U & I FINANCIAL CORP.

Reports Amended and Restated Fourth Quarter and Year-End 2023 Financial Results

Lynnwood, WA / Accesswire / April 18, 2024 / U & I Financial Corp. (OTCQX: UNIF), the holding company for UniBank, today reported amended and restated results for its fourth quarter and fiscal year ended December 31, 2023, reflecting an increase in its Allowance on Credit Losses (ACL) on Loans and the ACL on Off-Balance Sheet Credit Exposure.

The Company posted an additional Provision for Credit Losses of $23.2 million for the 2023 fourth quarter from the original $3.1 million, resulting in a Provision for Credit Losses of $26.3 million for the fourth quarter and $26.4 million for the fiscal year. The additional provision further drove the Company's Net Loss in the fourth quarter to $18.2 million or a $3.33 loss per share and resulted in the full year's results becoming a Net Loss of $10.8 million or a $1.98 loss per share. The additional provision increased the Company's Allowance for Credit Losses to $26.0 million or 5.29% of gross loans from $8.3 million or 1.71% as previously reported. It also increased the ACL on Off-Balance Sheet Credit Exposure to $5.6 million from the previous quarter's balance of $15 thousand.

The Company also announced the suspension of its semi-annual cash dividends as a precaution to preserve capital, despite the capital ratios still being well above the regulatory well-capitalized minimums.

After the January 30, 2024 earnings announcement, information gathered from continued monitoring of the Bank's loan portfolio indicated that a higher reserve as of year-end 2023 was warranted. Management believes that the sharp decrease in credit quality is isolated to one type of loan segment, "commercial - equipment." The majority of the Bank's loan portfolio has traditionally been loans secured by Commercial Real Estate. However, the "commercial – equipment" segment within the Commercial and Industrial ("C & I") category has increased over the past few years. 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.

"The turn of events has been disappointing to say the least," said Stephanie Yoon, Interim-CEO. "We believe, nonetheless, that our exposure is limited to this segment as most of our loans are still real estate related, and there currently have been minimal signs of credit deteriorations for these loan types. The Bank also has minimal exposure to office properties. Despite the large increase in the Provision for Credit Losses, the Bank continues to comfortably exceed the regulatory minimum well capitalized ratios and has strong liquidity. Looking ahead we are still optimistic about our future."

Additional disclosures of credit quality are included below. A more complete description of the Company's credit quality and Allowance for Credit Losses will be included in the Company's annual report.

Non-GAAP Financial Metrics

This news release contains certain non-GAAP financial measure disclosures. Management believes these non-GAAP financial measures provide meaningful supplemental information regarding the Company's operational performance, credit quality and capital levels.

About U & I Financial Corp.

UniBank, the wholly owned subsidiary of U & I Financial Corp. (OTCQX: UNIF). Founded in 2006 and based in Lynnwood, Washington, the Bank serves small to medium-sized businesses, professionals, and individuals across the United States with a particular emphasis on government guaranteed loan programs. Customers can access their accounts in any of the four branches – Lynnwood, Bellevue, Federal Way and Tacoma – online, or through the Bank's ATM network.

For more information visit www.unibankusa.com or call (425) 275-9700.

Forward-Looking Statement Safe Harbor: This news release contains comments or information that constitutes forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Forward-looking statements describe the Company's projections, estimates, plans and expectations of future results and can be identified by words such as "believe," "intend," "estimate," "likely," "anticipate," "expect," "looking forward," and other similar expressions. They are not guarantees of future performance. Actual results may differ materially from the results expressed in these forward-looking statements, which because of their forward-looking nature, are difficult to predict. Investors should not place undue reliance on any forward-looking statement, and should consider factors that might cause differences including but not limited to the degree of competition by traditional and nontraditional competitors, declines in real estate markets, an increase in unemployment or sustained high levels of unemployment; changes in interest rates; adverse changes in local, national and international economies; changes in the Federal Reserve's actions that affect monetary and fiscal policies; changes in legislative or regulatory actions or reform, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act; demand for products and services; further declines in the quality of the loan portfolio that results in continued losses and our ability to succeed in our problem-asset resolution efforts; the impact of technological advances; changes in tax laws; and other risk factors. U & I Financial Corp. undertakes no obligation to publicly update or clarify any forward-looking statement to reflect the impact of events or circumstances that may arise after the date of this release.

STATEMENT OF INCOME (Unaudited)

(Dollars in thousands except EPS)	Dec-23 QTD	Sep-23 QTD	Dec-22 QTD	Dec-23 YTD	Dec-22 YTD
Interest Income	$9,306	$9,616	$8,418	$37,652	$25,914
Interest Expense	4,592	4,173	1,801	15,388	2,986
Net Interest Income	4,714	5,443	6,617	22,264	22,928
Provision for Credit Losses	26,253	158	-	26,411	-
Gain (Loss) on Loan Sales	(23)	609	1,031	1,410	2,512
Loan Servicing Fees, Net of Amortization	83	164	123	624	494
Other Non-interest Income	173	176	162	851	687
Non-interest Income	233	949	1,316	2,885	3,693
Salaries & Benefits	1,250	1,962	2,341	8,241	8,316
Occupancy Expense	188	187	188	729	726
Other Expense	586	1,120	1,078	3,712	3,746
Non-interest Expense	2,024	3,269	3,607	12,682	12,788
Net Income (Loss) before Income Taxes	(23,330)	2,965	4,326	(13,944)	13,833
Income Tax Expense (Benefit)	(5,122)	610	927	(3,136)	2,704
Net Income (Loss)	**(18,208)**	**$2,355**	**$3,399**	**(10,808)**	**$11,129**
Total Outstanding Shares *(in thousands)*	5,466	5,466	5,441	5,466	5,441
Basic Earnings (Loss) per Share	($3.33)	$0.43	$0.62	($1.98)	$2.03

Statement of Condition (Unaudited)

(Dollars in thousands)	Dec-23 Qtr End	Sep-23 Qtr End	Dec-22 Qtr End	Variance Prior Qtr	Variance Prior Year
Cash and Due from Banks	$61,254	$58,923	$42,003	$2,331	$19,251
Investments	51,346	48,841	51,062	2,505	284
Loans Held for Sale	-	-	12,527	-	(12,527)
Gross Loans	490,636	482,132	459,021	8,504	31,615
Allowance for Credit Losses on Loans	(25,950)	(5,234)	(4,580)	(20,716)	(21,370)
Net Loans	464,686	476,898	454,441	(12,212)	10,245
Fixed Assets	6,438	6,577	6,983	(139)	(545)
Other Assets	26,325	20,978	19,796	5,347	6,529
Total Assets	**$610,049**	**$612,217**	**$586,812**	**($2,168)**	**$23,237**
Checking	$100,135	$105,770	$117,491	($5,635)	($17,356)
NOW	13,504	14,588	13,969	(1,084)	(465)
Money Market	200,966	197,296	199,303	3,670	1,663
Savings	8,063	9,050	14,042	(987)	(5,979)
Certificates of Deposit	191,733	195,429	143,449	(3,696)	48,284
Total Deposits	514,401	522,133	488,254	(7,732)	26,147
Borrowed Funds	20,000	8,000	22,000	12,000	(2,000)
ACL on Off-Balance Sheet Credit Exposure	5,551	15	15	5,536	5,536
Other Liabilities	8,678	3,901	4,438	4,777	4,240
Total Liabilities	548,630	534,049	514,707	14,581	33,923
Shareholders' Equity	61,419	78,168	72,105	(16,749)	(10,686)
Total Liabilities & Equity	**$610,049**	**$612,217**	**$586,812**	**($2,168)**	**$23,237**

Financial Ratios

(Dollars in thousands except BVS)	Dec-23 QTD	Sep-23 QTD	Dec-22 QTD	Dec-23 YTD	Dec-22 YTD
Performance Ratios					
Return on Average Assets*	(11.85%)	1.54%	2.37%	(1.85%)	2.22%
Return on Average Equity*	(92.41%)	11.92%	19.26%	(14.53%)	16.29%
Net Interest Margin*	3.18%	3.65%	4.82%	3.83%	4.79%
Efficiency Ratio	40.91%	51.14%	45.47%	50.36%	48.04%
**Quarterly results are annualized*					
				Well Capitalized Minimum	
Capital					
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%	
Book Value per Share (BVS)	$11.24	$14.30	$13.24		
***Represents Bank capital ratios*					
Asset Quality					
Net Loan Charge-Offs (Recoveries)	$0	$0	$0		
Allowance for Credit Losses to Loans	5.29%	1.09%	1.00%		
Nonperforming Assets to Total Assets	2.42%	0.74%	0.05%		

Additional Credit Disclosures

Loan Segmentation - The following table presents the Bank's total loans outstanding at amortized cost by portfolio segment and by internally assigned grades at December 31, 2023 (in thousands):

Portfolio Segment	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Commercial real estate	$ 239,876	$ 1,570	$ -	$ -	$ -	$ 241,446
Residential real estate	168,708	-	-	-	-	168,708
Commercial - equipment	33,770	14,630	4,173	2,898	11,643	67,114
Commercial - all other	9,429	-	-	-	-	9,429
Multifamily	2,884	-	-	-	-	2,884
Construction and land	979	-	-	-	-	979
Consumer and other	76	-	-	-	-	76
	$ 455,722	$ 16,200	$ 4,173	$ 2,898	$ 11,643	$ 490,636

Descriptions of the various risk grades are as follows:

Special Mention: Assets having potential weaknesses that if left uncorrected, may result in decline in borrower's repayment ability. However, these assets are not adversely classified and do not expose the Bank to sufficent risk to warrant adverse classificaiton.

Substandard: An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

Loss: Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Any loans downgraded to this category are generally charged off soon after.

Allowance for Credit Losses on Loans – The following table presents the allowance for credit losses under ASC 326, *Financial Instruments – Credit Losses* by portfolio segment and by internally assigned grades at December 31, 2023 (in thousands):

Portfolio Segment	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Commercial real estate	$ 1,641	$ 48	$ -	$ -	$ -	$ 1,689
Residential real estate	1,252	-	-	-	-	1,252
Commercial - equipment	426	7,315	621	2,898	11,643	22,903
Commercial - all other	65	-	-	-	-	65
Multifamily	3	-	-	-	-	3
Construction and land	34	-	-	-	-	34
Consumer and other	4	-	-	-	-	4
	$ 3,425	$ 7,363	$ 621	$ 2,898	$ 11,643	$ 25,950

Past due loans –The following table presents past due loans at amortized cost by portfolio segment as of December 31, 2023 (in thousands):

Portfolio Segment	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90 Days or More**	**Total Past Due**	**Current**	**Total Loans**
Commercial real estate	$ -	$ -	$ 484	$ 484	$ 240,962	$ 241,446
Residential real estate	-	-	-	-	168,708	168,708
Commercial - equipment	260	407	10,186	10,853	56,261	67,114
Commercial - all other	-	-	-	-	9,429	9,429
Multifamily	-	-	-	-	2,884	2,884
Construction and land	-	-	-	-	979	979
Consumer and other	-	-	-	-	76	76
	$ 260	$ 407	$ 10,670	$ 11,337	$ 479,299	$ 490,636

Non-accrual loans – Loans are placed on nonaccrual once the loan is 90 days past due or sooner if, in management's opinion, the borrower may be unable to meet payment of obligations as they become due, as well as when required by regulatory provisions. The following table presents the nonaccrual loans at amortized cost by portfolio segment as of December 31 (in thousands):

Portfolio Segment	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial real estate	$ -	$ 484	$ 484	$ -
Commercial - equipment	-	14,281	14,281	-
	$ -	$ 14,765	$ 14,765	$ -

Off-Balance Sheet Credit Exposure - The Bank has originated certain loans in the commercial-equipment segment with government guarantees and has subsequently sold many of the guaranteed portions of these loans in the secondary market. Upon defaults by the borrowers, the Bank would be required to repurchase the guaranteed portions of the loans and submit the repayment requests to the respective government agency. The agency may decide not to honor the guarantees if certain conditions are not met. Guarantees, as defined under ASC 460 Guarantees, that create off-balance sheet credit exposure are in the scope of ASC 326-20 when such guarantees for loans have an implicit repurchase arrangement and thus may present an off-balance sheet credit risk. As of December 31, 2023 the Bank had $7.1 million of such guarantees sold in this segment that were graded below Pass. The Allowance for Credit Losses on Off-Balance Sheet Credit Exposure for these sold guarantees totaled $5.5 million as of December 31, 2023.

U & I Financial Corp.
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