

Providing financial solutions uniquely for 3Mers since 1954



# 2021

Annual Report

**Distinction**

**Unique**

**Stands Apart**

# Chairman & President Report

As we reflect on 2021 and the outstanding financial and operating results that were delivered, it is important to state “how very proud we are of our Novation team and greatly appreciate our members”. The perseverance required to successfully navigate through last year’s uncertainty by our staff, management, and board of directors was a testament to the commitment of this team in providing exceptional service and financial results to our membership. Novation members demonstrated their ongoing confidence in us through strong borrowing, usage of our digital solutions and robust deposit activity.

The strategic and operational changes made in 2020 have evolved into a new way of doing business. The changes that only two years ago seemed like a disruption, have now become our new operating model. Novation’s investments in technology and our dedication to a seamless digital transformation are now deeply rooted in our ongoing strategy. As 3Mers prepared to “Work Your Way”, Novation has focused on a banking model to support this new reality. Our history of successfully serving members at 3M plant and remote locations, throughout the United States, is providing assurance we are prepared for a broader reach.

Novation is not like other financial institutions who are open to anyone. We were chartered in 1954 by eight 3Mers for the purpose of providing attractive financial solutions to 3M employees, retirees, and their family members. 68 years later this is still our mission and, with best-in-class digital solutions, our goal to be the number one provider of financial solutions for ALL 3Mers is more attainable than ever.

Distinction is a word we use in our brand promise, and we strive every day to uphold this commitment by:

- ★ Offering market leading rates on loans and providing attractive financial solutions for 3Mers
- ★ Providing value through Novation Investment Services with the expertise our advisors have on 3M benefit options
- ★ A dedicated Board of Directors and Supervisory Committee who are fellow 3Mers advising on what is best for our current and future membership

What is not as easy to describe is how Novation is essentially an extension of employment at 3M. It is fascinating that Novation was chartered only three years after 3M became a global company and 26 years prior to Post-It® Notes being introduced. This 68-year history of focusing on one membership group—3Mers—makes Novation unique when compared to other financial institutions. We have an appreciation for what and how 3M

employees want to receive financial solutions. When you join 3M, a first-class global company, you also gain the benefit of a first-class financial services partner.

While ongoing strategic planning was a major focus in 2021, we also delivered excellent financial, operating and service results:

- ★ Net income exceeded plan by 172% and increased by 71%
- ★ Assets grew 13% ending the year at \$219 million
- ★ Member deposits increased 13% with total member deposits now exceeding \$200 million
- ★ We added \$2.3 million to required reserves which now totals nearly \$17 million, providing increased financial health and stability during uncertain economic times
- ★ Losses remained low for both Visa® card fraud and from delinquent loans. This is a testament to Novation’s high-quality membership.
- ★ Novation Investment Services increased new accounts 32% and ended the year managing \$318 million of members’ retirement assets
- ★ Although acquiring new members has remained a challenge during the pandemic, the number of new memberships from the families of 3Mers increased by 47%. We see such an increase as a tremendous vote of confidence and an untapped opportunity.
- ★ Mortgage originations and consumer lending were both excellent in 2021. Total loan production was \$105.7 million; a 3% increase over the prior year’s milestone. Vehicle loans, recreational vehicles, home equity and Visa credit all showed extraordinarily strong activity.
- ★ We participated in CU Forward Day in October, a day of giving back to the communities we serve. Novation employees spent the day doing outside yard projects for our members and performing random acts of kindness to thank first responders, the medical community and educators.

Novation members can be assured that all controls testing and governance processes continued throughout the year. The Board of Directors and Supervisory Committee met monthly and held various meetings to evaluate interest rate risk, enterprise risk, and conduct strategic planning.

We remain committed to a growth strategy centered around 3M employees, retirees, and their families. The opportunities ahead of us are abundant and through the continued trust and support of our members, we are optimistic about the future.



Mike Kronebusch  
Board of Directors Chairman



Kristi Mukomela  
President/CEO

# financial statement

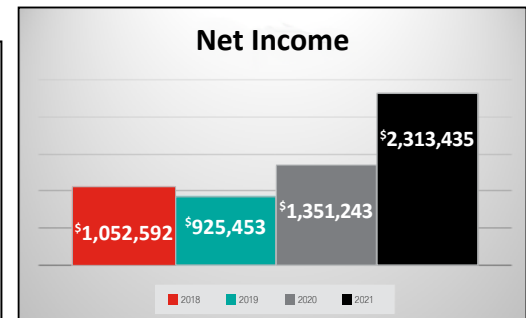
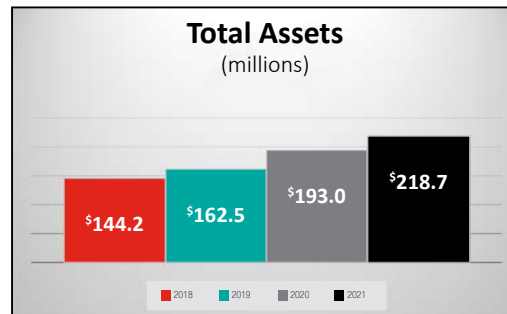
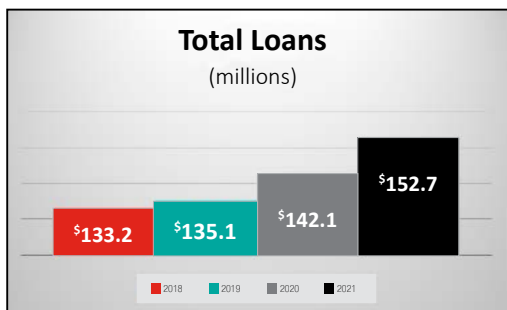
as of December 31, 2021

Assets	2021	2020
Net Loans to Members	\$152,291,100	\$141,642,098
Cash and Investments	57,543,367	43,490,175
National Credit Union Share Insurance Fund Deposit	1,851,325	1,609,749
Fixed Assets	2,361,120	2,250,429
Other Assets	4,662,596	4,002,424
<b>Total Assets</b>	<b>\$218,709,508</b>	<b>\$192,994,875</b>
<b>Liabilities and Member Equity</b>		
Member Shares	\$200,970,254	\$177,612,723
Payables and Other Liabilities	899,731	856,063
<b>Total Liabilities</b>	<b>\$201,869,985</b>	<b>\$178,468,786</b>
Statutory Reserve	\$2,056,350	\$2,056,350
Operating Reserves	14,783,173	12,469,739
<b>Total Member Equity</b>	<b>\$16,839,523</b>	<b>\$14,526,089</b>
<b>Total Liabilities and Member Equity</b>	<b>\$218,709,508</b>	<b>\$192,994,875</b>

# operating statement

as of December 31, 2021

Income	2021	2020
Interest on Member Loans	\$5,314,427	\$5,472,084
Interest on Investments	178,339	185,478
Non-Interest Income	3,303,868	2,640,944
<b>Total Income</b>	<b>\$8,796,634</b>	<b>\$8,298,506</b>
<b>Expenses</b>		
Employee and Volunteer Expenses	\$3,071,181	\$3,115,422
Operations	2,795,741	2,670,377
Occupancy	264,805	283,094
Provision for Loan Loss	20,220	134,477
Loss on Real Estate Owned	0	0
Member Dividends & Funding Costs	331,253	743,893
<b>Total Expenses</b>	<b>\$6,483,200</b>	<b>\$6,947,263</b>
<b>Net Income to Member Equity</b>	<b>\$2,313,434</b>	<b>\$1,351,243</b>



## 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, 2021. 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.

# novation<sup>★</sup> *signature* solutions include...

## Auto Loans

market-leading rates and hassle-free closings

## Incentive Checking

earn a high dividend just by using your checking account - no hidden fees - no balance requirements

## Investment Services

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

## Money Market

competitive rates with no restrictions

## Mortgages

exceptional service and competitive rates

## 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

## Visa® Cards with Rewards

earn valuable rewards when using our debit and Platinum credit cards

(800) 369-6628

[www.novation.org](http://www.novation.org)

Find us on:



## *Supervisory* Committee

Ray Alderks  
Beth Eskra  
Laura Hoffman  
Waldo de la O

## *Board* of Directors

Mike Kronebusch, *Chairman*  
Matt Juhl, *Vice Chairman*  
Shawn Schow, *Secretary*  
Dan Carlson  
Beth Edinger  
Dawn McGinley  
John Schwalbach  
Nancy Seleski  
Daryl Thoennes

## *Management*

Kristi Mukomela  
*President/CEO*  
Terry Kahle  
*Vice President of Finance/CFO*  
Nick Altavilla  
*Vice President of Operations/COO/CLO*  
Scott Henning  
*Vice President of Marketing/CMO*  
Todd Brandel  
*Director of Hutchinson Operations*

Providing financial solutions uniquely for 3Mers since 1954

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