

STATE EMPLOYEES' CREDIT UNION

2026 CONSOLIDATED FINANCIAL STATEMENTS

July 1, 2025 through June 30, 2026



STATE EMPLOYEES' CREDIT UNION
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June 30, 2026 AND 2025

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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 consolidated financial statements of State Employees' Credit Union (the Credit Union), which comprise the consolidated balance sheets as of June 30, 2026 and 2025, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of State Employees' Credit Union as of June 30, 2026 and 2025, 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 within one year after the date that 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, 2026, and our report thereon dated August 27, 2026, 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
August 27, 2026

STATE EMPLOYEES' CREDIT UNION
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2026 AND 2025

ASSETS	2026	2025
Cash and due from financial institutions	\$ 710,958,308	\$ 736,716,468
Federal Reserve Bank deposits	1,566,472,328	2,639,911,678
Total Cash and cash equivalents	2,277,430,636	3,376,628,146
Investments, net (Note 2)	17,210,225,624	14,530,369,881
Loans to members, net of allowance for credit losses (Notes 3 and 4)	38,227,506,419	36,186,212,418
Accrued interest receivable	284,537,179	233,144,431
Deposit for federal insurance of member accounts (Note 6)	474,346,315	437,284,024
Property and equipment, net (Note 7)	1,272,791,499	1,214,211,442
Other assets	224,441,783	225,384,531
	<u>\$ 59,971,279,455</u>	<u>\$ 56,203,234,873</u>
 LIABILITIES AND MEMBERS' EQUITY		
Member share draft deposits	\$ 7,436,254,246	\$ 7,212,964,443
Member share deposits (Note 8)	46,169,706,353	43,164,371,303
Member mortgage loan escrow deposits	263,037,888	244,243,327
Total member deposits	53,868,998,487	50,621,579,073
Accrued interest payable	74,934,898	78,584,899
Short-term borrowing	-	-
Other liabilities	241,724,355	234,112,658
Total member deposits and liabilities	54,185,657,740	50,934,276,630
Members' equity:		
Equity share reserve	-	1,000,000
Statutory reserve	2,000,000,000	2,000,000,000
Accumulated other comprehensive loss	(285,328,736)	(365,506,879)
Capital reserve	3,925,000,000	3,525,000,000
Undivided earnings	145,950,451	108,465,122
Total members' equity, substantially restricted	5,785,621,715	5,268,958,243
	<u>\$ 59,971,279,455</u>	<u>\$ 56,203,234,873</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, 2026 AND 2025

	<u>2026</u>	<u>2025</u>
INTEREST INCOME:		
Interest on first mortgage loans	\$ 1,298,502,481	\$ 1,146,983,405
Interest on other loans and receivables	926,642,521	893,406,330
Interest on Federal Reserve Bank deposits and investments	624,501,442	574,835,204
	<u>2,849,646,444</u>	<u>2,615,224,939</u>
INTEREST EXPENSE:		
Dividends on member deposits	1,176,891,361	1,130,854,873
Interest on short-term borrowing	266	84,767,433
	<u>1,176,891,627</u>	<u>1,215,622,306</u>
NET INTEREST INCOME	1,672,754,817	1,399,602,633
PROVISION FOR CREDIT LOSSES	<u>280,168,339</u>	<u>239,828,557</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	1,392,586,478	1,159,774,076
NONINTEREST INCOME:		
Interchange Income	166,491,520	154,798,108
Deposit service charges and fees	68,105,985	65,313,879
Administrative services	606,749	65,046,862
Insurance commissions	41,318,758	40,846,190
Loan processing	10,980,764	10,765,693
Loss on investments, net	(55,555,941)	(31,877,436)
Rental Income	28,853,450	26,380,865
Other noninterest income	41,295,545	39,108,533
	<u>302,096,830</u>	<u>370,382,694</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	812,601,534	798,989,364
Occupancy expenses	107,836,192	106,857,316
Equipment expenses	161,619,492	156,486,385
Card processing expenses	27,908,991	26,867,323
Postage expenses	34,007,893	36,556,550
Other operating expenses	114,029,736	120,890,838
	<u>1,258,003,838</u>	<u>1,246,647,776</u>
NET INCOME	\$ 436,679,470	\$ 283,508,994
Transfers to statutory and capital reserves (Note 1)	(400,000,000)	(250,000,000)
UNDIVIDED EARNINGS		
Undivided earnings beginning of year	108,465,122	74,956,128
Cumulative Effect of Change in Accounting Principle - ASU 2018-12 Topic 944 (Note 1)	805,859	0
Undivided earnings end of year	<u>\$ 145,950,451</u>	<u>\$ 108,465,128</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, 2026 AND 2025

	<u>2026</u>	<u>2025</u>
Net income	\$ 436,679,470	\$ 283,508,994
Other comprehensive income (Note 12):		
Unrealized holding gains on securities available for sale	75,157,386	397,133,541
Change in unrecognized postretirement amounts	(5,373,239)	(57,124,174)
Cumulative Effect of Change in Accounting Principle - ASU 2018-12 Topic 944 - (Note 1)	10,393,996	-
Total other comprehensive income	<u>80,178,143</u>	<u>340,009,367</u>
Total comprehensive income	<u>\$ 516,857,613</u>	<u>\$ 623,518,361</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, 2026 AND 2025

	EQUITY SHARE RESERVE	STATUTORY RESERVE	ACCUMULATED OTHER COMPREHENSIVE LOSS	CAPITAL RESERVE	UNDIVIDED EARNINGS	TOTAL
Balance at June 30, 2024	\$ 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)	-
Balance at June 30, 2025	\$ 1,000,000	\$ 2,000,000,000	\$ (365,506,879)	\$ 3,525,000,000	\$ 108,465,122	\$ 5,268,958,243
Net income	-	-	-	-	436,679,470	436,679,470
Cumulative Effect of Change in Accounting Principle - ASU 2018-12 Topic 944 (Note 1)			10,393,996		805,859	11,199,855
Other comprehensive income	-	-	69,784,147	-	-	69,784,147
Capital distribution	(1,000,000)	-	-	-	-	(1,000,000)
Discretionary transfers	-	-	-	400,000,000	(400,000,000)	-
Balance at June 30, 2026	\$ -	\$ 2,000,000,000	\$ (285,328,736)	\$ 3,925,000,000	\$ 145,950,451	\$ 5,785,621,715

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, 2026 AND 2025

	<u>2026</u>	<u>2025</u>
OPERATING ACTIVITIES:		
Net income	\$ 436,679,470	\$ 283,508,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of available for sale investments	55,384,821	32,297,973
Unrealized loss (gain) on equity investments	171,120	(420,537)
Provision for depreciation and amortization	68,082,170	73,560,873
Provision for credit losses	280,168,339	239,828,557
Net increase in accrued interest receivable	(51,392,748)	(29,761,527)
Amortization of investment premiums/discounts	24,730,398	44,113,024
Decrease in accrued interest payable	(3,650,000)	(12,102,744)
Other, net	60,251,738	(89,556,224)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 870,425,308</u>	<u>\$ 541,468,389</u>
INVESTING ACTIVITIES:		
Proceeds on maturity of available for sale investments	2,543,693,801	3,109,401,660
Proceeds on sales of available for sale investments	1,194,588,422	525,152,851
Purchases of available for sale investments	(6,423,266,919)	(6,064,540,959)
Proceeds from sale of first mortgage loans	1,175,033	1,263,228
Purchase of first mortgage loans	(610,000)	(55,639,690)
Net increase in loans	(2,363,137,908)	(2,401,565,442)
Purchase of property and equipment	(132,422,369)	(72,478,574)
Increase in deposit for federal insurance of member accounts	(37,062,291)	(23,652,582)
NET CASH USED IN INVESTING ACTIVITIES	<u>\$ (5,217,042,231)</u>	<u>\$ (4,982,059,508)</u>
FINANCING ACTIVITIES:		
Net increase in member deposits	3,247,419,413	4,182,956,856
Repayment of borrowing	-	(5,000,000,000)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	<u>\$ 3,247,419,413</u>	<u>\$ (817,043,144)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (1,099,197,510)</u>	<u>\$ (5,257,634,263)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>\$ 3,376,628,146</u>	<u>\$ 8,634,262,409</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,277,430,636</u>	<u>\$ 3,376,628,146</u>
ADDITIONAL CASH FLOW INFORMATION:		
Transfers from loans to real estate owned	\$ 41,110,535	\$ 20,366,383
Dividends paid	\$ 1,180,541,361	\$ 1,142,957,617
Interest paid on borrowed funds	\$ 266	\$ 84,767,433
Unrealized holding gains on securities available for sale	\$ 75,157,386	\$ 397,133,541

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

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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 2,999 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, 2026 AND 2025

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

As of June 30, 2026, 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 2026, SECU paid \$13.9 million in property taxes to various local governmental taxing authorities (\$14.2 million in 2025). In addition, SECU pays state and local sales taxes on goods and services purchased by the Credit Union. During 2026, SECU paid \$5.3 million in sales taxes to state and local governments (\$3.2 million in 2025). The Credit Union also pays Federal payroll taxes under the Federal Insurance Contributions Act (FICA). In 2026, SECU paid \$46.3 million in FICA taxes to the federal government (\$45.1 million in 2025). SECU also pays State and Federal Unemployment taxes. In 2026, SECU paid \$1.45 million in State and Federal Unemployment taxes (\$1.45 in 2025). Additionally, 37.3% of total SECU 2026 revenues (\$1.18 billion) were paid to members in the form of interest earned on shares and deposits (37.9% and \$1.14 billion in 2025). SECU members are subject to paying state and federal income taxes on these interest earnings. In 2026, 40% of total SECU revenues (\$1.26 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 (42% and \$1.25 billion in 2025). 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 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, 2026 and 2025. By law, at a minimum, business tax returns are subject to examination by federal and state tax authorities for the years June 30, 2023 through June 30, 2025.

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

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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

Cash and Cash Equivalents: Cash and cash equivalents are made up of cash and due from financial institutions and Federal Reserve Bank deposits, as presented in the consolidated balance sheets. Cash and due from financial institutions 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. Monies held at the Federal Reserve Bank are interest bearing deposits available to the Credit Union for the daily settlement of transactions cleared through the Federal Reserve Bank of Richmond. Each of these elements, as described, are considered cash and cash equivalents for purposes of the consolidated statements of cash flows.

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, 2026 totaled \$250,000 (\$250,000 at June 30, 2025) and is included in other assets on the consolidated balance sheets.

Investments, Net: Debt 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 debt 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 gains and losses included with net income.

Gains and losses on the sale of debt securities available for sale are recorded on the trade date and determined using the specific identification method. 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.

Available for sale debt 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 debt securities held within the Credit Union portfolio as of June 30, 2026 and 2025

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES – Continued

are-issued by the U.S. Treasury or are Agency/Government Sponsored Enterprise (GSE) backed, therefore no credit losses on available for sale debt 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 Credit Union's wholly owned subsidiary, SECU Life, joined the FHLB in August 2025. 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 4.75% 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 and its wholly owned subsidiaries. At June 30, 2026 and 2025, the Credit Union had no loan advances outstanding with the FHLB. At June 30, 2026, the Credit Union and its wholly owned subsidiaries owned 180,930 shares of FHLB \$100 par value capital stock valued at \$18.1 million (180,000 shares valued at \$18.0 million at June 30, 2025), 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 (ACL) 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 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

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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

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.

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. Loans determined to be uncollectible are charged off to the extent the outstanding loan balance exceeds the fair value of the underlying collateral, less estimated costs to sell. 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.

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

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

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 ACL model, 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 ACL 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.

Credit Card

The ACL 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

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

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 ACL 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.

Property and Equipment, Net: 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

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

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, 2026, using the standards approved in the final regulatory rules, the PCA net worth capital ratio of SECU was 10.12% (10.20% at June 30, 2025). 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, 2026 reporting period was 20.93% (20.69% at June 30, 2025) which is considered "well capitalized" under the new framework. SECU capital and net worth balances and ratios exceed all regulatory requirements at June 30, 2026, and 2025.

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

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Directors have established a Statutory Reserve balance of \$2,000,000,000 at June 30, 2026 (\$2,000,000,000 at June 30, 2025). During 2026 and 2025, 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 \$3,925,000,000 at June 30, 2026 and \$3,525,000,000 at June 30, 2025 has been accumulated by the Board of Directors to assure the long term financial safety and soundness of the Credit Union. During 2026, \$400,000,000 was transferred into the Capital Reserve (\$250,000,000 was transferred into the Capital Reserve in 2025). 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. During the year ended, June 30, 2026, the equity share capital account was terminated and the \$1,000,000 investment was returned to the holder. No equity share reserve balance remains at June 30, 2026 (\$1,000,000 at June 30, 2025). The redemption did not affect net income and did not affect the Credit Union's regulatory net worth ratio, as equity share capital was not included in the determination of net worth under NCUA regulations.

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

Presentation of Member Shares: The American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for “Depository and Lending Institutions: Banks and 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: Comprehensive income 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 income 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 income include the valuation adjustment on securities available for sale, gains, losses, and prior service costs associated with postretirement benefits, and impacts of discount rate remeasurement applied to long duration contracts.

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.

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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:

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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

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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, 2026, and 2025, the Credit Union did not have any significant contract balances, or any contract acquisition costs.

Leases, Net: 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.

New Accounting Pronouncements: On July 1, 2025 SECU Life, and by nature, the Credit Union adopted ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (the LDTI guidance) using a modified retrospective transition method which resulted in applying the amended guidance as of the beginning of the earliest period presented, the July 1, 2025 transition date (Transition Date). The modified retrospective transition method generally results in applying the LDTI guidance to contracts based on existing carrying values as of the Transition Date.

The LDTI guidance revises certain aspects of the measurement models and disclosure requirements for long-duration insurance contracts. The FASB's objective in issuing this

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

guidance is to improve, simplify, and enhance the accounting for long-duration contracts, including long-term care. The revisions include updating the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually and the use of an upper-medium grade (low-credit-risk) fixed income discount rate that is updated at least quarterly.

Presentation of the consolidated financial statements reflects the implementation of this ASU beginning as of the Transition Date. The cumulative transition impact is immaterial to the consolidated financial statements as of June 30, 2026.

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, 2026 and 2025 investments held by the Credit Union are categorized as available for sale (AFS) and equity. AFS debt securities are carried on the consolidated balance sheets at their fair market value via adjustments recognized through accumulated other comprehensive loss. AFS debt 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, 2026 and 2025 are as follows:

2026	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments				
U.S. Treasury Securities	\$ 10,321,889,574	\$ 2,491,744	\$ (83,994,894)	\$ 10,240,386,424
Agency/GSE Mortgage-Backed Securities	7,142,253,221	8,660,412	(208,337,679)	6,942,575,954
Total AFS Investments	17,464,142,795	11,152,156	(292,332,573)	17,182,962,378
Equity Investments				
Exchange-traded bond fund	28,996,871	-	(1,733,625)	27,263,246
Total Equity Investments	28,996,871	-	(1,733,625)	27,263,246
Total Investments	\$ 17,493,139,666	\$ 11,152,156	\$ (294,066,198)	\$ 17,210,225,624

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NOTE 2 – INVESTMENTS, NET - Continued

2025	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments				
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
Total AFS Investments	14,864,270,517	41,243,440	(397,581,243)	14,507,932,714
Equity Investments				
Exchange-traded bond fund	23,999,672	-	(1,562,505)	22,437,167
Total Equity Investments	23,999,672	-	(1,562,505)	22,437,167
Total Investments	\$ 14,888,270,189	\$ 41,243,440	\$ (399,143,748)	\$ 14,530,369,881

The maturities of investments at June 30, 2026 and 2025 are as follows:

2026	Amortized Cost	Fair Value
Due in one year or less	\$ 3,581,540,319	\$ 3,568,670,721
Due between one and three years	6,691,991,732	6,624,016,027
Due between three and five years	11,166,525	10,910,184
Due between five and ten years	24,861,101	24,627,695
Due after ten years	12,329,897	12,161,797
Agency/GSE Mortgage-Backed Securities	7,142,253,221	6,942,575,954
	\$ 17,464,142,795	\$ 17,182,962,378
Exchange-traded bond fund	28,996,871	27,263,246
	\$ 17,493,139,666	\$ 17,210,225,624
2025	Amortized Cost	Fair Value
Due in one year or less	\$ 1,651,757,144	\$ 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
	\$ 14,864,270,517	\$ 14,507,932,714
Exchange-traded bond fund	23,999,672	22,437,167
	\$ 14,888,270,189	\$ 14,530,369,881

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NOTE 2 – INVESTMENTS, NET - Continued

During the fiscal year ended June 30, 2026, the Credit Union realized losses of \$55,384,821 on sales proceeds of \$1,194,588,422 (\$32,297,972 on proceeds of \$525,152,851 at June 30, 2025) 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.

The Credit Union does not believe that the available for sale investments that were in an unrealized loss position as of June 30, 2026, which were comprised of 433 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 less 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.

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NOTE 2 – INVESTMENTS, NET - Continued

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, 2026 and 2025.

<u>2026</u>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS Investments						
U.S. Treasury Securities	\$6,991,317,514	(\$50,090,983)	\$1,891,164,416	\$(33,903,911)	\$8,882,481,930	(\$83,994,894)
Agency/GSE Mortgage-Backed Securities	2,299,405,209	(18,011,795)	2,738,469,914	(190,325,884)	5,037,875,123	(208,337,679)
Total AFS Investments	<u>9,290,722,723</u>	<u>(68,102,778)</u>	<u>4,629,634,330</u>	<u>(224,229,795)</u>	<u>13,920,357,053</u>	<u>(292,332,573)</u>
Equity Investments						
Exchange-traded bond fund	-	-	27,263,246	(1,733,625)	27,263,246	(1,733,625)
Total Equity Investments	<u>-</u>	<u>-</u>	<u>27,263,246</u>	<u>(1,733,625)</u>	<u>27,263,246</u>	<u>(1,733,625)</u>
Total Investments	<u>\$9,290,722,723</u>	<u>(\$68,102,778)</u>	<u>\$4,656,897,576</u>	<u>(\$225,963,420)</u>	<u>\$13,947,620,299</u>	<u>(\$294,066,198)</u>

<u>2025</u>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS Investments						
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)
Total AFS Investments	<u>910,284,901</u>	<u>(3,508,808)</u>	<u>6,822,712,826</u>	<u>(394,072,435)</u>	<u>7,732,997,727</u>	<u>(397,581,243)</u>
Equity Investments						
Exchange-traded bond fund	-	-	22,437,167	(1,562,505)	22,437,167	(1,562,505)
Total Equity Investments	<u>-</u>	<u>-</u>	<u>22,437,167</u>	<u>(1,562,505)</u>	<u>22,437,167</u>	<u>(1,562,505)</u>
Total Investments	<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>

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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-eight percent (98%) of all loans are made to North Carolinians. The Credit Union originated \$10.5 billion in personal and mortgage loans to members across North Carolina during 2026 (\$9.9 billion in 2025).

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 or registered 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; fourteen percent within one year, eighteen percent within two years and forty-four percent between three to five years. By providing loan products with adjustable rates, the Credit Union can 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, 2026 the Credit Union had 159,086 outstanding first mortgage loans with an average balance of \$170,219. No first mortgage loan balance exceeded \$3.8 million to any member at June 30, 2026. Most 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 (\$716,531 in 2026 \$264,855 in 2025). 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 2026, the

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 3 – LOANS TO MEMBERS – Continued

Credit Union purchased \$610,000 (\$55,639,690 in 2025) and sold \$1,175,033 of mortgage loans (\$1,263,228 in 2025).

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.

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, term extensions, partial payment plans, loan refinances and other actions intended to assist members and their families.

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 \$44.8 million at June 30, 2026 and \$69.0 million at June 30, 2025. Mortgage loans on which the accrual of interest had been discontinued totaled \$444.7 million at June 30, 2026 and \$376.7 million at June 30, 2025.

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 3 – LOANS TO MEMBERS – Continued

The composition of loans to members at June 30, 2026 and 2025 is as follows:

	2026	Weighted average yield	2025	Weighted average yield
Residential Real Estate Loans				
First mortgage loans	\$ 27,079,503,554	4.96%	\$ 25,513,681,272	4.65%
Home equity (<80% LTV)	2,777,996,185	6.16%	2,494,377,022	6.85%
Home equity (>80% LTV)	629,030,504	6.14%	574,828,031	6.84%
	<u>30,486,530,243</u>	<u>5.09%</u>	<u>28,582,886,325</u>	<u>4.89%</u>
Personal Loans				
Vehicle loans	3,977,662,257	7.06%	4,047,585,238	6.76%
Consumer loans	2,915,270,410	10.76%	2,742,825,761	10.85%
Credit card loans	1,254,302,827	10.48%	1,200,398,668	11.70%
Other secured loans	37,645,640	4.59%	34,298,768	6.44%
	<u>8,184,881,134</u>	<u>8.85%</u>	<u>8,025,108,435</u>	<u>8.80%</u>
	<u>38,671,411,377</u>	<u>5.90%</u>	<u>36,607,994,760</u>	<u>5.76%</u>
Less allowance for credit losses	<u>(443,904,958)</u>		<u>(421,782,342)</u>	
Total loans	<u>\$ 38,227,506,419</u>		<u>\$ 36,186,212,418</u>	

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of June 30, 2026, and 2025, accrued interest receivable for loans totaled \$182,936,652 and \$162,105,323, 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 2026 and 2025 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, 2026 were \$116.0 million (\$126.0 million at June 30, 2025). 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, 2026 AND 2025

NOTE 3 – LOANS TO MEMBERS – Continued

The Credit Union approves lines of credit to members through home equity, credit card, and consumer loans. At June 30, 2026 and 2025, in addition to the actual advances made on such loans, Credit Union members have the following additional lines of credit available:

	<u>2026</u>	<u>2025</u>
Home equity loans	\$ 3,095,000,000	\$ 2,835,000,000
Credit card loans	2,657,000,000	2,559,000,000
Consumer loans	485,000,000	400,000,000
Reverse mortgage loans	200,000	400,000

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 for the years ended June 30, 2026 and 2025, respectively, are as follows.

2026	<u>Real Estate Loans</u>	<u>Personal Loans</u>	<u>Total</u>
Allowance for credit losses:			
Beginning Balance	\$ 120,418,048	\$ 301,364,294	\$ 421,782,342
Provision for credit losses	12,961,139	267,176,702	280,137,841
Charge-offs	(8,674,354)	(279,852,926)	(288,527,280)
Recoveries	925,572	29,586,483	30,512,055
Ending balance	<u><u>\$ 125,630,405</u></u>	<u><u>\$ 318,274,553</u></u>	<u><u>\$ 443,904,958</u></u>

2025	<u>Real Estate Loans</u>	<u>Personal Loans</u>	<u>Total</u>
Allowance for credit losses:			
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
Ending balance	<u><u>\$ 120,418,048</u></u>	<u><u>\$ 301,364,294</u></u>	<u><u>\$ 421,782,342</u></u>

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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, 2026 was \$347,575 (\$317,077 as of June 30, 2025).

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 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, 2026 and 2025 are as follows:

Allocation of Provision Expense

	2026	2025
Provision for Loans	\$ 280,137,841	\$ 239,873,092
Provision/(Credit) for Unfunded Commitments	30,498	(44,535)
Total Provision Expense	<u>\$ 280,168,339</u>	<u>\$ 239,828,557</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, 2026 AND 2025

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.

2026	Performing	Non-Performing	Total	% of Total Non-Performing
Real Estate				
First mortgage	\$ 26,655,038,983	\$ 424,464,571	\$ 27,079,503,554	1.57%
Home equity (<80% LTV)	2,763,689,710	14,306,475	2,777,996,185	0.51%
Home equity (>80% LTV)	623,142,135	5,888,369	629,030,504	0.94%
Personal Loans				
Vehicle	3,945,001,566	32,660,691	3,977,662,257	0.82%
Consumer	2,910,533,703	4,736,707	2,915,270,410	0.16%
Credit card	1,246,942,590	7,360,237	1,254,302,827	0.59%
Other secured	37,618,868	26,772	37,645,640	0.07%
Total	\$ 38,181,967,554	\$ 489,443,823	\$ 38,671,411,377	1.27%

2025	Performing	Non-Performing	Total	% of Total Non-Performing
Real Estate				
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%
Personal Loans				
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%
Total	\$ 36,162,336,998	\$ 445,657,762	\$ 36,607,994,760	1.22%

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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, 2026 and 2025.

<u>2026</u>	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days or Greater (Nonaccrual)</u>	<u>Total Past Due</u>	<u>Total Loans to Members</u>
Real Estate						
First mortgage	\$ 25,481,971,221	\$ 812,816,587	\$ 360,251,175	\$ 424,464,571	\$ 1,597,532,333	\$ 27,079,503,554
Home equity (<80% LTV)	2,737,257,179	17,323,286	9,109,244	14,306,475	40,739,006	2,777,996,185
Home equity (>80% LTV)	612,489,948	6,382,554	4,269,633	5,888,369	16,540,556	629,030,504
Personal Loans						
Vehicle	3,841,203,469	71,244,966	32,553,131	32,660,691	136,458,788	3,977,662,257
Consumer	2,861,530,966	32,003,270	16,999,467	4,736,707	53,739,444	2,915,270,410
Credit card	1,224,051,854	15,233,579	7,657,157	7,360,237	30,250,973	1,254,302,827
Other secured	37,154,730	349,659	114,479	26,772	490,910	37,645,640
Total	\$ 36,795,659,367	\$ 955,353,901	\$ 430,954,286	\$ 489,443,823	\$ 1,875,752,010	\$ 38,671,411,377

<u>2025</u>	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days or Greater (Nonaccrual)</u>	<u>Total Past Due</u>	<u>Total Loans to Members</u>
Real Estate						
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
Personal Loans						
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
Total	\$ 34,928,674,566	\$ 866,266,487	\$ 367,395,945	\$ 445,657,762	\$ 1,679,320,194	\$ 36,607,994,760

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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 or greater for which the loans were accruing interest at June 30, 2026 and 2025. There were no loans on non-accrual status with no related ACL as of June 30, 2026 and 2025.

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, 2026 and 2025:

	Type of Concession		Total	% of Total Segment of
	Payment Deferment	Partial Payment		
2026				
Real Estate				
First Mortgage	\$ 321,595,955	\$ 3,320,507	\$ 324,916,462	1.20%
Home Equity	32,925,072	-	32,925,072	1.19%
Personal Loans				
Vehicle	103,319,932	-	103,319,932	2.60%
Consumer	44,279,333	-	44,279,333	1.52%
Credit card	34,118,908	-	34,118,908	2.72%
Total	\$ 536,239,199	\$ 3,320,507	\$ 539,559,706	1.40%

	Type of Concession		Total	% of Total Segment of
	Payment Deferment	Partial Payment		
2025				
Real Estate				
First Mortgage	\$ 376,114,045	\$ 4,819,769	\$ 380,933,814	1.49%
Home Equity	27,892,802	-	27,892,802	1.12%
Personal Loans				
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%
Total	\$ 580,009,306	\$ 4,819,769	\$ 584,829,075	1.60%

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES – Continued

For the year ended June 30, 2026, modifications made to borrowers experiencing financial difficulty included:

- Payment Deferrals – 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, 2026 and 2025. SECU defines “default” as becoming 90 or more days past due.

2026	Type of Concession		Total
	Payment Deferral	Partial Payment	
Real Estate			
First Mortgage	\$ 29,197,052	\$ 164,842	\$ 29,361,894
Home Equity	905,395	-	905,395
Personal Loans			
Vehicle	3,960,434	-	3,960,434
Consumer	697,909	-	697,909
Credit card	1,606,182	-	1,606,182
Total	\$ 36,366,972	\$ 164,842	\$ 36,531,814

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

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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 on loans. 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 2026, \$41,110,535 was transferred from the loan portfolio to real estate owned; \$20,366,383 was transferred during fiscal year 2025. The lower of cost or fair value of real estate owned at June 30, 2026 is \$13,953,377 (\$5,329,440 at June 30, 2025). The valuation allowance has a balance of \$2,764,916 at June 30, 2026 (\$974,870 at June 30, 2025). The balance of net real estate owned at June 30, 2026 represents 0.04% of the total loan portfolio (0.01% at June 30, 2025).

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 on loans. The lower of cost or fair value of collateral in liquidation at June 30, 2026 is \$3,500,107 (\$3,051,982 at June 30, 2025). The valuation allowance has a balance of \$6,103,254 at June 30, 2026 (\$6,583,619 at June 30, 2025).

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.

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 \$474,346,315 at June 30, 2026 (\$437,284,024 at June 30, 2025).

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 7 - PROPERTY AND EQUIPMENT

	<u>2026</u>	<u>2025</u>
Land	\$ 298,979,057	\$ 295,251,538
Buildings	1,299,472,501	1,237,211,339
Construction in progress	12,297,459	4,429,669
Leasehold improvements	7,511,214	7,460,276
Computer, office equipment, and furnishings	593,802,095	620,106,192
	<u>\$ 2,212,062,326</u>	<u>\$ 2,164,459,014</u>
Less accumulated depreciation and amortization	(939,270,827)	(950,247,572)
	<u>\$ 1,272,791,499</u>	<u>\$ 1,214,211,442</u>

The net investment in land, buildings and construction in progress represents 1.93% of total Credit Union assets at June 30, 2026 and 2.01% at June 30, 2025. At June 30, 2026, the estimated additional cost to complete buildings under construction is approximately \$1.7 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 2026 the Credit Union paid \$13.9 million in property taxes (\$14.2 million in 2025). No new branches opened during fiscal years 2026 and 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-based 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>
2027	\$16,972,480
2028	2,038,467
2029	2,003,929
2030	2,003,929
Thereafter	3,266,299
	<u>\$26,285,104</u>

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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, 2026 and 2025, 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, 2026 and 2025:

	2026		2025	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Share accounts	\$ 6,988,535,012	0.29%	\$ 7,093,124,593	0.29%
Individual retirement share accounts	3,471,278,516	3.07%	3,466,582,693	2.96%
Money market share accounts	18,810,009,220	2.04%	17,632,046,436	1.88%
Share term certificates	16,899,883,605	4.06%	14,972,617,581	3.78%
	<u>\$ 46,169,706,353</u>	<u>2.58%</u>	<u>\$ 43,164,371,303</u>	<u>2.34%</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 \$4.6 billion at June 30, 2026 (\$4.0 billion at June 30, 2025). The amount of share term certificates that exceeded \$250,000 was \$3.46 billion at June 30, 2026 (\$3.03 billion at June 30, 2025). 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:

Year	Amount Maturing
2027	\$ 13,541,384,997
2028	3,015,537,172
2029	157,155,214
2030	111,239,400
2031	74,566,822
	<u>\$ 16,899,883,605</u>

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 9 - SHORT TERM BORROWINGS

During the fiscal year ended June 30, 2025, the Credit Union repaid short term borrowings secured through the Bank Term Funding Program. During the fiscal year ended June 30, 2025 interest paid on borrowing secured via this program was \$84,767,123 (\$0 for 2026). The ending balance of short term borrowings at each fiscal year end presented is \$0.

At June 30, 2026 SECU has lines of credit available for use in the amounts of \$14.80 billion (\$13.83 billion at June 30, 2025) from the Federal Home Loan Bank of Atlanta and \$968 million (\$939 million at June 30, 2025) from the Federal Reserve Bank of Richmond. First mortgage loans of the Credit Union totaling \$23.6 billion at June 30, 2026 (\$22.1 billion at June 30, 2025) secure these lines of credit. At June 30, 2026 and 2025 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 investments 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, 2026, was \$9,271,439 (\$9,654,694 in 2025). Minimum future lease payments by year under non-cancelable operating leases at June 30, 2026, are as follows:

Year	Operating Leases
2027	\$ 7,663,568
2028	5,495,561
2029	4,822,817
2030	1,848,540
2031	208,316
Thereafter	<u>40,104</u>
Total Undiscounted lease payments	<u>20,078,906</u>
Less: Imputed Interest	<u>(765,201)</u>
Total Lease liabilities	<u>\$ 19,313,705</u>

Right of use lease assets and lease liabilities were calculated using a weighted average discount rate (incremental borrowing rate) of 2.40% at June 30, 2026.

In the normal course of business, the Credit Union may be subject to legal actions. At June 30, 2026, and 2025, there were no such actions which, in management's opinion, were material to the financial condition of the Credit Union.

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated Other Comprehensive Loss (AOCL) represents the balance of items recognized through other comprehensive income. The components of AOCL include the valuation adjustments for securities available for sale, gains, losses and prior service costs associated with postretirement benefits and impacts of discount rate remeasurement applied to long duration contracts. The following table presents the components of AOCL and the changes that occurred during the years ended June 30, 2026 and 2025. 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 investments	Unrecognized postretirement (loss)/income	Unrealized gain from discount rate remeasurement	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
2026					
Balance at June 30, 2025	\$ (356,337,803)	\$ (9,169,076)	-	\$ (365,506,879)	
Unrealized net gains on available for sale investments:					
Unrealized holding gains on investments available for sale arising during the period	19,772,565	-	-	19,772,565	
Postretirement benefit plan:					
Net loss	-	(8,248,124)	-	(8,248,124)	
Prior Service Cost		-	-	-	
Cumulative Effect of Change in Accounting Principle - ASU 2018-12 Topic 944 - (Note 1)	-	-	10,393,996	10,393,996	
Reclassification included in net income:					
Realized losses on sale of available for sale investments	55,384,821	-	-	55,384,821	Loss on investments, net
Amortization of net gain	-	(2,732,903)	-	(2,732,903)	Other operating expenses
Amortization of prior service cost	-	5,607,788	-	5,607,788	Other operating expenses
Net change in AOCI	75,157,386	(5,373,239)	10,393,996	80,178,143	
Balance at June 30, 2026	<u>\$ (281,180,417)</u>	<u>\$ (14,542,315)</u>	<u>\$ 10,393,996</u>	<u>\$ (285,328,736)</u>	

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 11 - ACCUMULATED OTHER COMPREHENSIVE LOSS - Continued

<u>2025</u>	Unrealized net losses on available for sale investments	Unrecognized postretirement (loss)/income	Unrealized gain from discount rate remeasurement	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
Balance at June 30, 2024	\$ (753,471,344)	\$ 47,955,098	-	\$ (705,516,246)	
Unrealized net gains on available for sale investments:					
Unrealized holding gains on investments available for sale arising during the period	364,835,568	-	-	364,835,568	
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:					
Realized losses on sale of available for sale investments	32,297,973	-	-	32,297,973	Loss on investments, net
Amortization of net gain	-	(2,324,358)	-	(2,324,358)	Other operating
Amortization of prior service cost	-	6,135,759	-	6,135,759	Other operating expenses
Curtailment Recognition	-	-	-	-	Other operating expenses
Net change in AOCI	397,133,541	(57,124,174)	-	340,009,367	
Balance at June 30, 2025	<u>\$ (356,337,803)</u>	<u>\$ (9,169,076)</u>	<u>\$ -</u>	<u>\$ (365,506,879)</u>	

NOTE 12 - EMPLOYEE BENEFITS

SECU employs 7,647 full-time and 524 part-time employees in operations and branch locations located in all 100 counties of North Carolina as of June 30, 2026. 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, 2026 and 2025, the cost of the retirement plan (\$60,083,601 and \$58,179,291, respectively) is included in Salaries and Employee Benefits in the consolidated statements of income and undivided earnings.

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 12 - EMPLOYEE BENEFITS – Continued

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.

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, 2026, the balance of the employee medical reserve was \$26,908,795 (\$28,066,062 at June 30, 2025). 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, 2026, the balance of the postretirement benefit reserve was \$177,099,130 (\$169,418,511 at June 30, 2025). These funds are maintained in a deposit account at the Credit Union.

Beginning in fiscal year 2025, 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

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 12 - EMPLOYEE BENEFITS – Continued

obligation, as the new HRA benefit is expected to provide higher future benefit payments in relation to the prior plan design.

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

	<u>2026</u>	<u>2025</u>
Amounts recognized at June 30:		
Accumulated benefit obligations	\$ 176,620,873	\$ 160,622,447
Fair value of plan assets	<u>177,099,130</u>	<u>169,418,511</u>
Plan assets in excess of benefit obligations included in other assets	\$ 478,257	\$ 8,796,064
Assumptions used to determine benefit obligations:		
Weighted average discount rate	5.70%	5.75%
Assumed health care cost trend rate:		
Initial rate	7.55%	8.00%
Ultimate rate	4.90%	4.85%
Year ultimate rate reached	2033	2033

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

	<u>2026</u>	<u>2025</u>
Amounts recognized for years ended June 30:		
Service costs	\$ 6,241,739	\$ 7,699,971
Interest Cost	9,326,062	9,093,627
Expected Return on Assets	(7,085,616)	(7,129,200)
Amortization of Net Gain	(2,732,903)	(2,324,358)
Amortization of Prior Service Cost	5,607,788	6,135,759
Curtailment Recognition	-	-
Net Postretirement Benefit Cost	\$ 11,357,070	\$ 13,475,799
Employer contributions	2,790,921	1,416,415
Participant contributions	-	-
Benefits paid	\$ 5,915,096	\$ 4,470,584

Assumptions used to determine net periodic benefit cost:

Weighted average discount rate	5.75%	5.41%
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%	4.85%
Year ultimate rate reached	2033	2033

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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>2026</u>	<u>2025</u>
Amounts recognized at June 30:		
Net gain	\$ 60,227,201	\$ 71,208,228
Prior service (Cost)/Credit	(74,769,516)	(80,377,304)
Accumulated other comprehensive income/(loss)	<u>\$ (14,542,315)</u>	<u>\$ (9,169,076)</u>
Amounts recognized for years ended June 30:		
Net loss/gain	\$ (8,248,124)	\$ 27,359,907
Prior Service (Cost)/Credit	-	(88,295,482)
Amortization of net loss	(2,732,903)	(2,324,358)
Amortization of prior service cost	5,607,788	6,135,759
Curtailment Recognition	-	-
Total recognized in other comprehensive income	<u>\$ (5,373,239)</u>	<u>\$ (57,124,174)</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, 2026 are \$0 at June 30, 2026. 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>
2027	\$ 5,438,806
2028	5,949,087
2029	6,454,338
2030	6,914,047
2031	7,434,753
2032-2036	47,613,795
	<u>\$ 79,804,826</u>

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

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, 2026 the outstanding balances included 562 loans totaling \$42.1 million (549 loans totaling \$36.8 million at June 30, 2025) and deposits totaling \$24.4 million (\$23.3 million at June 30, 2025). 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, 2026, 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, 2026 AND 2025

NOTE 14 – REGULATORY NET WORTH REQUIREMENTS – Continued

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

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2026</u>						
Net Worth	\$ 6,070,950,451	10.12%	\$ 3,598,276,767	6.00%	\$ 4,197,989,562	7.00%
Risk-Based Capital	6,040,856,669	20.93%	-	8.00%	-	10.00%
<u>2025</u>						
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%

In performing its calculation of total assets for fiscal year ending June 30, 2026, the Credit Union used the ending assets balance. The average of the current and three preceding calendar quarter-end balances as permitted by the regulation was used for 2025.

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, 2026 AND 2025

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

Fair value of assets measured on a recurring basis at June 30, 2026 and 2025 are as follows:

<u>2026</u>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
AFS Investments				
U.S. Treasury Securities	\$ 10,240,386,424	\$ 10,240,386,424	\$ -	\$ -
Agency/GSE Mortgage-Backed Securities	6,942,575,954	-	6,942,575,954	-
Equity Investments				
Exchange-traded bond fund	27,263,246	27,263,246	-	-
<u>2025</u>				
AFS Investments				
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	-
Equity Investments				
Exchange-traded bond fund	22,437,167	22,437,167	-	-

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, 2026 and 2025 for which a nonrecurring change in fair value has been recorded:

<u>2026</u>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Real estate owned	\$ 13,953,377	\$ -	\$ -	\$ 13,953,377
<u>2025</u>				
Real estate owned	\$ 5,329,440	\$ -	\$ -	\$ 5,329,440

STATE EMPLOYEES' CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2026 AND 2025

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

At June 30, 2026 and 2025, 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, 2026 real estate owned with outstanding balances of \$16.7 million (\$6.3 million at June 30, 2025) are carried at their fair value of \$14.0 million (\$5.3 million at June 30, 2025), resulting in a valuation allowance of \$2,765,000 at June 30, 2026 (\$975,000 at June 30, 2025). 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 August 27, 2026 the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2026 but prior to August 27, 2026 that provided additional evidence about conditions that existed at June 30, 2026 have been recognized in the consolidated financial statements for the year ended June 30, 2026.

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:

Stelfanie Williams, Chair
Mark Fleming, Vice Chair
Ben McLawhorn, Secretary/Treasurer
Chris Ayers
Bob Brinson
Michael Clements
Amaka Flynn
Mona Moon
Thomas Parrish
Chuck Stone
McKinley Wooten, Jr.

Contact Information

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The SECU website address is:

www.ncsecu.org

The SECU email address is:

info@ncsecu.org