



**Together, we
make an impact.**

2022 CLEARWATER ANNUAL REPORT



clearwater
CREDIT UNION

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Letter from the CEO and Board Chair

The years 2020 and 2021 were extraordinary for Clearwater. The financial effects of the COVID pandemic drove record high levels of deposit growth and balance sheet expansion. This was largely due to our member households and businesses saving more of their incomes (as spending was constrained) and the government spending more (as fiscal stimulus was injected into the Montana economy).

In many respects, the year 2022 can largely be described as a return to normal. Household and business spending picked up as pandemic restrictions lifted. This reduced deposit growth levels, and balance sheet expansion slowed. Credit union operations normalized with lobbies fully open, and on-site staffing levels returned to full capacity. Membership growth, loan balance growth, and credit quality all remained strong.

There was (and still is) two important exceptions to this “return to normal” — inflation and the rapid rise in interest rates engineered by the Fed to address that inflation. For the years 2000-2020, the average U.S. inflation rate was 2.06%, very close to the Fed’s 2.00% target. In 2020 the rate of inflation was 1.23%. In 2021, it shot up dramatically to 4.70% and then to 8.00% in 2022.

Into the first quarter of 2022, the Fed was holding the Fed Funds Rate close to zero. In March 2022, the Fed began moving the Fed Funds Rate upwards in 25 basis point increments, then as large as 75 basis point increments. Most recently in March 2023, they moved it back down to 25 basis point increments. All in all, 10 incremental upward rate adjustments lifted the Fed Fund rate to 5.25% by May 2023, representing the most rapid rate increase ever recorded.

These rate increases ultimately target prices, but also work through banks and credit unions raising new challenges for the credit union and our members.

- First, they make borrowing less attractive to consumers, homeowners, and businesses, which reduces loan demand, loan originations, and loan balance growth.
- Second, inflation eats up household savings. Further, increasing interest rates makes it easier for consumers and businesses to find higher rates of return for their savings, which makes it increasingly difficult for the credit union to mobilize and retain deposits.
- Third, Net Interest Margin (NIM), one of the most important drivers of profitability, is effected. If rates paid on deposits move up faster than rates paid on loans, NIM goes down. If loan rates move up faster than deposit rates, NIM goes up.
- Fourth, banks' and credit unions' investment and fixed rate loan portfolios lose value as rates move upward.

Clearwater is managing through these new challenges effectively. None of these challenges has created serious stress for the credit union. While both deposit and loan balance growth rates slowed in 2022 (and into 2023), we continue to outperform industry peers. We have pushed up our deposit rates paid to members, helping them to protect their savings against inflation, yet we continue to maintain a healthy NIM and are generating profitability that is increasing the credit union’s net worth ratio. Bond portfolio values have declined, as they have in all banks and credit unions, but the



declines are manageable. Overall balance sheet protection, in the form of loan loss reserves and net worth is very strong.

Alongside effective financial management, your credit union has continued to invest in service, expansion, and community impact. Highlights include:

- All of our members will soon benefit from a new online and mobile banking platform, significantly enhancing our digital service capabilities.
- A new branch is under construction in Uptown Butte, at the corner of Main and Granite Streets. We are also very happy to be holding our Annual Member Meeting in Butte, at the historic Hotel Finlen, the first Annual Member Meeting the credit union has held outside of Missoula.
- We have acquired land in Bozeman for a new branch at the intersection of Oak Street and 12th Avenue. The design is already underway benefiting from input from our Bozeman members and partners.
- We recently stood up an innovative new partnership with Opportunities, Inc., the HRDC in Great Falls, and are now delivering responsible financial coaching and products and services to Opportunities clients as well as to our Great Falls members.

As we grow and develop new capacities, resources, and partnerships, we also remain focused on the principles of values-based banking, highlighted in our community impact stories featured on pages 9 and 14. These principles are what make us different, and they are what makes us relevant as a force for good in banking, in the lives of our members, and in the communities we serve.

We know we could not do any of this good work without you. We thank you very much for your membership in and support of Clearwater.



JACK LAWSON
President & CEO



TONY BOOTE
Board Chair



Our Financial Performance

Signs of Normalizing Growth

In 2020 and 2021, Clearwater experienced record-breaking annual asset growth of 33% and 16%, respectively. In 2022, annual asset growth returned to a more normal level of 7%, the same as Clearwater's average asset growth from 2015-2019. Total member deposits grew by \$24 million, or 3% on the year. We continued to meet our members' lending needs with total loan balances increasing by \$122 million, or 24%.

Asset Quality

We continue to experience high credit quality. As the loan portfolio's size and complexity has grown, we have been careful to help members into loans appropriate to their circumstances. The credit union's loan loss rate (actual losses) plus its delinquency rate (loans that are paying late) declined from 0.31% in 2020 to 0.12% in 2021 and increased to 0.24% in 2022. We continue to be well-reserved for potential credit issues.

Earnings

The credit union's net earnings performance also continues to be strong. Our 2022 Return on Average Assets of 1.09% is higher than the 2015-2019 average of 0.98%. Several things contributed to our profitability including an expanding Net Interest Margin and well-managed expenses.

Net Worth

In 2022, Clearwater's Net Worth Ratio climbed significantly to nearly 12% because of a \$16.8 million secondary capital investment from the Treasury Department's Emergency Capital Investment Program (ECIP). The ECIP is administered by the U.S. Department of Treasury to strengthen Community Development Financial Institutions and provides low-cost capital for 30 years. The ECIP investment increased Clearwater's Net Worth Ratio to above pre-pandemic levels.



**CONSUMER
LENDING**

8,717 LOANS

\$132 Million



**MORTGAGE
LENDING**

650 LOANS

\$114 Million



**MORTGAGE
SERVICING PORTFOLIO**
1,469 LOANS
\$259 Million



**BUSINESS
LENDING**
261 LOANS
\$40 Million



Balance Sheet

	2021	2022	% Change
Loans	\$507,979,168	\$628,416,386	24%
Investments	\$327,838,148	\$277,842,602	-15%
Other Assets	\$38,656,298	\$32,696,233	-15%
Total Assets	\$874,473,613	\$938,955,222	7%
Liabilities	\$13,112,156	\$66,904,825	410%
Deposits	\$776,481,149	\$800,547,892	3%
Equity	\$84,880,308	\$71,502,505	-16%
Total Liabilities, Deposits, & Equity	\$874,473,613	\$938,955,222	7%

Income Statement

	2021	2022	% Change
Loan Interest	\$19,964,700	\$23,854,149	19%
Investment Interest	\$3,718,284	\$5,429,580	46%
Interest Expense	(\$1,271,747)	(\$1,693,004)	33%
Net Interest Income	\$22,411,237	\$27,590,726	23%
Provision for Loan Loss	(\$533,173)	(\$1,532,402)	187%
Non-interest Income	\$12,088,323	\$12,344,818	2%
Non-interest Expense	(\$24,010,193)	(\$25,792,134)	7%
Non-Operating Income or (Expense)	\$6,746,340	(\$2,696,075)	-140%
Net Income	\$16,702,535	\$9,914,932	-41%



Empowering Financial Resiliency

At Clearwater, one of our core values is “Together, We Empower”, and we’re committed to empowering all Montanans with the knowledge needed to build lifelong financial strength and resiliency.

Until recently, Montana public schools did not require financial literacy classes for graduation. As a result, not all Montanans have had the opportunity to learn fundamental money management techniques that empower them to take control of their financial future and make decisions in their own best interest. Clearwater is dedicated to changing that.

Through our online Education Center, all Montanans can access financial insights and advice around a wide scope of financial topics. However, we find that it is our in-person education classes, hosted by our local branch managers, that empower us to do what we love best — work directly with community members to advance their financial know-how.

“With each hour-long session, participants can ask questions and create a relationship with a financial leader whom they can reach out to any time,” stated Cheri Lawrence, Russell Street Branch Manager.

Miranda Schmid, Downtown Missoula Branch Manager added, “Financial literacy has been a gap in education curriculum for years. As a result, many young adults graduated high school and now struggle as adults to take control of their money. I’m so proud and grateful for the opportunity to play a part in filling that gap.”

In 2022, our branch managers provided free financial education classes to 1,143 people across Western Montana. They conducted classes at schools, non-profit organizations, senior centers, and right onsite at our Missoula Training Center. Classes covered budgeting and banking basics, how credit and lending work, an overview of how to choose the right checking and savings accounts, and the difference between a debit and credit card.

In 2023 and beyond, we will continue to expand the scope of classes offered. With our goal of reaching 1,600 individuals this year, we are well on our way to empowering future Montanans to build lifelong financial strength and resiliency.

“Financial literacy is a gap in education systems nationwide. We are thankful that we get to play a part in filling that gap.”

MIRANDA SCHMID,
Branch Manager





Financial Literacy Series
Financial Literacy Series
Financial Literacy Series
Financial Literacy Series

Financial Education with Bonds
Financial Education with Bonds
Financial Education with Bonds
Financial Education with Bonds





TOTAL MEMBERS

57,106

NET NEW MEMBERS

2,478



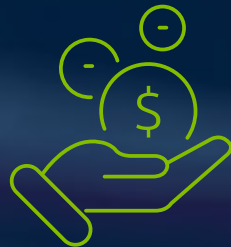
FINANCIAL COUNSELING SESSIONS

427 Sessions

Great Falls & Missoula

PHILANTHROPY
\$496,631

5.01% OF NET INCOME



Given to 210 Local Non-Profits



FINANCIAL EMPOWERMENT

1,143 people Attended
Financial Education Classes



EMPLOYEE VOLUNTEERING

1,340 HOURS



A New Credit Union Serves Native American Communities

Without access to traditional banking options, something as simple as grocery shopping or paying bills can seem overly complicated and out of reach. The people of the Northern Cheyenne Indian Reservation knew that feeling all too well having lived with limited access to a local, community-based financial institution for several years.

The People's Partner for Community Development (PPCD), a local, Native-run, nonprofit organization wanted to change that. PPCD undertook what would become a six-year process to form a new credit union to support its community members who battle steep unemployment rates, poverty levels three times that of the state, and some of the lowest home-ownership rates in the nation.

In late 2022, the NCUA approved The Morning Star Federal Credit Union's new charter, one of only four new U.S. credit unions chartered last year. In the months following their charter approval, The Morning Star team prepared for their May 2023 Grand Opening with the assistance and support of many from the Clearwater team.

"From training Morning Star team members on credit union operations, to developing policies and procedures, to being onsite the first week The Morning Star opened, it has been a true honor helping The Morning Star Federal Credit Union establish a new credit union to empower their community," said Jack Lawson, Clearwater President and CEO. "One of Clearwater's core values is 'Together, We Include,' and we're proud to support a new credit union in our state committed to helping its community thrive."

According to Maria Valandra, Clearwater Vice President of Community Partnerships and Indigenous Strategy, the grand opening was a success. "We were honored to be a part of bringing this vital banking resource to the community to support a common goal of financial inclusion."

John De Groot, Clearwater Chief Financial Officer, described the grand opening as inspiring. "The Lame Deer community decided to solve the problem themselves," De Groot continued. "It was a true representation of the credit union movement of people helping people and empowering communities to help themselves."

"It's inspiring to see community members identify a need and take action," remarked Bill St John, Senior Vice President of Consumer Banking. "Forming this credit union was an enormous undertaking, and I'm happy for the Morning Star team. It's been a very rewarding experience, and I'm thankful for the opportunity to help and for the friends I've made in the process."

Since its grand opening, The Morning Star has seen a steady rise in membership, and they know they can reach out to the Clearwater team at any time for support and advice. Meagan Kraft, Clearwater Senior Vice President of Operations, added "I feel privileged to have been a part of supporting The Morning Star Federal Credit Union. It's truly beautiful to see people come together to support a common goal of financial inclusion. We've made some great new friends and colleagues along the way."





Global Alliance for
Banking on Values

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