83rd ANNUAL REPORT

Industrial CREDIT UNION



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Previous Year's Meeting Minutes

Call to order

Board Chair, Rick Maricle, called the 82nd Annual Meeting to order at 6:05 pm on Wednesday, April 26th, 2023 on the digital platform Zoom.

Roll call

Board, Supervisory Committee Members, and 35 Industrial Credit Union members were present, representing the interests of Industrial Credit Union.

Board and Supervisory Committee members present: Rick Maricle (Board Chair), Mike Ashby (Board Vice Chair), Nikole Knauft (Board Secretary), Melissa Muhich (Board Member), Harold Henkel (Board Member), Areti Moularas (Supervisory Committee Chair), 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 Dain Stevens (VP/Digital Services).

Dennis McGrew (Board Member), Stanley Godek (Board Member) were unable to attend.

Kessa Volland (Director of Marketing) opened the meeting with a brief welcome and overview of the meeting structure.

Prior Year Minutes

Rick Maricle (Board Chair) requested approval of the 2022 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. There were no objections from attendees, and minutes were approved by acclimation.

Reports

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

Election of Officers 2023

Rick Maricle presented a slate of candidates running for reelection. The slate of candidates was provided by the board-appointed Nominating Committee (committee members are Michael Ashby, Melissa Muhich, and Brandon Hahnel) and was published in the Annual Report. Board Volunteer and Nominating Committee member Michael Ashby abstained presentation due to his reelection candidacy. Rick Maricle noted that this was an uncontested election:

- Reelection of Michael Ashby as Board Volunteer
- Reelection of Dennis McGrew as Board Volunteer
- Reelection of Bonnie Drafs as a Supervisory Committee Volunteer

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

Rick encouraged interested members to apply for open Board and Supervisory Committee positions. Information on applying can be found in the 'About Us' section of the Industrial Credit Union website.



2023 ANNUAL ADDRESS FROM PRESIDENT/CEO

Brandon presented a three-part perspective on the credit union.

Where we came from:
Membership growth was reviewed. Total membership grew from 34,800 at the end of 2020 to just over 38,000 at the end of 2022. Seeing this increase tells us that our credit union is attractive; our products and services are beneficial and competitive, and our employees treat our members well. This is a sign of success.

Next, total deposits and loans were reviewed. 2021 was a major year for growth in deposits, and 2022 led to huge growth in loans. Member deposits expanded to $346.8m and loans grew to $322.2m in 2022. Member deposits remained steady from 2021 to 2022. This stability is excellent, particularly relative to competitors.

We take pride in our drive to provide easy tools and empower members; we strive to provide for members from all income levels.

Net worth has grown year-over-year, from $25m in 2020 to $44.4m in 2022. The credit union grew both through net income as well as through secondary capital. A higher net worth ratio will support our financial health and lending capabilities for many years to come. The credit union is a very well-capitalized financial institution – well beyond regulatory requirements.

We ended the year with $400m in assets (a 5.6% growth rate). We funded over $185m in new loans, growing the portfolio by 40%. Enhancements deployed include expanded online chat services, contactless credit and debit card payments, and additional options for external transfer and payments.

Where we are currently:
Brandon reviewed the current macroeconomy and interest rate environment. Inflation is at a 40-year high. Cumulative inflation over 24 months was 13.9%. Federal fund rates are now at 4.65%. There is unprecedented competition from less-regulated (riskier) fin-techs.

Local unemployment is at 6.3%. Home prices are in-flux but still very high. Gas prices are above $4/gallon. Home loan rates are near 6%. The credit union is working hard to help people manage their funds and needs.

Industrial Credit Union is not experiencing many of the risks other institutions have. We are focused on maintaining a short-duration balance sheet and low-risk investments. Delinquency is hovering around 1%, and loan losses are below 1% annually. Net income for 2022 was $2m.

Where we are headed:
Brandon reviewed the credit union's mission and vision and went over the 'credit union difference.' We are focused on serving people. This year growth will likely remain slow due to elevated interest rates. We don't anticipate any change to our physical footprint. Members should expect to see continued expansion of self-service technology. Intentional slow growth allows us time to focus on improving efficiencies, processes and expanding self-service options.

Live Questions and Answers 2023

Brandon opened the meeting to member questions, which he addressed. The FAQs below were provided by Brandon; no additional questions came from the audience at this time.

Why have some banks failed? Is Industrial Credit Union safe?

Failure examples seen recently were 'run-on-the-bank' situations. Industrial Credit Union doesn't operate in a way that could easily lead to this. Those that failed had a very high percentage of deposits owed by just a few customers. Panic caused some of those depositors to withdraw funds, leading to a very quick liquidity collapse. At Industrial Credit Union, we do not have a high concentration of deposits from any small segment of members. We serve primarily consumer households, and our deposits are spread over a very large number of members.

How are loan and deposit rates set?

Teams of people at the credit union meet and review a significant amount of data, taking into consideration our members' needs, competition from peer organizations, and the credit union's operating needs. The credit union does adjust rates up and down, but largely we're constrained by what happens in the economy as a whole. When the Federal Reserve raises rates significantly, we are forced to follow suit due to market forces. We're working hard to provide the best products, services, and rates we can to our members.

Where does the credit union invest money?

First and foremost, we reinvest our funds in member loans. When loan demand isn't high enough, we do reinvest in other safe options – primarily government-guaranteed bonds and mortgage-backed securities. The credit union's investments are very well-secured, high-credit, and straightforward.

ADJOURNMENT

There being no further business, Rick Maricle called the 82nd Industrial Credit Union Annual Meeting adjourned at 6:40 PM.

STATEMENT OF FINANCIAL CONDITION

Assets	2023		2022	
Loans to Members	307,193,960	80.78%	321,969,399	80.38%
Allowance for Loan Losses	(6,873,568)	-1.81%	(4,234,121)	-1.06%
Cash on Hand	2,972,663	0.78%	2,885,498	0.72%
Investments / Overnight Deposits	63,425,836	16.68%	66,198,218	16.53%
Fixed Assets - Net	6,634,831	1.74%	6,634,831	1.66%
Other Assets	6,953,826	1.83%	7,112,587	1.78%
TOTAL ASSETS	**380,307,548**	**100.00%**	**400,566,412**	**100.00%**
Liabilities & Member Deposits				
Member Deposits	333,542,104	87.70%	346,805,899	86.58%
Borrowed Funds	14,000,000	3.68%	21,000,000	5.24%
Other Liabilities	5,815,997	1.53%	4,871,584	1.22%
TOTAL LIABILITIES & MEMBER DEPOSITS	**353,358,101**	**92.91%**	**372,677,483**	**93.04%**
Equity				
Regular Reserves	3,299,425	0.87%	3,299,425	0.82%
Undivided Earnings	25,473,347	6.70%	27,059,657	6.76%
Reserve - Investments Market Value	(1,823,325)	-0.48%	(2,470,153)	-0.62%
TOTAL EQUITY	**26,949,447**	**7.09%**	**27,888,929**	**6.96%**
TOTAL LIABILITIES, MEMBER DEPOSITS & EQUITY	**380,307,548**	**100.00%**	**400,566,412**	**100.00%**

STATEMENT OF INCOME & EXPENSE

Operating Income	2023		2022	
Interest Income - Loans	18,615,615	68.44%	14,350,774	65.73%
Interest Income - Investments	1,890,736	6.95%	1,300,955	5.96%
Non-Interest Operating Income	6,692,896	24.61%	6,181,118	28.31%
TOTAL OPERATING INCOME	**27,199,247**	**100.00%**	**21,832,847**	**100.00%**
Operating Expenses				
Labor & Benefits	9,018,289	33.16%	8,656,653	39.65%
Office Occupancy	846,931	3.11%	793,508	
Office Operations	6,170,982	22.69%	5,670,811	25.97%
TOTAL OPERATING EXPENSES	**16,036,202**	**58.96%**	**15,120,972**	**65.62%**
INCOME (LOSS) FROM OPERATIONS	**11,163,045**	**41.04%**	**6,711,875**	**30.74%**
Provision for Loan Loss	8,450,983	31.07%	5,092,393	23.32%
Total Non-Operating Gain (Loss)	150,731	-0.55%	1,154,922	-5.29%
INCOME (LOSS) BEFORE DIVIDENDS	**2,862,793**	**10.53%**	**2,774,404**	**12.71%**
TOTAL DIVIDENDS & INTEREST EXPENSE	**3,464,792**	**12.74%**	**763,724**	**3.50%**
NET INCOME AFTER DIVIDENDS	**(601,999)**	**-2.21%**	**2,010,680**	**9.21%**

Supervisory Committee Annual Report

2024 REPORT FOR THE 2023 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, but not limited to, ACH transactions, mortgage operations, information security, payroll processing, recruiting and hiring practices, consumer lending and compliance with the Bank Secrecy Act.

Based on our activities and the results of our 2023 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 Matt Cooper, 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 2024.

Sincerely,

Areti Moularas | Chair, Supervisory Committee

Annual CEO & Board Chair Report

2024 REPORT FOR THE 2023 CALENDAR YEAR

The credit union met with some significant challenges in 2023. We witnessed the highest level of inflation since the 1980s. National data shows that most pandemic-era household savings are now gone. Short-term interest rates have increased by 5.25% since the beginning of 2022, and in the fourth quarter of 2023 vehicle delinquency in the U.S reached a 30-year high.

As you can see from the review of our financials, the credit union was by no means exempt from the economic turmoil we're experiencing as a nation. The increase in interest expense, combined with higher loan losses, resulted in a modest negative net income for the year. And while this has been a challenging economic shift, I'm truly impressed by how well our organization has handled these extremes.

Despite the increase in expenses, there is reason to celebrate.
In 2023 Industrial significantly increased revenue and grew multiple lines of business:

- Industrial's in-house credit card program expanded ~12%.
- The credit union's mortgage program (including home equity products) grew ~10%.
- Interest earned on loans and investments increased from $11.6 million in 2021 to $20.5 million.
- Revenue from card interchange and fees increased from $5.5 million in 2021 to $6.3 million.

While the credit union's net income for 2023 was negative, we enter into 2024 very well capitalized. Through a shift in the size of our balance sheet, our net worth ratio increased from 11.07% in 2022 to 11.25% at the end of 2023. This is significantly beyond what regulators require for credit unions to be considered "well capitalized." Industrial ended the year with over $28.7 million in primary capital, $14.0 million in secondary capital, and another $6.9 million set aside for future loan losses. We are well-secured for the future, and performance is steadily improving.

We may be navigating choppy economic waters, but we remain strong in our mission to provide a safe, sound, trustworthy, and valuable hub for personal and family finances. During challenging times and periods of growth Industrial Credit Union is here to build strength in our community and to protect and empower our members.



Rick Maricle
CHAIR OF THE BOARD OF DIRECTORS



Brandon Hahnel
PRESIDENT/CEO

Serving Locals

SINCE 1941



Industrial
CREDIT UNION