

**YOU BELONG  
WHERE THE FUTURE  
SHINES BRIGHT.**



89<sup>th</sup>

ANNUAL REPORT

2022



**KITSAP**  
CREDIT UNION

POWERING *Life's* OPPORTUNITIES



# MISSION & VALUES

## MISSION

*Kitsap Credit Union is 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

“Cloudy with a chance of everything” best explains how 2022 presented itself. Our recent economy reminded me of the weather in the Pacific Northwest, it can change dramatically in a short period of time. The steepening increases in inflation at the start of the year, followed by the same in short-term interest rates, war in Ukraine, and the expected uncertainty of the job market that did not materialize, all factored in the market’s volatility and the subjectivity of our markets.

What did remain constant was Kitsap Credit Union’s commitment to our over 150,000 members. You are the core of this organization. As a member-owned cooperative, our job is to serve your financial needs. We understand the impact you felt during this time and may still be feeling. I want you to know for each decision we make as an organization, we factor in how it affects our membership and recognize that we can always do a better job than yesterday. Our commitment to you keeps our mindset positive and drives us to achieve greater goals. Our members are our purpose; it is why we are here - to help make your lives and the community a better place for all.

### 2022 OVERALL PERFORMANCE

Kitsap Credit Union’s team worked diligently through the challenges of the marketplace and delivered exceptional operational and financial performances.

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**“Cloudy with a chance of everything” best explains how 2022 presented itself.**

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Over the past few years, our team has developed a growth mindset and created momentum that continues to move our credit union in a positive trajectory. It is because of this ambition I am excited to share Kitsap Credit Union reached \$2.26 billion in assets in 2022 and reported Net Income of \$21.6 million.

With new streamlined digital processes providing more convenience for members and the development of new products and services, our lending’s strong growth was a significant factor in supporting our progress. I am proud to announce that these

lending improvements earned Kitsap Credit Union the Credit Union National Association (CUNA) 2022 Excellence in Lending Award.

### CONTINUING TO SUPPORT OUR NEIGHBORS IN NEED

In 2022, because of your trust in our credit union and continued investments, Kitsap Credit Union increased our efforts in helping community members in the areas we serve. Last year Kitsap Credit Union and our KCUCares Foundation provided \$700,000 in philanthropy and support to our communities. These funds provided sponsorships for 84 community events throughout Jefferson, Kitsap, Mason, and Pierce Counties. In addition, we gave financial support to activities designated to help those experiencing homelessness or hunger.







# CHIEF EXECUTIVE OFFICER REPORT

**SHAWN GILFEDDER**  
CEO

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We were honored to receive the Rising Star Award and Premier Partner Award from the United Way of Pierce County for our contribution towards helping raise 15,000 people out of poverty, one family at a time.

I also want to recognize our team members who made contributions of their own and volunteered a total of 2,444 hours to help our neighbors in need. For 89 years, Kitsap Credit Union has worked to improve the lives of our members and our community, and we will keep that tradition alive for years to come.

## **BUILDING THE FOUNDATION OF FINANCIAL HEALTH IN OUR COMMUNITIES**

Last year, Kitsap Credit Union and the KCUCares Foundation expanded our efforts to improve the financial well-being of those who live and work in our communities. In 2022, we increased the number of schools that received our Financial Wellness Program at no cost to the schools or their students. We now provide free financial education to 20 schools in South Puget Sound. Our learning modules reached 3,781 students who completed 21,265 online learning modules, with 10,633 hours of learning. We are happy to announce that these students' pre and post-test scores improved by 43%.

In addition to our high school programs, we had 277,700 users of our online adult education program, provided free through the Kitsap Credit Union website. Establishing this foundation of financial knowledge is the first step in developing financial wellness in our community and a healthy local economy.

## **SOCIAL RESPONSIBILITY - DIVERSITY, EQUITY, INCLUSION, AND BELONGING**

In 2022, Kitsap Credit Union continued to enrich our culture and create a more inclusive organization where everyone has a sense of belonging through our Diversity, Equity, Inclusion, and Belonging (DEIB) efforts.

A DEIB Committee was chartered and included employees from various parts of the organization. Leading the group of 11 staff members is Dezirae Bates, Branch Manager, as Chair of the DEIB Committee, and Tony Bulleri, Senior Vice President/Chief Lending Officer, as Executive Sponsor of the Committee.

The committee members reflect the diverse cultures within our dynamic Kitsap Credit Union staff. These members bring their unique experiences to the DEIB conversation and act as advocates for their team members, ensuring our entire staff has a voice in our journey.

As we look forward to this new year, we will engage the entire organization and drive positive social impact in three areas: The Workplace, The Workforce, and How We Serve and Engage The Community and our Members. Enriching our workplace culture will enhance the feeling of belonging throughout the organization, with our goal to then pass that feeling on to members and the community in our everyday activities.

## **INCREASING OUR REACH TO THE COMMUNITY**

In January 2022, we proudly announced that our credit union had been designated as a Community Development Financial Institution



# CHIEF EXECUTIVE OFFICER REPORT



**SHAWN GILFEDDER**  
CEO

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(CDFI). The U.S. Department of the Treasury awards the CDFI designation to institutions that go out of their way to be inclusive of all citizens, including those with economic difficulties. The CDFI status has allowed us the opportunity to apply for federal funding to further provide financial services to those community members in economic need.

I am thrilled to announce that Kitsap Credit Union was awarded the 2023 grant. This grant will allow Kitsap Credit Union to expand services to underserved populations and add services for entrepreneurship and the indigenous population. Our goals through these efforts are to help financially educate our community and, in turn, promote a healthier local economy.

## **SPREADING POSITIVITY AND KINDNESS**

As we embarked on the new year, we are reminded of two important things: if we want positive change in the world, at home, or work, we must start with ourselves; and it is essential to recognize how we make others feel.

These two concepts are at the heart of our Kitsap Credit Union team. In 2023, we strive to channel positivity in everything we do for the organization, for each other, and our members. We hope to inspire others to do

the same. We ask you to join us in spreading kindness and the spirit of positivity. As the most important part of our organization, our member endorsement in creating a positive, encouraging environment is an essential part of our goal to make our communities a better place for all.

I am proud of all the excellent work and dedication the Kitsap Credit Union team has shown to this organization and the accomplishments they achieved this past year to better serve our members.

In 2023, our goal is to maintain the operational and financial performance we developed last year and improve our service to the community. We are here to provide you with the personalized and convenient experience you deserve and expect as a member of Kitsap Credit Union.

I want to thank you for your membership and your ongoing trust and support during this time of change. With your loyalty, we can continue to create a positive momentum within our community.

Kitsap Credit Union will remain mission-driven and focused on providing you with the best member experiences while continuing to support our community, offering opportunities for all to prosper.





# BOARD CHAIR REPORT

## TONY BOLANDER

Board Chair

As your Board of Directors, our primary responsibility is representing the members of Kitsap Credit Union. We are your advocates.

The Board provides oversight and insight as we partner with KCU management in vital activities such as strategic planning, governance, and capital planning. Throughout the year we look through the lens of our vision and mission to ensure KCU initiatives achieve our desired goals.

The KCU Board of Directors would like to thank our CEO, management, and staff for their exceptional work navigating a year filled with turbulent conditions in our industry. KCU was steadfast and resilient as 2022 brought fluctuating interest rates, rising inflation, and unexpected workforce limitations. Even through economic uncertainty, KCU growth remains strong.

We are proud to share our 2022 financial statements and final results. KCU continues to be well capitalized and assets are of high quality.

KCU also invested more time and resources in our talented staff, focusing on individual development while enhancing our organization's culture in the areas of diversity, equity, inclusion, and belonging.

As a team, we continue to find new ways to interact with the communities we serve by expanding the reach and mission of the KCUCares Foundation. I was personally thrilled to see the foundation contribute over \$160,000 at our annual Send Hunger Packing event during the holiday season. KCU was also recognized for delivering free financial wellness education to high school students and other community members.

The Board continues to be impressed by KCU's commitment to operational excellence and ability to deliver increased efficiency in all areas the credit union serves. We are looking forward to supporting Shawn, his management team and staff as together, we build our next 5 year strategic plan with a focus on member and workforce culture, digital transformation, and improved member experience.

Finally, we would like to thank you, our membership, for trusting and supporting your member-owned financial cooperative and choosing Kitsap Credit Union to serve your financial needs and power your life's opportunities.



# BOARD OF DIRECTORS



**TONY  
BOLANDER**  
CHAIR

Nominating Sub-Committee  
Mergers & Acquisitions Task Force



**WENDIE  
JOHNSON**  
VICE CHAIR

Finance/ALCO Committee  
Compensation Committee  
Mergers & Acquisitions Task Force



**VICKI  
GAMBRELL**  
SECRETARY

Governance Committee  
Nominating Sub-Committee



**JIM  
ROWSON**  
TREASURER

Finance/ALCO Committee  
Compensation Committee  
Strategic Planning Committee



**CRAIG  
OLSON**  
DIRECTOR

Finance/ALCO Committee  
Governance Committee  
Mergers & Acquisitions Task Force



**KAREN  
HOLMES**  
DIRECTOR

Finance/ALCO Committee  
Governance Committee  
Nominating Sub-Committee



**SUSAN  
BAKER**  
DIRECTOR

Strategic Planning Committee



**SIOBHAN  
CANTY**  
DIRECTOR

Governance Committee



**MIKE  
GOONEWARDENE**  
DIRECTOR

Compensation Committee  
Strategic Planning Committee







# CHIEF FINANCIAL OFFICER REPORT

## TREVOR STUART

SVP/Chief Financial Officer

Kitsap Credit Union's capabilities to continue to meet the needs of our members and help them succeed financially is, as it always has been, our top priority. Financial strength is the foundation for serving our members, and we are proud to share that our strong financial performance in 2022 allowed us to deliver for you again this past year.

In 2022, we grew our assets by nearly 11%, due to strong lending. As a result, your cooperative closed the year at \$2.255 billion in assets. Cresting \$2.2 billion in assets is a significant milestone and a testament to Kitsap Credit Union's growth mindset and commitment to its members.

Our capital ratio ended the year at 8.4%. This is 1.4 percentage points higher than the level of capital needed to be considered well capitalized by our regulator, the National Credit Union Administration.

Last year was a tumultuous year in the marketplace, given the rapid rise in interest rates during the second half of the year, inflation not seen in 40 years, and reduced government stimulus.

To combat inflation not seen since the 1980s, the Federal Reserve aggressively raised interest rates by 4.25% throughout the year. As a result, Kitsap Credit Union raised its pricing across most of its loan products as we balanced providing competitive loans to our members while ensuring that we were diligently pricing our risk. In addition, faced

with this inflation and reduced government stimulus, member households budgets were adversely impacted.

Despite the effects of these challenging conditions, Kitsap Credit Union's results remained strong. Our earnings came in at \$21.6 million, which was \$1.7 million higher than in 2021 due to our loan growth and improved loan yields.

Our desire is to offer highly competitive products and services to our members. This year, we reduced fees on several products, provided incentives for mortgage loans and focused on offering market-leading deposit rates in several categories. Our objective is to have a balanced approach allowing us to maintain a disciplined approach to pricing our loans and deposits, to create a mutual benefit to our membership while retaining earnings for the future needs of the credit union.

As we look forward to the remainder of 2023, the risk of recession looms, and the impact of persistent inflation will continue to impact our members. Kitsap Credit Union will remain vigilant with our focus on maintaining our financial health and looking for opportunities to support our membership.

We appreciate our members' trust and confidence in our credit union and our staff to be resilient and meet their financial needs.





# CHIEF LENDING OFFICER REPORT



## **TONY BULLERI**

SVP/Chief Lending Officer

At Kitsap Credit Union, we are committed to the financial growth and prosperity of our members and community. We are dedicated to delivering strategic products and access to our individual and small business members to help them thrive while providing excellent member service.

### **LOAN GROWTH AND INCREASED OPPORTUNITIES FOR MEMBERS**

We are proud to report that in 2022 Kitsap Credit Union powered over 22,000 opportunities for our members. Our credit union provided \$826 million in auto, real estate, consumer, commercial, and small business loans. Our loan portfolio grew 8.9% to just over \$1.6 billion.

Kitsap Credit Union made significant investments in technology and automation in support of improved member service. These investments allowed us to streamline our digital consumer loan applications and enhance our real estate loan procedures resulting in quicker, more efficient, and more accurate processes.

For our commercial and small business members, the credit union implemented a digital loan solution program that provides 24/7 access to application submission, secure document transfer, and communication with your loan officer.

Kitsap Credit Union continues to design loan products to address the unmet needs of our local communities. In 2022 the line of home loan products designed to encourage and foster first-time homeownership was one

example of a successful program launched to help members fulfill their dreams.

### **LOW-COST MORTGAGES FOR FIRST-TIME HOMEBUYERS**

Kitsap Credit Union continues to seek ways to help make purchasing a home easier for our members. In 2022, we implemented several down payment assistance programs for low-to-moderate-income buyers.

The credit union introduced a suite of home loan products designed to make homeownership more attainable, including Zero Down Payment Loans and 3% Down Payment Loans. We also launched a Pledge Loan, which allows family members to pledge funds for the down payment on their loved one's home. After seven years, or when the loan is paid down to a certain threshold, the pledge is returned to those who provided the funds. These options offer flexibility to our members to choose the mortgage and repayment options that fit their financial needs and help keep monthly mortgage payments affordable.

We also provided a new educational offering to members through an online homebuying workshop. The course provides tips to help homebuyers make their offers more attractive and competitive to sellers while also giving tools designed to help guide new homebuyers through the lending process.

### **FOCUS ON SMALL BUSINESS**

Kitsap Credit Union expanded its small business program to better serve our small





# CHIEF FINANCIAL OFFICER REPORT

## TONY BULLERI

SVP/Chief Lending Officer

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businesses, which are the heart of our communities. The expanded program includes no-fee deposit accounts, streamlined small business lending, merchant service credit card processing, remote deposit solution, and cash management services.

Our dedicated Small Business team has partnered with the Small Business Administration and the Kitsap Small Business Development Center to further understand the needs of our local businesses and provide them with assistance and tools to grow and prosper.

### POINT-OF-SALE LENDING

In addition to providing loans through our branch network, by phone, and digitally through our website, Kitsap Credit Union expanded its point-of-sale lending network by

originating loans through additional auto and RV dealerships and residential solar providers. In 2022 we financed over 13,000 autos, RVs, and solar panels totaling \$484 million through our point-of-sale partnerships.

To provide fast, efficient, and accessible ways to finance major purchases, our point-of-sale network presents our members with the flexibility of obtaining loans at their convenience without requiring a branch visit.

Powering Life's Opportunities is not just a tagline for us. At Kitsap Credit Union, it is part of our DNA. We remain committed to providing loans to help all members of our community build strong credit, establish financial stability, and achieve their dreams, all through an organization where they belong.



# SUPERVISORY COMMITTEE REPORT



## PAUL SHINNERS

Chair

Your Supervisory Committee consists of member-representatives who believe strongly in the value of the cooperative philosophy on which the credit union movement was found, and specifically the value Kitsap Credit Union brings to its 150,000 member-owners. We're honored to serve you.

The role of the Supervisory Committee is to collaborate with Kitsap Credit Union's Internal Audit Department to monitor and provide oversight of the credit union's financial reporting, regulatory compliance, and internal controls designed to safeguard the credit union and its members' assets.

Furthermore, the committee is responsible for assisting the credit union in minimizing risk exposure and the adverse effects of risk by monitoring and reporting on state and national regulatory examinations and third-party audits of financial reporting, information technology systems, and other areas of credit union risk.

The committee also works with the Board of Directors and the credit union's departments to ensure the Board's policies and procedures are followed. They also focus on the growth of our business and benefitting the financial well-being of our members.

### ANNUAL FINANCIAL AUDIT

The Annual Financial Audit was completed for the fiscal year 2022 by Moss Adams, LLP. The Supervisory Committee appointed these auditors to inspect Kitsap Credit Union's

financial documents. Kitsap Credit Union again received a positive opinion 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.

Kitsap Credit Union also obtained the highest rating possible from the Internal Audit Department Quality Assessment Review. The assessment summary concluded the internal audit activity complies with the requirements of the standards or elements of the Code of Ethics, both Principles and Rules of Conduct, in all material respects. We're proud of the Internal Audit staff for their diligent work that earned this honor.

The Supervisory Committee monitored the completion and results of the Annual Information Technology Audit performed by Rival Security. In addition, the committee oversaw the annual regulatory examinations of the National Credit Union Administration and the Washington State Department of Financial Institutions. We are happy to report Kitsap Credit Union received favorable ratings.

### EFFECTIVENESS OF OVERSIGHT AND RISK MITIGATION

The Supervisory Committee collaborated with the Director of Internal Audit to review, modify, and approve the annual Kitsap Credit Union internal risk assessment and audit plan. This partnership consisted of monthly reviews of the Internal Audit Departments' work of more than 100 audits throughout







# SUPERVISORY COMMITTEE REPORT

## PAUL SHINNERS

Chair

CONTINUED

all of Kitsap Credit Union departments and service centers - quite an impressive body of work. Additionally, the committee monitored the remediation and closure of the findings applicable to those audits.

### DIVERSITY, EQUITY, INCLUSION, AND BELONGING

Kitsap Credit Union's commitment to enhancing our culture with a focus on Diversity, Equity, Inclusivity, and Belonging (DEIB) is a top priority for the organization. Throughout the year, the Supervisory Committee participated in DEIB work studies and events as a part of its dedication to enriching the Kitsap Credit Union culture.

### BEST PRACTICES AND RECRUITING EFFORTS

To maintain a consistent performance of our duties and responsibilities at a high level, the Supervisory Committee retained a consultant to assist with the development of a best

practices manual that will aid in onboarding and education for future members of the Committee. The best practices manual will contain guiding policies and processes to inform committee members as we complete our Supervisory Committee work.

The Supervisory Committee initiated recruiting efforts by vetting and interviewing qualified candidates to fill one or more vacant positions. We began our search in July 2022 and hope to conclude those efforts by adding a new committee member early in 2023.

We are certain these new members will bring added value to the Supervisory Committee's ongoing service to Kitsap Credit Union and commitment to protecting you, our valued members.

On behalf of your Supervisory Committee, I would like to express gratitude for your continued membership. It is valued.



**PAUL SHINNERS**  
CHAIR



**SUZANNE APPLGATE**  
SECRETARY



**GERDA OOSTMAN**



**NORMAN NAULT**

# STATEMENT OF FINANCIAL CONDITION



	2021*	2022*
<b>ASSETS</b>		
Total Loans	\$1,262,353,695	\$1,627,447,008
Less Allowance	<u>(10,926,206)</u>	<u>(14,838,541)</u>
Net Loans	\$1,251,427,489	\$1,612,608,467
Cash and Equivalents	256,454,342	181,220,749
Investments	445,667,676	342,261,960
Property & Equipment	30,125,586	28,045,342
Other Assets	<u>41,887,035</u>	<u>90,938,859</u>
Total Assets	<u>\$2,025,562,128</u>	<u>\$2,255,075,377</u>
<b>LIABILITIES &amp; EQUITY</b>		
Total Liabilities	\$14,685,331	\$239,697,763
Total Shares	1,848,958,989	1,896,512,564
Total Reserves	<u>161,917,808</u>	<u>118,865,050</u>
Total Liabilities & Equity	<u>\$2,025,562,128</u>	<u>\$2,255,075,377</u>

\*Year End December 31  
(unaudited)





# STATEMENT OF INCOME & EXPENSE

	2021*	2022*
<b>INTEREST INCOME</b>		
Interest Income on Loans to Members	\$58,462,494	\$68,862,382
Interest Income on Investments	<u>5,686,329</u>	<u>8,474,686</u>
	\$64,148,823	\$77,337,068
<b>INTEREST EXPENSE</b>		
Dividend Expense	\$4,972,344	\$5,728,623
Interest on Borrowed Funds	<u>253</u>	<u>1,605,723</u>
	4,972,597	7,334,346
Net Interest Income	59,176,226	70,002,722
Provision Loan Loss	<u>771,205</u>	<u>10,451,272</u>
Net Interest after PLL	\$58,405,021	\$59,551,450
<b>NON-INTEREST INCOME</b>		
Fees and Other Charges	\$8,102,519	\$9,466,737
Other Non-Interest Income	14,178,389	14,583,507
Gain(Loss) Sales of Assets	<u>386,278</u>	<u>3,121,481</u>
	\$22,667,186	\$27,171,725
<b>NON-INTEREST EXPENSES</b>		
Compensation & Benefits	\$28,290,432	\$29,079,138
Office Occupancy	3,522,679	3,332,547
Office Operations	15,759,323	17,115,845
Other Non-Interest Expense	<u>13,635,152</u>	<u>15,601,451</u>
	\$61,207,586	\$65,128,981
Net Income (Loss)	<u>\$19,864,621</u>	<u>\$21,594,194</u>

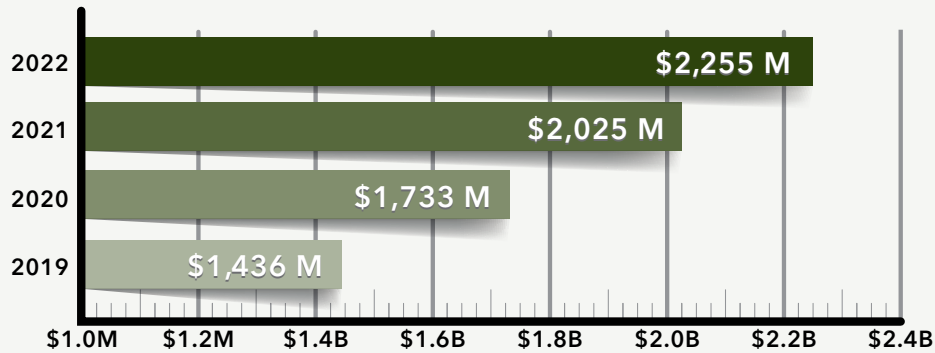
\*For the Twelve Months Ending December 31  
(unaudited)



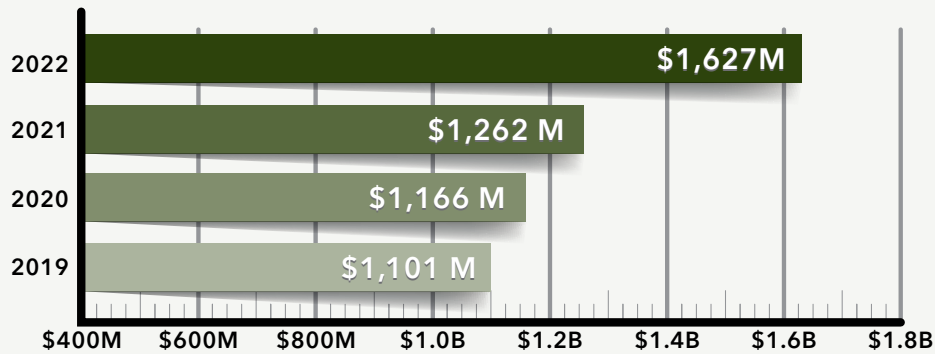




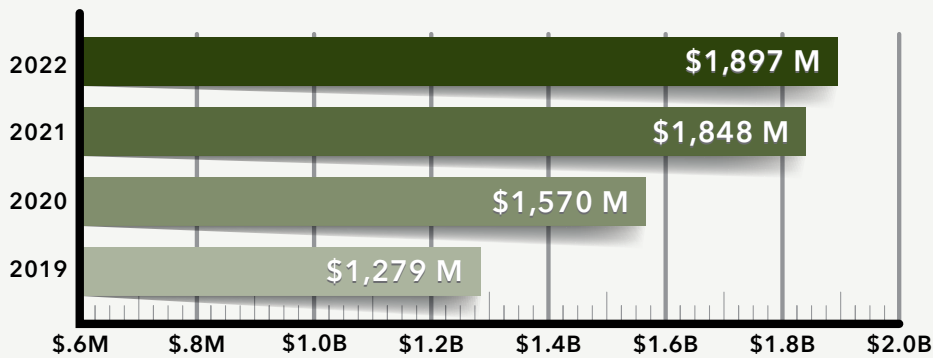
## ASSETS IN MILLIONS



## LOANS IN MILLIONS



## SHARES IN MILLIONS





POWERING *Life's* OPPORTUNITIES