



# ANNUAL REPORT

# 2018

*Providing financial solutions uniquely for 3Mers since 1954*

**novation**

**3M**

# Chairman & CEO Report

While we are very proud of many accomplishments in 2018, one really stands out in terms of our ongoing growth and success. There has been a renewed collaboration between Novation and human resource leadership at 3M resulting in many exciting opportunities. New employees at 3M Center are now learning about Novation as part of their orientation and Novation staff are presenting at plant-wide meetings as a way to introduce Novation and our value to plant employees.



Working in conjunction with human resource leadership has also helped to grow awareness of Novation in general, and is having a very positive impact on attracting existing 3M employees to the exclusive benefit of Novation membership. Another unique partnership program is Novation's work with 3M FSEs (foreign service employees), assisting them with banking solutions as part of their on-boarding to the United States—an excellent example of Novation's focus on the needs of 3Mers.

The Novation message to 3M employees has been well received. This is not a surprise since we have been part of 3M's history for nearly 65 years (formerly Minne-Mine Credit Union). We recently even learned that the credit union has existed longer than some of the 3M plants have been operating! The one constant during the past 65 years is that Novation has remained true to our original mission of providing personalized financial solutions to 3M employees, retirees and their families.

As a non-profit financial cooperative, Novation is different than a traditional bank. We offer better rates on our deposit and loan solutions as well as fewer and lower fees than banks. We know that our market leading rates attract employees and their family members to join Novation and once they are wowed by the wonderful member experience, it becomes obvious what sets Novation apart.

We had another great year in 2018 with financial performance exceeding our strategic plan and exceeding industry benchmarks in a number of key areas. Our loan portfolio experienced double digit growth for the sixth straight year while assets and deposits saw modest growth. Here are some key highlights:

- ★ The exceptional credit quality of our membership is evident by extremely low losses in our loan portfolio. This means more net income available to provide returns in the form of better rates to members.

- ★ As stated above, awareness about Novation and our 65 year history continues to grow at both 3M Center and plant locations. This past year, more than 500 3M employees made the choice to join Novation and utilize our financial solutions.
- ★ Our new logo showcasing Novation and 3M is an unprecedented milestone in our long history of being a trusted 3M employee-owned and governed organization.

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- ★ Distance from one of our five branches is not a factor with all the eSolutions Novation has invested in and offers to our membership. Our mobile app, online banking, nationwide surcharge free ATMs, and 24/7 phone center support are all easy ways members can stay close to their accounts. One of our latest enhancements, "Money Management", allows members to stay on top of their finances by offering a consolidated look at all of their accounts (including accounts outside of Novation).
- ★ This past year saw phenomenal growth in our student loan refinance solution. Young professionals joining 3M took advantage of combining government and private student loans into one low fixed rate plan that saves their hard-earned money each month.
- ★ Novation Investment Services continues to provide exceptional value and advice to their 1,000 clients. Mark Peterson and Cole Backstrom now manage over \$200 million in assets and as a result of their expertise and outstanding service, their business primarily grows through referrals.

As we look forward and execute our strategic plan, we are excited to keep building on our relationship with 3M HR leadership. The opportunities associated with this collaboration are a benefit not only to new 3Mers, but also to existing employees and our entire membership. Working together helps drive growth which translates to increased member value.

In closing, we would like to thank our Board of Directors, Supervisory Committee and Novation staff for their ongoing commitment. They are laser focused on providing attractive financial solutions to 3Mers not only as they cross life's milestones but each and every day.

Thank you for your continued loyalty and have a wonderful 2019.

*Thomas B Hangge*

Tom Hangge  
Chairman

*Kristi Mukomela*

Kristi Mukomela  
President/CEO

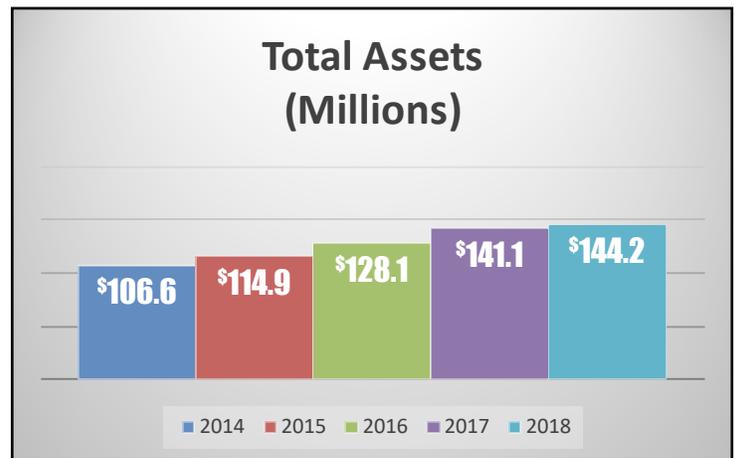
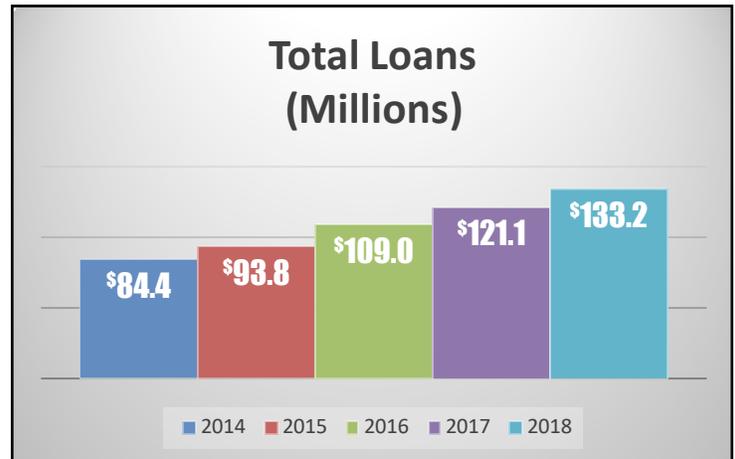
# Financial Statement

as of December 31, 2018

| Assets   | 2018                 | 2017                 |
|--|----------------------|----------------------|
| Loans to Members                                   | \$133,244,251        | \$121,108,895        |
| Cash and Investments                               | 3,294,701            | 12,365,126           |
| National Credit Union Share Insurance Fund Deposit | 1,327,528            | 1,221,194            |
| Fixed Assets                                       | 2,491,434            | 2,640,467            |
| Other Assets                                       | 3,880,869            | 3,733,819            |
| <b>Total Assets</b>                                | <b>\$144,238,783</b> | <b>\$141,069,501</b> |

| Liabilities and Member Equity  | 2018                 | 2017                 |
|--------------------------------|----------------------|----------------------|
| Member Shares                  | \$130,317,000        | \$128,475,567        |
| Payables and Other Liabilities | 1,672,390            | 1,397,134            |
| <b>Total Liabilities</b>       | <b>\$131,989,390</b> | <b>\$129,872,701</b> |

|  |                      |                      |
|--|----------------------|----------------------|
| Statutory Reserve                          | \$ 2,056,350         | \$2,056,350          |
| Operating Reserves                         | 10,193,043           | 9,140,450            |
| <b>Total Member Equity</b>                 | <b>\$12,249,393</b>  | <b>\$11,196,800</b>  |
| <b>Total Liabilities and Member Equity</b> | <b>\$144,238,783</b> | <b>\$141,069,501</b> |



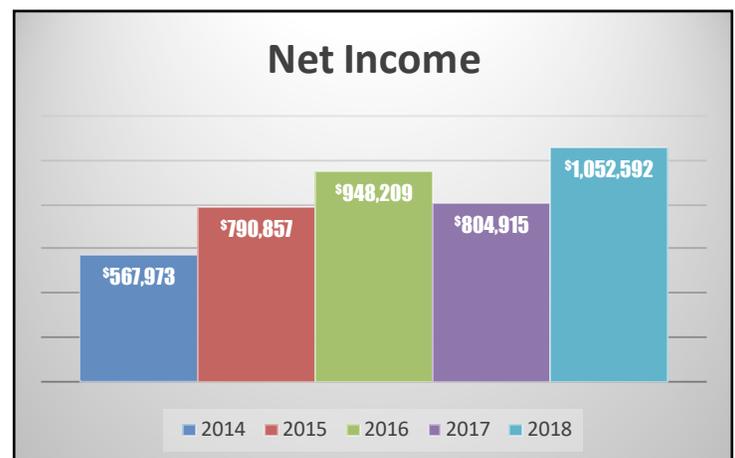
# Operating Statement

as of December 31, 2018

| Income                   | 2018               | 2017               |
|--------------------------|--------------------|--------------------|
| Interest on Member Loans | \$4,811,670        | \$4,257,914        |
| Interest on Investments  | 131,232            | 105,774            |
| Non-Interest Income      | 2,136,553          | 2,040,026          |
| <b>Total Income</b>      | <b>\$7,079,455</b> | <b>\$6,403,714</b> |

| Expenses                         | 2018               | 2017               |
|----------------------------------|--------------------|--------------------|
| Employee and Volunteer Expenses  | \$2,660,253        | \$2,607,176        |
| Operations                       | 2,544,268          | 2,334,075          |
| Occupancy                        | 322,859            | 317,671            |
| Provision for Loan Loss          | 111,629            | 118,311            |
| Loss on Real Estate Owned        | 0                  | 0                  |
| Member Dividends & Funding Costs | 387,854            | 221,566            |
| <b>Total Expenses</b>            | <b>\$6,026,863</b> | <b>\$5,598,799</b> |

|                                    |                    |                  |
|------------------------------------|--------------------|------------------|
| <b>Net Income to Member Equity</b> | <b>\$1,052,592</b> | <b>\$804,915</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, 2018. 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 products 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](http://www.novation.org).

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### Board of Directors

Tom Hangge, *Chairman*  
Matt Juhl, *Vice Chair*  
Shawn Schow, *Secretary*  
Dan Carlson  
Beth Edinger  
Rhonda Graves  
Mike Kronebusch  
Dawn McGinley  
Sylvia Propps

### Supervisory Committee

Ray Aalderks  
Beth Eskra  
Laura Hoffman  
John Schwalbach

### Management

Kristi Mukomela, *Chief Executive Officer*  
Sharon Hansen, *Chief Financial Officer*  
Scott Henning, *Vice President of Marketing, Sales and Member Experience*  
Nick Altavilla, *Vice President of Operations*  
Todd Brandel, *Director of Hutchinson Operations*



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(800) 369-6628  
[www.novation.org](http://www.novation.org)

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