
Other liabilities	234,112,658	212,217,608
Total member deposits and liabilities	50,934,276,630	51,849,768,563
Members' equity:		
Equity share reserve	1,000,000	1,000,000
Statutory reserve	2,000,000,000	2,000,000,000
Accumulated other comprehensive loss	(365,506,879)	(705,516,246)
Capital reserve	3,525,000,000	3,275,000,000
Undivided earnings	108,465,122	74,956,128
Total members' equity, substantially restricted	5,268,958,243	4,645,439,882
	<u>\$ 56,203,234,873</u>	<u>\$ 56,495,208,445</u>

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

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF INCOME AND UNDIVIDED EARNINGS**  
**YEARS ENDED JUNE 30, 2025 AND 2024**

	<b>2025</b>	<b>2024</b>
<b>INTEREST INCOME:</b>		
Interest on first mortgage loans	\$ 1,146,983,405	\$ 1,017,100,223
Interest on other loans and receivables	893,406,330	770,169,916
Interest on Federal Reserve Bank deposits and investments	574,835,204	516,358,910
	<u>2,615,224,939</u>	<u>2,303,629,049</u>
<b>INTEREST EXPENSE:</b>		
Dividends on member deposits	1,130,854,873	831,016,426
Interest on short-term borrowing	84,767,433	168,885,545
	<u>1,215,622,306</u>	<u>999,901,971</u>
<b>NET INTEREST INCOME</b>	1,399,602,633	1,303,727,078
<b>PROVISION FOR CREDIT LOSSES</b>	<u>239,828,557</u>	<u>265,202,651</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	1,159,774,076	1,038,524,427
<b>NONINTEREST INCOME:</b>		
Interchange Income	154,798,108	153,592,361
Deposit service charges and fees	65,313,879	67,568,962
Administrative services	65,046,862	80,126,496
Insurance commissions	40,846,190	42,621,974
Loan processing	10,765,693	11,856,260
Loss on investments, net	(31,877,436)	(44,092,701)
Rental Income	26,380,865	23,787,843
Other noninterest income	39,108,533	31,008,441
	<u>370,382,694</u>	<u>366,469,636</u>
<b>NONINTEREST EXPENSE:</b>		
Salaries and employee benefits	798,989,364	753,786,288
Occupancy expenses	106,857,316	102,237,203
Equipment expenses	156,486,385	162,320,691
Card processing expenses	26,867,323	25,782,052
Postage expenses	36,556,550	33,426,501
Other operating expenses	120,890,838	117,817,602
	<u>1,246,647,776</u>	<u>1,195,370,337</u>
<b>NET INCOME</b>	\$ 283,508,994	\$ 209,623,726
Transfers to statutory and capital reserves (Note 1)	<u>(250,000,000)</u>	<u>(250,000,000)</u>
<b>UNDIVIDED EARNINGS</b>		
Undivided earnings beginning of year	74,956,128	169,750,423
Cumulative Effect of Change in Accounting Principle – ASC 326 (See Note 1)	-	(54,418,021)
Undivided earnings end of year	<u>\$ 108,465,122</u>	<u>\$ 74,956,128</u>

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

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
<b>Net income</b>	\$ 283,508,994	\$ 209,623,726
<b>Other comprehensive income (Note 11):</b>		
Unrealized holding gains on securities available for sale	397,133,541	387,027,165
Change in unrecognized postretirement amounts	(57,124,174)	28,916,167
<b>Total other comprehensive income</b>	<u>340,009,367</u>	<u>415,943,332</u>
<b>Total comprehensive income</b>	<u>\$ 623,518,361</u>	<u>\$ 625,567,058</u>

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

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**YEARS ENDED JUNE 30, 2025 AND 2024**

	<b>EQUITY SHARE RESERVE</b>	<b>STATUTORY RESERVE</b>	<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	<b>CAPITAL RESERVE</b>	<b>UNDIVIDED EARNINGS</b>	<b>TOTAL</b>
<b>Balance at June 30, 2023</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (1,121,459,578)	\$ 3,025,000,000	\$ 169,750,423	\$ 4,074,290,845
Cumulative Effect of Change in Accounting Principle – ASC 326 (See Note 1)					(54,418,021)	(54,418,021)
Net income	-	-	-	-	209,623,726	209,623,726
Other comprehensive income	-	-	415,943,332	-	-	415,943,332
Discretionary transfers	-	-	-	250,000,000	(250,000,000)	-
<b>Balance at June 30, 2024</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (705,516,246)	\$ 3,275,000,000	\$ 74,956,128	\$ 4,645,439,882
Net income	-	-	-	-	283,508,994	283,508,994
Other comprehensive income	-	-	340,009,367	-	-	340,009,367
Discretionary transfers	-	-	-	250,000,000	(250,000,000)	-
<b>Balance at June 30, 2025</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (365,506,879)	\$ 3,525,000,000	\$ 108,465,122	\$ 5,268,958,243

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

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 283,508,994	\$ 209,623,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments	32,297,973	43,916,449
Loss on equity investments, net	(420,537)	176,251
Provision for depreciation	73,560,873	80,683,780
Provision for credit losses	239,828,557	265,202,651
Net increase in accrued interest receivable	(29,761,527)	(102,922,513)
Amortization of investment premiums/discounts	44,113,025	78,962,527
(Decrease)/Increase in accrued interest payable	(12,102,744)	58,843,228
Other, net	(89,556,224)	128,018,303
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 541,468,390</b>	<b>\$ 762,504,403</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds on redemption of investments	3,109,401,660	1,493,297,125
Proceeds on sales of investments	525,152,851	1,855,463,769
Purchases of investments, available for sale	(6,064,540,959)	(1,060,564,949)
Proceeds from sale of first mortgage loans	1,263,228	1,469,133
Purchase of first mortgage loans	(55,639,690)	-
Net increase in loans to members	(2,401,565,443)	(2,723,032,852)
Purchase of property and equipment	(72,478,574)	(82,042,952)
(Increase)/Decrease in deposit for federal insurance of member accounts	(23,652,582)	12,768,629
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>\$ (4,982,059,509)</b>	<b>\$ (502,642,097)</b>
<b>FINANCING ACTIVITIES:</b>		
Net increase in deposits	4,182,956,856	1,131,185,652
Proceeds from borrowing	-	51,500,000,000
Repayment of borrowing	(5,000,000,000)	(46,500,000,000)
<b>NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ (817,043,144)</b>	<b>\$ 6,131,185,652</b>
<b>NET DECREASE/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (5,257,634,263)</b>	<b>\$ 6,391,047,958</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>\$ 8,634,262,409</b>	<b>\$ 2,243,214,451</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 3,376,628,146</b>	<b>\$ 8,634,262,409</b>
<b>ADDITIONAL CASH FLOW INFORMATION:</b>		
Transfers from loans to real estate owned	\$ 20,366,383	\$ 7,660,550
Dividends paid	1,142,957,617	772,173,198
Interest paid on borrowed funds	193,008,528	60,644,450
Cumulative Effect of Change in Accounting Principle – ASC 326 (See Note 1)	-	(54,418,021)
Unrealized holding gains on securities available for sale	\$ 397,133,541	\$ 387,027,165

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

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** State Employees' Credit Union (SECU or the Credit Union) is a member-owned, non-profit financial cooperative organized under the laws of the State of North Carolina. The Credit Union was formed on June 4, 1937 to encourage thrift among members, to create a source of credit at a fair and reasonable rate of interest and to provide an opportunity for members to use and control their own money in order to improve their economic and social condition. Membership in the Credit Union is restricted principally to employees of the State of North Carolina and their families. Members of SECU share this common bond in participating in the ownership of their Credit Union. Each member-owner has one vote which is exercised to elect volunteer directors. The members of the Board of Directors, Advisory Boards, and other Committees, comprised of volunteers, play major roles in directing and monitoring the affairs of the Credit Union. The Board of Directors is responsible for setting the policies for the operation of the organization. There are 2,997 volunteers contributing service to the membership. These individuals, as volunteers, serve without compensation.

Credit Union Investment Services, Inc. (CUIS) was formed in 2007 as a credit union service organization and is wholly-owned by SECU. CUIS provides investment and other financial services to members through SECU employees who are registered investment representatives. SECU Brokerage Services, Inc. was formed in 2008 and is a wholly-owned subsidiary of CUIS through which brokerage services are provided to members. The financial results of CUIS and SECU Brokerage Services, Inc. are consolidated in this Annual Report. Intercompany accounts and transactions were eliminated in the consolidation. The assets, liabilities, incomes and expenses of CUIS and SECU Brokerage Services, Inc. are not material to the presentation of the consolidated financial statements.

SECU Life Insurance Company (SECU Life) began operation in 2013 as a credit union service organization and is wholly-owned by SECU. SECU Life provides life insurance and annuity products through SECU employees who are registered insurance agents. The financial results of SECU Life are consolidated in this Annual Report. Intercompany accounts and transactions were eliminated in the consolidation. The assets, liabilities, incomes and expenses of SECU Life are not material to the presentation of the consolidated financial statements.

SECU\*RE, Inc. (SECU\*RE) was formed in 2013 as a credit union service organization and is wholly-owned by SECU. SECU\*RE was formed to purchase foreclosed properties from SECU to mitigate credit losses on real estate owned through property revitalization efforts and partnerships with North Carolina housing industry professionals, energy efficiency organizations and local municipalities. Additionally, SECU\*RE serves as a property management company which purchases, leases, manages and sells properties. The financial results of SECU\*RE are consolidated in this Annual Report. Intercompany accounts and transactions were eliminated in consolidation. The assets, liabilities, incomes and expenses of SECU\*RE are not material to the presentation of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

As of June 30, 2025, members and their families are provided mortgage loan, consumer loan, and deposit services through 275 branch offices and approximately 1,100 ATMs located in all 100 counties across North Carolina. Support for the membership is provided via the channel of their choice including our website, ncsecu.org, Member Access, our online banking platform, SECU mobile app, advanced voice response services, chat, and email. The primary sources of operating revenues are interest earned on member loans and fee income generated by providing services to our members. The capital necessary to responsibly support the operation of the Credit Union comes from earnings that remain after all expenses have been paid.

**Taxation:** SECU is not exempt from taxation. SECU pays property taxes to local municipal and county governments within each county. In 2025, SECU paid \$14.2 million in property taxes to various local governmental taxing authorities (\$13.3 million in 2024). In addition, SECU pays state and local sales taxes on goods and services purchased by the Credit Union. During 2025, SECU paid \$3.2 million in sales taxes to state and local governments (\$4.1 million in 2024). The Credit Union also pays Federal payroll taxes under the Federal Insurance Contributions Act (FICA). In 2025, SECU paid \$45.1 million in FICA taxes to the federal government (\$42.1 million in 2024). SECU also pays State and Federal Unemployment taxes. In 2025, SECU paid \$1.45 million in State and Federal Unemployment taxes (\$1.22 in 2024). Additionally, 37.9% of total SECU 2025 revenues (\$1.14 billion) were paid to members in the form of interest earned on shares and deposits (31.1% and \$772 million in 2024). SECU members are subject to paying state and federal income taxes on these interest earnings. In 2025, 42% of total SECU revenues (\$1.25 billion) were used to pay employees, vendors, lenders and other service providers who are subject to paying state and federal income taxes on these amounts (45% and \$1.20 billion in 2024). Like SECU, banks are not taxed on interest paid to their depositors; likewise, these institutions are not taxed on costs of operation paid out to employees, vendors, lenders or other service providers. State and federal income taxes are paid on the majority of income earned by SECU. SECU, as a member-owned, not-for-profit cooperative, is not subject, by statute, to state and federal corporate income taxation. The credit union service organizations wholly-owned by SECU, Credit Union Investment Services, SECU Brokerage Services, SECU Life Insurance Company and SECU\*RE, are considered C corporations subject to federal and state income taxes. The Credit Union has evaluated its tax positions and determined no uncertain tax positions exist as of June 30, 2025 and 2024. By law, at a minimum, business tax returns are subject to examination by federal and state tax authorities for the years June 30, 2022 through June 30, 2024.

**Basis of Accounting:** The Credit Union maintains its accounting records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Expenses are recorded when incurred and income is recorded when earned.

Accounting guidance related to U.S. generally accepted accounting principles (GAAP) is codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) 105, *Generally Accepted Accounting Principles*. ASC 105 establishes ASC as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. FASB issues Accounting Standards Updates (ASU), which serve to update the ASC, provide

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

background information about the guidance, and provide the basis for conclusions on the changes to the ASC.

**Cash and Due from Financial Institutions:** Cash and Due from Financial Institutions, as presented in the consolidated balance sheets, includes cash on hand, cash on deposit in a non-interest bearing clearing account at the Federal Reserve Bank, cash on deposit with other financial institutions and checks in transit to other financial institutions, all of which are considered as cash and cash equivalents for purposes of the consolidated statements of cash flows.

**Federal Reserve Bank Deposits:** Interest bearing deposits held at the Federal Reserve Bank of Richmond are earning assets and are shown as Federal Reserve Bank Deposits. These funds are available to the Credit Union for the daily settlement of transactions cleared through the Federal Reserve Bank of Richmond.

**Corporate Credit Union Capital Shares and Restrictions on Cash:** The national corporate credit union network is a shared cooperative network of regional corporate credit unions. The financial benefits from this cooperative ownership structure are passed back to the member corporate credit unions. Likewise, credit unions which serve the general public are able to join regional corporate credit unions by opening capital share accounts which help provide long term, stable capital bases for the operations of regional corporate credit unions.

To obtain additional sources of liquidity, diversify investments and secure other financial services, SECU has been a member of multiple corporate credit unions for many years. As a condition of membership, SECU is required to maintain capital share accounts in these corporate credit unions. Capital share accounts are restricted-balances, are uninsured, cannot be pledged as collateral for loans and require a three year or greater notice before withdrawal. SECU capital share account balances on deposit with corporate credit unions at June 30, 2025 totaled \$250,000 (\$250,000 at June 30, 2024) and is included in Other Assets on the Consolidated Balance Sheets.

**Investments:** Securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and carried at fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and accounted for as accumulated other comprehensive loss. Equity securities (the exchange-traded bond fund) are reported at fair value with unrealized gain/loss included with net income.

Gains and losses on the sale of securities available for sale are recorded on the trade date and determined using the specific identification method. Securities that the Credit Union has the ability and intent to hold to maturity are classified as held-to-maturity and are carried at cost, adjusted for the amortization of premiums and discounts. Amortization of premiums and discounts are recognized in interest income over the period to maturity using the straight-line method. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING**

**POLICIES – Continued**

Available for sale securities in an unrealized loss position are evaluated for credit impairment in accordance with ASC 326-30, *Financial Instruments – Credit Losses – Available for Sale Debt Securities*. In cases where unrealized losses occur on securities guaranteed by U.S. government agencies or U.S. government sponsored enterprises, a zero credit loss assumption is applied. All available for sale securities held within the Credit Union portfolio as of June 30, 2025 and 2024 are issued by the US Treasury or are Agency/GSE backed, therefore no credit losses on available for sale securities were recognized.

**Federal Home Loan Bank Stock:** The Credit Union joined the Federal Home Loan Bank of Atlanta (FHLB) in August 1998 to provide an additional source of funding and liquidity, if needed, to meet member loan demand. The Federal Home Loan Bank system is a cooperative financial system consisting of eleven regional banks which provide services to member financial institutions throughout the United States. As a condition of membership in the FHLB, the Credit Union is required to own capital stock of the FHLB in the amount of 0.07% of Credit Union total assets up to a maximum of \$18.0 million, plus 4.25% of total loan advances outstanding. FHLB capital stock cannot be bought, sold or traded through a stock exchange and has no market value. Upon termination of membership in the FHLB, the par value of the stock will be returned to the Credit Union. At June 30, 2025 and 2024, the Credit Union had no loan advances outstanding with the FHLB. At June 30, 2025, the Credit Union owned 180,000 shares of FHLB \$100 par value capital stock valued at \$18.0 million (180,000 shares valued at \$18.0 million at June 30, 2024), which is included in Other Assets on the Consolidated Balance Sheets.

**Loans to Members:** Loans are stated at the amount of unpaid principal, adjusted for an allowance for credit losses on loans and net deferred loan fees and expenses. Interest on loans is recognized on an accrual basis. Interest on first mortgage loans is calculated on a 30-day month 360-day year amortizing term. Interest on personal loans is calculated using the simple-interest method applied to the principal amount outstanding. Interest on credit cards is calculated by applying a periodic rate to the average daily balance outstanding. Loans are put in nonaccrual status if they are past due for a period of 90 days or more. Loans that are on a current payment status or past due less than 90 days may also be nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time and there is repayment by the borrower.

Net deferred fees are shown as a reduction in the balance of mortgage loans and are amortized into interest income as an adjustment in yield over the lives of the loans using the effective interest method. Direct loan origination costs on home equity and consumer loans are recognized in expenses when incurred. This is not materially different from expenses that would have been recognized under the provisions of the Nonrefundable Fees and Other Costs Topic of the FASB ASC.

**Allowance for Credit Losses:** The Credit Union maintains an allowance for credit losses in accordance with the Current Expected Credit Losses (CECL) standard (ASC 326). The allowance for credit losses on loans is a valuation account that is deducted from the amortized

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Credit losses on loans are charged off against the allowance for credit losses on loans when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors (include specific adjustments).

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, geography, and internal risk ratings. Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

The allowance for credit losses on loans estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model. The forecast period extends through the contractual life of the loan product and uses a reversion of model inputs. A suite of credit loss models is run monthly for the full forecast period and relies on macroeconomic variables for the mean reversion of model inputs. All segment models include various individual loan characteristics including but not limited to FICO score, delinquency, term, and loan to value. The models also consider national and state economic factors such as unemployment rate, housing prices, consumer confidence and gross domestic product. Finally, additional influences such as seasonality and characteristics specific to the SECU portfolio are included in the model variables.

Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible and recoveries are credited to the allowance for credit losses on loans when received. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 90 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off when the asset is foreclosed by the Credit Union.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

The following provides a description of the methodologies and key attributes, by portfolio segment, used to calculate the allowance for credit losses on loans:

*Mortgage Loans*

For calculating the ACL on mortgage loans, the Credit Union uses a probability of default model methodology. This method forecasts the probability of default, exposure at default, and loss given default to arrive at an expected loan level loss within the portfolio. In the model, varying levels of risk are assigned to subsegments of the portfolio to account for varying risk between fixed and variable loan types. The estimates utilize individual loan characteristics such as loan to value, FICO score, and loan age. Additionally, the models utilize a field that denotes modification arrangements where a borrower is experiencing financial difficulty and applies additional risk to these loans. Macroeconomic variables are also applied within the model and include North Carolina disposable income and unemployment forecasts.

*Home Equity*

The home equity portfolio, as a revolving product, utilizes additional complexity to forecast future utilization of credit and related probabilities of default. Forecasted utilization is incorporated into the evaluation of exposure at default. The home equity model uses economic drivers including the change in housing prices since origination alongside loan characteristics including loan age, FICO score, and debt to income at origination. Varying levels of risk are applied to each loan based on these attributes to calculate the associated allowance for credit losses.

*Consumer*

The consumer loan portfolio is modeled using the probability of default methodology and sub-segmented by three prominent categories: closed end loans, open end unsecured lines of credit, and open-end salary advance loans. Loan level characteristics such as FICO score at origination and age of loan are used in the forecast to adjust the risk level associated with each loan. The models also incorporate macroeconomic variables such as unemployment rate, US total consumer credit, North Carolina median household income, along with seasonal indicators, and utilization rate.

*Auto*

The auto loan model uses a state transition framework sub-segmented between new and used vehicle loans to model the probability of each individual loan transitioning into various delinquency states. A constant average approach is used to calculate loss given default and a loan-level expectation is given for exposure at default based on the outstanding balance. The model uses a month-end snapshot portfolio of loans given at the start of a forecast period as well as macroeconomic projections for each scenario as inputs. Significant loan attributes utilized by the model include but are not limited to previous delinquency state, vehicle age, and FICO score.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

*Credit Card*

The model used for forecasting losses related to the credit card portfolio utilizes probability of default methodology and relies on actual loan loss experiences, outstanding loan balance and charge offs. As an unconditionally cancelable product, no new draws are assumed in the calculation of expected credit losses. Therefore, a paydown curve approach is utilized to forecast loan repayment speed throughout the forecast period. Main macroeconomic drivers within the credit card model are income, unemployment rate, and personal bankruptcies. Loan level characteristics include current credit score and delinquency status. The risk of each loan defaulting is adjusted based on the economic outlook and the individual characteristics mentioned above.

The Credit Union's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Credit Union's historical look-back period includes January 2006 through the current period, with variations in look back by portfolio, on an annual basis. When historical credit loss experience is not sufficient for a specific portfolio, the Credit Union may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers; (viii) existing economic conditions; (ix) the fair value of underlying collateral; (x) impact of natural disasters on member loans; and (xi) other qualitative and quantitative factors which could affect expected credit losses.

The Credit Union's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors. Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates.

**Foreclosed Assets and Collateral in Liquidation:** Assets acquired through foreclosure, or in lieu of foreclosure, are recorded at the fair value less estimated costs to sell through a charge to the allowance for credit loss account. Thereafter, the fair value of these assets is periodically reviewed with subsequent decreases in value recorded as an increase in a valuation allowance and a charge to noninterest expense.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Property and Equipment:** Property and equipment are stated at cost and are depreciated by the straight-line method over their estimated useful lives which range from 3-10 years for furniture and equipment and up to 40 years for buildings. Leasehold improvements are amortized over the shorter of the lease term or estimated life of the improvements. Repairs and maintenance are charged to expense as incurred. Management reviews property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

**Impairment of Long-Lived Assets:** The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

**Members' Equity:** SECU is a state-chartered, federally-insured credit union. The Credit Union Membership Access Act of 1998 defined capital requirements and a series of "prompt corrective actions" (PCA) to be taken by regulatory authorities to restore the net worth of federally-insured credit unions that become inadequately capitalized. The components of PCA include a framework combining mandatory actions prescribed by statute with discretionary actions developed by the NCUA. Additionally, a risk-based net worth requirement applies to credit unions defined as "complex." For PCA purposes, if the capital (net worth) of a credit union is 7% or greater it is categorized as "well capitalized"; between 6% and 6.99% - "adequately capitalized"; between 4% and 5.99% - "undercapitalized"; between 2% and 3.99% - "significantly undercapitalized"; and if less than 2% - "critically undercapitalized." On January 1, 2001, PCA rules were implemented that defined mandatory and discretionary regulatory actions for credit unions at these various levels of capital. Specific measurements were also employed to define capital requirements for those credit unions considered "complex" based on a risk-based net worth capital ratio. At June 30, 2025, using the standards approved in the final regulatory rules, the PCA net worth capital ratio of SECU was 10.20% (9.83% at June 30, 2024). SECU capital levels exceed the 7.0% standard defined by statute for a "well capitalized" credit union. As of reporting periods beginning in 2022, the NCUA requires credit unions to calculate risk based capital under a new framework. SECU has not opted into the Complex Credit Union Leverage Ratio calculation and instead calculates net worth using the risk based capital calculation as governed by the NCUA. The risk based capital ratio as of the June 30, 2025 reporting period was 20.69% (21.42% at June 30, 2024) which is considered "well capitalized" under the new framework. SECU capital and net worth balances and ratios exceed all regulatory requirements at June 30, 2025 and 2024.

Members' Equity consists of several components: Statutory Reserve, Capital Reserve, Equity Share Reserve and Undivided Earnings. Prior to the implementation of the Credit Union

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING**

**POLICIES – Continued**

Membership Access Act of 1998, North Carolina state statutes required that member reserves be retained equal to 6% of loans and certain investments considered at risk of loss. These reserves represented a regulatory restriction of retained earnings and were not available for the payment of member dividends. In 2001, federal credit unions that were classified as “well capitalized” were no longer required to make statutory transfers to the Statutory Reserve. The Board of Directors have established a Statutory Reserve balance of \$2,000,000,000 at June 30, 2025 (\$2,000,000,000 at June 30, 2024). During 2025 and 2024, there were no transfers from the Capital Reserve account to the Statutory Reserve account. These reserves exceed the statutory capital requirements of North Carolina.

A Capital Reserve in the amount of \$3,525,000,000 at June 30, 2025 and \$3,275,000,000 at June 30, 2024 has been accumulated by the Board of Directors to assure the long term financial safety and soundness of the Credit Union. During 2025, \$250,000,000 was transferred into the Capital Reserve (\$250,000,000 was transferred into the Capital Reserve in 2024). In addition to maintaining the capital levels required by regulation and law, the Board of Directors continually monitors and evaluates business factors to ensure that total members' equity remains adequate to support the risks inherent in the Consolidated Balance Sheet of the Credit Union. Some of the factors include: the mix in the types of loans, investments and deposits, the growth in various types of loans, investments and deposits, the cost of funds, market and economic conditions, loan delinquency and charge-off volumes and trends, and other important considerations. Capital balances are available to absorb catastrophic loan and operational losses and provide for the safe and sound fiscal operation of the Credit Union.

Capital stands as the first line of defense in protecting Credit Union members, the federal government insurance fund, and ultimately, the American taxpayer from loss. The Board of Directors closely monitors the amount of members' equity necessary to provide for the prudent and responsible operation of the Credit Union. The Board of Directors is sensitive to the fact that capital is provided by the member-owners of the Credit Union. Only the capital amounts required by law and those amounts considered necessary to provide for the safe and sound operation of the Credit Union are retained. All other monies are returned to the membership in the form of higher interest rates on shares and savings deposits, lower interest rates on loans, access to new financial products and services, or lower fees for services.

**Equity Share Reserve:** The Credit Union accepted a \$1,000,000 equity share capital investment during fiscal year 2001. SECU member capital was increased by a like amount. This capital investment is permitted by North Carolina State Statutes and has been accounted for as members' equity. This investment is not insured by federal deposit insurance. As members' equity, the redemption of this capital account is restricted. The use of equity share reserves increases the capital base of SECU while enhancing risk management and promoting the safety and soundness of the Credit Union.

**Presentation of Member Shares:** The American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for “Depository and Lending Institutions: Banks and

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies” indicates that the FASB classification of member share accounts are liabilities. SECU follows generally accepted accounting principles and therefore records member share accounts as liabilities rather than members’ equity. The authoritative legal definition in the North Carolina General Statutes and in the Federal Credit Union Act, as well as the regulatory requirements of the NCUA, however, define member share accounts as equity which denotes an ownership interest in the credit union. Member shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on member share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. SECU believes that the AICPA and FASB errs in its opinion that member shares are liabilities rather than ownership equity. The Credit Union believes that the position fails to fully recognize that credit unions are not-for-profit cooperatives democratically controlled by member-owners who provide equity at risk to fund the operation of the cooperative enterprise.

**Comprehensive Income (Loss):** Comprehensive income (loss) is defined as the change in the equity of a business enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive loss refers to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive loss but excluded from net income. The components of other comprehensive loss include the valuation adjustment on securities available for sale, gains and losses associated with postretirement benefits and prior service costs associated with postretirement benefits.

**Retirement Plans:** The Credit Union has a qualified 401(k) defined contribution plan which covers substantially all Credit Union employees. The Credit Union also offers a non-qualified, non-contributory 457(b) deferred compensation plan available to certain employees defined as highly compensated. In addition, the Credit Union provides certain medical and life insurance for retired employees that meet eligibility requirements through a funded defined benefit plan.

The Credit Union’s share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employees’ active service periods to the dates they are fully eligible for benefits. The Credit Union has accounted for non-pension postretirement benefits in accordance with generally accepted accounting principles.

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

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Off - Consolidated Balance Sheet Assets and Liabilities:** In the ordinary course of business, the Credit Union has entered into commitments to extend credit on member loans. Such financial instruments are recorded when they are funded. As a matter of policy, the Credit Union does not enter into off-consolidated balance sheet financing arrangements such as options or interest rate swaps. Consequently, the Credit Union does not have exposure to credit loss in the event of non-performance by another party to such financial instruments. The Credit Union does not employ the use of derivative securities to manage balance sheet risk. There are no off-consolidated balance sheet assets or liabilities that could materially affect the consolidated financial condition or operation of the Credit Union.

**Sarbanes/Oxley Act of 2002:** The Sarbanes/Oxley Act of 2002 (the Act) was enacted by Congress to address increasingly widespread abuses of trust in corporate America. These abuses took the form of employee and board malfeasance, self-dealing and unethical governance that resulted in substantial losses to the employees and shareholders of the affected public companies. The Act applies to all corporations registered with the Securities and Exchange Commission. The requirements of the Act include developing formal policies and implementing best practices for Board and corporate governance, a code of ethics, audit independence, accurate and transparent financial reporting and disclosure, executive accountability, audit committee structure, and internal controls over the accounting and financial reporting processes. As a not-for-profit, member-owned financial cooperative SECU is not registered with the SEC and is not required to comply with the Act. The Credit Union is, however, heavily regulated and is subject to state and federal rules, regulations, and laws as a state chartered, federally insured credit union. The Credit Union Division of the State of North Carolina, as the regulator of SECU, conducts annual examinations of the Credit Union. The NCUA, a federal agency, performs insurance and interest rate risk reviews of the Credit Union on an annual basis. The Consumer Financial Protection Bureau, a federal agency, performs compliance reviews regarding consumer protection on a periodic basis. Although not required to comply with the Act, the implementation of the majority of these requirements provides additional support that the Credit Union continues to be operated for the benefit of its member-owners.

**Use of Estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates also affect the reported amounts of revenues and expenses of the periods presented. Material estimates that are susceptible to significant change in the near term include the fair value of investments, determination of the allowance for credit losses, and postretirement liability.

**Revenue from Contracts with Members:** The Credit Union recognizes revenue in accordance with FASB ASC Topic 606 – Revenue from Contracts with Customers, and has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Credit Union satisfies its obligation to the member. Significant sources of noninterest income considered to be within the scope of Topic 606 are presented separately in the Consolidated Statements of Income and Undivided Earnings and are summarized as follows:

*Interchange Income*

When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit or loan account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized when the funds are collected and transferred to the payment network. The Credit Union is considered an agent in the transaction and incurs costs with the payment network to facilitate the interchange with the merchant. As agent, revenue from interchange is recognized net of related payment network expenses.

*Deposit Service Charges and Fees*

The Credit Union earns fees from its member deposit accounts for transaction-based activity and account maintenance. Transaction-based fees, including ATM use fees, nonsufficient funds charges, and wire transfer fees, are recognized at the time the transaction is executed, as that is when the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Service charges on deposits are withdrawn from the member's account balance on the date of occurrence.

*Administrative Services*

The Credit Union holds contracts with other North Carolina Credit Unions that generate revenues related to various administrative services provided. These services include, but are not

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

limited to member facing transactions, loan originations, loan servicing, deposit account maintenance and general operational services. These fees are recognized as a percentage of the other institutions revenues in accordance with the contract and are reported over time as services are performed.

*Insurance Commissions*

The Credit Union's insurance revenue has two distinct performance obligations. The first performance obligation is the selling of the policy as an agent for the carrier. This performance obligation is satisfied upon binding of the policy. The second performance obligation is the ongoing servicing of the policy, which is satisfied over the life of the policy. For employee benefits, the payment is typically received monthly. For property and casualty, payments can vary, but are typically received at, or in advance, of the policy period.

The Credit Union does not typically enter into long-term revenue contracts with members, and therefore, does not experience significant contract balances. As of June 30, 2025, and 2024, the Credit Union did not have any significant contract balances, or any contract acquisition costs.

**Leases, Net:** The Credit Union accounts for Leases in accordance with FASB ASC 842 – Leases. The Credit Union determines if an arrangement is a lease at inception. Operating leases are included in other assets and accrued expenses and other liabilities in the Consolidated Balance Sheets.

Right of Use (ROU) assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Credit Union has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the Consolidated Balance Sheets.

**Reclassification of 2024 Data:** Data in the 2024 consolidated financial statements has been reclassified to conform with the presentation of the 2025 consolidated financial statements. This reclassification did not result in any change to consolidated net income or members' equity.

**New Accounting Pronouncements:** Management has reviewed all recently issued accounting pronouncements and determined their application will not have a significant impact to the Credit Union.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 2 – INVESTMENTS, NET**

The Credit Union invests member deposits primarily in member loans. When deposit growth exceeds member loan demand the Credit Union invests member deposits until such time as the funds are required to pay for member loans or to meet the cash needs of the membership. At June 30, 2025 and 2024 investments held by the Credit Union are categorized as available-for-sale (AFS) and equity. AFS securities are carried on the Consolidated Balance Sheets at their fair market value via adjustments recognized through accumulated other comprehensive loss. AFS securities are comprised of U.S. Treasury securities and Agency/GSE mortgage-backed securities. Equity securities, comprised of an exchange-traded bond fund, are carried at fair market value on the consolidated balance sheets through adjustments recognized in net income.

The aggregate cost, fair value, and unrealized gains and losses of these investments as of June 30, 2025 and 2024 are as follows:

<u>2025</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 8,909,588,492	\$ 30,877,634	\$ (186,159,534)	\$ 8,754,306,592
Agency/GSE Mortgage-Backed Securities	5,954,682,025	10,365,806	(211,421,709)	5,753,626,122
<b>Total AFS Investments</b>	<b>14,864,270,517</b>	<b>41,243,440</b>	<b>(397,581,243)</b>	<b>14,507,932,714</b>
<b>Equity Investments</b>				
Exchange-traded bond fund	23,999,672	-	(1,562,505)	22,437,167
<b>Total Equity Investments</b>	<b>23,999,672</b>	<b>-</b>	<b>(1,562,505)</b>	<b>22,437,167</b>
<b>Total Investments</b>	<b>\$ 14,888,270,189</b>	<b>\$ 41,243,440</b>	<b>\$ (399,143,748)</b>	<b>\$ 14,530,369,881</b>
<u>2024</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 8,051,020,896	\$ 1,482,984	\$ (494,109,599)	\$ 7,558,394,281
Agency/GSE Mortgage-Backed Securities	4,463,674,288	8,688,578	(269,533,307)	4,202,829,559
<b>Total AFS Investments</b>	<b>12,514,695,184</b>	<b>10,171,562</b>	<b>(763,642,906)</b>	<b>11,761,223,840</b>
<b>Equity Investments</b>				
Exchange-traded bond fund	19,999,555	-	(1,983,042)	18,016,513
<b>Total Equity Investments</b>	<b>19,999,555</b>	<b>-</b>	<b>(1,983,042)</b>	<b>18,016,513</b>
<b>Total Investments</b>	<b>\$ 12,534,694,739</b>	<b>\$ 10,171,562</b>	<b>\$ (765,625,948)</b>	<b>\$ 11,779,240,353</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 2 – INVESTMENTS, NET - Continued**

The maturities of investments at June 30, 2025 and 2024 are as follows:

<u>2025</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 1,651,757,143	\$ 1,643,525,808
Due between one and three years	6,871,218,468	6,721,808,494
Due between three and five years	362,407,815	364,571,173
Due between five and ten years	18,703,672	18,810,961
Due after ten years	5,501,394	5,590,156
Agency/GSE Mortgage-Backed Securities	5,954,682,025	5,753,626,122
	<u>\$ 14,864,270,517</u>	<u>\$ 14,507,932,714</u>
Exchange-traded bond fund	23,999,672	22,437,167
	<u>\$ 14,888,270,189</u>	<u>\$ 14,530,369,881</u>
<u>2024</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,459,771,860	\$ 2,397,681,501
Due between one and three years	4,074,751,726	3,822,482,463
Due between three and five years	1,503,914,451	1,326,083,208
Due between five and ten years	12,582,859	12,147,109
Due after ten years	-	-
Agency/GSE Mortgage-Backed Securities	4,463,674,288	4,202,829,559
	<u>\$ 12,514,695,184</u>	<u>\$ 11,761,223,840</u>
Exchange-traded bond fund	19,999,555	18,016,513
	<u>\$ 12,534,694,739</u>	<u>\$ 11,779,240,353</u>

During the fiscal year ended June 30, 2025, the Credit Union realized losses of \$32,297,973 on sales proceeds of \$525,152,851 (\$93,405,664 on proceeds of \$1,855,463,769 at June 30, 2024) related to available for sale securities. Securities with low yields were repositioned into higher yield securities to increase income during future periods. This repositioning was undertaken to strengthen income stability and support financial resilience in anticipation of potential headwinds.

Additionally, during the 2024 fiscal year, the Credit Union disposed of Visa Class B stock in a one-time transaction. This resulted in realized gains and proceeds of \$49,489,214. At June 30, 2024, the balance of Visa Class B stock held was zero.

The Credit Union does not believe that the available for sale securities that were in an unrealized loss position as of June 30, 2025, which were comprised of 264 individual securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to US Treasury securities and mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Credit Union does not intend to sell the investment securities that were in an unrealized loss position, and it is

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 2 – INVESTMENTS, NET - Continued**

not more likely than not that the credit union will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

The below table presents our debt securities at fair value and their gross unrealized losses broken down by the amount of time the investments have been in a loss position as of June 30, 2025 and June 30, 2024.

	Less than 12 Months		12 Months or Longer		Total	
<u>2025</u>	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>AFS Investments</b>						
U.S. Treasury Securities	\$44,216,105	(\$51,496)	\$3,816,188,606	\$(186,108,038)	\$3,860,404,711	(\$186,159,534)
Agency/GSE Mortgage-Backed Securities	866,068,796	(3,457,312)	3,006,524,220	(207,964,397)	3,872,593,016	(211,421,709)
<b>Total AFS Investments</b>	910,284,901	(3,508,808)	6,822,712,826	(394,072,435)	7,732,997,727	(397,581,243)
<b>Equity Investments</b>						
Exchange-traded bond fund	-	-	22,437,167	(1,562,505)	22,437,167	(1,562,505)
<b>Total Equity Investments</b>	-	-	22,437,167	(1,562,505)	22,437,167	(1,562,505)
<b>Total Investments</b>	<u>\$910,284,901</u>	<u>(\$3,508,808)</u>	<u>\$6,845,149,993</u>	<u>(\$395,634,940)</u>	<u>\$7,755,434,894</u>	<u>(\$399,143,748)</u>

	Less than 12 Months		12 Months or Longer		Total	
<u>2024</u>	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>AFS Investments</b>						
U.S. Treasury Securities	\$7,222,539	(\$106,317)	\$6,563,646,274	\$(494,003,282)	\$6,570,868,813	(\$494,109,599)
Agency/GSE Mortgage-Backed Securities	34,826,884	(89,737)	3,178,534,888	(269,443,570)	3,213,361,772	(269,533,307)
<b>Total AFS Investments</b>	42,049,423	(196,054)	9,742,181,162	(763,446,852)	9,784,230,585	(763,642,906)
<b>Equity Investments</b>						
Exchange-traded bond fund	-	-	18,016,513	(1,983,042)	18,016,513	(1,983,042)
<b>Total Equity Investments</b>	-	-	18,016,513	(1,983,042)	18,016,513	(1,983,042)
<b>Total Investments</b>	<u>\$42,049,423</u>	<u>(\$196,054)</u>	<u>\$9,760,197,675</u>	<u>(\$765,429,894)</u>	<u>\$9,802,247,098</u>	<u>(\$765,625,948)</u>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 3 - LOANS TO MEMBERS**

Credit Union members deposit funds into share accounts. Members' share deposits are loaned by the Credit Union to other Credit Union members. Loans to members consist of personal and mortgage loans. Ninety-seven percent (97%) of all loans are made to North Carolinians. The Credit Union originated \$9.9 billion in personal and mortgage loans to members across North Carolina during 2025 (\$9.2 billion in 2024).

The Credit Union plays a significant role in North Carolina's financial landscape, with the majority of our loan organizations, deposits, and members located within the state. Each year, the Credit Union originates billions of dollars in consumer and mortgage loans, supporting homeownership, transportation, and enhancing the quality of lives and financial well-being for our members. We also employ more than 8,000 individuals across 275 branches statewide, making SECU one of the largest financial service employers in the state. With over 94% of our membership residing in North Carolina, SECU's operations remain deeply intertwined with the economic well-being of the communities we serve.

Approximately eighty-seven percent (87%) of all outstanding loan balances are collateralized by assets located in North Carolina which include deeds of trust on real estate, titles to automobiles, guaranties of state or federal agencies, shares on deposit with the Credit Union, or some other tangible collateral. Over half of our loan portfolio (61%) are adjustable rate loans. Interest rates are indexed to Treasury Bill or Prime Rate indices and are subject to adjustment over time periods ranging from ninety days to five years. Twenty-four percent of the adjustable rate loan portfolio is subject to rate adjustment within ninety days; thirteen percent within one year, fifteen percent within two years and forty-eight percent between three to five years. By providing loan products with adjustable rates, the Credit Union is able to reprice loan interest rates to reflect market conditions. This structure allows the Credit Union to provide a fair rate of interest to each borrower while protecting the membership capital of the entire Credit Union. Proprietary SECU mortgage loan products have no or low origination fees, no hidden fees, no private mortgage insurance requirements and offer the convenience of escrow accounts with the added benefit of interest paid on the escrow deposits. Many members and their families have preserved the equity in their homes or improved their financial circumstances by originating or refinancing their mortgage loans through SECU.

The largest individual loans the Credit Union makes are first mortgage loans to members. At June 30, 2025 the Credit Union had 157,740 outstanding first mortgage loans with an average balance of \$161,745. No first mortgage loan balance exceeded \$3.9 million to any member at June 30, 2025. The vast majority of mortgage loans are adjustable-rate loans, are documented to secondary market standards and are principally on 1 to 4 family residences. Generally, these loans are collateralized by the primary residence of the member. In providing first mortgage loan services to members, the Credit Union requires escrow accounts for the purpose of paying property taxes and homeowner's insurance premiums. In keeping with credit union philosophy, the Credit Union pays interest on the escrow account balances at share account rates (\$264,855 in 2025 \$398,493 in 2024). As an additional means of meeting member loan demand, increasing liquidity, and managing the mix of assets on the consolidated Balance Sheet, the Credit Union may periodically purchase and sell mortgage loans. During fiscal year 2025, the

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 3 – LOANS TO MEMBERS – Continued**

Credit Union purchased \$55,639,690 (Zero in 2024) and sold \$1,263,228 of mortgage loans (\$1,469,133 in 2024).

The Credit Union offers lending products designed to meet the diverse needs of its members. Mortgage options include fixed-rate loans with terms from 10 to 30 years, a 5-year adjustable-rate mortgage, first-time buyers with grant assistance, and home equity lines of credit. SECU also provides competitive auto loans for new and used vehicles. Personal lending solutions include fixed-term signature loans, revolving open-end lines of credit, and share-secured loans with lower rates. Additionally, the Credit Union offers three Visa credit cards, Cash Rewards, Points Rewards, and Classic, which feature no annual fee, introductory balance transfer offers, and rewards or low-rate options to fit members' preferences. These products reflect the Credit Unions commitment to affordable, accessible financing for its members.

In March of 2025, the Credit Union launched new credit card products, including two rewards card offerings and a classic card. The new products are provided in conjunction with our existing low-rate card offering. Rewards products offer both points and cash back options to our members based on spending categorization. These programs aim to provide the value-added perks of a rewards card coupled with the Credit Union member experience. New cardholders of all three products enjoy a low fee, zero percent interest rate on balance transfers made within the first ninety days of account opening. After launching to members in the third quarter of the fiscal year, these new products account for over eighteen thousand new credit card accounts of which nearly twelve thousand represents rewards accounts.

In February 2009, SECU created the Mortgage Assistance Program (MAP) to help members maintain homeownership through the difficult financial challenges of the recession. The MAP program provides members opportunities to meet with SECU managers to develop specific financial plans through in-depth counseling and budgeting. Assistance is provided through a number of options including payment extensions, interest rate reductions for qualifying loans, term extensions, partial payment plans, loan refinances and other actions intended to assist members and their families.

On September 27, 2024, Hurricane Helene brought tremendous flooding and devastation to North Carolina. In the months following this catastrophic event, nearly five thousand mortgage loans to members located in counties impacted received a modification as part of the MAP program. This assistance helped members focus on recovery and rebuilding efforts.

Personal and mortgage loan interest is not accrued and recognized as income on loans greater than 90 days delinquent. Personal loans, on which the accrual of interest has been discontinued, totaled \$69.0 million at June 30, 2025 and \$74.1 million at June 30, 2024. Mortgage loans on which the accrual of interest had been discontinued totaled \$376.7 million at June 30, 2025 and \$293.8 million at June 30, 2024.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 3 – LOANS TO MEMBERS – Continued**

The composition of loans to members at June 30, 2025 and 2024 is as follows:

	2025	Weighted average yield	2024	Weighted average yield
<b>Residential Real Estate Loans</b>				
First mortgage loans	\$ 25,513,681,272	4.65%	\$ 24,092,517,434	4.30%
Home equity (<80% LTV)	2,494,377,022	6.85%	2,102,532,809	6.12%
Home equity (>80% LTV)	574,828,031	6.84%	459,528,949	6.09%
	28,582,886,325	4.89%	26,654,579,192	4.49%
<b>Personal Loans</b>				
Vehicle loans	4,047,585,238	6.76%	4,108,175,612	5.90%
Consumer loans	2,742,825,761	10.85%	2,441,809,534	10.83%
Credit card loans	1,200,398,668	11.70%	1,165,715,623	12.29%
Other secured loans	34,298,768	6.44%	29,916,082	5.58%
	8,025,108,435	8.80%	7,745,616,851	8.35%
	36,607,994,760	5.76%	34,400,196,043	5.35%
Less allowance for credit losses	(421,782,342)		(409,730,590)	
<b>Total loans</b>	\$ 36,186,212,418		\$ 33,990,465,453	

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of June 30, 2025, and 2024, accrued interest receivable for loans totaled \$162,105,323 and \$139,415,492, respectively, and is included in accrued interest receivable on the consolidated Balance Sheets.

The Credit Union does not enter into forward commitments to sell and deliver fixed rate mortgage loans to outside investors. During 2025 and 2024 the Credit Union did not originate first mortgage loans for sale on the secondary market. Net deferred fees are shown as a reduction in the balance of mortgage loans and are amortized into interest income as an adjustment in yield over the lives of the loans using the effective interest method. The total net deferred fees at June 30, 2025 were \$126.0 million (\$131.0 million at June 30, 2024). Direct loan origination costs on home equity and consumer loans are recognized in expenses when incurred.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 3 – LOANS TO MEMBERS – Continued**

The Credit Union approves lines of credit to members through home equity, credit card, construction loans and reverse mortgages. At, June 30, 2025 and 2024, in addition to the actual advances made on such loans, Credit Union members have the following additional lines of credit available:

	<u>2025</u>	<u>2024</u>
Home equity loans	\$2,835,000,000	\$2,513,000,000
Credit card loans	2,559,000,000	2,374,000,000
Consumer loans	516,000,000	472,000,000
Reverse mortgage loans	400,000	500,000

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES**

Management has established an allowance for credit losses that estimates losses inherent in the loan portfolio. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged off against the allowance for credit losses on loans when management believes that the principal and interest are uncollectible. Any recoveries of previously charged off loans are recorded to the allowance to offset the charge-off.

A summary of the activity in the allowance for credit losses on loans and loan losses for the years ended June 30, 2025 and 2024, respectively, are as follows. The Credit Union adopted CECL as of July 1, 2023.

<b>2025</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
<b>Allowance for credit losses on loans:</b>			
Beginning Balance	\$ 97,680,298	\$ 312,050,292	\$ 409,730,590
Provision for credit losses	25,912,091	213,961,001	239,873,092
Charge-offs	(4,500,133)	(249,042,962)	(253,543,095)
Recoveries	1,325,792	24,395,963	25,721,755
<b>Ending balance</b>	<u>\$ 120,418,048</u>	<u>\$ 301,364,294</u>	<u>\$ 421,782,342</u>

<b>2024</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
<b>Allowance for credit losses on loans:</b>			
Balance at June 30, 2023	\$ 48,503,152	\$ 281,165,782	\$ 329,668,934
Adoption of CECL	55,777,732	(1,359,711)	54,418,021
Balance at July 1, 2023	<u>\$ 104,280,884</u>	<u>\$ 279,806,071</u>	<u>\$ 384,086,955</u>
(Credit) Provision for credit losses	(5,471,369)	270,312,408	264,841,039
Charge-offs	(1,316,859)	(261,899,863)	(263,216,722)
Recoveries	187,642	23,831,676	24,019,318
<b>Ending balance</b>	<u>\$ 97,680,298</u>	<u>\$ 312,050,292</u>	<u>\$ 409,730,590</u>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES - Continued**

In addition to the allowance for credit losses on loans above, the Credit Union has established an allowance for credit losses on unfunded commitments, classified in other liabilities on the consolidated balance sheets. This allowance is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of June 30, 2025 was \$317,077 (\$361,612 as of June 30, 2024).

The provision for credit losses is determined by the Credit Union as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses included in the consolidated statements of income for the years ended June 30, 2025 and 2024 are as follows:

<b>Allocation of Provision Expense</b>	<b>2025</b>	<b>2024</b>
Provision for Credit Losses on Loans	\$ 239,873,092	\$ 264,841,039
(Credit)/Provision for Credit Losses on Unfunded Commitments	(44,535)	361,612
Total Provision for Credit Losses Expense	<u>\$ 239,828,557</u>	<u>\$ 265,202,651</u>

**Loan Portfolio Credit Quality Indicators**

As part of the on-going monitoring of the credit quality of the real estate and personal loan portfolios, management tracks certain credit quality indicators based on whether the loans are performing or non-performing. To differentiate these categories, management tracks loan performance and when loans become 90 days or more past due, the loans are classified as non-performing. The delinquency reports enable lending personnel and Credit Union management to monitor the loan portfolio.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES – Continued**

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

<b>2025</b>	<b>Performing</b>	<b>Non-Performing</b>	<b>Total</b>	<b>% of Total Non-Performing</b>
<b>Real Estate</b>				
First mortgage	\$ 25,151,053,774	\$ 362,627,498	\$ 25,513,681,272	1.42%
Home equity (<80% LTV)	2,484,857,834	9,519,188	2,494,377,022	0.38%
Home equity (>80% LTV)	570,275,220	4,552,811	574,828,031	0.79%
<b>Personal Loans</b>				
Vehicle	4,003,170,788	44,414,450	4,047,585,238	1.10%
Consumer	2,728,867,500	13,958,261	2,742,825,761	0.51%
Credit card	1,189,827,886	10,570,782	1,200,398,668	0.88%
Other secured	34,283,996	14,772	34,298,768	0.04%
<b>Total</b>	<b>\$ 36,162,336,998</b>	<b>\$ 445,657,762</b>	<b>\$ 36,607,994,760</b>	<b>1.22%</b>

<b>2024</b>	<b>Performing</b>	<b>Non-Performing</b>	<b>Total</b>	<b>% of Total Non-Performing</b>
<b>Real Estate</b>				
First mortgage	\$ 23,806,854,654	\$ 285,662,780	\$ 24,092,517,434	1.19%
Home equity (<80% LTV)	2,096,205,243	6,327,566	2,102,532,809	0.30%
Home equity (>80% LTV)	457,679,766	1,849,183	459,528,949	0.40%
<b>Personal Loans</b>				
Vehicle	4,058,224,865	49,950,747	4,108,175,612	1.22%
Consumer	2,428,026,969	13,782,565	2,441,809,534	0.56%
Credit card	1,155,527,351	10,188,272	1,165,715,623	0.87%
Other secured	29,733,842	182,240	29,916,082	0.61%
<b>Total</b>	<b>\$ 34,032,252,691</b>	<b>\$ 367,943,352</b>	<b>\$ 34,400,196,043</b>	<b>1.07%</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES – Continued**

*Delinquent Loans and Loan Balances*

The table below provides an age analysis of past due loans by class at June 30, 2025 and 2024.

<b>2025</b>	<b>Current</b>	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days or Greater (Nonaccrual)</b>	<b>Total Past Due</b>	<b>Total Loans to Members</b>
<b>Real Estate</b>						
First mortgage	\$ 24,127,331,984	\$ 727,149,762	\$ 296,572,028	\$ 362,627,498	\$ 1,386,349,288	\$ 25,513,681,272
Home equity (<80% LTV)	2,466,092,352	12,555,502	6,209,980	9,519,188	28,284,670	2,494,377,022
Home equity (>80% LTV)	564,233,267	4,102,676	1,939,277	4,552,811	10,594,764	574,828,031
<b>Personal Loans</b>						
Vehicle	3,892,531,923	75,155,374	35,483,491	44,414,450	155,053,315	4,047,585,238
Consumer	2,681,021,973	30,759,691	17,085,836	13,958,261	61,803,788	2,742,825,761
Credit card	1,163,587,322	16,238,070	10,002,494	10,570,782	36,811,346	1,200,398,668
Other secured	33,875,745	305,412	102,839	14,772	423,023	34,298,768
<b>Total</b>	<b>\$ 34,928,674,566</b>	<b>\$ 866,266,487</b>	<b>\$ 367,395,945</b>	<b>\$ 445,657,762</b>	<b>\$ 1,679,320,194</b>	<b>\$ 36,607,994,760</b>

<b>2024</b>	<b>Current</b>	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days or Greater (Nonaccrual)</b>	<b>Total Past Due</b>	<b>Total Loans to Members</b>
<b>Real Estate</b>						
First mortgage	\$ 22,800,211,350	\$ 716,199,136	\$ 290,444,168	\$ 285,662,780	\$ 1,292,306,084	\$ 24,092,517,434
Home equity (<80% LTV)	2,085,602,766	6,773,181	3,829,296	6,327,566	16,930,043	2,102,532,809
Home equity (>80% LTV)	453,544,868	2,222,606	1,912,292	1,849,183	5,984,081	459,528,949
<b>Personal Loans</b>						
Vehicle	3,941,792,764	80,547,474	35,884,628	49,950,747	166,382,848	4,108,175,612
Consumer	2,383,111,045	29,605,960	15,309,965	13,782,565	58,698,489	2,441,809,534
Credit card	1,128,343,541	17,713,687	9,470,123	10,188,272	37,372,082	1,165,715,623
Other secured	28,567,898	876,956	288,988	182,240	1,348,184	29,916,082
<b>Total</b>	<b>\$ 32,821,174,232</b>	<b>\$ 853,938,999</b>	<b>\$ 357,139,460</b>	<b>\$ 367,943,352</b>	<b>\$ 1,579,021,811</b>	<b>\$ 34,400,196,043</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES – Continued**

Loans are placed in non-accrual status if they are past due for a period of 90 days or more. Interest is not accrued or recognized as income on loans 90 days or greater delinquent. The Credit Union had no loans that were 90 days and greater for which the loans were accruing interest at June 30, 2025 and 2024.

*Loan Modifications to Borrowers in Financial Difficulty*

Modifications to borrowers experiencing financial difficulty may include forbearances, partial payments, term extensions and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended June 30, 2025 and 2024:

	Type of Concession		Total	% of Total Segment of
	Payment Deferment	Partial Payment		
<b>2025</b>				
<b>Real Estate</b>				
First Mortgage	\$ 376,114,045	\$ 4,819,769	\$ 380,933,814	1.49%
Home Equity	27,892,802	-	27,892,802	1.12%
<b>Personal Loans</b>				
Vehicle	102,861,942	-	102,861,942	2.54%
Consumer	40,114,393	-	40,114,393	1.46%
Credit card	33,026,124	-	33,026,124	2.82%
<b>Total</b>	<b>\$ 580,009,306</b>	<b>\$ 4,819,769</b>	<b>\$ 584,829,075</b>	<b>1.60%</b>

	Type of Concession		Total	% of Total Segment of
	Payment Deferment	Partial Payment		
<b>2024</b>				
<b>Real Estate</b>				
First Mortgage	\$ 22,370,294	\$ 1,200,195	\$ 23,570,489	0.10%
Home Equity	6,121,610	-	6,121,610	0.29%
<b>Personal Loans</b>				
Vehicle	57,304,140	-	57,304,140	1.39%
Consumer	18,405,617	-	18,405,617	0.75%
Credit card	16,576,694	-	16,576,694	1.42%
<b>Total</b>	<b>\$ 120,778,355</b>	<b>\$ 1,200,195</b>	<b>\$ 121,978,550</b>	<b>0.35%</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 4 - ALLOWANCE FOR CREDIT LOSSES – Continued**

For the year ended June 30, 2025, payment delays, partial payments, and term extensions made to borrowers experiencing financial difficulty included:

- **Payment Deferments** – Granted through the Credit Union's standard deferral program, payment deferrals of up to six months were offered as a concession on all loan products. Payment deferrals allow the member to pause payments and avoid the negative credit impacts of delinquency. Deferred payments related to mortgage modifications are due at the original contracted maturity date while consumer payment delays are added to the end, extending the contractual term.
- **Partial Payments** – Granted on first mortgage loans for members experiencing financial hardship but who want to continue with payments, partial payment plans are provided to temporarily reduce members' monthly payments. Typically, this program is used in conjunction with the payment delay program to ensure the member stays current and doesn't experience negative credit impacts associated with delinquency.

The following table presents the loan modifications made to borrowers experiencing financial difficulty that defaulted (within 12-months of making the modification) during the year ended June 30, 2025. SECU defines "default" as becoming 90 or more days past due.

<b>2025</b>	Type of Concession		Total
	Payment Deferment	Partial Payment	
<b>Real Estate</b>			
First Mortgage	\$ 19,872,576	\$ 113,895	\$ 19,986,471
Home Equity	1,382,630	-	1,382,630
<b>Personal Loans</b>			
Vehicle	5,164,701	-	5,164,701
Consumer	1,721,436	-	1,721,436
Credit card	2,522,325	-	2,522,325
<b>Total</b>	<b>\$ 30,663,668</b>	<b>\$ 113,895</b>	<b>\$ 30,777,563</b>

<b>2024</b>	Type of Concession		Total
	Payment Deferment	Partial Payment	
<b>Real Estate</b>			
First Mortgage	\$ 4,873,813	\$ 342,829	\$ 5,216,642
Home Equity	106,814	-	106,814
<b>Personal Loans</b>			
Vehicle	2,623,985	-	2,623,985
Consumer	865,199	-	865,199
Credit card	808,416	-	808,416
<b>Total</b>	<b>\$ 9,278,227</b>	<b>\$ 342,829</b>	<b>\$ 9,621,056</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 5 – REAL ESTATE OWNED AND COLLATERAL IN LIQUIDATION**

The Credit Union records real estate acquired through foreclosure (real estate owned) at the lower of cost or fair value and includes such amounts in Other Assets on the Consolidated Balance Sheets. Real estate owned is written down to estimated fair value, less costs to sell, as of the date of foreclosure through a charge against the allowance for credit losses. The fair value of these properties is an estimate of management based on the marketability of properties under current and projected economic conditions. During fiscal year 2025, \$20,366,383 was transferred from the loan portfolio to real estate owned; \$7,660,550 was transferred during fiscal year 2024. The lower of cost or fair value of real estate owned at June 30, 2025 is \$5,329,440 (\$2,766,609 at June 30, 2024). The valuation allowance has a balance of \$974,870 at June 30, 2025 (\$709,897 at June 30, 2024). The balance of net real estate owned at June 30, 2025 represents 0.01% of the total loan portfolio (0.01% at June 30, 2024).

The Credit Union records vehicles acquired through repossession at the lower of cost or fair value and include such amounts in Other Assets on the Consolidated Balance Sheets. Collateral in liquidation is written down to the estimated fair value as of the date of repossession through a charge against the allowance for credit losses. The lower of cost or fair value of collateral in liquidation at June 30, 2025 is \$3,051,982 (\$3,140,597 at June 30, 2024). The valuation allowance has a balance of \$6,583,619 at June 30, 2025 (\$6,360,205 at June 30, 2024).

**NOTE 6 - DEPOSIT FOR FEDERAL INSURANCE OF MEMBER ACCOUNTS**

The share deposits of members of the Credit Union are insured by the NCUA to a maximum of \$250,000 per ownership interest through the National Credit Union Share Insurance Fund (NCUSIF or Fund). The NCUSIF is a national cooperative insurance fund administered by the NCUA and funded by credit unions. All federally insured credit unions, including corporate credit unions, invest monies in the NCUSIF to provide the protection of federal deposit insurance on member accounts. The required investment is one percent of the insurable share balances of each institution as determined semi-annually on June 30 and December 31. These investments and the earnings that they provide are used to cover insurance losses of federally insured credit unions and for the operation of the Fund and the NCUA. The NCUA can also raise monies to maintain the financial soundness of the Fund by levying premium assessments against all federally insured credit unions. From 1985 through 2008, due to the financial strength of the Share Insurance Fund, the NCUA Board waived assessing an insurance premium every year except 1992.

The accumulation of the funds in the NCUSIF helps assure credit unions of the soundness of their cooperative federal deposit insurance program. The NCUA insurance fund is the only federal deposit insurance fund that establishes balance sheet reserves for anticipated future losses for all problem institutions. The fund is monitored by the NCUA to ensure proper equity ratios are maintained. The investment in federal insurance of accounts is an asset of the Credit Union and would be refunded to SECU if insurance coverage were terminated, if insurance coverage were obtained from another source or if the operations of the Share Insurance Fund were transferred from the NCUA Board. The outstanding balance of this investment is \$437,284,024 at June 30, 2025 (\$413,631,443 at June 30, 2024).

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 7 - PROPERTY AND EQUIPMENT**

	<u>2025</u>	<u>2024</u>
Land	\$ 295,251,538	\$ 293,373,282
Buildings	1,237,211,339	1,188,985,331
Construction in progress	4,429,669	3,917,632
Leasehold improvements	7,460,276	7,339,892
Computer, office equipment, and furnishings	620,106,192	624,513,393
	<u>\$ 2,164,459,014</u>	<u>\$ 2,118,129,530</u>
Less accumulated depreciation and amortization	(950,247,572)	(898,671,369)
	<u>\$ 1,214,211,442</u>	<u>\$ 1,219,458,161</u>

The net investment in land, buildings and construction in progress represents 2.01% of total Credit Union assets at June 30, 2025 and 1.97% at June 30, 2024. At June 30, 2025, the estimated additional cost to complete buildings under construction is approximately \$7.3 million. SECU owns and occupies nine operations center buildings in the Raleigh, North Carolina (Wake County) area and two Member Services Support center buildings in Rocky Mount, North Carolina (Nash County) and Greensboro, North Carolina (Guilford County). In addition to the owned and occupied operations centers, SECU also leases a Member Services Support center located in Asheville, North Carolina (Buncombe County) and leases two Data Processing Centers.

SECU owns 273 branch office buildings and occupies rental space at two branch office locations. These facilities are in communities that span the State of North Carolina. SECU provides services and pays business real and personal property taxes in all 100 counties of North Carolina. In 2025 the Credit Union paid \$14.2 million in property taxes (\$13.3 million in 2024). No new branches opened during fiscal year 2025.

The Credit Union also leases space to tenants in an office building and a branch location. The rental terms range from one to ten years. The leases provide for the payment of fixed base rents payable monthly in advance. Future base rental revenue under these non-cancelable operating leases for the years ending June 30 is as follows. The table below is inclusive of all rental revenue to be generated by the Credit Union and its consolidating subsidiaries.

<u>Year</u>	<u>Lease Payments</u>
2026	\$14,645,194
2027	1,912,227
2028	1,891,337
2029	1,891,337
Thereafter	4,453,939
	<u>\$24,794,034</u>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 7 - PROPERTY AND EQUIPMENT - Continued**

Leasing commissions associated with the acquisition of tenants are capitalized and amortized on a straight-line basis over the terms of the related leases. During the years ended June 30, 2025 and 2024, there were no capitalized commission amounts relating to successful leasing activities.

**NOTE 8 - MEMBER SHARE DEPOSITS**

Following is a summary of member share account balances at June 30, 2025 and 2024:

	<b>2025</b>		<b>2024</b>	
	<b>Amount</b>	<b>Weighted Average Yield</b>	<b>Amount</b>	<b>Weighted Average Yield</b>
Share accounts	\$ 7,093,124,593	0.30%	\$ 7,106,339,787	0.26%
Individual retirement share accounts	3,466,582,693	3.00%	3,407,942,172	2.50%
Money market share accounts	17,632,046,436	2.02%	16,012,168,820	1.44%
Share term certificates	14,972,617,581	3.78%	12,617,665,659	4.56%
	<u>\$ 43,164,371,303</u>	<u>2.43%</u>	<u>\$ 39,144,116,438</u>	<u>2.17%</u>

Share and deposit amounts up to \$250,000 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding \$250,000 totaled \$4.0 billion at June 30, 2025 (\$3.3 billion at June 30, 2024). The amount of share term certificates that exceeded \$250,000 was \$3.03 billion at June 30, 2025 (\$2.45 billion at June 30, 2024). The Credit Union does not solicit nor does it accept commercial deposits, governmental deposits, business deposits or brokered deposits.

Maturities of share term certificates, for the years ending June 30 are as follows:

<b>Year</b>	<b>Amount Maturing</b>
2026	\$ 11,313,978,745
2027	3,132,117,199
2028	342,081,904
2029	101,968,532
2030 and thereafter	82,471,201
	<u>\$ 14,972,617,581</u>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 9 - SHORT TERM BORROWINGS**

During the fiscal year ended June 30, 2024, the Credit Union borrowed from the Federal Reserve Bank via the Bank Term Funding Program (BTFP). The BTFP was a temporary program that offered loans up to one year to financial institutions with eligible collateral to pledge at par value. The BTFP was in effect beginning March 12, 2023, and was closed for any future advances as of March 11, 2024. Borrowing secured by the Credit Union had a maturity date of January 15, 2025. Short-term borrowing secured through this program was paid off on November 11, 2024. As of June 30, 2025 there was no outstanding debt held on the Consolidated Balance Sheet.

<b>2024</b>	<b>Coupon</b>	<b>Fixed/Variable</b>	<b>Payment</b>	<b>Maturity</b>	<b>Outstanding Balance</b>
BTFP Borrowing	4.76%	Fixed	Annually	1/15/2025	5,000,000,000

At June 30, 2025 SECU has lines of credit available for use in the amounts of \$13.83 billion (\$13.65 billion at June 30, 2024 ) from the Federal Home Loan Bank of Atlanta and \$939 million (\$924 million at June 30, 2024 ) from the Federal Reserve Bank of Richmond. First mortgage loans of the Credit Union totaling \$22.1 billion at June 30, 2025 (\$20.8 billion at June 30, 2024 ) secure these lines of credit. At June 30, 2025 and 2024 the Credit Union had no outstanding obligations related to these lines of credit. Funds required for operations are primarily obtained through the growth of member deposits, the receipt of loan payments or the redemption of securities owned by the Credit Union.

**NOTE 10 – COMMITMENTS**

The Credit Union leases certain office space and computer equipment under various lease arrangements. The leases for office space and computer equipment are classified as operating leases.

The total rental expense under operating leases during the year ended June 30, 2025 was \$9,654,694 (\$10,727,399 in 2024). Minimum future lease payments by year under non-cancelable operating leases at June 30, 2025 are as follows:

<b>Year</b>	<b>Operating Leases</b>
2026	\$ 1,137,400
2027	1,017,753
2028	2,985,107
2029	10,545,105
2030 and thereafter	8,986,272
Total Undiscounted lease payments	24,671,637
Less: Imputed Interest	(1,056,973)
Total Lease liabilities	<u>\$ 23,614,664</u>

Right of use lease assets and lease liabilities were calculated using a weighted average discount rate (incremental borrowing rate) of 2.19% at June 30, 2025.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 10 – COMMITMENTS - Continued**

In the normal course of business, the Credit Union may be subject to legal actions. At June 30, 2025 and June 30, 2024, there were no such actions which, in management's opinion, were material to the financial condition of the Credit Union.

**NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated Other Comprehensive Loss (AOCL) represents the balance of items recognized through other comprehensive loss. The components of AOCL include the valuation adjustments for securities available for sale, gains and losses associated with postretirement benefits and prior service costs associated with postretirement benefits. The following table presents the components of AOCL and the changes that occurred during the years ended June 30, 2025 and 2024. In addition, the table identifies the line item component of the consolidated statements of income and undivided earnings that was impacted by reclassifications of AOCL during the year.

	Unrealized net losses on available for sale securities	Unrecognized postretirement (loss)/income	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
<b>2025</b>				
<b>Balance at June 30, 2024</b>	\$ (753,471,344)	\$ 47,955,098	\$ (705,516,246)	
Unrealized net gains on available for sale securities:				
Unrealized holding gains on securities available for sale arising during the period	429,010,977	-	429,010,977	
Reclassification of loss on sale of securities	(31,877,436)	-	(31,877,436)	
Postretirement benefit plan:				
Net gain	-	27,359,907	27,359,907	
Prior Service Cost		(88,295,482)	(88,295,482)	
Reclassification included in net income:				
Amortization of net gain	-	(2,324,358)	(2,324,358)	Other operating expenses
Amortization of prior service cost	-	6,135,759	6,135,759	Other operating expenses
Net change in AOCI	397,133,541	(57,124,174)	340,009,367	
<b>Balance at June 30, 2025</b>	\$ (356,337,803)	\$ (9,169,076)	\$ (365,506,879)	

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS - Continued**

<b>2024</b>	Unrealized net losses on available for sale securities	Unrecognized postretirement loss	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
<b>Balance at June 30, 2023</b>	\$ (1,140,498,509)	\$ 19,038,931	\$ (1,121,459,578)	
Unrealized net gains on available for sale securities:				
Unrealized holding gains on securities available for sale arising during the period	431,119,866	-	431,119,866	
Reclassification of loss on sale of securities	(44,092,701)	-	(44,092,701)	
Postretirement benefit plan:				
Net gain	-	6,221,956	6,221,956	
Prior Service Cost		22,205,318	22,205,318	
Reclassification included in net income:				
Amortization of net gain		(1,388,173)	(1,388,173)	Other operating expenses
Amortization of prior service cost	-	1,877,066	1,877,066	Other operating expenses
Net change in AOCI	387,027,165	28,916,167	415,943,332	
<b>Balance at June 30, 2024</b>	\$ (753,471,344)	\$ 47,955,098	\$ (705,516,246)	

**NOTE 12 - EMPLOYEE BENEFITS**

SECU employs 7,705 full-time and 616 part-time employees in operations and branch locations located in all 100 counties of North Carolina as of June 30, 2025. Full-time Credit Union employees participate in a 401(k) defined contribution plan administered by an independent investment provider. The contributions of plan participants are matched by the Credit Union at rates established by the Board of Directors. The retirement plan is fully funded and has no associated past service liability. For the years ended June 30, 2025 and 2024, the cost of the retirement plan (\$58,179,291 and \$55,018,586, respectively) is included in Salaries and Employee Benefits in the consolidated statements of income and undivided earnings.

SECU provides a non-qualified deferred compensation plan as allowed under Internal Revenue Code Section 457(b) to certain employees defined as highly compensated. This plan offers a before-tax savings opportunity to participants. The annual deferral amount allowed mirrors the 401(k) plan and contributions are invested by participants through the same options provided within the 401(k) plan. Contributions are not matched by the Credit Union. There is no expense to the Credit Union.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 12 - EMPLOYEE BENEFITS – Continued**

The President/Chief Executive Officer is responsible for the day-to-day operations of the Credit Union in accordance with the bylaws of SECU and federal and North Carolina rules, regulations and laws applicable to state-chartered credit unions. The President serves at the pleasure of the Board of Directors. The Board has executed a formal employment contract with the President which is subject to renewal annually. The compensation of the President is set by the Board of Directors and is also determined annually. Periodic studies of the market value of the position are determined through independent third-party compensation experts who benchmark the position to the marketplace. The President receives the same life, medical and dental insurance, long term disability and 401(k) benefits that are available to all SECU employees through a cafeteria benefits plan.

The Credit Union has a self-funded insurance plan for employee health and medical expenses. Contributions by employees and SECU fund a reserve from which medical claims are paid. Required employee contributions are calculated based on actual employee claims experience over a twelve-month history in order to reasonably estimate and fund the reserve for 100% of the projected annual insurance claims. Additionally, the Credit Union has purchased stop-loss insurance coverage to provide protection against individual claims exceeding \$750,000. In addition to covering the exposure to potential loss prior to stop-loss insurance coverage the balance of funds on deposit in the reserve is available to pay insurance claims incurred but not yet reported, claims in the process of settlement and unanticipated significant claims over several periods. At June 30, 2025, the balance of the employee medical reserve was \$28,066,062 (\$18,890,608 at June 30, 2024). These funds are maintained in a deposit account at the Credit Union.

The Credit Union recognizes postretirement benefit expenses and liabilities on accrual rather than cash basis. Qualifying SECU retirees are eligible for a fixed allowance toward medical insurance based on a years-of-service, age-at-retirement formula. The Credit Union has invested monies to fully fund a reserve to meet the estimated obligation for these future postretirement payments. At June 30, 2025, the balance of the postretirement benefit reserve was \$169,418,511 (\$167,402,405 at June 30, 2024). These funds are maintained in a deposit account at the Credit Union.

The Credit Union amended its retiree benefit program to enhance support for Medicare-eligible retirees. Under the updated plan, Medicare-eligible retirees will receive a \$6,000 annual benefit deposited into a Health Reimbursement Arrangement (HRA). These funds may be applied towards Medicare Part B, Part C, Part D premiums or other qualifying health expenses. This change increased the Credit Union's postretirement benefit obligation, as the new HRA benefit is expected to provide higher future benefit payments in relation to the prior plan design.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 12 - EMPLOYEE BENEFITS – Continued**

Information relating to the postretirement plan at June 30 is presented in the following tables:

	<u>2025</u>	<u>2024</u>
Amounts recognized at June 30:		
Accumulated benefit obligations	\$ 160,622,447	\$ 89,017,811
Fair value of plan assets	<u>169,418,511</u>	<u>167,402,405</u>
Plan assets in excess of benefit obligations included in other assets	\$ 8,796,064	\$ 78,384,594
Assumptions used to determine benefit obligations:		
Weighted average discount rate	5.75%	5.41%
Assumed health care cost trend rate:		
Initial rate	8.00%	8.00%
Ultimate rate	4.85%	4.85%
Year ultimate rate reached	2033	2032

Information relating to the net periodic benefit costs, contributions and benefits paid is shown in the following table:

	<u>2025</u>	<u>2024</u>
Amounts recognized for years ended June 30:		
Service costs	\$ 7,699,971	\$ 4,586,500
Interest Cost	9,093,627	5,665,707
Expected Return on Assets	(7,129,200)	(7,041,696)
Amortization of Net Gain	(2,324,358)	(1,388,173)
Amortization of Prior Service Cost	6,135,759	1,877,066
Curtailment Recognition	-	-
Net Postretirement Benefit Cost	\$ 13,475,799	\$ 3,699,404
Employer contributions	1,416,415	744,572
Participant contributions	-	-
Benefits paid	\$ 4,470,584	\$ 3,602,577

Assumptions used to determine net periodic benefit cost:

Weighted average discount rate	5.41%	4.97%
Expected long-term rate of return on assets	4.25%	4.25%
Assumed health care cost trend rate:		
Initial rate	8.00%	8.00%
Ultimate rate	4.85%	4.75%
Year ultimate rate reached	2033	2033

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 12 - EMPLOYEE BENEFITS – Continued**

The discount rate, expected rate of return on plan assets and health care cost trend rate are assumptions which significantly affect postretirement accounting. Relatively small changes in these rates can substantially change the recorded postretirement expense and accrued liability. Management believes the discount rate, expected rate of return on plan assets and health care cost trend rate used in determining the year-end postretirement amounts are reasonable based on currently available information.

The amounts recognized in accumulated other comprehensive loss and amortized through other comprehensive income (loss) are shown below:

	<u>2025</u>	<u>2024</u>
Amounts recognized at June 30:		
Net gain	\$ 71,208,228	\$ 46,172,679
Prior service (Cost)/Credit	(80,377,304)	1,782,419
Accumulated other comprehensive (loss)/income	<u>\$ (9,169,076)</u>	<u>\$ 47,955,098</u>
Amounts recognized for years ended June 30:		
Net gain	\$ 27,359,907	\$ 6,221,956
Prior Service (Cost)/Credit	(88,295,482)	22,205,318
Amortization of net loss	(2,324,358)	(1,388,173)
Amortization of prior service cost	6,135,759	1,877,066
Curtailment Recognition	<u>-</u>	<u>-</u>
Total recognized in other comprehensive income	<u>\$ (57,124,174)</u>	<u>\$ 28,916,167</u>

Since 2015, the Credit Union has received a full valuation of postretirement benefits which resulted in the recognition of prior service cost. The estimated prior service costs for the postretirement benefit that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is \$5,607,788.

The expected contributions of the Credit Union for the next fiscal year beginning July 1, 2025 are \$0 at June 30, 2025. The following table estimates the net benefits to be paid out over the next ten fiscal years:

<u>Year</u>	<u>Net Postretirement Benefits</u>
2026	\$ 3,050,032
2027	4,858,272
2028	5,470,454
2029	6,046,632
2030	6,583,337
2031-2035	43,029,422
	<u>\$ 69,038,149</u>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 13 – RELATED PARTY TRANSACTIONS**

Members of the Board of Directors, Audit Committee and senior management of the Credit Union have outstanding loans and deposits at the Credit Union. At June 30, 2025 the outstanding balances included 549 loans totaling \$36.8 million (466 loans totaling \$34.8 million at June 30, 2024) and deposits totaling \$23.3 million (\$19.9 million at June 30, 2024). The aggregate principal advances and principal repayment are not significant. Employees are eligible to receive a 1% discount on fixed rate loans. Deposit accounts earned interest at the same rates provided to all other members of the Credit Union. Members of the Board of Directors and Audit Committee, as volunteers, serve without compensation.

**NOTE 14 – REGULATORY NET WORTH REQUIREMENTS**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-consolidated balance sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation).

Effective January 1, 2022, the NCUA adopted the risk-based capital calculation which applies only to federally-insured, natural person credit unions with quarter-end total assets exceeding \$500 million who do not qualify for, or opt into, the complex credit union leverage ratio (CCULR) framework described in §702.104(d).

As of June 30, 2025, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. In addition, the credit union, if complex, must maintain a minimum risk-based capital ratio of 10% or greater. There are no conditions or events since that notification that management believes have changed the institution's category.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 14 – REGULATORY NET WORTH REQUIREMENTS – Continued**

The Credit Union's actual capital amounts and ratios are also presented in the table following:

	<b>Actual</b>		<b>To be Adequately Capitalized Under Prompt Corrective Action Provision</b>		<b>To be Well Capitalized Under Prompt Corrective Action Provision</b>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b><u>2025</u></b>						
Net Worth	\$ 5,633,465,122	10.20%	\$ 3,324,281,888	6.00%	\$ 3,878,328,869	7.00%
Risk-Based Capital	5,618,280,517	20.69%	-	8.00%	-	10.00%
<b><u>2024</u></b>						
Net Worth	\$ 5,349,956,128	9.83%	\$ 3,264,293,403	6.00%	\$ 3,808,342,303	7.00%
Risk-Based Capital	5,346,416,887	21.42%	-	8.00%	-	10.00%

In performing its calculation of total assets for fiscal year ending June 30, 2025, the Credit Union used the average of the current and three preceding calendar quarter-end balances as permitted by the regulation (ending assets was used for 2024).

**NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles require the disclosure of certain information regarding the fair value of instruments recognized in the consolidated balance sheets. Estimates of fair value for financial instruments may be determined through quoted market prices, if available or alternative valuation techniques which include the present value of estimated future cash flows. Fair value estimates involve the use of assumptions, which are subjective and can significantly alter the estimated fair values.

Generally accepted accounting principles establish a hierarchy for inputs used in measuring fair values that maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. The standard defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets, and;

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

Fair value of assets measured on a recurring basis at June 30, 2025 and 2024 are as follows:

			Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2025</u>	<u>Total</u>	<u>Fair Value</u>			
<b>AFS Investments</b>					
U.S. Treasury Securities	\$	8,754,306,592	\$ 8,754,306,592	\$ -	\$ -
Agency/GSE Mortgage-Backed Securities		5,753,626,122	-	5,753,626,122	-
<b>Equity Investments</b>					
Exchange-traded bond fund		22,437,167	22,437,167	-	-
<u>2024</u>					
<b>AFS Investments</b>					
U.S. Treasury Securities		7,558,394,281	7,558,394,281	-	-
Agency/GSE Mortgage-Backed Securities		4,202,829,559	-	4,202,829,559	-
<b>Equity Investments</b>					
Exchange-traded bond fund		18,016,513	18,016,513	-	-

U.S. Treasury securities and Agency/GSEs non-debenture instruments are reported at fair value. The fair values are based upon quoted prices in an active market and reflect unrealized gains and losses on the securities.

The exchange-traded bond fund is also reported at fair value. The fair value is based upon quoted prices in an active market and reflects unrealized gains and losses on the exchange-traded bond fund.

Under certain circumstances, the Credit Union makes adjustments to fair value for assets on a nonrecurring basis. The following table presents the assets carried on the consolidated balance sheet in the fair value hierarchy at June 30, 2025 and 2024 for which a nonrecurring change in fair value has been recorded:

			Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2025</u>	<u>Total</u>	<u>Fair Value</u>			
Real estate owned	\$	5,329,440	\$ -	\$ -	\$ 5,329,440
<u>2024</u>					
Real estate owned	\$	2,766,609	\$ -	\$ -	\$ 2,766,609

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2025 AND 2024**

**NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

At June 30, 2025 and 2024, there are no individual loans reported at their fair value.

Amounts applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions.

At June 30, 2025 real estate owned with outstanding balances of \$6.3 million (\$3.5 million at June 30, 2024) are carried at their fair value of \$5.3 million (\$2.8 million at June 30, 2024), resulting in a valuation allowance of \$975,000 at June 30, 2025 (\$710,000 at June 30, 2024). The amount of the write down is determined by using the appraised value of the underlying collateral less costs to sell.

**NOTE 16 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 8, 2025 the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2025 but prior to September 8, 2025 that provided additional evidence about conditions that existed at June 30, 2025 have been recognized in the consolidated financial statements for the year ended June 30, 2025.

## REPORT OF MANAGEMENT

*Management is responsible for the preparation, presentation, accuracy, and consistency of the financial information contained in this Annual Report. The consolidated financial statements and accompanying notes, prepared in accordance with generally accepted accounting principles, are considered by management to fairly present the financial position and results of operations of the Credit Union.*

*Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The controls are monitored by a staff of internal auditors employed by the Credit Union. The controls are also reviewed and tested by state regulatory authorities, federal examiners, and selectively tested by independent certified public accounting firms.*

*The Audit Committee of the Board of Directors meets periodically with management, internal auditors, and external auditors to review the quality of financial reporting, compliance with internal accounting controls, and the nature, extent, timing, and results of audits and examinations. The Audit Committee recommends the selection of an independent certified public accounting firm which conducts an annual audit of the consolidated financial statements of the Credit Union. The Audit Committee also reviews Internal Audit Department reports on compliance with internal policies, procedures, by-laws, and governing statutes - both state and federal.*

*The Board of Directors oversees the performance of management. The Board meets no less frequently than monthly to review the financial condition and results of operation of the Credit Union. The Board considers many issues relevant to the operation of the Credit Union some of which include: quality of member service, types of deposit and loan services, interest rates, investments, policies, facilities and other service delivery methods, capital accumulation, and current financial trends. Additionally, Standing Committees comprised of Board members regularly meet to address specific areas of Credit Union operations.*

*The Credit Union Division of the State of North Carolina conducts an annual examination of the Credit Union to verify compliance with regulatory statutes and capital requirements and to confirm that assets are being properly safeguarded. The NCUA, a federal agency, conducts an annual insurance review to assure that the operation of the Credit Union continues to contribute to the safety and soundness of the NCUA Share Insurance Fund.*

*Independent certified public accountants retained by the Audit Committee of the Credit Union audit the consolidated financial statements in accordance with generally accepted auditing standards. Their opinion on the consolidated financial statements is based on auditing procedures which include reviewing specific internal controls and performing selected tests of transactions and records. These auditing procedures are designed to provide a reasonable level of assurance that the consolidated financial statements are fairly presented in all material respects. The auditors have free and independent access to the Audit Committee and meet with the Committee, Board of Directors, and management to consider matters relating to financial statement presentation, internal controls, audit procedures, and the appropriateness of Credit Union policies and procedures.*

*Management fully supports the independent reviews by each of these groups and is committed to ensuring that Credit Union operations and financial reporting are conducted responsibly, accurately, with integrity, and with the goal of helping our members improve their economic circumstances and achieve financial success.*

**Board of Directors**

Members of the Board of Directors are as follows:

Mona Moon, Chair  
Stelfanie Williams, Vice Chair  
Jennifer Haygood, Secretary/Treasurer  
Chris Ayers  
Bob Brinson  
Michael Clements  
Mark Fleming  
Ben McLawhorn  
Barbara Perkins  
Chuck Stone  
McKinley Wooten, Jr.

**Contact Information**

The mailing address and phone numbers of the State Employees' Credit Union are:

State Employees' Credit Union  
PO Box 27665  
Raleigh, NC 27611-7665

Call Center 1-888-732-8562

The SECU website address is:

[www.ncsecu.org](http://www.ncsecu.org)

The SECU email address is:

[info@ncsecu.org](mailto:info@ncsecu.org)