Topside
Federal Credit Union



2023 Annual Report

Topside Federal Credit Union.

The view's better from here!

2023 ANNUAL REPORT

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MINUTES
2022 Annual Meeting

I. Call to Order
Chairman Woodfin Straughan called the meeting to order at 6:00 p.m. on April 24, 2023, with Executive Assistant Tammy Beach taking minutes. Vice Chairman Jim Venable, Treasurer David Martin, Secretary Lucia Perkins, Directors Jack Bell, Martha Hutzel and Jim Fedak, Associate Directors Monica Owens and Wendy Zelazny, and CEO Bruce Six, were present.

II. Invocation
The Secretary gave the invocation.

III. Pledge of Allegiance
The Chairman led the Pledge of Allegiance.

IV. Approval of the 2021 Annual Shareholders Meeting Minutes
The Shareholders commenced the meeting with a review of the minutes from the 2021 Annual Shareholders meeting. Charles Alecknavage made a motion to approve the minutes of the 2021 Annual Shareholders meeting. Gwynn Dandridge seconded the motion. The motion was put to a vote and was unanimously carried. All attendees agreed to accept the minutes of the 2021 Annual Shareholders meeting as presented.

V. Reports
The Chairman announced to those present at the meeting that the reports from the Chairman, Treasurer, Supervisory Committee, and CEO are included in the handout of the 2022 Annual Report.

VI. Member Questions

- **Question:** Will our Credit Union be dealing with the new types of currencies being discussed? If not, how will this affect the value of our funds if these currencies are not handled?
  Answer: Various forms of digital currency are circulating, but our Credit Union does not engage with cryptocurrencies. The Federal Reserve is introducing a new money transfer system, known as FedNow, which allows for instant 24/7 money transfers, not limited to our Credit Union but also to other financial institutions. While discussions about different forms of electronic money continue, we deal exclusively with recognized currencies. Rest assured, the value of your deposits in the Credit Union is securely maintained in U.S. dollars.
- **Question:** With the value of the dollar fluctuating, should I consider investing in gold, silver, or other commodities?
  Answer: The worth of a dollar remains constant in its own context, and commodities like gold hold value because society assigns it to them. We recommend sticking with the U.S. dollar to preserve your financial stability.
- **Question:** How does the Credit Union plan to attract more investments from its members?
  Answer: We aim to increase our dividend rates, which have been low for an extended period. Our financial model relies on using member deposits for loans, generating income from the interest rate difference. This income supports our operations and allows us to offer services like digital banking. With the recent rise in loan rates, we hope to adjust dividend rates accordingly. However, it's not just about financial returns; we also invest heavily in security and provide valuable services, which are crucial for our members. Despite the challenges, we're committed to offering competitive loan rates and exploring innovative solutions to serve our members better.
- **Member Feedback:** A member expressed gratitude for the Credit Union's robust security systems that protected her from a scam attempt, highlighting the importance of direct communication with the Credit Union in suspicious circumstances.
  Credit Union Response: Security is a top priority, and we're glad our systems and protocols served their purpose. We remind our members to remain vigilant and contact us directly if they encounter any suspicious requests for information. Our MyCardRules app is another tool at your disposal for

managing and monitoring your card's security efficiently.

- **Question:** What is the significance of the six-digit code?
  Answer: The six-digit code is part of our two-factor authentication process, enhancing the security of your home banking account, especially when logging in from a new device. It's a critical security measure, but also a potential target for scammers pretending to be us. Remember, we'll never ask for this code over the phone. Registering your device can streamline your login process, making it safer and more convenient.
- **Upcoming Changes:** Looking ahead, the Credit Union does not foresee any major changes for the next year. Our focus remains on providing excellent service through our existing branches, enhancing communication via chat, expanding ATM access, increasing business lending, and exploring secure money transfer options beyond Zelle due to its fraud susceptibility.

VII. Election Results

The CEO declared Martha Hutzel and Barry Mohle as the elected members of the Board of Directors from the list of nominees.

VIII. Adjournment of Meeting

The Chairman of the Board initiated the closure of the 2022 Annual Shareholders meeting. Charles Alecknavage proposed, and Sarah Imler supported, a motion to conclude the 2022 Annual Shareholders meeting. The motion received unanimous approval. The meeting officially ended at 6:33 p.m.

_____ _____

Chairperson David Martin Secretary Lucia Perkins

REPORT
Supervisory Committee

The year 2023 saw a return to normal meeting and audit schedules as the health precautions related to the pandemic abated. The Supervisory Committee reviews audits performed by our Internal and External Auditors, and reviews Loan Exception Reports during our monthly meetings. The Committee also is the oversight for Board of Director actions. We also review Member Opinion Survey which reflects how the Members feel about their Credit Union experience. Member survey responses by management are included in assessing the responsiveness of Topside to the membership.

We attribute the success and soundness of the Credit Union to the efforts and dedication of the managers, staff, and volunteers. I would like to thank the members of the Supervisory Committee: Robert Weber, Secretary, Willie Shelton, Member, and Board of Director Representative, Martha Hutzel for their hard work and commitment in 2023.

If you would like to know more about the duties of the Supervisory Committee or have an interest in volunteering, please contact the Credit Union or visit our website for more information.

Jim Criss
Chairperson Supervisory Committee

BOARD OF DIRECTORS

David Martin, Chairperson

Barry Mohle, Vice Chairperson
(resigned October '23)

Jim Venable, Director
(Vice Chairperson October '23 - present)

Jack Bell, Treasurer
(resigned October '23)

Woodfin Straughan, Emeritus Director
(Treasurer October '23 - present)

Lucia Perkins, Secretary

Jim Fedak, Director

Martha Hutzel, Director

Wendy Zelazny, Associate Director
(Director October '23 - present)

Monica Owens, Associate Director

EXECUTIVE TEAM

Bruce Six, Chief Executive Officer

James Bangert, Chief Financial Officer

Dora Vogel, Chief Execution Officer

Kathy McCarthy, Chief Lending Officer

Scott Varga, Chief Information Officer

Lisa Williams, Chief Marketing Officer

SUPERVISORY COMMITTEE

Jim Criss, Chairperson
(resigned February '24)

Willie Shelton, Member
(Chairperson March '24 - present)

Robert Weber, Secretary

Harold Van Dusen, Member
(March '24 - present)

Patrick Janis, Member
(March '24 - present)

Martha Hutzel, Board Representative

REPORT
Treasurer

Topside Federal Credit Union's assets decreased significantly in 2023 as Shares, which had been artificially inflated due to government payments, continued to roll off. Shares decreased from $450 million in 2022 to $433 million in 2023; a change of -3.73%. Loan demand remained strong during the year. Net Loans grew from $292 million to $297 million, a 1.8% increase. Much of the loan growth was in Mortgage Loans, New and Used Auto Loans, and Visa Loans. Additionally, the Credit Union was able to increase the loan to share ratio from 65.27% to 69.60% during the year. This strong loan growth, combined with significantly higher interest rates in the market, helped to provide strong profitability for the Credit Union. This profitability, in turn, enables the Credit Union to continue offering attractive products and services to our members at competitive prices.

The Net Worth ratio, which is a measurement of capital to assets, increased from 6.93% to 7.30% at year end. The strong profitability, and controlled asset growth, are the main components of this key ratio. Your Credit Union is rated as "Well Capitalized" by the National Credit Union Administration. The goal of the Credit Union is to remain "Well Capitalized" going forward.

Net Income for the year was $2.6 million compared to $1.5 million during 2022. The strong loan growth and increasing interest rates contributed significantly to the Net Income, but along with loan growth comes a significant increase in the Provision for Loan Losses expense, as estimated future losses must be recognized at the time the loan is made. Other Non-Interest expenses primarily remained at or below budget.

The Board of Directors and management continue to take a proactive and fiscally conservative approach to managing the financial well-being of the Credit Union, so that we can continue to offer a variety of attractive and competitive products and services to our Members.

Woodfin Straughan
Treasurer

REPORT
Bruce Six, CEO

This past year marked several notable successes for Topside. Earnings were strong with returns on Topside assets equaling 0.51%. This is the highest Return of Assets (ROA) since 2007. Additionally, as a Credit Union, our primary aim is to provide loans to members at affordable interest rates. We measure loans in comparison to deposits as a "Loan-to-Share" ratio. Topside finished the year with a Loan-to-Share ratio of 69.6%. This is the highest Loan-to-share ratio in over 20 years. Capital is our safety net, and your Credit Union continues to notch a "well capitalized" ratio even as growth and regulatory requirements have made maintaining capital challenging. Topside is committed to further enhancing the capital ratio over the next few years.

Each year has opportunities and challenges:

2023 Opportunities:

Topside has members in nearly every state in the country. That said, we recognize that our core membership is in this very important, centrally located position in Virginia. The past few years have significantly increased the number of workers who can telecommute and work virtually. Increased telecommuting has significantly increased the already appealing prospect of living in the King George, Northern Neck, and Fredericksburg areas. All this change is a positive for Topside as more people can join and enjoy the products and services Topside provides.

Your Credit Union continued to enhance our already robust technology offerings by launching Artificial Intelligence (AI) in both the voice and chat communication channels. AI is impacting everyone's life, and Topside has partnered with some of the leading providers in our industry to expand member access to account and transaction information 24/7. Topside has also started using AI for lending operations. Any changes in lending, by their very nature, is a slow process. That said, the current AI integration is being heavily monitored by staff but promises to both speed loan application decisioning and allow for inclusion of more data points in future loan approvals. The more data Topside can include in loan decisions, the more chances potential borrowers with little credit history can secure a loan.

2023 Challenges:

The rapid rise in interest rates has been a challenge for both members and the Credit Union. After more than a decade of near zero percent interest rates, members have been faced with sticker shock when looking at loan rates. Topside management and the Board of Directors have kept loan rates extremely competitive to help members with their borrowing needs. At the same time, it has been very difficult for deposit rates to keep pace with the rapid interest rate rise. Certificates have become extremely competitive, and Topside has been aggressive with offering strong certificate interest rates. Savings and money market rates will be increasing in 2024 as low-rate loans and investments currently on the books are replaced with higher earning assets.

Regulatory changes have also been a challenge. Required changes in the accounting standards have unnecessarily necessitated high reserve requirements for potential loan losses. Even as Topside loan delinquency has remained low, significant adjustments to the loan loss reserve have challenged earnings. As a not-for-profit organization owned by our members, Topside does not work to maximize earnings, but Topside does need to earn a positive return to build capital in accordance with regulatory standards to maintain financial strength.

As Topside heads into 2024 and beyond, the focus will remain on optimizing service to the membership with improved technology, high levels of member data security, service to our communities, and improving deposit interest rates. Thank you for being a member of Topside Federal Credit Union and please always feel free to reach out to me with questions.

Bruce Six

CEO

FINANCIAL CONDITION

	2022	2023
ASSETS		
Cash & Equivalents	$16,581,658	$20,607,310
Securities - Available-for-Sale	$173,968,045	$132,982,697
Other Investments	$4,498,316	$2,637,005
Loans, Net	$291,957,607	$297,220,335
Accrued Interest Receivable	$2,106,969	$2,247,730
Foreclosed & Reposessed Assets	$10,000	$21,094
Premises & Equipment, Net	$7,832,204	$7,755,395
NCUSIF Deposit	$4,407,203	$4,184,014
Life Insurance Policies	$8,074,273	$8,337,614
All Other Assets	$11,594,777	$6,969,385
TOTAL ASSETS	$521,031,052	$482,962,579
LIABILITIES & EQUITY		
Members' Share & Savings Accounts	$449,962,954	$433,185,448
Borrowings	$54,000,000	$26,865,850
Accrued Expenses & Other Liabilities	$3,123,502	$4,305,392
TOTAL LIABILITIES	$507,086,456	$464,356,690
Regular Reserve	$3,959,173	$3,959,173
Undivided Earnings	$31,244,540	$31,291,682
Accumulated Other Income	$(21,259,117)	$(16,644,966)
TOTAL MEMBERS' EQUITY	$13,944,596	$18,605,889
TOTAL LIABILITIES & MEMBERS' EQUITY	$521,031,052	$482,962,579



INCOME STATEMENT

	2022	2023
INCOME		
Interest on Loans	$12,501,684	$17,466,798
Securities, deposits, etc...	$2,275,541	$3,238,518
TOTAL INTEREST INCOME	$14,777,225	$20,705,316
INTEREST EXPENSE		
Member Share & Savings Accounts	$1,106,057	$3,558,007
NET INTEREST INCOME	$13,671,168	$17,147,309
PROVISION FOR LOAN LOSSES	$1,271,218	$2,156,902
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	$12,399,950	$14,990,407
NON-INTEREST INCOME		
Service Charges & Fees	$2,043,723	$2,043,700
Other Non-Interest Income	$3,109,172	$2,788,951
Net Gain on Investment Sales	$(42,063)	$(5,619)
TOTAL NON-INTEREST INCOME	$5,110,832	$4,827,032
NON-INTEREST EXPENSE		
Compensation & Benefits	$8,029,363	$8,794,238
Operations	$6,904,056	$7,084,886
Other Operating Expenses	$1,086,963	$1,343,413
TOTAL NON-INTEREST EXPENSE	$16,020,382	$17,222,537
NET INCOME (LOSS)	$1,490,400	$2,594,902
STATISTICAL DATA		
Number of Members	41,011	41,764
Average Shares per Member	$10,968	$10,372
Number of Loans	20,256	19,812
Avg. Loan Balance	$14,498	$15,217
Loan/Share Ratio	65.27%	69.60%
Delinquency Ratio	0.29%	0.60%
Net Worth	6.93%	7.30%

REPORT
Chairperson's

There has never been a better time to be a member of Topside Federal Credit Union. Topside has grown from our humble origins serving the Naval Weapons Lab base in Dahlgren in 1961, to a half billion-dollar credit union with members across the country. Despite our growth and expansion into the surrounding community, your credit union remains dedicated to providing easy and convenient access to financial services and offering low-rate loans and competitive certificate and savings rates. The banking industry continues to evolve, and Topside is dedicated to evolving with it for the benefit of our membership.

The past year brought a mixed blessing with higher interest rates and new technologies. The Board of Directors and management team have worked diligently to balance the need to keep loan rates affordable while still paying higher dividends on member deposits. Not an easy balance to strike. Loan rates have been increased at a slower pace than most other banking sources and Topside offers a credit card with a 7.9% rate that could be the very best in the country. Slower increases to loan rate increases make it more difficult to raise deposits rates. Certificate rates have been kept extremely competitive and with a minimum balance of just $100, easy for most members to take advantage of. Other deposit rates are increasing in 2024 as the revenue and expense balance is maintained.

Topside is continually adopting new technologies to provide the best member experience while maintaining the current availability of personal service and access to staff. Topside has introduced Artificial Intelligence (AI) based chat and telephone access, so members can always get to detailed account information, but our employees are still available during business hours to answer your questions and help you with your account. The Board of Directors is unwavering in the continuation of available in person service and new technologies.

Safety and soundness are of paramount concern to the Board, and Topside continues to invest heavily in data security technologies and testing to keep your data yours. The credit union remains "well capitalized" as characterized by our regulator and is making a concerted effort to improve further the capitalization of the credit union.

Challenges are never ending in any industry and banking is no different. I assure you that your Board of Directors is ever mindful of the balance between attractive rates, continual access and safety and security.

David Martin
Chairperson

MEASURING UP

Community impact & contribution

NEW CARS

600+

We financed over 600 car loans for our members this year.



FOOD DONATIONS

2,000+

Our staff donated over 2,000 non-perishable food items to local families.



NEW HOMES

50+

We helped put over 50 families in their dream homes.



YOUTH SAVES

275+

We opened over 275 new youth saves acconts.



POSITIVE REVIEWS

950+

Our members gave us over 950 positive reviews.



PERSONAL LOANS

800+

Over 800 members chose us to finance their personal milestones.



VIDEOS

30+

We produced over 30 financial & consumer education videos this year.



EDUCATION

5,500+

Over 5,500 people attended one of our financial education classes/seminars.



Topside
Federal Credit Union

AUGUSTINE BRANCH

2004 Augustine Avenue,
Fredericksburg, VA 22401

Lobby:
Mon - Thurs: 9 AM - 5 PM
Fri: 9 AM - 6 PM
Sat: 9 AM - 12 PM

Drive-Thru:
Mon - Fri: 9 AM - 6 PM
Sat: 9 AM - 12 PM

PLAZA BRANCH

5472 James Madison Pkwy,
King George, VA 22485

Lobby:
Mon - Thurs: 9 AM - 5 PM
Fri: 9 AM - 6 PM
Sat: 9 AM - 12 PM

Drive-Thru:
Mon - Fri: 9 AM - 6 PM
Sat: 9 AM - 12 PM

MASSAPONAX BRANCH

9622 Patriot Hwy,
Fredericksburg, VA 22407

Lobby:
Mon - Thurs: 9 AM - 5 PM
Fri: 9 AM - 6PM
Sat: 9 AM - 12 PM

Drive-Thru:
Mon - Fri: 9 AM - 6 PM
Sat: 9 AM - 12 PM

DAHLGREN BRANCH

17442 Dahlgren Road,
Dahlgren, VA 22448

Lobby:
Mon - Fri: 8:30 AM - 3 PM

EQUAL HOUSING
LENDER

topsidefcu.org | 540.663.2181

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