

2023 Annual Meeting Booklet Reports

BOARD OF DIRECTOR'S REPORT

On behalf of the Board of Directors, Committees and Staff, I welcome you to the 86th Annual Meeting of Northwoods Credit Union.

It has been three years since we all began dealing with the COVID-19 pandemic and while it looks like we will continue to deal with ongoing variants and outbreaks, we are beginning to return to some sort of new normalcy.

During the past three years we have reported to you how we have continued to keep the credit union moving forward and 2022 was no different. In 2022 we had very good financial performance, with reasonable and sustainable growth compared to the rapid growth in 2021. Key financial indicators are all good including the building of the credit union's equity. Through the efforts of our Chief Financial Officer, Matt Ferrin, and our President and CEO, Doug Wolf, the credit union was able to successfully recover a significant amount of the 2020 accounts payable fraud loss in 2022, something our regulators doubted was possible.

The Board continues to be dedicated to the credit union's success, making sure proper policies are in place, financial performance is good, and that the credit union continues to be prepared for the future. The Management Team, led by our President and CEO, Doug Wolf, has kept us well informed and we appropriately ask questions and provide input on various matters.

We have a very capable Management Team that allows the Board to focus on bigger picture items and to think strategically about the future of the credit union. In addition, we have an outstanding staff that provides top-notch, personal service to our members. The call center, created in early 2022, has dramatically improved our member experience when calling into the credit union. The call center employees are some of our most experienced and capable frontline staff and it is another example of continued improvements to serve you our member/owners.

In 2023, we have a few big projects being worked on that include the completion of our Stanley Ave office remodel and the conversion to a new share and loan (core) processing system. These are significant investments in the credit union's future.

I want to thank my fellow Board members for all the work they continue put in to make our credit union a success. The Board of Directors and I would like to thank our President and CEO, Doug Wolf, all of his management team, and the staff for their continued dedication to serving you, our member/owners.

I would like to also acknowledge all the good work done in 2022 by our Supervisory Committee, led by Committee Chair Vicki Radtke.

On behalf of the Board, I thank you, our member/owners, for continuing to support your credit union by utilizing the services we offer. We look forward to many more successful years ahead.

Respectfully submitted,

Jeffrey Kletscher, Board Chair

PRESIDENT'S REPORT

I am pleased to report that 2022 was a very good year for Northwoods Credit Union. In addition to good financial results, we improved our member experience when calling into the credit union and we were able to begin the final phase of our Cloquet facilities plans.

Assets had a modest increase as we ended the year with \$162.4 million in assets compared to \$158.8 million at year-end 2021. Loans grew in 2022 by \$9.9 million (or 7.85%) while shares were pretty much unchanged at \$146.0 million as of December 31, 2022, compared to \$146.5 million in 2021. The credit union's equity ended the year at \$13.3 million, growing by 10.31% because of another year of good net income. We continue to be considered a "well capitalized" credit union with our Net Worth Ratio ending 2022 at 8.21%. Membership grew by 452 members, ending 2022 with 11,408 members.

I would like to note that we made a change in October 2022 as to how our Allowance for Loan Losses is determined (the contra-asset balance sheet account in our loan balances section that represents an estimate of potential future losses in the loan portfolio). Accounting standards required that we revise how we estimate what our Allowance for Loan Losses balance should be. This change resulted in a significant increase in the Allowance for Loan Losses via a direct transfer from our Undivided Earnings in October 2022. With this change, you should know that there is not an increased risk in our loan portfolio, this is purely a change in an accounting estimate.

Net income for 2022 was a positive \$1.7 million. This net income was the result of loan growth and members utilizing our services, plus a couple of extraordinary income items shown on the Other Operating Income line of the Income Statement. The Other Operating Income included our successful efforts to recover as much as possible from the 2020 accounts payable fraud loss, recovering over \$900,000 in 2022. In addition, we received about \$300,000 from other sources for various reasons. These significant items were one-time events. Operating Expenses grew by 10.9% due most notably to additional staffing in 2022 and one-time expenses related to our upcoming core processing system conversion.

In January and February of 2022, we implemented a fully functioning call center to improve your experience when calling into the credit union. This has been a great success with member wait times reduced to a few rings and the staff member answering your calls being able to address most of your needs. In October 2022 we were able to begin the final phase of our Cloquet Facilities Plan with the remodel of our Stanley Ave branch near Walmart. This project was scaled down from an original building expansion to a remodel due to our reassessment of future needs and for cost considerations. When reopened, the branch will accommodate additional staff with a better work environment, and you will have an improved member lobby experience.

We continue to deal with an economic environment that has been very challenging. Our Board, Executive Management Team, and Asset-Liability Committee have been very engaged in managing through these unique challenges. We have adjusted our loan, deposit, and CD rates

in a prudent and measured manner to best manage the credit union's financial future. Our recent CD specials in 2023, with above market rates, are an example of how our attention to properly managing the credit union financially can lead to member benefits.

2023 will be a challenging year for net income as we are forecasting much lower spreads between what we receive in loan interest income and what we pay in dividends (interest rates) on deposits and CDs. Also adding to the challenges in 2023 will be a core processing system change on August 1, 2023. While we do not expect any disruption of services from this change, it will have a financial impact on our 2023 net income.

We continue to steer the credit union in the right direction for long-term success rather than short-term performance. We continue to invest in systems and services that will serve our members best well into the future and that will enable us to continue to be efficient. We will always look for future growth without sacrificing service to our current members who have supported us over the years.

I would like to thank our Board, Supervisory Committee, Management Team, and the staff for all the hard work and dedication that they bring to Northwoods Credit Union. Our success really comes from their efforts and our focus on our Mission, Vision, and Values.

Finally, as always, we are very appreciative of our members trust in us and your support and use of the credit union's many products and services. As a financial cooperative, Northwoods Credit Union only works when you, our members, continue to pool resources for better rates and services, which is always our goal and our focus.

Respectfully submitted,

Doug Wolf, President/CEO

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee works in conjunction with the Board of Directors to monitor and review the Credit Union's performance and controls. Our job is to verify that operational and financial functions are performed in compliance with generally accepted accounting principles, federal and state laws and regulations, within the parameters of Board Policies, and that reasonable internal controls are in place.

To assist the Committee in meeting its legal and regulatory obligations, the Committee retains the services of several outside firms to perform certain ongoing internal audit procedures within the operations of the Credit Union, to perform the annual verification of member accounts, and the opinion audit (the opinion audit was as of 9/30/2022, the financial information in this Annual Report is unaudited). The reports from these independent firms are reviewed by the Committee, reported to the Board and Management, and the Committee follows-up on any findings.

Based on the above audit procedures, and the on-going work of the Committee, the Supervisory Committee is pleased to report that in 2022 no material concerns were revealed.

The Committee expresses its gratitude to the Board of Directors, the credit union management, and the staff for their cooperation and assistance during the year.

Respectfully submitted,

Vicki Radtke, Chairperson