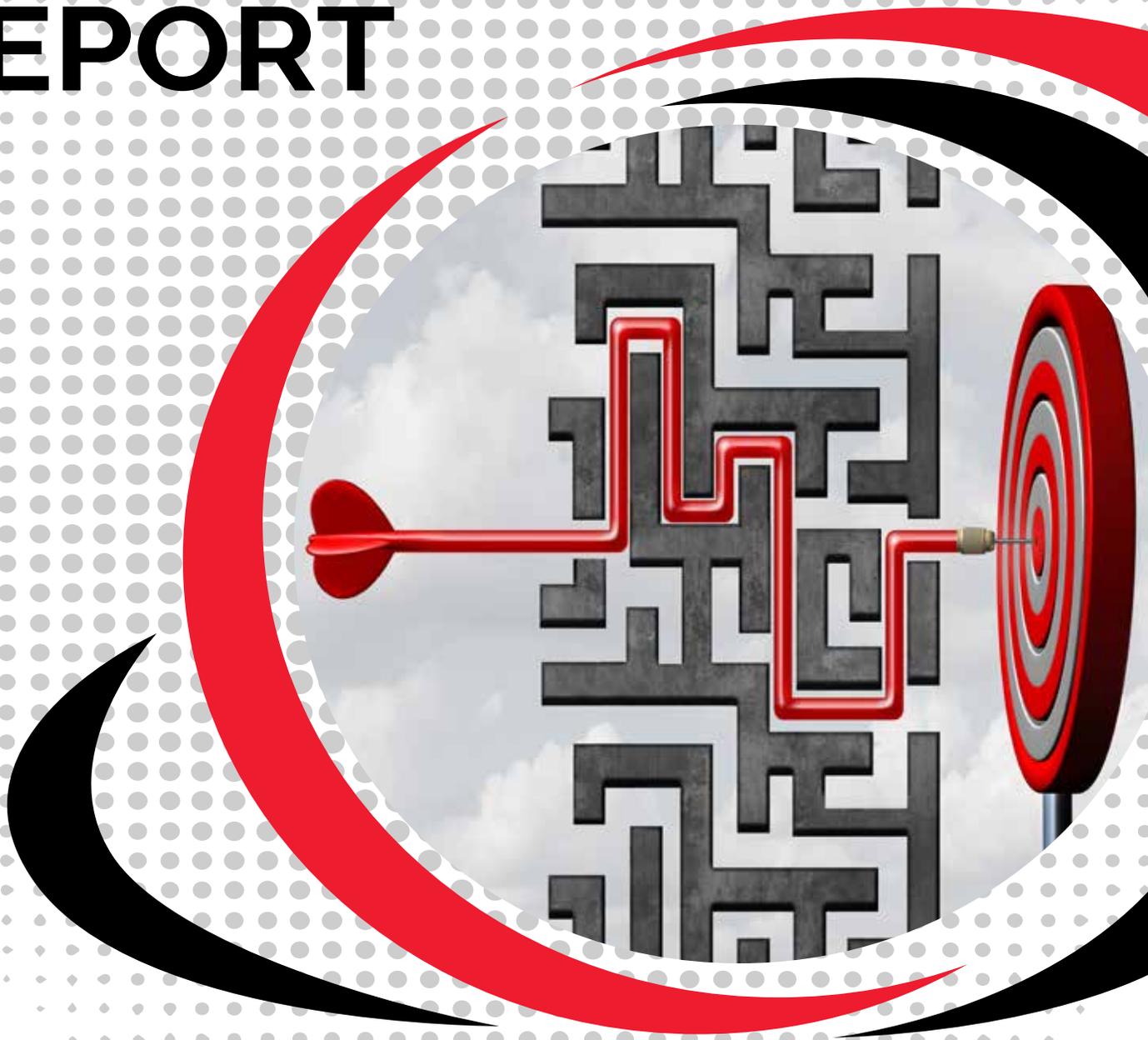


2020 ANNUAL REPORT



Providing financial solutions uniquely for 3Mers since 1954

novation | **3M**

AGILITY

#adaptive #resilient #commitment
#member focus #creative #inspiration

Chairman & CEO Report

Like all businesses and individuals, 2020 presented many challenges for Novation Credit Union and our employees. As we reflect on the past year, words such as agility, resilient, adaptability, and commitment all come to mind. We are thankful and proud of the positive energy that drove necessary adjustments we made in order to keep our staff and membership healthy and safe. Our members have been extremely supportive and understanding as we developed new operating models to deliver our solutions during these unprecedented times.



Being classified as an essential business we quickly deployed a hybrid working model to maintain safety and ongoing operations. Many of our employees transitioned to a “work from home” state and we still had a core team who came to the Oakdale and Hutchinson branches every day to provide additional service to our members. With our 3M campus branches closed and the members who

traditionally visited those branches working from home, the need to pivot our operations was necessary. The use of mobile and online banking solutions immediately became the preferred channel for our membership, a trend that has continued.

Amidst all the challenges, we delivered outstanding financial, operating, and service results. Several of the highlights include:

- ★ Financial results were excellent—we exceeded our budget in both growth and return on assets. Assets grew by 19% to end the year at \$193 million. Deposits grew by 20% as members shifted their focus on saving rather than spending.
- ★ The safety and soundness of Novation continued to remain strong. We added \$1.35 million to our required reserves which now exceeds \$14.5 million.
- ★ Total loan production for the year was \$102 million—a new milestone achievement.
- ★ Mortgage originations reached an all-time high with members taking advantage of historically low interest rates to refinance their existing mortgage loans. New home and second home purchase loans were also very strong.
- ★ Financing of recreational vehicles was in high demand as members found new ways to spend leisure time.
- ★ Use of eSolutions such as mobile banking and eDeposit increased by 17%.
- ★ Novation Investment Services grew by 18% ending the year managing \$276 million in client assets.

- ★ Novation employees still made giving back to our membership a key part of our mission. In October we were one of 53 Minnesota credit unions who participated in CU Forward Day, a program designed to enrich the communities where we serve and live. We spent the day volunteering on outside projects for many of our members, along with random acts of kindness to first responders, educators, and law enforcement officers. It is very safe to say that the commitment and resolve displayed by our employees during the pandemic has been phenomenal.

As always during challenging times, we are, and always will be, well prepared to assist our membership with any financial hardships. Because of our ongoing affiliation with 3M, most of our members were fortunate to continue working throughout 2020. We were diligent throughout the year in providing flexibility as needed to 3Mers, and to our employees, as all of us navigated through a difficult period. For example, we granted over \$900,000 of temporary loan payment deferrals where at least one person in the household had lost their job.

With all that transpired during the year you can be assured that all routine controls and governance continued as the Board of Directors and Supervisory Committee held their monthly meetings using video conferencing. Novation leadership also held a strategic planning workshop in June to continue charting our future direction and making the necessary changes that will benefit our entire membership. There is no doubt that the agility and commitment of our volunteers has been steadfast throughout the year.

Finally, the past year has taught us much more about our business and our capabilities. We are now focused on taking these findings and incorporating them into our future business plans. Collaboration between the Board of Directors, the management team, and our staff, coupled with feedback from our membership, are all important insights as we continue to shape the future of Novation. Digital and operational transformation strategies are now rooted in our conversations and influencing our decisions.

The opportunities ahead of us are abundant and with the continued trust and support of our extraordinary membership, Novation is well positioned for continued success. It remains our privilege to earn your loyalty and we continue to look forward to being your life-long financial solutions partner.

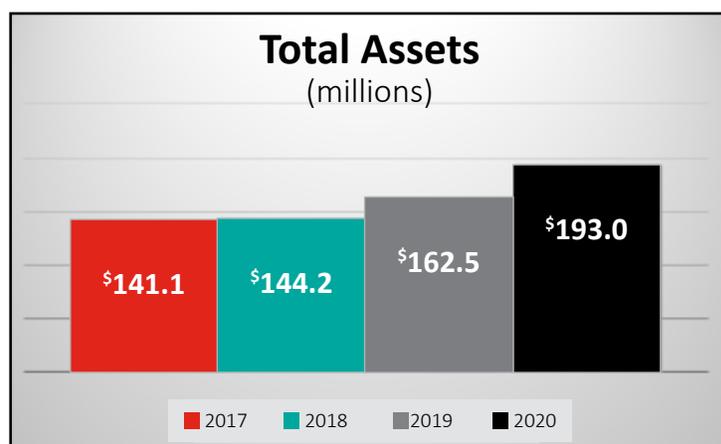
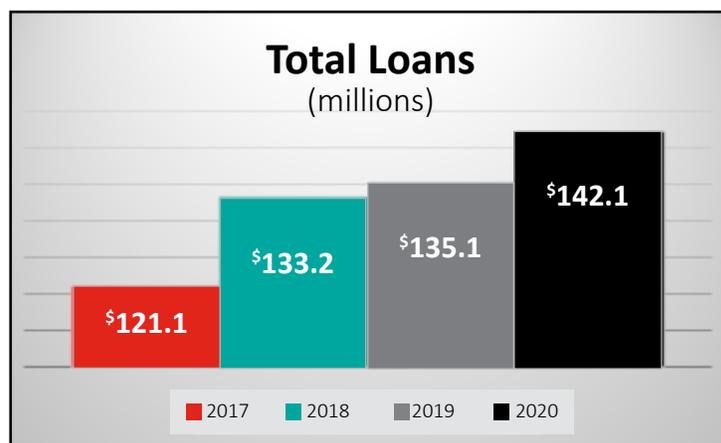
Mike Kronebusch
Board of Directors Chairman

Kristi Mukomela
President/CEO

Financial Statement

as of December 31, 2020

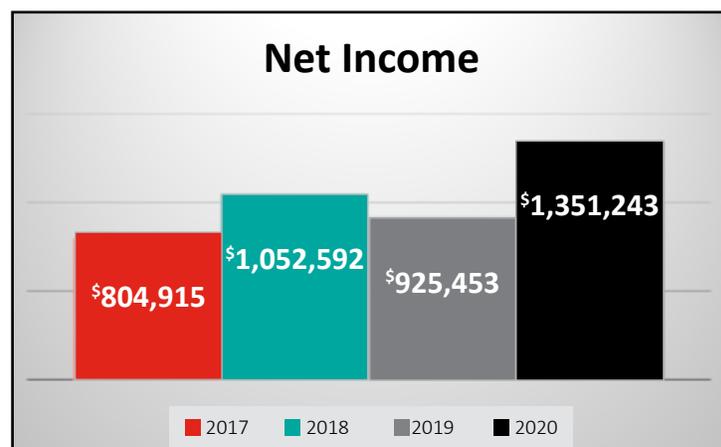
Assets	2020	2019
Net Loans to Members	\$ 141,642,098	\$135,094,566
Cash and Investments	43,490,175	19,472,536
National Credit Union Share Insurance Fund Deposit	1,609,749	1,441,175
Fixed Assets	2,250,429	2,467,780
Other Assets	4,002,424	4,041,205
Total Assets	\$192,994,875	\$162,517,262
Liabilities and Member Equity	2020	2019
Member Shares	\$177,612,723	\$148,175,749
Payables and Other Liabilities	856,063	1,166,668
Total Liabilities	\$178,468,786	\$149,342,417
Statutory Reserve	\$2,056,350	\$2,056,350
Operating Reserves	12,469,739	11,118,495
Total Member Equity	\$14,526,089	\$13,174,845
Total Liabilities and Member Equity	\$192,994,875	\$162,517,262



Operating Statement

as of December 31, 2020

Income	2020	2019
Interest on Member Loans	\$5,472,084	\$5,437,080
Interest on Investments	185,478	249,045
Non-Interest Income	2,640,944	2,358,353
Total Income	\$8,298,506	\$8,044,478
Expenses	2020	2019
Employee and Volunteer Expenses	\$3,115,422	\$2,865,898
Operations	2,670,377	2,800,981
Occupancy	283,094	323,517
Provision for Loan Loss	134,477	68,140
Loss on Real Estate Owned	0	0
Member Dividends & Funding Costs	743,893	1,060,489
Total Expenses	\$6,947,263	\$7,119,025
Net Income to Member Equity	\$1,351,243	\$925,453



Supervisory Committee Report

The role of the Supervisory Committee at Novation is to ensure that the Board of Directors and Management are safeguarding members' assets by adhering to an appropriate governance structure and following established policies. On behalf of the membership, the Committee regularly reviews and monitors internal controls and risk management practices.

The Supervisory Committee is also charged with making sure an annual audit of the financial records is completed. RSM US LLP audited Novation's books as of September 30, 2020. This independent audit is designed to provide an unbiased assessment as to whether the financial statements are free of any material misstatements.

We are pleased to report that through the internal reviews and the external audit, the Supervisory Committee, once again, finds Novation to be in a position of financial strength. RSM US LLP issued an unqualified opinion and found no material weaknesses that would cause a misstatement of the financial statements. A copy of the audit report is available by contacting Novation's Chief Financial Officer or any of the committee members.

Your trust in Novation is never taken for granted. These measures—along with many others—are designed to ensure that your deposits are safe and that Novation continues to operate in a manner consistent with being a safe, sound and well-managed financial institution.

Signature Solutions

As a full-service financial institution, Novation offers all the products and solutions you need during life's milestones. Novation's signature solutions include...

Investment Services — our advisors have helped hundreds of 3Mers, just like you, to plan for and successfully retire.

Mortgages — exceptional service and competitive rates.

Incentive Checking — earn a high dividend just by using your checking account. No hidden fees. No balance requirements.

Money Market — competitive rates with no restrictions.

Auto Loans — market-leading rates and hassle-free closings.

Visa® Cards with Rewards — earn valuable rewards when using our debit and Platinum credit cards.

Private Student Loans — when you need help funding school. No origination or prepayment fees.

Student Loan Refinance — consolidate all your student loans into one easy payment.

Learn more about all of our solutions at www.novation.org.

Providing financial solutions uniquely for 3Mers since 1954



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Shawn Schow, *Secretary*
Dan Carlson
Beth Edinger
Dawn McGinley
John Schwalbach
Nancy Seleski
Daryl Thoennes

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Ray Aalderks
Beth Eskra
Laura Hoffman
Waldo de la O

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Terry Kahle, *Chief Financial Officer*
Scott Henning, *Vice President of Marketing and CMO*
Nick Altavilla, *Vice President of Operations and COO/CLO*
Todd Brandel, *Director of Hutchinson Operations*

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