INDUSTRIAL
CREDIT UNION

2023

# 82nd ANNUAL REPORT

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# Previous Year's Meeting Minutes

## CALL TO ORDER

President and CEO Brandon Hahnel – on behalf of the Board Chair Michael Ashby – called the 81st Annual Meeting to order at 6:15 PM on Wednesday, April 27th, 2022 on the digital platform Zoom.

## ROLL CALL

Board, Supervisory Committee Members, and about 46 Industrial Credit Union members were present, representing the interests of Industrial Credit Union.

**Board and Supervisory Committee members present:** Rick Maricle (Board Vice Chair, Supervisory Committee Member), Nikole Knauft (Board Secretary), Melissa Muhich (Supervisory Committee Chair, Board Member), Dennis McGrew (Board Volunteer), Stanley Godek (Board Volunteer), Harold Henkel (Board Volunteer), Bonnie Drafs (Supervisory Committee Member).

**Industrial Credit Union Senior Management present:** Brandon Hahnel (President/CEO), Rich Holcomb (VP/Finance), Vickie Skelton (VP/Operations), BJ van Leeuwen (VP/Lending) and Kessa Volland (Director of Marketing) opened the meeting with a brief welcome and overview of the meeting structure.

Due to unanticipated, last minute technical difficulties, Board Chair Michael Ashby was unable to join the call. President and CEO Brandon Hahnel filled in to present the Board Chair's section of the event assuring that the event would continue according to schedule.

## PRIOR YEAR MINUTES

Brandon Hahnel requested approval of the 2021 Annual Meeting minutes, which were included in the reports that had been distributed to members. Attendees were invited to present any objections via the chat feature during the meeting. The minutes were approved by acclimation. There were no objections from attendees, and minutes were approved by consensus.

## REPORTS

Annual reports were distributed to the membership prior to the meeting, and again upon arrival, via the credit union's public website. Brandon Hahnel presented the Supervisory Committee Report. There were no questions or comments regarding the presented material.

## ELECTION OF OFFICERS 2022

Brandon Hahnel presented a slate of candidates running for reelection. The slate of candidates was provided by the board–appointed Nominating Committee (Michael Ashby, Melissa Muhich, and Brandon Hahnel) and was published in the Annual Report. Supervisory Committee Chair and Nominating Committee member Melissa Muhich abstained presentation due to her reelection candidacy. Michael Ashby noted that this was an uncontested election:

- **Reelection of Melissa Muhich as Board and Supervisory Committee Volunteer**
- **Reelection of Harold Henkel as Board Volunteer**

As the election was uncontested, all candidates were reelected by acclimation.

Brandon Hahnel encouraged interested members to apply for open Board and Supervisory Committee positions.



# 2022 ANNUAL ADDRESS FROM PRESIDENT/CEO

Following a thank you message to members for their patience and commitment during the pandemic, Brandon provided a health check for Industrial Credit Union. The credit union continues to see growth in membership. The CU had just over 33,500 members in 2019 and added over 2,500 new members over the last two years. This growth shows that the CU is attractive in the community. With member growth, deposits and the balance sheet have grown rapidly as well. Members see the CU as a safe place to manage their funds; deposits increased $67m (24% growth) in 2021. This was the fastest growth rate for a credit union in the community that year. In 2021, $95m in new member loans were funded. Total loans outstanding grew by $20 million, which is an increase of 9% over the previous year. These numbers reflect the work Industrial CU has done to offer a wide variety of options to members with varying needs.

Over the past two years, the CU's net worth has expanded by $5.7m, increasing 13% just in 2021. However, net worth has not increased as much as member deposits. The ratio of net worth to total assets decreased to 7.48% at the end of this year. Overall in 2021, the CU experienced a 23% growth in total assets and is now a $379m credit union. Many enhancements were made for members, including: Zelle integration, a new Lynden facility, and a new credit card product with rewards. Because of the CU's contribution to community lending, the US Treasury awarded Industrial $1.8m in grant funds to perpetuate the lending programs.

Today, we are proud to still serve Whatcom County with seven locations. We have both opportunities and challenges ahead of us. The national economy is experiencing high inflation and home prices. Inflation has reached over 8.5%. The Federal Reserve is starting to push interest rates back up; we will all see higher rates on loans and accounts. Locally, unemployment has decreased but home prices are up 31% and gas prices have reached above $4-5/gallon.

Industrial remains a safe and sound financial institution, primed to handle a rising-interest rate environment. Loan delinquency is currently very low, at .3% and annualized loan loss is around .5%. We maintain strong net income, adding $3.39m to net worth in 2021. The CU is considered well-capitalized. The board and management continually discuss strategies for how to improve our net worth ratio and ease pressure from rapid growth.

Looking ahead, the CU continues to focus on our members. With the rising interest rates. Balance sheet growth will slow, which will allow the CU to catch up. We expect higher rates on loan products but anticipate rates on deposit products will increase as well. Members should expect to see expansion of self-service products and new technologies. There may also come some reconfiguration of in-branch services. Over the past two years, in-branch transactions have decreased 25%, as members adopt self-service methods. As always, the CU works towards its mission and values.

# LIVE QUESTIONS AND ANSWERS 2022

Brandon opened the meeting to member questions.

### How are deposit rates set, and why are they so low?

For years now, deposit rates have been exceptionally low – intentionally suppressed to stimulate the economy. This is now reversing, and the Federal Reserve is pushing to increase short-term rates. We expect to see deposit rates increase.

### Where does the CU invest money, and do we make safe investments?

The CU, in addition to being highly-regulated, is also conservative when it comes to investing. All investments we purchase are backed by the same type of loans that we offer to our own members. The CU prefers to invest in loans to members of our community. With excess liquidity, investments are made in ultra-safe mortgage-backed securities or government-guaranteed bonds.

### Can you elaborate on Senior Management and Board strategy to grow net worth with a growing balance sheet?

One of many potential strategies is to take on subordinated debt – a type of borrowing that is treated as net worth (capital). Secondary capital is long-term, inexpensive funding and it will support our lending efforts.

### Can you elaborate on the strategy to deal with the anticipated squeeze on margins from exiting interest rate yields on the books, with rising interest rates?

The majority of the CU's assets are comprised of short-term loans. Because of this, the interest rates on our balance sheet naturally reprice frequently – known as a "short duration balance sheet." In essence, we have a built-in strategy to deal with rising interest rates. The CU is well-prepared for rising rates.

### Do we have any plans to close branches in the future?

Currently there are no plans for this, although management and the board are looking for ways to improve efficiency.

# ADJOURNMENT

There being no further business, Brandon called the 81st Industrial Credit Union Annual Meeting adjourned at 6:51 PM.



# STATEMENT OF FINANCIAL CONDITION

| Assets | 12/31/2022 | | 12/31/2021 | |
|---|---|---|---|---|
| Loans to Members | 321,969,399 | 80.38% | 232,000,676 | 57.92% |
| Allowance for Loan Losses | (4,234,121) | -1.06% | (1,616,549) | -0.40% |
| Cash on Hand | 2,885,498 | 0.72% | 3,727,018 | 0.93% |
| Investments / Overnight Deposits | 66,198,218 | 16.53% | 133,588,070 | 33.35% |
| Fixed Assets - Net | 6,634,831 | 1.66% | 6,164,302 | 1.54% |
| Other Assets | 7,112,587 | 1.78% | 5,356,836 | 1.34% |
| **TOTAL ASSETS** | **400,566,412** | **100.00%** | **379,220,353** | **94.67%** |
| **Liabilities & Member Deposits** | | | | |
| Member Deposits | 346,805,899 | 86.58% | 346,712,296 | 91.43% |
| Borrowed Funds | 21,000,000 | 5.24% | 0 | 0.00% |
| Other Liabilities | 4,871,584 | 1.22% | 4,789,257 | 1.26% |
| **TOTAL LIABILITIES & MEMBER DEPOSITS** | **372,677,483** | **93.04%** | **351,501,553** | **92.69%** |
| **Equity** | | | | |
| Regular Reserves | 3,299,425 | 0.82% | 3,299,425 | 0.87% |
| Undivided Earnings | 27,059,657 | 6.76% | 25,048,979 | 6.61% |
| Reserve - Investments Market Value | (2,470,153) | -0.62% | (629,604) | -0.17% |
| **TOTAL EQUITY** | **27,888,929** | **6.96%** | **27,718,800** | **7.31%** |
| **TOTAL LIABILITIES, MEMBER DEPOSITS & EQUITY** | **400,566,412** | **100.00%** | **379,220,353** | **100.00%** |

# STATEMENT OF INCOME & EXPENSE

| Operating Income | 2022 | | 2021 | |
|---|---|---|---|---|
| Interest Income - Loans | 14,350,774 | 65.73% | 11,313,578 | 64.50% |
| Interest Income - Investments | 1,300,955 | 5.96% | 287,842 | 1.64% |
| Non-Interest Operating Income | 6,181,118 | 28.31% | 5,937,847 | 33.85% |
| **TOTAL OPERATING INCOME** | **21,832,847** | **100.00%** | **17,539,267** | **100.00%** |
| **Operating Expenses** | | | | |
| Labor & Benefits | 8,656,653 | 39.65% | 8,019,635 | 45.72% |
| Office Occupancy | 793,508 | | 727,119 | |
| Office Operations | 5,670,811 | 25.97% | 5,250,244 | 29.93% |
| **TOTAL OPERATING EXPENSES** | **15,120,972** | **65.62%** | **13,996,998** | **75.66%** |
| **INCOME (LOSS) FROM OPERATIONS** | **6,711,875** | **30.74%** | **3,542,269** | **20.20%** |
| Provision for Loan Loss | 5,092,393 | 23.32% | 772,295 | 4.40% |
| Total Non-Operating Gain (Loss) | 1,154,922 | -5.29% | 1,120.629 | -6.39% |
| **INCOME (LOSS) BEFORE DIVIDENDS** | **2,774,404** | **12.71%** | **3,890,603** | **22.18%** |
| **TOTAL DIVIDENDS & INTEREST EXPENSE** | **763,724** | **3.50%** | **496,887** | **2.83%** |
| **NET INCOME AFTER DIVIDENDS** | **2,010,680** | **9.21%** | **3,393,716** | **19.35%** |

# Supervisory Committee Annual Report

## 2023 REPORT FOR THE 2022 CALENDAR YEAR

As volunteer members of this committee, we are dedicated to ensuring the safety and soundness of our policies, procedures and practices as well as the financial position of Industrial Credit Union. One of our responsibilities is to confirm the credit union's financial condition is stated accurately. We work to ensure the accuracy of records, make sure member deposits are adequately protected and that operations are in compliance with all federal and state regulations, as well as our own bylaws, policies and procedures. We do this with the assistance of the credit union's Internal Auditor, Risk Management Department, and accounting firms conducting independent reviews of our financials and operations.

The credit union successfully passed a safety and soundness examination conducted by the State of Washington Department of Financial Institutions and National Credit Union Administration. The committee contracted with an external provider to perform a full opinion audit of financial statements and management received an unqualified opinion that statements are fair and accurate in all material regard. We also worked with the Internal Auditor and external service providers to conduct various audits and assessments of policies and procedures related to ACH transactions, mortgage operations, information security, benefits/retirement plan administration, payroll processing, recruiting and hiring practices, and compliance with the Bank Secrecy Act. Based on our activities and the results of our 2022 exam and audits, the Supervisory Committee believes that the credit union is performing appropriately to sustain a safe and secure future; and that it is well managed with a strong commitment to serving the membership.

As your representatives, the Supervisory Committee will continue to perform oversight activities so that we are confident members' financial interests are well protected. We encourage you to contact us with any questions or comments about our findings.



I wish to thank my fellow committee members, Bonnie Drafs and Rick Maricle, for their dedication to the credit union. A special thank you goes to credit union's Internal Auditor and staff members in the Risk Management and Accounting Departments for their hard work and outstanding support.

On behalf of the entire committee, we appreciate the opportunity to serve the members of Industrial Credit Union and look forward to a secure and successful 2023.

Sincerely,

**Areti Moularas | Chair, Supervisory Committee**

# Annual CEO & Board Chair Report

## 2023 REPORT FOR THE 2022 CALENDAR YEAR

The board of directors and management are working diligently to support our members' needs and dreams. Our members' activity over the past year makes it clear that they trust Industrial Credit Union to serve them. In 2022 assets under management grew by 5.6%, faster than all other credit unions in Whatcom County. Total membership grew by over 7% and the credit union funded more than 6,800 new loans totaling over $180 million in new balances and limits. We are proud to report that our financial co-op now includes well over 38,000 members, and we are servicing over $345 million in member deposits and over $315 million in member loans.

We take our mission seriously. The credit union is dedicated to helping members of all backgrounds, and we provide services and loans to a wide spectrum of credit profiles and financial circumstances. We have achieved great success with our service strategies, and the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund has taken notice. In 2022 Industrial Credit Union was awarded $14,000,000 in secondary capital to support our endeavors in Whatcom County. The credit union's balance sheet is safe and sound.

Other key accomplishments from 2022 include:

- Online chat became available to members within our mobile app
- The credit union received outstanding Net Promoter Scores (NPS) from members
- Contactless card payments were launched
- External transfer options were significantly expanded.

While we may be sailing choppy economic waters in the year ahead, Industrial Credit Union is strong, stable and dedicated to helping both our members and community thrive. Thank you for your continued membership and support.

### Rick Maricle

CHAIR OF THE BOARD OF DIRECTORS



### Brandon Hahnel

PRESIDENT/CEO




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Locals
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