



April 24, 2024

Dear Shareholders:

Financial Summary

The 2023 financial performance for U & I Financial Corp. (the "Company") reflected the trends in the banking industry as well as its own unique challenges.

Based on the restated fourth quarter and year end 2023 earnings release that was issued on April 18, 2024, for the full year 2023 there was a net loss of \$10.8 million or a \$1.98 loss per share, as compared to net income of \$11.1 million or \$2.03 earnings per share for 2022. The decrease of \$21.9 million from last year was primarily driven by the provision for credit losses of \$26.4 million in 2023 as compared to none in 2022. Total assets was \$610.0 million at December 31, 2023, increasing by \$23.2 million or 4.0% from the prior year of \$586.8 million. Total loans, net of the allowance for credit losses, ended at \$464.7 million, increasing by \$10.2 million or 2.3% from the year earlier period of \$454.4 million. Total deposits grew by \$26.1 million or 5.4% to \$514.4 million, from the year earlier period of \$488.3 million.

As noted above, the earnings decrease in 2023 to a net loss position was primarily the result of credit deterioration. Traditionally, UniBank (the "Bank") had focused on generating loans secured by commercial real estate ("CRE"). However, to diversify out of the CRE concentration, the Bank has been increasing its commercial & industrial ("C & I") loans and residential real estate loans, which are non-owner occupied investment properties with short maturities. Management believes that the credit issues are isolated to the "commercial-equipment" segment within the C & I category. For many of these loans, the Bank financed borrowers purchasing equipment from manufacturers that also service the machines through operating arrangements with the respective borrowers. During 2023 one such manufacturer went into receivership caused by an action by the Securities and Exchange Commission, and a judgment that was entered against it resulting from the manufacturer's fraudulent activities. Certain borrowers who financed loans to acquire equipment from the manufacturers filed suit against the Bank last year in federal court in Washington state. Although the Bank won an early motion to dismiss the case in federal court, these plaintiffs subsequently refiled their case in Washington state court. The Bank has raised substantial defenses to this lawsuit, has asserted counterclaims against the plaintiffs, and will continue to defend this litigation vigorously. However, the ultimate outcome is currently unknown. As such, the timing and amount of collections by the Bank against these borrowers and their guarantors are uncertain.

Despite the sharp decrease in the bottom line for 2023 and particularly in the fourth quarter, the Bank's capital position still exceeds the regulatory "well capitalized" minimum ratios by comfortable margins.

The Bank also has strong liquidity both from the "cash-on-hand" as well as various funding sources. As a regular practice, the Bank performs rigorous stress testing to confirm its ability to withstand these types of events.

Looking ahead, however, it will take time to resolve these credit issues. The Board and Management are up to the task.

We encourage you to review Unibank's full annual report at our website at <https://www.unibankusa.com/about-us/investor-relations>.

Annual Shareholders Meeting

Our annual meeting of shareholders will be held on Friday, May 24, 2024 at 10:00 a.m. at the **Lynnwood Convention Center** - 3711 196th St SW, Lynnwood, WA 98036. This meeting is not a virtual meeting and will be held **in-person** only. Shareholders who cannot attend in-person are encouraged to vote by delivering the completed proxy by mail or fax per the instructions in the Shareholders Meeting Notice so that your votes may be counted.

Shareholders Dividend

The Board continuously evaluates the Bank's financial position and the economic climate to determine the best possible use of our capital. Despite the capital ratios still being well above the regulatory "well capitalized" minimums, the Board has decided to suspend the semi-annual cash dividends as a precaution to preserve capital.

Thank you again for your continued support of and interest in U & I Financial Corp. and UniBank. We appreciate your participation in our upcoming shareholders meeting by voting your shares in advance of the meeting.



Stephanie Yoon, Interim CEO

U & I Financial Corp.

Consolidated Statement of Condition - Key Items

(\$'s in thousands)

	12/31/2023	12/30/2022	Variance	Var %
Gross Loans	\$490,636	\$459,021	\$31,615	6.9%
Allowance for Credit Losses (ACL)	(\$25,950)	(\$4,580)	(\$21,370)	466.6%
Total Loans, Net of ACL	\$464,686	\$454,441	\$10,245	2.3%
Total Assets	\$610,049	\$586,812	\$23,237	4.0%
Total Deposits	\$514,401	\$488,254	\$26,147	5.4%

Consolidated Statement of Income Summary

(\$'s in thousands)

	2023	2022	Variance	Var %
Net Interest Income	\$22,264	\$22,928	(\$664)	-2.9%
Provision for Credit Losses	26,411	0	26,411	100.0%
Non-interest Income	2,885	3,693	(808)	-21.9%
Non-interest Expense	12,682	12,788	(106)	-0.8%
Net Income (Loss) before Income Taxes	(13,944)	13,833	(27,777)	-200.8%
Income Tax Expense (Benefit)	(3,136)	2,704	(5,840)	-216.0%
Net Income (Loss)	(\$10,808)	\$11,129	(\$21,937)	-197.1%
<i>Basic Earnings (Loss) per Share (in dollars)</i>	<i>(\$1.98)</i>	<i>\$2.03</i>	<i>(\$4.01)</i>	<i>-197.5%</i>

Regulatory Capital Ratios (Bank)

	12/31/2023	9/30/2023	12/30/2022	"Well Capitalized" Minimum
Tier 1 Leverage Ratio	10.16%	13.26%	12.83%	5.00%
Common Equity Tier 1 Ratio	12.42%	16.54%	12.91%	6.50%
Tier 1 Risk-Based Capital Ratio	12.42%	16.54%	12.91%	8.00%
Total Risk-Based Capital Ratio	13.71%	17.61%	16.91%	10.00%