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20 Annual Report 25





Annual Meeting Agenda

- 1.** Determine quorum present
- 2.** Approval of minutes of the 2025 annual meeting
- 3.** President / CEO's Report
- 4.** Supervisory committee's report
- 5.** 70th anniversary recap
- 6.** Treasurer's report
- 7.** New business other than election
- 8.** Unfinished business
- 9.** Elections

President & CEO's Report



As I reflect on the past year, I can say with confidence that we remained steadfast to our commitment surrounding our Member Experience Pledge. This document, which hangs in every branch and sits on every employee's desk, is the cornerstone of shared purpose and commitment for every action, every interaction, and every strategy we pursue. Throughout the year, our strategic focus remained clear to expand our impact, to foster deeper connections with our community and to ensure long-term viability of our mission. Through the dedication of our Leadership Team and our Staff we embarked on a journey to enhance our technological infrastructure to enhance our services, products, efficiency and ultimate reach into our community.

Our financial health remains strong, which will continue to provide us with the stability to leverage these technological improvements for the betterment of our members, and future growth of Har-Co. I know that it will continue to allow us to broaden our reach into Harford County, delivering measurable results that will demonstrate the value and necessity of our commitment to our Member Experience Pledge.

On behalf of Har-Co's Leadership Team, Employees, and our Board of Directors, I would like to thank you for your unwavering support, confidence, and belief in our mission.

A handwritten signature in black ink, appearing to read 'Gilbert F. Kennedy, III'. The signature is stylized and includes a small flourish at the end.

Gilbert F. Kennedy, III
President and CEO

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Member Experience Pledge

Har-co Credit Union is built on the foundation of delivering a strong member focused experience. We believe that our success will only occur by upholding the values and principles of a culture where members, both internal and external, feel rewarded in a relationship. As stewards of this culture, we must be consistent in our actions and beliefs that every point the member touches will yield a satisfying result for them.

Therefore, we pledge:

- To be courteous and kind, treating everyone in an open, fair and helpful manner.
- To be alert and attentive throughout the workday and maintain a positive, optimistic attitude.
- To dress and behave in a professional manner.
- To tell the truth in every communication that we have, delivering it in the most respectful manner possible.
- To treat members with respect and professionalism, ensuring the highest quality service.
- To take ownership and follow through to resolve member concerns in a timely manner and not simply “pass the buck”.
- To collaborate with, support, encourage and value our colleagues in these efforts to deliver great member experiences.
- To make the extra effort to accommodate requests, only saying “NO” as a last resort.

We embrace these principles and commit to striving to exceed these actions every day. Therefore, I pledge to uphold the spirit and intentions of this document.

Supervisory Committee's Report



The Supervisory Committee is an independent body of credit union members, appointed by the Board of Directors, who are assigned certain duties and responsibilities to ensure the financial stability and operational soundness of the credit union.

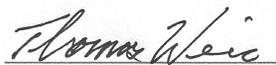
The board of directors appoint Har-co Credit Union members to serve on the supervisory committee, per the By-Laws of the Organization. The Committee aids in overseeing the operations of the credit union. All Supervisory Committee members take an active role in fulfilling the duties and responsibilities of the Committee. The responsibilities of the Supervisory Committee are to assure that the credit union is soundly managed, and members' assets are safeguarded. One way in which we do this is to oversee an annual audit and a Bank Secrecy Act (BSA) audit of the credit union. YHB, Certified Public Accountants, completed these comprehensive audits for the year ended December 31, 2025.

Other tasks performed by the Supervisory Committee include reviewing credit union operational procedures and regularly examining accounting books, loan files, and credit union documents financial statements, new and closed accounts, cash counts, and overdrawn accounts are checked by the Supervisory Committee on a regular basis.

Committee members attend Board of Directors' meetings, serve on various committees with Board members and generally see that the credit union is well managed. The Supervisory Committee also has a duty to address member questions, concerns, and complaints.

Based on the 2025 reviews and assessments, it is our opinion that the Har-Co Credit Union continues to be financially stable and operationally sound.

The Supervisory Committee extends a sincere thank you to the members for their continued support. The Committee offers a special thank you to the Board of Directors, and the entire Har-Co staff for their hard work in maintaining a strong financial institution and making sure that the credit union will be ready for the challenges of tomorrow. We, the Supervisory Committee, remain committed to overseeing the financial operations to the benefit of our members.



Thomas Weir
Chairman, Supervisory Committee

Celebrating 70 years



Number of years
in Harford County

70



Member count

13,189

Number of
branches

3

Number of
employees

67

Scan the QR code to check out our special 70th anniversary video in celebration of 70 years of Har-co!



P5 PLUS



P5 PLUS



P5 PLUS

Member Appreciation Monday

We kicked off our 70th anniversary by celebrating those who made it possible, our members! Limited edition swag bags for the first 70 members who joined us that morning that included the long loved pocket calander and breakfast for all to enjoy.

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Chamber ribbon cutting

Local sectors of the Harford County Government join us to celebrate our tremendous milestone. Followed by cake in our Bel Air lobby.

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Staff Picnic

A night under the pavilion celebrating the event with all our employees and their family members. Early in Har-co's history, members were invited to a crab feast. This was a long standing staple of Har-co and was the inspiration behind our picnic.

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Stuff the Bus

Giving back to our community is in our DNA! Members stopped by and helped 'stuff the bus' for local classrooms.

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Flash back Friday

Time to celebrate the 50s! In honor of our decade of inception, current staff members flashed it back to the 50s. Check out that comparison!

Report of Independent Auditors



Supervisory Committee
Har-co Credit Union
Bel Air, Maryland

Opinion

We have audited the financial statements of Har-co Credit Union, which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Har-co Credit Union as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Har-co Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

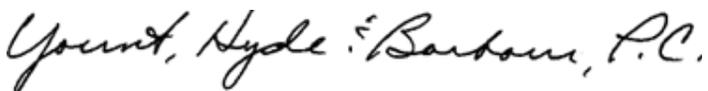
- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Har-co Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Har-co 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.

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the President's Letter. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Winchester, Virginia
February 27, 2026

Balance Sheets

December 31, 2025 and 2024

Assets	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 52,169,707	\$ 36,095,086
Loans to members, net of allowance for credit losses of \$1,615,349 -- 2025 and \$1,353,263 -- 2024	188,846,819	181,048,822
Investment securities held to maturity, at amortized cost (fair value \$17,223,410--2025 and \$34,058,787--2024)	17,500,000	35,000,000
Investment securities available for sale, at fair value	5,007,000	--
National Credit Union Share Insurance Fund deposit	2,238,966	2,165,887
Loans held for sale	--	168,750
Accrued interest receivable	733,597	665,020
Property and equipment, net	2,814,011	2,688,282
Operating lease right of use assets	1,416,949	1,586,219
Prepaid expenses and other assets	<u>1,194,137</u>	<u>1,147,744</u>
 Total assets	 <u>\$ 271,921,186</u>	 <u>\$ 260,565,810</u>
 Liabilities and Members' Equity		
Liabilities		
Members' share accounts	\$ 243,017,491	\$ 233,864,599
Official checks payable	563,645	382,178
Operating lease liabilities	1,499,887	1,659,003
Accrued expenses and other liabilities	<u>772,996</u>	<u>558,738</u>
Total liabilities	<u>245,854,019</u>	<u>236,464,518</u>
 Members' Equity		
Regular reserve	7,362,884	7,362,884
Undivided earnings	18,697,283	16,738,408
Accumulated other comprehensive income	<u>7,000</u>	<u>--</u>
Total members' equity	<u>26,067,167</u>	<u>24,101,292</u>
 Total liabilities and members' equity	 <u>\$ 271,921,186</u>	 <u>\$ 260,565,810</u>

See Notes to Financial Statements.

Statements of Income

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Interest income		
Interest on loans	\$ 10,273,833	\$ 9,923,836
Interest and dividends on securities	701,382	1,077,332
Interest on deposits in banks	<u>1,755,773</u>	<u>708,776</u>
	<u>12,730,988</u>	<u>11,709,944</u>
Interest expense		
Dividends on members' shares	<u>2,267,682</u>	<u>2,015,169</u>
	<u>2,267,682</u>	<u>2,015,169</u>
Net interest income	10,463,306	9,694,775
Provision for credit losses	<u>554,100</u>	<u>709,500</u>
Net interest income after provision for credit losses	<u>9,909,206</u>	<u>8,985,275</u>
Noninterest income		
Share draft fees	474,118	462,667
Card services	605,617	620,470
ATM fees	6,031	5,375
Mortgage broker fees	143,117	144,259
Gain on sale of loans held for sale	152,356	201,416
Other	<u>196,664</u>	<u>191,573</u>
	<u>1,577,903</u>	<u>1,625,760</u>
Noninterest expense		
Compensation and benefits	5,598,628	5,213,739
Office occupancy	688,115	699,650
Office operations	2,054,272	1,817,709
Education and promotion	181,798	166,739
Loan servicing	548,654	602,817
Professional and outside services	284,020	262,735
Other	<u>172,747</u>	<u>153,467</u>
	<u>9,528,234</u>	<u>8,916,856</u>
Net income	<u>\$ 1,958,875</u>	<u>\$ 1,694,179</u>

See Notes to Financial Statements.

Statements of Comprehensive Income



Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Net Income	\$ 1,958,875	\$ 1,694,179
Other Comprehensive Income		
Unrealized gain on investment securities available for sale arising during the period	<u>7,000</u>	<u>--</u>
Other comprehensive income	<u>7,000</u>	<u>--</u>
 Comprehensive income	 <u>\$ 1,965,875</u>	 <u>\$ 1,694,179</u>

See Notes to Financial Statements.

Statements of Changes in Members' Equity



Years Ended December 31, 2025 and 2024

	<u>Regular Reserve</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 2023	\$ 7,362,884	\$ 15,044,229	\$ --	\$ 22,407,113
Net income	<u>--</u>	<u>1,694,179</u>	<u>--</u>	<u>1,694,179</u>
Balance, December 31, 2024	7,362,884	16,738,408	--	24,101,292
Net income	--	1,958,875	--	1,958,875
Other comprehensive income	<u>--</u>	<u>--</u>	<u>7,000</u>	<u>7,000</u>
Balance, December 31, 2025	<u>\$ 7,362,884</u>	<u>\$ 18,697,283</u>	<u>\$ 7,000</u>	<u>\$ 26,067,167</u>

See Notes to Financial Statements.

Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities		
Net income	\$ 1,958,875	\$ 1,694,179
Reconciliation of net income to cash provided by operating activities:		
Depreciation	339,352	324,072
Provision for credit losses	554,100	709,500
(Increase) in net deferred loan origination costs	(57,348)	(34,283)
Origination of loans held for sale	(8,548,645)	(13,073,120)
Proceeds from the sale of loans held for sale	8,869,751	13,105,786
(Gain) on sale of loans held for sale	(152,356)	(201,416)
Decrease in accrued interest and other assets	54,300	189,878
Increase (decrease) in accrued expenses and other liabilities	<u>235,009</u>	<u>(315,709)</u>
Net cash provided by operating activities	<u>3,253,038</u>	<u>2,398,887</u>
Cash Flows from Investing Activities		
Loans made, net of principal collected	(8,293,149)	(10,100,259)
Purchases of investment securities available for sale	(5,000,000)	-
Proceeds from maturity or call of investment securities held to maturity	17,500,000	16,500,000
Purchase of property and equipment	(465,081)	(325,504)
(Increase) in NCUSIF deposit	<u>(73,079)</u>	<u>(42,745)</u>
Net cash provided by investing activities	<u>3,668,691</u>	<u>6,031,492</u>
Cash Flows from Financing Activities,		
Net increase in members' shares	<u>9,152,892</u>	<u>11,653,028</u>
Net increase in cash and cash equivalents	16,074,621	20,083,407
Cash and Cash Equivalents, beginning of year	<u>36,095,086</u>	<u>16,011,679</u>
Cash and Cash Equivalents, end of year	<u>\$ 52,169,707</u>	<u>\$ 36,095,086</u>
Supplemental Disclosures for Cash Flow Information		
Cash paid during the year for:		
Member dividends	\$ 2,267,682	\$ 2,015,169

See Notes to Financial Statements.

Notes to Financial Statements



Note 1. Summary of Significant Accounting Policies

Business Operations

Har-co Credit Union provides lending and deposit services to its members, who are mainly current or former employees and students of public and private schools and colleges in Harford County, Maryland. The Credit Union has a community charter allowing anyone that lives, works, or worships in Harford County to become a member. The Credit Union is chartered in the State of Maryland. The Credit Union retains federal insurance under the National Credit Union Share Insurance Fund (NCUSIF).

Method of Accounting

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the credit union industry. Management makes estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of commitments and contingent liabilities at the balance sheet date, and income and expenses during the year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses. Certain reclassifications have been made to the 2024 financial statements to conform to the current year presentation. These reclassifications did not affect net income or members' equity.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts on deposit at banks, and federal funds sold which are generally purchased and sold for one-day periods.

Loans to Members and Allowance for Credit Losses

Loans are stated at the amount of unpaid principal adjusted for net deferred loan origination fees and costs, and less the allowance for credit losses. Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The Credit Union generally discontinues the accrual of interest when payments are 90 days past due or collection of all principal and interest is in question. Interest for such loans is accounted for on the cash basis. Loans are returned to accrual status when payments are current or less than 90 days past due and have made payments as agreed for six months. Loans are charged off when management believes the loan is uncollectible. Net deferred origination fees and costs are amortized to interest on loans using a method that approximates the interest method. management believes the loan is uncollectible. Net deferred origination fees and costs are amortized to interest on loans using a method that approximates the interest method.

Notes to Financial Statements (Continued)

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 on the loans. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Credit losses on loans are charged against the allowance for credit losses on loans when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management estimates the required allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience (past events) provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current conditions such as differences relating to underwriting standards, nature and volume of the loan portfolio, delinquency level and overall loan portfolio quality, or term as well as for changes in environmental conditions, such as changes in economic conditions that may affect the borrower's ability to pay, unemployment rates, property values, or other relevant factors. If the current economy or real estate market were to suffer a severe downturn, the provision for credit losses on loans would need to be increased.

The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified portfolio segments based on collateral type and measures the allowance for credit losses on loans using Call Report-derived data. The Credit Union utilizes the weighted-average remaining maturity approach to calculate the expected loss for each loan within the pool. The Credit Union uses their own institutional loss history in determining historical losses. Prepayment rates are obtained from the NCUA's prepayment study on credit unions under \$100 million in assets as well as market based prepayment data. The Credit Union also considers qualitative adjustments to the historical loss rate for each loan portfolio segment, which are a combination of specific risk characteristics or current conditions at the reporting date that may differ from those in effect during the historical loss calculation period as well as forward looking projections for each pool based on a reasonable and supportable forecast based on objective economic data. The total loss rate is the lifetime historical loss rate plus the total qualitative factor adjustments.

Some loans are not sufficiently similar in risk characteristics to other loans. These loans are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Loans that are individually evaluated for which impairment is determined to exist will have a specific reserve allocated to them and included in the expected allowance for credit losses on loans. The expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. date, adjusted for selling costs as appropriate.

Notes to Financial Statements (Continued)

An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable expected losses. The unallocated component of the allowance for credit losses on loans reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general expected losses in the loan portfolio. Allocation of a portion of the allowance for credit losses on loans to one category of loans does not preclude its availability to absorb expected losses in other categories.

Allowance for Credit Losses on Off-Balance-Sheet Items

The Credit Union estimates expected credit losses on off-balance sheet items, which consist of contractual obligations to extend credit, loans which the Credit Union has approved but have not been funded, and letters of credit, over the contractual period during which the Credit Union is exposed to credit risk, unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance-sheet items is recorded as a liability and is adjusted each reporting period through the provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on off-balance-sheet items expected to be funded over its estimated life. The loss rates used to determine the required allowance for credit losses on off-balance-sheet items are essentially the same as those used on originated loans.

Investment Securities

Management classifies securities as held to maturity or available for sale at the time of purchase. Securities which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in members' equity. Gains and losses on disposal are determined using the specific-identification method. Securities which management has the intent and ability to hold to maturity are carried at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts. The Credit Union amortizes premiums through the earliest call date and accretes discounts to maturity.

Investment securities held to maturity are required to be evaluated for expected credit losses. All held to maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies. The Credit Union did not have an allowance for credit losses on held to maturity securities as of December 31, 2025 or 2024.

Investment securities available for sale are required to be individually evaluated for impairment. A security is considered impaired if the fair value of the security is less than its amortized cost basis. If management concludes that it does not intend to sell an impaired security, and it is not more likely than not management will be required to sell an impaired security before recovery of its amortized cost basis, the Credit Union would only be required to record the portion of the impairment related to credit losses (if any) in an allowance for credit losses with an offsetting entry to net income. Any portion of the impairment not related to credit losses is recorded through other comprehensive income. There were no impairments related to credit losses in the Credit Union's available for sale portfolio as of December 31, 2025. The Credit Union did not hold any securities classified as available for sale as of December 31, 2024.

Notes to Financial Statements (Continued)

Loans Held for Sale

The Credit Union has a program to sell newly originated long-term fixed rate residential mortgages on the secondary market. These loans are usually sold within 15 days of settlement. Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or estimated fair value. All sales are made without recourse. Sales of loans are recorded when the proceeds are received, with any gain or loss recorded in gain on sale of loans held for sale. Gains and losses are determined using the specific identification method.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

Members' share accounts are insured by the NCUSIF up to \$250,000 per depositor. Separately, individual retirement accounts are also insured up to \$250,000. The Credit Union is required to maintain a deposit with the NCUSIF in an amount equal to one percent of its insured shares. The deposit is refundable if the insurance coverage is terminated, insurance coverage is converted to another source, or the operations of the fund are transferred from the NCUA Board.

Revenue Recognition

The Credit Union accounts for revenue associated with financial instruments, including loans and securities via the accrual method. The Credit Union recognized non-interest income when it satisfies commitments to members and other third parties.

Property and Equipment

Land is recorded at cost. Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the individual assets using the straight-line method. The cost of major renewals and improvements are capitalized, while the costs of ordinary maintenance and repairs are charged to expense as incurred.

Members' Share Accounts

Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, adjusted for any realized gains or losses, which are also recognized as separate components of members' equity.

Income Taxes

The Federal Credit Union Act exempts credit unions from federal, state, and local income taxes. The Internal Revenue Service has ruled that this exemption does not extend to state chartered credit unions on their unrelated business income, such as ATM fees from nonmembers. The Credit Union has not made provisions for income taxes in these financial statements as the expenses related to offering these products exceeds the revenue.

Notes to Financial Statements (Continued)

Advertising

The Credit Union follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2025 and 2024 was \$161,468 and \$152,808, respectively.

Subsequent Events

The Credit Union has evaluated events and transactions subsequent to December 31, 2025 through February 27, 2026, the date these financial statements were issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

Recent Accounting Pronouncements

In September 2025, the Financial Accounting Standards Board (FASB) issued ASU 2025-06, “Intangibles -- Goodwill and Other -- Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software.” The amendments in this ASU are intended to improve the operability of the guidance by removing all references to software development project stages so that the guidance is neutral to different software development methods, including methods that entities may use to develop software in the future. Therefore, the amendments require that an entity capitalize software costs when both: Management has authorized and committed to funding the software project; and it is probable that the project will be completed and the software will be used to perform the function intended (referred to as the “probable-to-complete recognition threshold”). In evaluating the probable-to-complete recognition threshold, an entity is required to consider whether there is significant uncertainty associated with the development activities of the software. This ASU is effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods. Early adoption of ASU 2025-06 is permitted as of the beginning of an annual reporting period. The Credit Union does not expect adoption to have a material impact on its financial statements.

Other accounting standards that have been issued by the FASB or other standard setting bodies are not currently expected to have a material effect on the Credit Union’s financial position, results of operations or cash flows.

Recently Adopted Accounting Pronouncements

There were no recently adopted accounting pronouncements in the current year that had a material impact on the Credit Union.

Notes to Financial Statements (Continued)

Note 2. Cash and Cash Equivalents

A summary of cash and cash equivalents at December 31, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
Cash on hand and in commercial banks	\$ 9,075,826	\$ 6,796,353
Federal Reserve Bank and Federal Home Loan Bank deposits	42,626,230	27,800,873
Federal funds sold	<u>467,651</u>	<u>1,497,860</u>
	<u>\$ 52,169,707</u>	<u>\$ 36,095,086</u>

Note 3. Loans to Members and the Allowance for Credit Losses

The composition of loans to members at December 31, 2025 and 2024 is as follows:

	<u>2025</u>	<u>2024</u>
First mortgage	\$ 91,354,757	\$ 88,732,644
Second mortgage and home equity	27,843,021	26,395,689
Commercial	26,936,522	22,669,731
Vehicle	34,505,830	33,986,950
Share secured	522,212	452,162
Unsecured	2,039,027	2,325,555
Credit card	<u>6,904,902</u>	<u>7,520,051</u>
	190,106,271	182,082,782
Net deferred loan origination costs	355,897	319,303
Allowance for credit losses	<u>(1,615,349)</u>	<u>(1,353,263)</u>
	<u>\$ 188,846,819</u>	<u>\$ 181,048,822</u>

Notes to Financial Statements (Continued)

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Credit Union's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge-offs, nonperforming loans, and the general economic conditions in the Credit Union's market.

The Credit Union utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass/Watch

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect aboveaverage risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry, or the overall economic environment. Borrowers may reflect weaknesses such as job loss, inconsistent or weak earnings, break even or moderately deficit cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values. Consumer loans that are 45-59 days past due are graded as Pass/Watch.

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union's credit position at some future date. Special mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in income. Access to alternative financing may be limited to finance companies for individual or business borrowers and may be unavailable for commercial real estate borrowers. Consumer loans that are 60-89 days past due are graded as Special Mention.

Substandard

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt ratio, or marginal liquidity. These loans require more intense supervision by Credit Union management. Consumer loans that are 90 or more days past due are graded as Substandard.

Notes to Financial Statements (Continued)

The following tables present the December 31, 2025 and 2024, balances of loans by risk grade:

December 31, 2025	Loan Type							Total
	First Mortgage	Second Mortgage and Home Equity	Commercial	Vehicle	Share Secured	Unsecured	Credit Card	
Pass	\$ 84,625,409	\$ 27,035,528	\$ 18,544,906	\$ 30,361,827	\$ 522,212	\$ 1,951,308	\$ 6,669,443	\$ 169,710,633
Pass/Watch	3,114,337	151,170	5,002,884	2,272,164	--	58,034	97,170	10,695,759
Special mention	2,297,016	490,718	3,242,823	981,115	--	24,568	114,989	7,151,229
Substandard	1,317,995	165,605	145,909	890,724	--	5,117	23,300	2,548,650
Total loans	<u>\$ 91,354,757</u>	<u>\$ 27,843,021</u>	<u>\$ 26,936,522</u>	<u>\$ 34,505,830</u>	<u>\$ 522,212</u>	<u>\$ 2,039,027</u>	<u>\$ 6,904,902</u>	<u>\$ 190,106,271</u>

December 31, 2024	Loan Type							Total
	First Mortgage	Second Mortgage and Home Equity	Commercial	Vehicle	Share Secured	Unsecured	Credit Card	
Pass	\$ 85,480,269	\$ 25,646,110	\$ 15,998,730	\$ 31,084,603	\$ 451,938	\$ 2,260,825	\$ 7,253,543	\$ 168,176,018
Pass/Watch	1,163,741	600,702	5,369,925	2,161,876	111	28,617	106,749	9,431,721
Special mention	1,498,572	47,845	1,301,076	289,416	113	14,918	94,491	3,246,431
Substandard	590,062	101,032	--	451,055	--	21,195	65,268	1,228,612
Total loans	<u>\$ 88,732,644</u>	<u>\$ 26,395,689</u>	<u>\$ 22,669,731</u>	<u>\$ 33,986,950</u>	<u>\$ 452,162</u>	<u>\$ 2,325,555</u>	<u>\$ 7,520,051</u>	<u>\$ 182,082,782</u>

Loans classified by management as both substandard and nonaccrual are individually evaluated for impairment.

Notes to Financial Statements (Continued)

Transactions in the allowance for credit losses on loans and allowance for credit losses on off-balance-sheet items for the years ended December 31, 2025 and 2024, were as follows:

	December 31, 2025									
	Beginning Balance	Provision for (Recovery of) Credit Losses			Charge Offs	Ending Balance	Allowance for Credit Losses on Loans Ending Balance Evaluated		Outstanding Loan Balances Evaluated	
		Recoveries	Collectively	Individually			Collectively	Individually	Collectively	
										Individually
First mortgage	\$ 203,705	\$ 21,067	\$ --	\$ --	\$ 224,772	\$ --	\$ 224,772	\$ 1,317,995	\$ 90,036,762	
Second mortgage and home equity	57,951	8,375	--	--	66,326	--	66,326	165,605	27,677,416	
Commercial	75,898	102,210	--	--	178,108	70,114	107,994	145,909	26,790,613	
Vehicle	786,234	317,306	129,741	(288,946)	944,335	298,332	646,003	841,413	33,720,131	
Share secured	--	--	--	--	--	--	--	--	522,212	
Unsecured	108,947	(39,359)	8,343	(24,411)	53,520	4,605	48,915	5,117	1,978,196	
Credit card	120,528	142,901	48,557	(163,698)	148,288	22,455	125,833	23,300	6,881,602	
	<u>\$ 1,353,263</u>	<u>\$ 552,500</u>	<u>\$ 186,641</u>	<u>\$ (477,055)</u>	<u>\$ 1,615,349</u>	<u>\$ 395,506</u>	<u>\$ 1,219,843</u>	<u>\$ 2,499,339</u>	<u>\$ 187,606,932</u>	
Allowance for credit losses on off-balance sheet items	<u>\$ 6,400</u>	<u>\$ 1,600</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,000</u>					
Provision for (recovery of) credit losses		<u>\$ 554,100</u>								

	December 31, 2024									
	Beginning Balance	Provision for (Recovery of) Credit Losses			Charge Offs	Ending Balance	Allowance for Credit Losses on Loans Ending Balance Evaluated		Outstanding Loan Balances Evaluated	
		Recoveries	Collectively	Individually			Collectively	Individually	Collectively	
										Individually
First mortgage	\$ 352,183	\$ (148,478)	\$ --	\$ --	\$ 203,705	\$ --	\$ 203,705	\$ 590,062	\$ 88,142,582	
Second mortgage and home equity	72,738	(14,787)	--	--	57,951	--	57,951	101,032	26,294,657	
Commercial	91,637	(15,739)	--	--	75,898	--	75,898	--	22,669,731	
Vehicle	275,231	968,452	38,958	(496,407)	786,234	177,376	608,858	451,055	33,535,895	
Share secured	--	--	--	--	--	--	--	--	452,162	
Unsecured	168,035	(57,446)	27,571	(29,213)	108,947	19,076	89,871	21,195	2,304,360	
Credit card	160,482	(11,502)	44,030	(72,482)	120,528	58,741	61,787	65,268	7,454,783	
	<u>\$ 1,120,306</u>	<u>\$ 720,500</u>	<u>\$ 110,559</u>	<u>\$ (598,102)</u>	<u>\$ 1,353,263</u>	<u>\$ 255,193</u>	<u>\$ 1,098,070</u>	<u>\$ 1,228,612</u>	<u>\$ 180,854,170</u>	
Allowance for credit losses on off-balance sheet items	<u>\$ 17,400</u>	<u>\$ (11,000)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 6,400</u>					
Provision for (recovery of) credit losses		<u>\$ 709,500</u>								

Notes to Financial Statements (Continued)

The following table presents the amortized cost basis, and related allowance for credit losses, of collateral-dependent loans by class of loans as of December 31, 2025 and 2024:

	<u>December 31, 2025</u>	
	<u>Amortized Cost Basis</u>	<u>Related Allowance</u>
First mortgage	\$ 1,317,995	\$ --
Second mortgage and home equity	165,605	--
Commercial	145,909	70,114
Vehicle	<u>841,413</u>	<u>298,332</u>
	<u>\$ 2,470,922</u>	<u>\$ 368,446</u>

	<u>December 31, 2024</u>	
	<u>Amortized Cost Basis</u>	<u>Related Allowance</u>
First mortgage	\$ 590,062	\$ --
Second mortgage and home equity	101,032	--
Commercial	--	--
Vehicle	<u>451,055</u>	<u>177,376</u>
	<u>\$ 1,142,149</u>	<u>\$ 177,376</u>

First mortgage as well as second mortgage and home equity loans are all secured by first or junior liens on residential real estate. Commercial loans are secured by the business assets. Vehicle loans are all secured by new or used automobiles, motorcycles, or recreational vehicles.

Notes to Financial Statements (Continued)

The following tables presents the amortized cost basis of loans at December 31, 2025 and 2024, that were both experiencing financial difficulty and modified during the years ended December 31, 2025 and 2024, by class and by type of modification. The percentage of amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of loans is also presented below:

December 31, 2025							
	Payment Delay	Term Extension	Interest Rate Reduction	Rate Reduction and Term Extension	Payment Delay and Term Extension	Total Class of Loans	Percent of Class
First mortgage	\$ 451,255	\$ 63,753	\$ --	\$ --	\$ --	\$ 515,008	0.56 %
Second mortgage and home equity	55,000	29,993	--	--	--	84,993	0.31 %
Commercial	--	--	--	145,909	--	145,909	0.54 %
Vehicle	236,701	--	--	18,336	--	255,037	0.74 %
Credit card	--	--	--	--	14,852	14,852	0.22 %
Total	<u>\$ 742,956</u>	<u>\$ 93,746</u>	<u>\$ --</u>	<u>\$ 164,245</u>	<u>\$ 14,852</u>	<u>\$ 1,015,799</u>	<u>0.53 %</u>

There were no payment defaults during the year ended December 31, 2025 of loans to borrowers experiencing financial difficulties that were modified during the previous twelve months. A vehicle loan in the amount of \$26,797 was greater than 60 days past due as of December 31, 2025. All other modified loans were paying as agreed as of December 31, 2025 or less than 60 days past due as of December 31, 2025.

December 31, 2024							
	Payment Delay	Term Extension	Interest Rate Reduction	Rate reduction and Term Extension	Payment Delay and Term Extension	Total Class of Loans	Percent of Class
Vehicle	\$ 69,582	\$ --	\$ --	\$ --	\$ --	\$ 69,582	0.20 %
Unsecured	--	--	12,714	--	--	12,714	0.55 %
Credit card	4,975	--	--	--	--	4,975	0.07 %
Total	<u>\$ 74,557</u>	<u>\$ --</u>	<u>\$ 12,714</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 87,271</u>	<u>0.05 %</u>

There were no payment defaults during the year ended December 31, 2025 of loans to borrowers experiencing financial difficulties that were modified during the previous twelve months. A vehicle loan in the amount of \$26,797 was greater than 60 days past due as of December 31, 2025. All other modified loans were paying as agreed as of December 31, 2025 or less than 60 days past due as of December 31, 2025.

At December 31, 2025, the recorded investment of consumer mortgage loans secured by one to four family residential real estate properties for which formal foreclosure proceedings were in process was \$212,611. There were no loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2024.

Notes to Financial Statements (Continued)

The following is a summary of loans by delinquent status:

	December 31, 2025					
	Current	30 to 59 Days Past Due	60 to 179 Days Past Due	180 Days and Greater Past Due	Total Loans Outstanding	90 Days and Greater Past Due and Accruing
	First mortgage	\$ 89,072,369	\$ 1,519,963	\$ 549,814	\$ 212,611	\$ 91,354,757
Second mortgage and home equity	27,374,420	371,123	97,478	--	27,843,021	--
Commercial	26,663,958	272,564	--	--	26,936,522	--
Vehicle	32,710,535	907,530	836,586	51,179	34,505,830	--
Share secured	522,212	--	--	--	522,212	--
Unsecured	1,953,811	25,497	59,719	--	2,039,027	--
Credit card	6,637,798	206,897	60,207	--	6,904,902	--
	<u>\$ 184,935,103</u>	<u>\$ 3,303,574</u>	<u>\$ 1,603,804</u>	<u>\$ 263,790</u>	<u>\$ 190,106,271</u>	<u>\$ --</u>

	December 31, 2024					
	Current	30 to 59 Days Past Due	60 to 179 Days Past Due	180 Days and Greater Past Due	Total Loans Outstanding	90 Days and Greater Past Due and Accruing
	First mortgage	\$ 85,172,787	\$ 2,670,975	\$ 888,882	\$ --	\$ 88,732,644
Second mortgage and home equity	26,294,887	100,802	--	--	26,395,689	--
Commercial	22,598,769	70,962	--	--	22,669,731	--
Vehicle	33,034,083	491,124	423,265	38,478	33,986,950	--
Share secured	452,162	--	--	--	452,162	--
Unsecured	2,288,912	29,933	6,710	--	2,325,555	--
Credit card	7,428,084	67,132	24,835	--	7,520,051	1,461
	<u>\$ 177,269,684</u>	<u>\$ 3,430,928</u>	<u>\$ 1,343,692</u>	<u>\$ 38,478</u>	<u>\$ 182,082,782</u>	<u>\$ 1,461</u>

The breakdown of aging follows the credit union industry practice of reporting on the quarterly 5300 Call Report.

Loans on which the accrual of interest has been discontinued at December 31, 2025 and 2024 and the related interest not recorded and allowance for credit losses, are as follows:

	2025			2024		
	Nonaccrual Loans	Nonaccrual Interest	Allowance on Nonaccrual Loans	Nonaccrual Loans	Nonaccrual Interest	Allowance on Nonaccrual Loans
First mortgage	\$ 1,317,995	\$ 12,931	\$ --	\$ 590,062	\$ 7,465	\$ --
Second mortgage and home equity	165,605	3,415	--	101,032	521	--
Commercial	145,909	1,410	70,114	--	--	--
Vehicle	841,413	13,211	298,332	451,055	11,551	177,376
Share secured	--	--	--	--	--	--
Unsecured	5,117	178	4,605	21,195	271	19,076
Credit card	23,300	1,098	22,455	65,268	752	58,741
	<u>\$ 2,499,339</u>	<u>\$ 32,243</u>	<u>\$ 395,506</u>	<u>\$ 1,228,612</u>	<u>\$ 20,560</u>	<u>\$ 255,193</u>

Notes to Financial Statements (Continued)

Note 4. Investment Securities

The amortized cost and approximate fair value of investment securities are as follows:

	December 31, 2025			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity				
Federal agency securities	<u>\$ 17,500,000</u>	<u>\$ --</u>	<u>\$ (276,590)</u>	<u>\$ 17,223,410</u>
Available for sale				
Federal agency securities	<u>\$ 5,000,000</u>	<u>\$ 8,750</u>	<u>\$ (1,750)</u>	<u>\$ 5,007,000</u>
	December 31, 2024			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity				
Federal agency securities	<u>\$ 35,000,000</u>	<u>\$ --</u>	<u>\$ (941,213)</u>	<u>\$ 34,058,787</u>

As of December 31, 2025, there was one available-for-sale security with a fair value of \$2,498,250 in an unrealized loss position less than 12 months.

The Credit Union evaluates securities available for sale that are in an unrealized loss position to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to the extent to which the fair value is less than cost, the financial condition and near-term prospects of the issue and the intent and ability of the Credit Union to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Credit Union has the intent and ability to hold and does not believe it will be required to sell any investment securities prior to maturity. Unrealized losses are primarily due to market interest rates over the yields available at the time the underlying securities were purchased, and the Credit Union does not believe that any of the securities are experiencing unrealized losses due to reasons of credit quality. The federal agency securities the Credit Union owns are issued by FHLB and FHLMC, which the United States government has affirmed its commitment to support.

Based on management's assessment of the investment portfolio at December 31, 2025 and 2024, no allowance for credit losses was required on the Credit Union's investment portfolio. All securities were current with no securities past due or on nonaccrual as of December 31, 2025 and 2024.

Notes to Financial Statements (Continued)

Contractual maturities of debt security investments at December 31, 2025, are summarized below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Held to Maturity</u>		<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 16,000,000	\$ 15,770,477	\$ --	\$ --
After one to five years	1,500,000	1,452,933	--	--
After five to ten years	--	--	<u>5,000,000</u>	<u>5,007,000</u>
	<u>\$ 17,500,000</u>	<u>\$ 17,223,410</u>	<u>\$ 5,000,000</u>	<u>\$ 5,007,000</u>

The Credit Union has pledged securities with an amortized cost of \$20,000,000 and fair value of \$19,732,160 as collateral for available borrowings as of December 31, 2025. The Credit Union had pledged securities classified as held to maturity with an amortized cost of \$9,500,000 and fair value of \$9,184,237 as collateral for available borrowings as of December 31, 2024.

Note 5. Property and Equipment

A summary of property and equipment and the related depreciation at December 31, 2025 and 2024 is as follows:

	<u>Useful Lives</u>	<u>2025</u>	<u>2024</u>
Land and improvements		\$ 620,846	\$ 620,846
Buildings and improvements	27 - 40 years	6,267,394	5,915,794
Furniture and equipment	2 - 6 years	<u>1,621,982</u>	<u>1,551,481</u>
		8,510,222	8,088,121
Accumulated depreciation		<u>5,696,211</u>	<u>5,399,839</u>
Net property and equipment		<u>\$ 2,814,011</u>	<u>\$ 2,688,282</u>
Depreciation expense		<u>\$ 339,352</u>	<u>\$ 324,072</u>

Notes to Financial Statements (Continued)

Note 6. Members' Share Accounts

A summary of members' share accounts by type at December 31, 2025 and 2024 is as follows:

Type	<u>2025</u>	<u>2024</u>
Regular shares	\$ 108,299,867	\$ 107,418,715
Share drafts	55,525,654	51,178,303
Money market shares	24,552,155	25,850,639
IRA and SEP accounts	2,830,351	3,436,766
Share and IRA certificates	<u>51,809,464</u>	<u>45,980,176</u>
	<u>\$ 243,017,491</u>	<u>\$ 233,864,599</u>
Share certificates mature as follows		
Within one year	\$ 47,465,782	\$ 41,530,359
After one through two years	2,964,846	2,301,378
After two through three years	1,131,362	1,337,489
After three through four years	157,053	661,733
After four through five years	<u>90,421</u>	<u>149,217</u>
	<u>\$ 51,809,464</u>	<u>\$ 45,980,176</u>

The amount of members' share certificate accounts with balances of \$250,000 or more was \$8,824,158 and \$7,263,102 at December 31, 2025 and 2024, respectively.

Note 7. Borrowed Funds

The Credit Union has a \$3,500,000 line of credit with its primary correspondent financial institution secured by securities held in safekeeping. The interest rates on advances would be variable.

The Credit Union has a line of credit with the Federal Home Loan Bank of Atlanta. The Credit Union could borrow up to \$79,433,700 under the line as of December 31, 2025. Advances would be limited by the amount of loans or securities the Credit Union could pledge. The interest rates on advances could be fixed or variable.

The Credit Union has the capacity to borrow \$6,346,710 at the Federal Reserve discount window, of which \$0 had been drawn upon at December 31, 2025. The Credit Union has pledged securities at the Federal Reserve discount window with a par value of \$6,500,000 as of December 31, 2025.

There was no interest paid on borrowings during the year ended December 31, 2025 or 2024.

Notes to Financial Statements (Continued)

Note 8. Commitments and Contingent Liabilities Financial Instruments with Concentration of Credit Risk

As of December 31, 2025, the Credit Union's cash and cash equivalent balances exceed the insured deposit limit by \$6,255,222. This is the amount on deposit as of December 31, 2025, in accounts at other financial institutions which exceed the FDIC or NCUSIF insurance limit of \$250,000 per depositor in interest earning accounts.

The Credit Union originates real estate and consumer loans to its members throughout Harford County and the surrounding region. The Credit Union's field of membership includes many groups. However, most members live, work, or worship in Harford County. Although the Credit Union has a diversified loan portfolio, a substantial portion of its debtors' ability to repay their loans is dependent upon the employment trends of the sponsors and the regional economy.

Litigation

The Credit Union is party to various legal actions normally associated with a financial institution. In management's opinion, the aggregate effect is not material to the financial condition of the Credit Union.

Lease Commitments

The Credit Union owns a freestanding facility at Constant Friendship and pays monthly rent for the land. The lease term expires July 31, 2027. The Credit Union also owns a freestanding branch in the Aberdeen Marketplace and pays monthly rent for the land. The lease term expires August 31, 2029, and includes one additional 10-year renewal option through August 2039.

Lease liabilities represent the Credit Union's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Credit Union's incremental borrowing rate in effect at the commencement date of the lease if the rate implicit in the lease is unattainable. Right-of-use assets represent the Credit Union's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and, if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

The Credit Union's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Credit Union has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would require incurring additional financial obligations.

The following table presents information about the Credit Union's leases:

December 31,	2025	2024
Lease liabilities	\$ 1,499,887	\$ 1,659,003
Right-of-use assets	\$ 1,416,949	\$ 1,586,219
Weighted average remaining lease term	12.4 years	12.9 years
Weighted average discount rate	2.44%	2.41%

Notes to Financial Statements (Continued)

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities at December 31, 2025, is as follows:

Lease payments due	
Year ending December 31, 2026	\$ 197,113
Year ending December 31, 2027	156,886
Year ending December 31, 2028	100,568
Year ending December 31, 2029	105,596
Year ending December 31, 2030	115,653
Thereafter	<u>1,089,066</u>
Total undiscounted cash flows	1,764,882
Discount	<u>(264,995)</u>
Lease liabilities	<u>\$ 1,499,887</u>

The aggregate rental expense of premises and equipment was \$194,150 and \$202,894 for the years ended December 31, 2025 and 2024, respectively.

Financial Instruments with Off-Balance-Sheet Risk

Unused lines of credit at December 31, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Second mortgage and home equity	\$ 21,472,059	\$ 19,669,975
Commercial	2,312,972	1,687,485
Unsecured	1,702,341	1,698,494
Credit card	<u>18,461,452</u>	<u>17,516,284</u>
	<u>\$ 43,948,824</u>	<u>\$ 40,572,238</u>

Commitments to extend credit at December 31, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
First mortgage	\$ 1,614,427	\$ 1,414,070
Second mortgage and home equity	193,900	40,000
Vehicle	<u>168,578</u>	<u>--</u>
	<u>\$ 1,976,905</u>	<u>\$ 1,454,070</u>

Notes to Financial Statements (Continued)

The Credit Union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members, primarily in the form of commitments to extend credit. Lines of credit are agreements to lend to a member as long as there is no violation of any condition to the contract, and are made on the same terms, including rate and required collateral, as outstanding loans. Lines of credit are generally at fixed rates, although the Credit Union retains the right to change rates effective with any new draws on the lines. Such lines do not represent future cash requirements because it is unlikely that all members will draw upon their lines in full at any time.

The Credit Union recognized an allowance for credit losses on off-balance-sheet items of \$8,000 and \$6,400 in accrued expenses and other liabilities on the balance sheet as of December 31, 2025 and 2024, respectively.

Note 9. Related-Party Transactions

The officials and senior executive staff of the Credit Union enter into loan transactions with the Credit Union in the normal course of business. The terms of these transactions are the same as the terms provided to other borrowers entering into similar loan transactions.

Activity in these loans was as follows:

	<u>2025</u>	<u>2024</u>
Beginning of year	\$ 554,032	\$ 410,543
Advances	402	199,173
Change in officials	(161,475)	--
Repayments	<u>(41,929)</u>	<u>(55,684)</u>
End of year	<u>\$ 351,030</u>	<u>\$ 554,032</u>

The total deposits in the Credit Union from the same officials and senior executives were \$308,373 and \$350,403 at December 31, 2025 and 2024, respectively.

Payments to directors for professional, marketing, and loan services totaled \$0 and \$10,085 during the years ended December 31, 2025 and 2024, respectively.

Note 10. Regulatory Capital

Under capital adequacy guidelines and the National Credit Union Administration's framework for prompt corrective action (PCA), the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under accounting principles generally accepted in the United States of America. The Credit Union is required to maintain minimum ratios, as set forth below, of net worth to assets. Failure to meet minimum net worth requirements can initiate certain mandatory actions by regulators that could have a direct material effect on the Credit Union's financial statements. Management believes that the Credit Union meets all capital adequacy requirements to which it is subject as of December 31, 2025.

Notes to Financial Statements (Continued)

To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio, calculated under the optional “average of daily assets over the calendar quarter” method at December 31, 2025 and 2024, as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2025	\$ 26,060,167	9.80%	\$ 15,962,022	6.00%	\$ 18,622,359	7.00%
December 31, 2024	\$ 24,101,292	9.48%	\$ 15,261,917	6.00%	\$ 17,805,570	7.00%

As of December 31, 2025 and 2024, the Credit Union’s net worth was categorized as well capitalized under the regulatory framework for PCA.

Note 11. Retirement Plan

The Credit Union maintains a retirement plan that qualifies under Section 401(k) of the Internal Revenue Code. The plan covers all employees. Employees may make voluntary contributions to the plan, and the Credit Union will contribute 100% of the first 3% of an employee’s eligible compensation as a match contribution plus 50% of the next 2% of the employee’s eligible compensation as a Safe Harbor contribution. Employee elective deferrals and the Safe Harbor contribution are fully vested. Credit Union employer matching contributions are subject to a six-year vesting schedule. Retirement plan expense was \$160,156 and \$146,756 during the years ended December 31, 2025 and 2024, respectively.

Note 12. Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Generally accepted accounting standards define fair value, establish a framework for measuring fair value, require certain disclosures about fair values, and establish a hierarchy for determining fair value measurements. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs that reflect the Credit Union’s own assumptions about the asset or liability, in situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following describes the valuation techniques used by the Credit Union to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

Notes to Financial Statements (Continued)

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). If the inputs used to provide the valuation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3).

The two investment securities available for sale measured on a recurring basis as of December 31, 2025 were considered to be Level 2.

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost or-market accounting or write-downs of individual assets. The following describes the valuation techniques used by the Credit Union to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Fair Value Measurements on a Nonrecurring Basis

Collateral dependent loans evaluated are the only instruments that are measured at fair value on a nonrecurring basis. The Credit Union's collateral dependent loans that are individually evaluated are measured by subtracting any specific reserve from outstanding principal. Specific reserves on collateral dependent loans individually evaluated are based on many factors, including management's estimate of probable loss of principal of significantly delinquent real estate loans, and on the approximate market value of loans with LTVs exceeding 100%.

December 31, 2025

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			
Collateral dependent loans, net	\$ 618,875	\$ --	\$ 618,875

December 31, 2024

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			
Collateral dependent loans, net	\$ 273,679	\$ --	\$ 273,679

Notes to Financial Statements (Continued)

The following table presents quantitative information about Level 3 fair value measurements Sas of December 31, 2025 and 2024:

December 31, 2025				
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Collateral dependent loans, net	\$ 618,875	Fair value of collateral	Selling cost and market discount	10-80% (31%)
December 31, 2024				
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Collateral dependent loans, net	\$ 273,679	Fair value of collateral	Selling cost and market discount	30-100% (39%)

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