

90th

ANNUAL REPORT

2023





MISSION & VALUES

MISSION

We are dedicated to the prosperity of our communities by providing personalized experiences, convenient access, and highly competitive products and services.

VALUES

COLLABORATION

We believe in the power of a diverse group of people working together to achieve a united outcome.

AUTHENTICITY

We believe in actions that demonstrate our commitment to be transparent, dependable, and genuine in everyday activities.

RESPONSIBILITY

We believe that responsibility is holding ourselves accountable for our decisions, actions and their outcomes.

INTEGRITY

We believe in acting with honesty, trust, and respect which are at the forefront of our daily engagement.



CHIEF EXECUTIVE OFFICER REPORT



SHAWN GILFEDDER
CEO

SERVING OUR COMMUNITY FOR 90 YEARS

Kitsap Credit Union's commitment to the stability and growth of our organization has always been anchored in our dedication to positively impact our members' lives. We continue to strive to be a best-in-class organization, recognizing and appreciating your loyalty and trust.

This year, we celebrate 90 years since our founding. In 1934, our country was in the depths of the Great Depression and unemployment was close to 25%. Radio programs, live music, dance marathons, and cinema were the most significant forms of entertainment. As the United States entered World War II, the founding of our credit union with the Bremerton Metals Trades Union amidst the need to build warships was an essential part of the Kitsap community.

Back then, you could buy a new car for \$500, gold traded for \$35 an ounce, and many families were suffering to put food on the table. President Roosevelt's signing of the Federal Credit Union Act on June 26, 1934 was significant in that it recognized what a credit union can do for its community. It was the catalyst for creating our credit union to benefit workers at the shipyard, and eventually the community at large.

Today, our over 160,000 members are the driving factor in all we do at Kitsap Credit Union; our purpose is to serve your financial well-being and provide resources to deliver on our value proposition of



powering your life's opportunities. Our mission is to offer personalized and convenient services at highly competitive prices, and the growth of our membership is a testament to the value we are creating for you. Over the past year, we have paid \$27 million in dividends to our members.

2023 OVERALL PERFORMANCE

Our emphasis on growth and fervent responsibility to serve our members resulted in Kitsap Credit Union reaching towards \$2.4 billion in assets in 2023. Total loans to members and total deposits were over \$1.8 billion and \$2 billion, respectively.

HELPING OUR COMMUNITY THRIVE

In our 90 years of service, Kitsap Credit Union has maintained a "People Helping People" philosophy. We support this by providing our community with opportunities to flourish, prosper, and connect with our mission.

Thanks to your dedication, Kitsap Credit Union continues to be an organization our community can rely on. As a result of your loyalty and continued investment in our organization, in 2023, Kitsap Credit Union and our KCUCares Foundation provided sponsorships for 76 community events. These activities

focused on helping those experiencing homelessness or hunger. We donated \$720,000 in philanthropy and support to our communities throughout Jefferson, Kitsap, Mason, and Pierce Counties.

With rising food prices, food insecurity is a





CHIEF EXECUTIVE OFFICER REPORT

SHAWN GILFEDDER
CEO

CONTINUED

growing challenge for families during these times. Kitsap Credit Union was proud to partner with the largest food drive in the state, Home Team Harvest. Our sponsorship and donations from staff and our members helped produce 23 million meals for families in our communities.

Our Kitsap Credit Union team makes valuable contributions on their own to our community; we are proud to share that in 2023, our staff volunteered hundreds of hours to help those in need in the areas we serve.

Kitsap Credit Union has made it our purpose to improve the lives of our members and our community for the past 90 years. We are grateful for your partnership in this calling to help those in need.

EDUCATION IS THE KEY TO FINANCIAL HEALTH IN OUR COMMUNITIES

In 2023, Kitsap Credit Union and the KCUCares Foundation continued our efforts to work with people in our community who lack the fundamentals to help them make financial decisions. As we have learned after many years of developing and providing our free financial wellness programs, education is a key to success when it comes to being financially healthy.

Last year, we again increased the number of schools that received our financial wellness programs. We now provide free financial education to 21 schools across our 4 counties and in partnership with 34 educators. Our learning modules reached 2,350 students who

completed over 13,000 online modules, with 8,600 hours of learning. In addition to our high school programs, we had 325,000 visits to our free online adult education curriculum on our Kitsap Credit Union website.

Our programs establish a foundation for these students and adults to build upon to support themselves and share with their families. This type of education can create monumental changes in developing financial wellness in

our community and growing a healthy local economy.

The most fundamental reason we believe financial wellness education is

a priority is that financially healthy individuals contribute to economic stability. People who have control over their finances, and are not stressed by their finances, are likely to make sound financial decisions and contribute positively to the local economy. In addition, providing resources and education to residents to help manage finances effectively reduces poverty and bridges the wealth gap within a community.

At Kitsap Credit Union, we believe that goals can be achieved when working collectively. People coming together to learn and support each other in attaining financial goals creates a stronger community and sense of belonging. Prioritizing financial wellness helps create healthier, more resilient, and prosperous communities where individuals can thrive and fulfill their potential. We are hopeful the legislative assembly in Washington state continues to support financial education in our schools.

“We now provide free financial education to 21 schools across our four counties...”

CHIEF EXECUTIVE OFFICER REPORT



SHAWN GILFEDDER
CEO

CONTINUED

DIVERSITY, EQUITY, INCLUSION, AND BELONGING JOURNEY

2023 was a very productive year as our Diversity, Equity, Inclusion, and Belonging (DEIB) efforts continued to work towards the ongoing evolution of our culture, one of which consistently provides a safe space for staff and fosters a true sense of belonging.

This past year, based on employee focus groups, our DEIB Committee developed initiatives to nurture our Kitsap Credit Union team member connections as well as support our community partners.

Throughout the year, the committee implemented initiatives such as the development of the Kitsap Credit Union sponsorship program for BIPOC (Black, Indigenous, People of Color) and female talent, connecting staff through team member interviews on different backgrounds and cultures, sharing stories of local business owners and organization leaders, and the credit union's sponsorship of two local DEIB events for the LGBTQ+ community.

As we continue our journey in 2024, our primary focus will remain the same: to

continue to nourish the feeling of belonging at Kitsap Credit Union and share this sentiment within our organization and with our entire community.

OUR MISSION IS SERVING YOU

I am proud of all the excellent work and persistence the Kitsap Credit Union team has shown and the accomplishments they achieved this past year.

Within our organization, we believe that when working together, it is possible to achieve our goals. We will remain focused and mission-driven to deliver you the best member experience and look for potential in any situation to provide you opportunities to prosper, all while supporting our community to better the lives of all.

Serving our members through the dedicated work of our employees is an incredible privilege. On behalf of our leadership team, the Board, and our entire staff, I extend a heartfelt thank you for your unwavering trust and continued membership. We know that by working together, anything is possible.



BOARD CHAIR REPORT



TONY BOLANDER

Board Chair

As your board of directors, our role is to advocate for the Kitsap Credit Union membership as we partner with management on Kitsap Credit Union's vision, mission, strategy, and planning. We work towards prioritizing your needs as we oversee and provide insight into strategic planning, governance, and capital planning.

2023 marked the end of our last five-year strategic plan, and we are proud of the financial growth, cultural growth, and operational effectiveness Kitsap Credit Union has accomplished during this time. We also share the excitement of our management team as we cast our vision for the next five years. Our new vision, to be a thriving, best-in-class organization, leading with its culture and commitment to servicing our community, represents the type of organization Kitsap Credit Union will be for its members and the areas they serve.

The Kitsap Credit Union Board of Directors would like to thank our CEO, management, and staff for their admirable work, delivering another successful year despite economic challenges. Kitsap Credit Union management navigated rising interest rates while implementing new government controls such as CECL, a new accounting methodology issued by the Financial Accounting Standards Board. Despite these obstacles, the organization was able to meet its target goals in employee engagement, operational efficiency, and loan growth while continuing to

invest in its culture of diversity, equity, inclusion, and belonging.

We are pleased to announce, as shown in our 2023 financial statements and final results, that Kitsap Credit Union continues to be well capitalized and assets are of high quality.

As a team, we continued our commitment to support the communities we serve through the KCUCares Foundation. The foundation's focus on combating food insecurities for families in our area drove them to create two events in 2023 that raised \$150,000 for local food banks and backpack feeding programs. In addition, Kitsap Credit Union collaborated with King5's Home Team Harvest and played a significant role in achieving the campaign's goal of donating 23 million meals to help families in Washington who are in need. The KCUCares Foundation's financial wellness program delivered free financial wellness education to twenty-one high schools, and its online curriculum expanded its reach to include other members of our community.

As we look forward, we will do so under a new five-year strategic plan focused on culture, growth, and operational effectiveness. Shawn, his management team, and staff have the full support of the Kitsap Credit Union Board as they pursue a new set of strategic initiatives and goals over the next five years.

Finally, we thank you, our membership, for supporting your member-owned financial cooperative and trusting Kitsap Credit Union to serve your financial needs.

BOARD OF DIRECTORS



**TONY
BOLANDER**
CHAIR



**WENDIE
JOHNSON**
VICE CHAIR

Finance/ALCO Committee
Compensation Committee
Mergers & Acquisitions Committee



**VICKI
GAMBRELL**
SECRETARY

Governance Committee
Nominating Sub-Committee



**JIM
ROWSON**
TREASURER

Finance/ALCO Committee
Compensation Committee
Strategic Planning Committee



**MIKE
GOONEWARDENE**
DIRECTOR

Strategic Planning Committee
Mergers & Acquisitions Committee



**KAREN
HOLMES**
DIRECTOR

Strategic Planning Committee
Finance/ALCO Committee
Governance Committee
Nominating Sub-Committee



**SUSAN
BAKER**
DIRECTOR

Strategic Planning Committee
Governance Committee
Nominating Sub-Committee
Mergers & Acquisitions Committee



**SIOBHAN
CANTY**
DIRECTOR

Governance Committee
Compensation Committee
Nominating Sub-Committee



CHIEF FINANCIAL OFFICER REPORT

TREVOR STUART

SVP/Chief Financial Officer

Kitsap Credit Union remains steadfast in its commitment to serving members and facilitating their financial success, prioritizing their needs above all else. Our foundation for member service lies in our financial strength, and we are pleased to present our financial performance for 2023.

The economic landscape of 2023 was marked by turbulence, characterized by persistent inflation despite Federal Reserve interventions, escalating interest rates in the initial months, and a resilient employment market that maintained historically low unemployment rates. By the time the Federal Reserve paused its rate hikes aimed at controlling inflation, market rates had surged by 5.25%.

In response, Kitsap Credit Union adjusted pricing for most loan products, aiming to provide competitive loans while effectively managing financial risk. These rate increases extended beyond loan products, leading to the introduction of high-rate deposit products and efforts to maintain competitiveness across all product categories, albeit leading to a compression of our net interest margin.

One additional item worth noting related to loans is that effective October 1, 2023, Kitsap Credit Union implemented a required new methodology for estimating allowances for credit losses called CECL which stands for "current expected credit losses". This new standard mandates that companies include forward-looking, or predictive, information in calculations of loan loss reserves. The impact of adoption was an increase in the allowance for credit losses. It is important to note that this was an accounting change and does not necessarily reflect a change in the overall risk profile of Kitsap Credit Union's loan portfolio.

Faced with liquidity compression, Kitsap Credit Union opted to secure short-term borrowings through existing lines at the Federal Home Loan Bank and the Federal Reserve, utilizing

the Bank Term Funding Program—a common strategy among credit unions and financial institutions facing transient liquidity challenges. With deposit growth strengthening in the latter part of the year, we were able to reduce reliance on these borrowings, scaling back our position compared to earlier in the year. As we progress through 2024, conditions permitting, we anticipate repaying a significant portion of these borrowings.

Our assets experienced a notable 5% increase in 2023, bolstered by robust lending activity and strong growth in deposits in the second half of the year, resulting in our cooperative reaching a total of \$2.369 billion in assets by year-end. This achievement underscores our growth-oriented approach and unwavering commitment to serving our members.

Despite the challenges posed by these complicated conditions, Kitsap Credit Union managed to maintain positive results. While our earnings for the period were lower than those of 2022, they still amounted to a net income of \$9.1 million.

Closing the year, our capital ratio stood at 8.4%, surpassing the well-capitalized threshold set by our regulator, the National Credit Union Administration, by 1.4 percentage points.

As we navigate through the remainder of 2024, the presence of economic uncertainty persists, with the ongoing effects of inflation and elevated market rates poised to affect our members. In response, Kitsap Credit Union remains steadfast in our commitment to safeguarding our financial well-being while actively seeking opportunities to assist our membership.

We are deeply grateful for the trust and confidence which you, our members, place in our credit union and dedicated staff. Your resilience and unwavering support enable us to fulfill our mission of meeting your financial needs. Thank you.

CHIEF LENDING OFFICER REPORT



TONY BULLERI

SVP/Chief Lending Officer

At Kitsap Credit Union, we are dedicated to delivering strategic products that are easily accessible to our individual and small business members to help them financially thrive.

LOAN GROWTH AND PROCESS ENHANCEMENTS

We are happy to report that in 2023, our loan portfolio grew 12.75% to just over \$1.8 billion. The main drivers in this increase came from double-digit solid growth in Visa and consumer auto loans. In addition to these loans, Kitsap Credit Union provided our members with real estate, commercial, consumer, and small business loans. Historical increases in interest rates and low inventory levels constrained commercial and mortgage lending. However, our credit union persisted through these obstacles and distributed over 20,000 loans totaling \$831 million.

As an organization, we consistently seek ways to improve our members' experience. Piggybacking on the previous lending digital enhancements, in 2023 we made additional investments in technology to improve the speed and quality of the loan experience at Kitsap Credit Union. Last year, we were also happy to offer our members free external payments as a new feature to our online loan payment options.

COMMITTED TO COMMUNITY PROSPERITY

Kitsap Credit Union's commitment to servicing our community is unwavering. In 2023, we partnered with the Washington Small Business Administration, the Kitsap Small Business Development Center, and local community agencies to serve the unmet needs of low and moderate-income communities, women, minorities, and small businesses.

POINT-OF-SALE LENDING

Last year, we expanded our point-of-sale network, where our members can now finance their auto or RV purchases through a network of over 100 dealer partnerships throughout the State of Washington. In 2023, we financed over 12,000 autos, RVs, and solar panels, totaling \$456 million through our point-of-sale partnerships.

As we grow our point-of-sale network, our members benefit from more accessible and convenient ways to do business with our credit union.

At Kitsap Credit Union, we remain committed to providing our members with loans that are competitive and conveniently accessible, allowing them to prosper and experience financial growth.





SUPERVISORY COMMITTEE REPORT

PAUL SHINNERS

Chair

As your Supervisory Committee, we would like to assure you that we are committed to our role of serving our valued members and doing our part to contribute to a thriving credit union for several years to come. Our Committee consists of member representatives who focus on the integrity of Kitsap Credit Union's financial reporting, compliance with federal and state regulations, and protection of our members' assets. The Committee accomplishes these objectives by collaborating with and monitoring Kitsap Credit Union's Internal Audit Department to ensure the completion of more than 100 audits each year to ensure Board policies are followed, to monitor and mitigate operational risk, and enhance the financial integrity of Kitsap Credit Union and the assets of its valued members. The Committee also collaborates with the Internal Audit Department to ensure completion of the annual state and federal regulatory examinations and third-party audits of Kitsap Credit Union's financial statements and information technology systems.

ANNUAL AUDITS AND REGULATORY EXAMINATIONS

The Supervisory Committee used the services of Moss Adams, LLP to complete the Annual Financial Audit for the fiscal year 2023. We are pleased to report another clean audit report stating no material concerns were found with the financial statements, and they were presented fairly and in conformity with the Generally Accepted Accounting Principles of the United States.

The Supervisory Committee monitored Rival Data Security as they completed and provided the Annual Information Technology Audit results. Additionally, the Committee ensured

the completion and close of the annual regulatory examinations of the National Credit Union Administration and the Washington State Department of Financial Institutions. We are happy to report that 2023 was another year Kitsap Credit Union received a favorable rating, reflecting that Kitsap Credit Union's capital is satisfactory relative to its current and prospective risk profile.

RISK MITIGATION AND AUDIT PLAN

One of the most extensive works of the Supervisory Committee is its partnership with the Internal Audit Director to review, modify, and approve the annual Kitsap Credit Union internal risk assessment and audit plan. The collaboration consisted of monthly reviews of the Internal Audit Department's work on more than 100 audits throughout Kitsap Credit Union departments and service centers. In addition, the Committee oversaw the remediation and closure of the findings applicable to those audits.

ENHANCING OUR CULTURE

Enhancing the Kitsap Credit Union culture with a focus on Diversity, Equity, Inclusivity, and Belonging (DEIB) remains a top priority for the organization. Throughout 2023, the Supervisory Committee participated in DEIB workshops, educational seminars, and events to further develop its role in enriching the Kitsap Credit Union culture.

BEST PRACTICES AND CONSISTENT DELIVERABLES

In 2023, the Supervisory Committee completed the development of The Supervisory Committee Handbook. The manual contains guiding policies and best practices to ensure

SUPERVISORY COMMITTEE REPORT



PAUL SHINNERS

Chair

CONTINUED

the consistent performance of the Supervisory Committee's duties and responsibilities.

In collaboration with a consultant, the Committee created the manual outlining practices to assist onboarding and education. It is also designed to inform committee members of our Supervisory Committee work progress and completion.

WELCOME NEW SUPERVISORY COMMITTEE MEMBERS

The Supervisory Committee initiated recruiting efforts to fill vacant positions in July 2022. After extensive vetting and interviewing candidates, we were happy to announce the appointment of two new Supervisory Committee members

in 2023.

The qualifications of new members, Lucy Lu and Jeremy Johnson, are outstanding additions to the Supervisory Committee's already strong set of skills and backgrounds. Their appointments added value to the Supervisory Committee's ongoing service and commitment to Kitsap Credit Union and our valued members.

On behalf of your Supervisory Committee, I would like to express gratitude for your continued membership and loyalty to Kitsap Credit Union.



PAUL SHINNERS
CHAIR



SUZANNE APPLGATE
SECRETARY



LUCY LU



GERDA OOSTMAN



NORMAN NAULT



JEREMY JOHNSON



STATEMENT OF FINANCIAL CONDITION

	2022*	2023*
ASSETS		
Total Loans	1,627,447,008	1,834,577,568
Less Allowance	<u>(14,838,541)</u>	<u>(24,819,622)</u>
Net Loans	1,612,608,467	1,809,757,946
Cash and Equivalents	181,220,749	129,135,830
Investments	342,261,960	319,874,485
Property & Equipment	28,045,342	26,681,338
Other Assets	90,938,859	83,154,775
Total Assets	<u>2,255,075,377</u>	<u>2,368,604,374</u>
LIABILITIES & EQUITY		
Total Liabilities	\$239,697,763	\$237,697,382
Total Shares	1,896,512,564	2,000,491,309
Total Reserves	118,865,050	130,415,683
Total Liabilities & Equity	<u>2,255,075,377</u>	<u>2,368,604,374</u>

*For the Twelve Months Ending December 31
(unaudited)

STATEMENT OF INCOME & EXPENSE



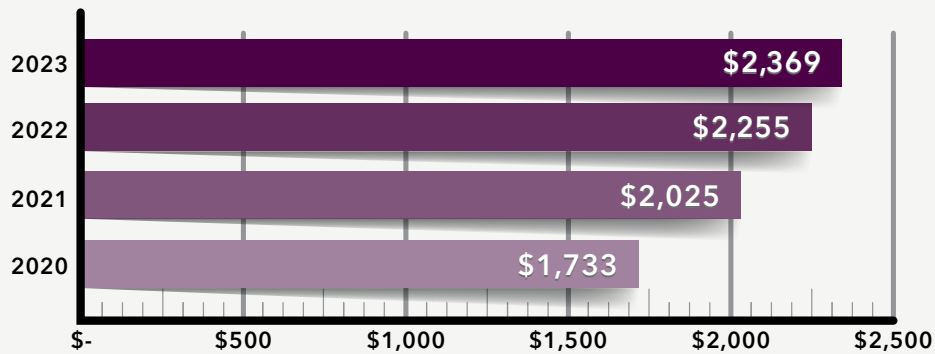
	2022*	2023*
INTEREST INCOME		
Interest Income on Loans	68,862,382	101,698,126
Interest Income on Investments	8,474,686	9,924,942
	77,337,068	111,623,068
INTEREST EXPENSE		
Dividend Expense	5,728,623	26,950,257
Interest on Borrowed Funds	1,605,723	9,699,147
	7,334,346	36,649,404
NET INTEREST INCOME	70,002,722	74,973,664
Provision Loan Loss	10,451,272	19,158,112
NET INTEREST INCOME AFTER PROVISION EXPENSE	59,551,450	55,815,552
NON-INTEREST INCOME		
Fees and Other Charges	9,466,737	10,127,161
Other Non-Interest Income	14,583,507	14,276,300
Gain(Loss) Sales of Assets	3,121,481	402,031
	27,171,725	24,805,492
NON-INTEREST EXPENSES		
Compensation & Benefits	29,079,138	33,222,886
Office Occupancy	3,332,547	3,390,246
Office Operations	17,115,845	17,932,087
Other Non-Interest Expense	15,601,451	16,993,084
	65,128,981	71,538,303
NET INCOME	21,594,194	9,082,741

*For the Twelve Months Ending December 31
(unaudited)

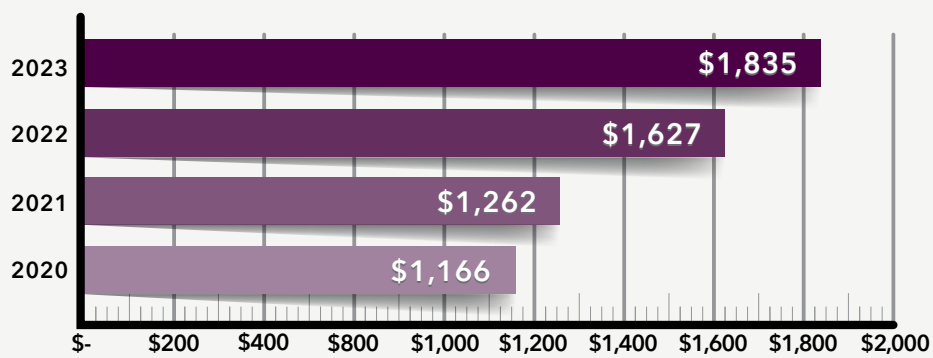


BY THE NUMBERS

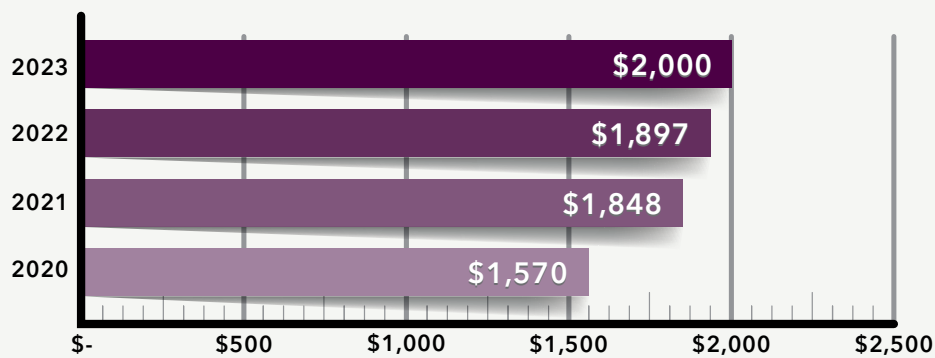
ASSETS IN MILLIONS



LOANS IN MILLIONS



SHARES IN MILLIONS





KITSAP
CREDIT UNION

Together it's possible.