

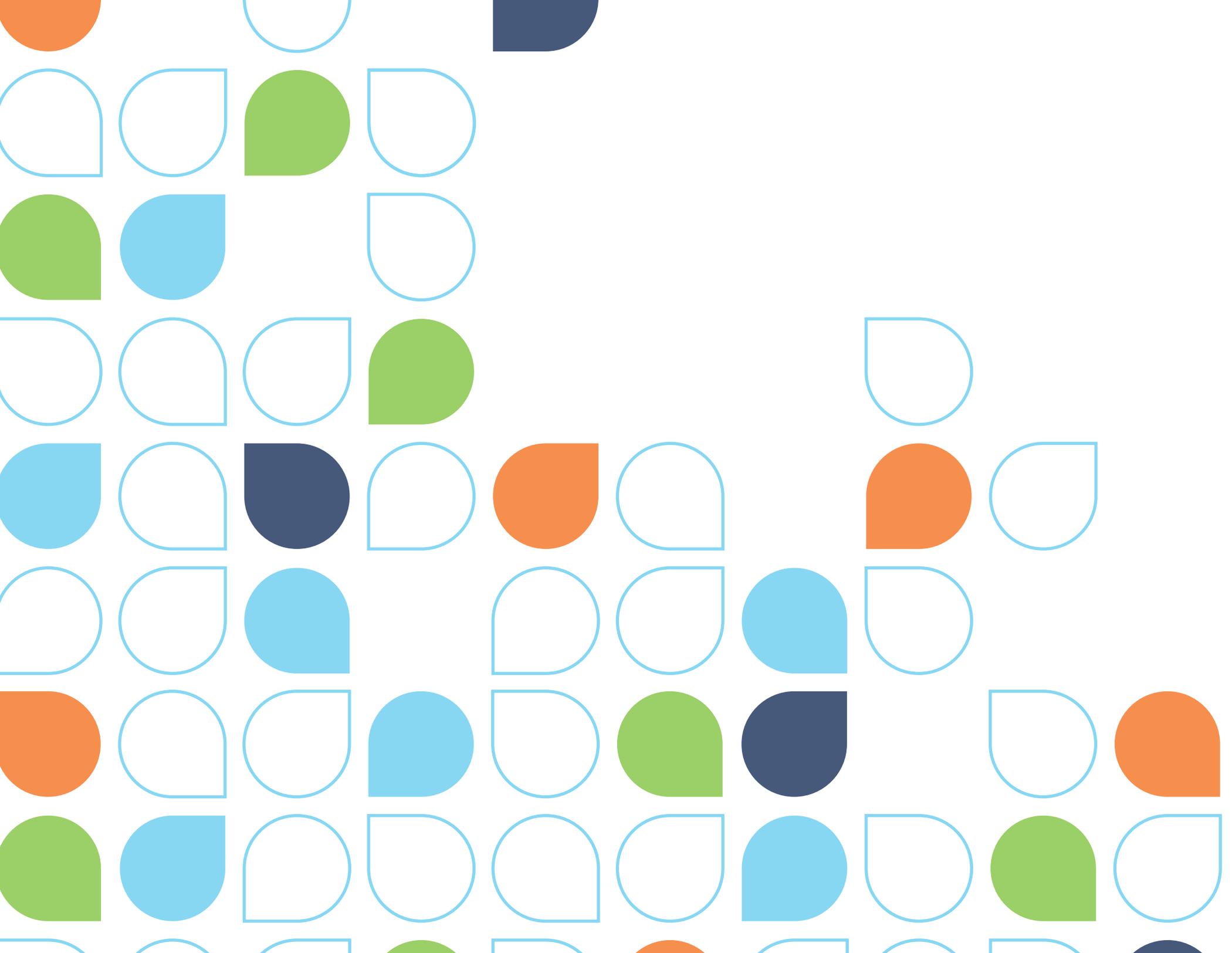


clearwater
CREDIT UNION

Banking on Values

2023 Annual Report





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Letter from the CEO and Board Chair

2023 was a year of extraordinary challenges for our credit union. With these challenges came important opportunities for growth and development.

The first challenge came in the form of inflation and rising interest rates. From 2000 through 2020, the average inflation rate in the U.S. economy was 2.1%, very close to the Fed's target of 2.0%. In 2020 the rate of inflation was 1.2%. Then it shot up dramatically. In 2021 the rate of inflation was 4.7%; in 2022 it was 8.0%; and, in 2023 it declined to 4.1%.

In March of 2022, to address high inflation, the Fed began moving the Fed Funds Rate upward from near zero. First in increments of 25 basis points, then in increments as large as 75 basis points. Overall, 11 incremental, upward rate adjustments lifted the Fed Funds rate to 5.5% by July of 2023, the most rapid rate increase ever recorded. These rate increases challenge the credit union in four important ways.

1. They make borrowing less attractive to consumers, homeowners, and businesses, and they reduce loan demand.
2. Inflation eats up household savings, and increasing interest rates make it easier for consumers and businesses to find higher rates of return for their

savings. As a result it becomes increasingly difficult for the credit union to mobilize deposits.

3. Our net interest margin (NIM), one of the most important drivers of credit union profitability, is impacted. 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.
4. Investment and fixed-rate loan portfolios lose value as rates move upward.

All banks and credit unions in the U.S. economy experienced these challenges. According to the FDIC, there were 566 bank failures in 2023 - a combined total of \$549 billion in assets - the biggest year ever for bank collapses.

Clearwater managed this first set of challenges effectively. We have pushed up the deposit rates we pay to members, helping them to protect their savings against inflation while continuing to maintain a healthy NIM. We are

“Our commitment to the principles of values-based banking helps to deliver success in challenging times.”

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.

The second major challenge took place when one of our vendors alerted us that it was among the victims of the MOVEit file sharing platform hack. Globally, more than 2,500 organizations and 75 million individuals were affected by this incident. That included approximately 26,000 Clearwater members. We discovered this impact on June 14, 2023, and by June 30, 2023, we mailed notifications to all affected members and offered ID theft protection resources at Clearwater's expense.

The third major challenge was a delayed digital banking conversion. We planned to deliver a new digital banking platform to our members before the end of 2023. Unfortunately, in the run up to that transition, we lost confidence in our technology partner and decided to exit the partnership. This was a setback, but we are entirely confident that it was the right decision for our members. We have selected a new partner and are now well underway to delivering a new digital banking platform in Q4 2024.

Through these challenges, we realized growth and development. We added 3,033 net new members, we strengthened the balance sheet, and we crossed the \$1 billion level of total assets. We will open a new branch in uptown Butte before the end of 2024. We have acquired land in both Bozeman and Great Falls, and we

are now planning branch development projects in those communities. These physical investments, combined with a new digital banking platform, will position us well for further growth and development.

We believe our commitment to the principles of values-based banking helps to deliver success in challenging times. These principles are what make us different. They help to ensure that we remain a force for good in banking, in the lives of our members, and in the communities we serve.

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



JACK LAWSON
President & CEO



TONY BOOTE
Board Chair

Financial Performance

In 2023, Clearwater realized strong growth, solid asset quality, and robust earnings, leading to a very strong 12% net worth ratio.

Many financial institutions across the country, including Clearwater, saw total deposits decrease. As inflation increased to 40-year highs and savings rates decreased to 15-year lows, our membership had to use their savings to cope with inflation. Plus, as the competition for deposits increased, members had alternative investment options from which to choose. Despite those challenges, Clearwater performed well and continues to be financially strong, safe, and sound.

Loan Growth and Asset Quality

Loan growth ended the year at a robust 14.5%, with a healthy loan-to-asset ratio of 70.7%. We also continue to have historically strong credit quality.

As the size and complexity of our loan portfolio has grown, we have been careful to help members into loans appropriate to their circumstances. That discipline has kept the credit union's loan loss rate (actual losses) added

to its delinquency rate (loans that are paying late) at a low 0.32%. Clearwater continues to be well-reserved for potential credit quality deterioration.

Earnings

The credit union's net earnings performance also continues to be strong. Our return on average assets was 1.14%. Several things contributed to our profitability including an expanding net interest margin and well-managed expenses.

Net Worth

Clearwater's net worth ratio continues to be very strong at nearly 12%, well above the regulatory requirement of 7%.

“Clearwater performed well and continued to be financially strong, safe, and sound.”

	2019	2020	2021	2022	2023
Net Charge Off + Delinquency Ratio	0.53%	0.33%	0.13%	0.25%	0.33%
Net Interest Margin	3.46%	2.95%	2.75%	3.04%	3.27%
Return on Average Assets	1.06%	0.98%	2.05%	1.09%	1.14%
Net Worth Ratio	10.89%	9.02%	9.79%	11.97%	11.98%
Loan to Assets	56.63%	55.91%	58.91%	67.81%	70.65%



Balance Sheet

	2022	2023	% Change
Loans	\$628,416,386	\$719,784,578	15%
Investments	\$277,842,602	\$279,446,253	1%
Other Assets	\$32,696,233	\$32,585,437	0%
Total Assets	\$938,955,222	\$1,031,816,267	10%
Liabilities	\$66,904,825	\$154,309,926	131%
Deposits	\$800,547,892	\$789,868,202	-1%
Equity	\$71,502,505	\$87,638,140	23%
Total Liabilities, Deposits & Equity	\$938,955,222	\$1,031,816,267	10%

Income Statement

	2022	2023	% Change
Loan Interest	\$23,854,149	\$32,483,836	36%
Investment Interest	\$5,429,580	\$8,618,579	59%
Interest Expense	(\$1,693,004)	(\$8,923,087)	427%
Net Interest Income	\$27,590,726	\$32,179,327	17%
Provision for Credit Loss	(\$1,532,402)	(\$2,845,135)	86%
Non-Interest Income	\$12,344,818	\$11,432,143	-7%
Non-Interest Expense	(\$25,792,134)	(\$29,507,150)	14%
Extraordinary Income (Expense)	(\$2,696,075)	(\$6,638)	-100%
Net Income	\$9,914,932	\$11,252,546	13%

Membership Impact







Community Impact





BANKING ON VALUES





Clearwater Members in Butte, MT



HRDC Partnerships and Pathway Banking

At Clearwater, we are dedicated to ensuring all Montanans have an equitable opportunity to prosper. That is especially true for low-income populations who often have difficulty qualifying for traditional bank services.

Many financial institutions view low-income populations as higher risk, less profitable customers. However, as a values-based organization and Montana's largest Community Development Financial Institution (CDFI),

Clearwater thinks and acts differently. We put people's needs before our profit margin and actively seek ways to help low-income families access the banking services and loans they need.

HRDC Partnerships

One way we do that is by cultivating partnerships with local Human Resource Development Councils. HRDCs are

Glacier National Park, MT

non-profit organizations that help individuals and families navigate complex life challenges and procure the resources they need to survive and thrive.

Those resources can include housing affordability grants, energy bill assistance, help with food and clothing, access to affordable banking services, and free financial counseling and education.

In 2022, we established our first HRDC partnership with Opportunities Inc., in Great Falls. We opened a small, on-site branch in their building where we open accounts, make loans, and offer free financial counseling and educational classes to both Opportunities' clients and the general public.

This partnership has created a one-stop support system that provides individuals and families the resources and skills they need to survive and thrive. It has proven quite successful, and in early 2024, we established our second partnership with The HRDC of Bozeman.

Pathway Banking

Through our HRDC partnerships, we have learned a great deal about the challenges and barriers low-income families have to navigating the traditional banking system. We have specifically designed our Pathway Banking program to help those just starting out or those who have difficulty qualifying for banking accounts, loans, and services.



“ Clearwater thinks and acts differently. We put people’s needs before our profit margin. ”

Our Pathway Banking program includes a robust set of low-cost accounts, loans, and services that help people manage their money, build or re-build their credit, avoid payday lenders, and develop money management skills.

You can learn more about our Pathway Banking program at clearwatercreditunion.org/pathway.

Making Home Ownership Possible

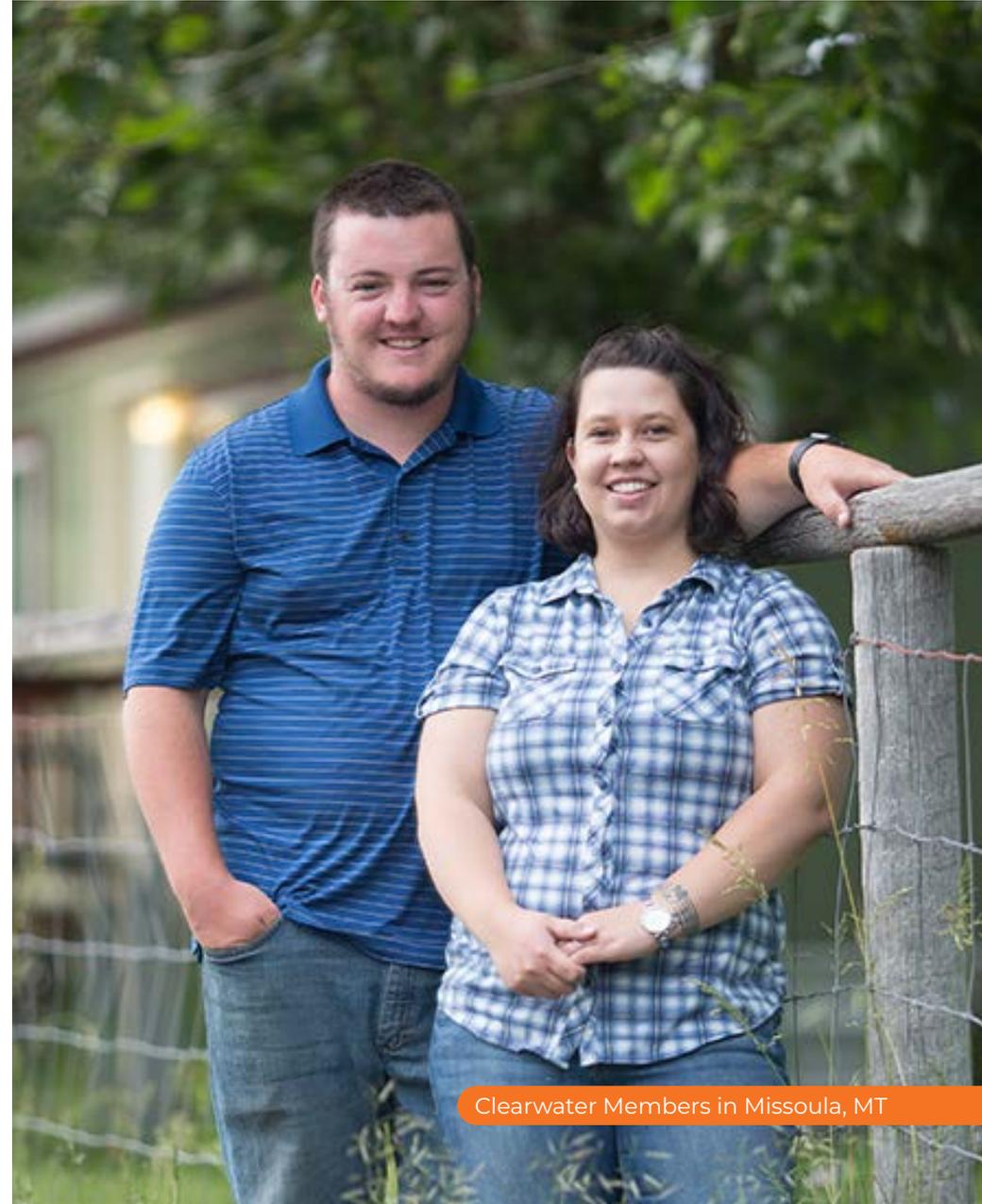
Home prices across our state have risen sharply in recent years placing home ownership out of reach for many. There are no easy answers to this challenge, but Clearwater is committed to being part of the solution by finding unique ways to help more Montanans become homeowners.

When rental tenants in a Missoula manufactured home park heard that the land their homes sat on would be put up for sale, they worried about rent increases from a new landlord.

With guidance and support from several organizations, the residents banded together to form a resident owned community (ROC). A ROC is a cooperative comprised of resident homeowners that operate the community for the benefit of its members.

With a grant from the City of Missoula's Affordable Housing Trust Fund, the North Missoula Community Development Corporation purchased the land and placed it into trust for the ROC, guaranteeing much needed affordable housing in perpetuity.

Then, in collaboration with NeighborWorks Montana, Clearwater offered, below market-rate financing to the 14 residents so they could buy, versus rent, their homes. Today, these residents control their homeowner destiny through a resident-elected board of directors.



Clearwater Members in Missoula, MT

The River Rocks Cooperative is a great example of Clearwater's approach to home ownership. Where there are organizations we can partner with or ways we can help more Montanans finance a home responsibly, we will do it.

Clearwater has also developed a number of unique home loan options not offered by other institutions. For example, Clearwater's **Manufactured Home Loan** helps people finance homes not on permanent foundations in approved mobile home communities.

Our **Next-Door Neighbor Loan** offers a low-down payment, reduced mortgage insurance premiums, and loan approvals that factor in both primary and secondary sources of income, such as rental income. Plus, with just 5% down, we will waive mortgage insurance entirely if the borrower works in the public works, education, healthcare, or first responder fields; works for a non-profit organization, or is a member of a recognized U.S. tribe.

Lastly, we developed our **Credit Rebuilder Mortgage** specifically for credit-challenged borrowers who might not qualify for the best rate. The loan starts out with a higher interest rate, but with consistent, on-time payments, the rate decreases over time.

At Clearwater, every deposit, payment, and purchase you make contributes to our ability to offer these unique loan financing options so that more Montanans can afford to own their own homes.



Clearwater Branch Design

Over the last several years, Clearwater has expanded its field of membership to include Montana's 20 western counties. We currently have full-service branch locations in Butte, Missoula, and Stevensville, all of which are located within Certified Development Financial Institution (CDFI) census tracts. We also have limited-service office locations in Great Falls and Helena.

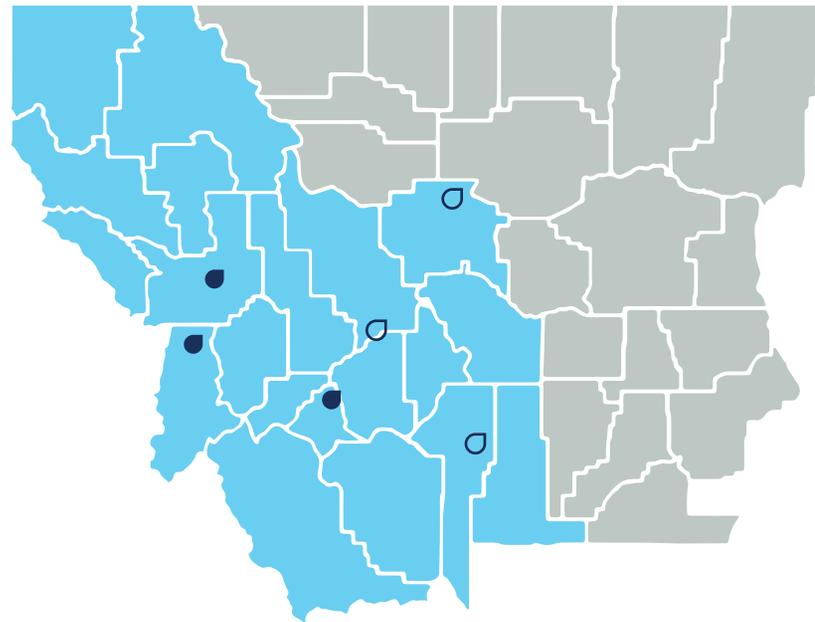
Our new Uptown Butte branch opens in Fall 2024 and will replace the current location. Plus, we have purchased land in both Bozeman and Great Falls to build future branches.

To us, a branch is more than just a banking location. It's an investment in our members, in the community it serves, and in our credit union's future economic performance. When we plan new branch locations, we start with lots of learning and listening before getting to the designing and building.

We engage with local leaders, civic and community groups, nonprofit organizations, neighbors, and existing members to understand the distinct challenges and opportunities each community faces. This approach

- **Butte** Branch
- **Bozeman** Office
- **Great Falls** Office
- **Helena** Mortgage Office
- **Missoula**
 - Brooks Branch
 - Downtown Missoula Branch
 - Reserve St. Branch
 - Russell St. Branch
 - University of Montana Branch
- **Stevensville** Branch

● Branches | ○ Offices



helps us better understand how we can purposefully design and build branches that contribute to the economic vitality and vibrancy of each community we serve.

“ We build branches that contribute to the economic vitality and vibrancy of each community we serve. ”

A great example of this is our new Uptown Butte branch. Instead of just building a cookie-cutter branch, we wanted the new location to contribute to Uptown Butte’s revitalization while simultaneously looking and feeling like it had always been there.

After extensive community input and planning, we designed a branch that will complement Uptown Butte’s unique character and contribute to the area’s economic growth.

As we look to design and build permanent branch locations in both Bozeman and Great Falls, we will continue to focus on making a positive impact in those communities through branch development.

To learn more about the new Butte branch or our commitment to building inclusive communities, please visit clearwatercreditunion.org/butte.



Clean Energy for Montana's Future

Clearwater is committed to supporting a clean energy transition.

Our Clean Energy Banking program is a suite of products and services to help Montanans save money and make their homes or businesses healthier and more comfortable. It also helps develop a local clean energy economy and protect this place we love.

A Great State for Solar Energy

Although we're pretty far north, Montana gets a lot of sun during the long, clear summer days. Solar energy is a local, low-carbon source of energy, and solar installation is a growing industry.

“Solar energy is a local, low-carbon source of energy, and solar installation is a growing industry.”

We designed our Home Solar Loan to help Montanans go solar at home. It's an easy-to-access, low-cost loan for home solar systems that can also include EV charging stations, necessary roof and electrical work, backup battery systems, and heat pumps. It's a quick, simple way to finance a home solar system. For more information about the investment value of solar energy or how to go solar yourself, please visit clearwatercreditunion.org.

Affordable Energy Efficiency

Montana winters are cold, our summers are getting hotter and smokier, and energy prices are rising. To help families and businesses, we have designed our Energy Efficiency Loan to make help make homes or businesses work better.

Everything from air sealing to heat pumps to energy efficient appliances can make homes and businesses more comfortable, lower energy bills, and improve indoor air quality. Our Energy Efficiency Loan can also help finance energy audits, heat pumps, insulation, high-efficiency appliances, and more.

We have all seen or experienced the affordability challenges in Montana's housing market. If not ourselves, then we have seen our friends, family, or neighbors stretch



themselves just to buy a home, only to end up with a home in dire need of maintenance and improvements. We have developed a Clean Energy Mortgage option to help address this challenge.

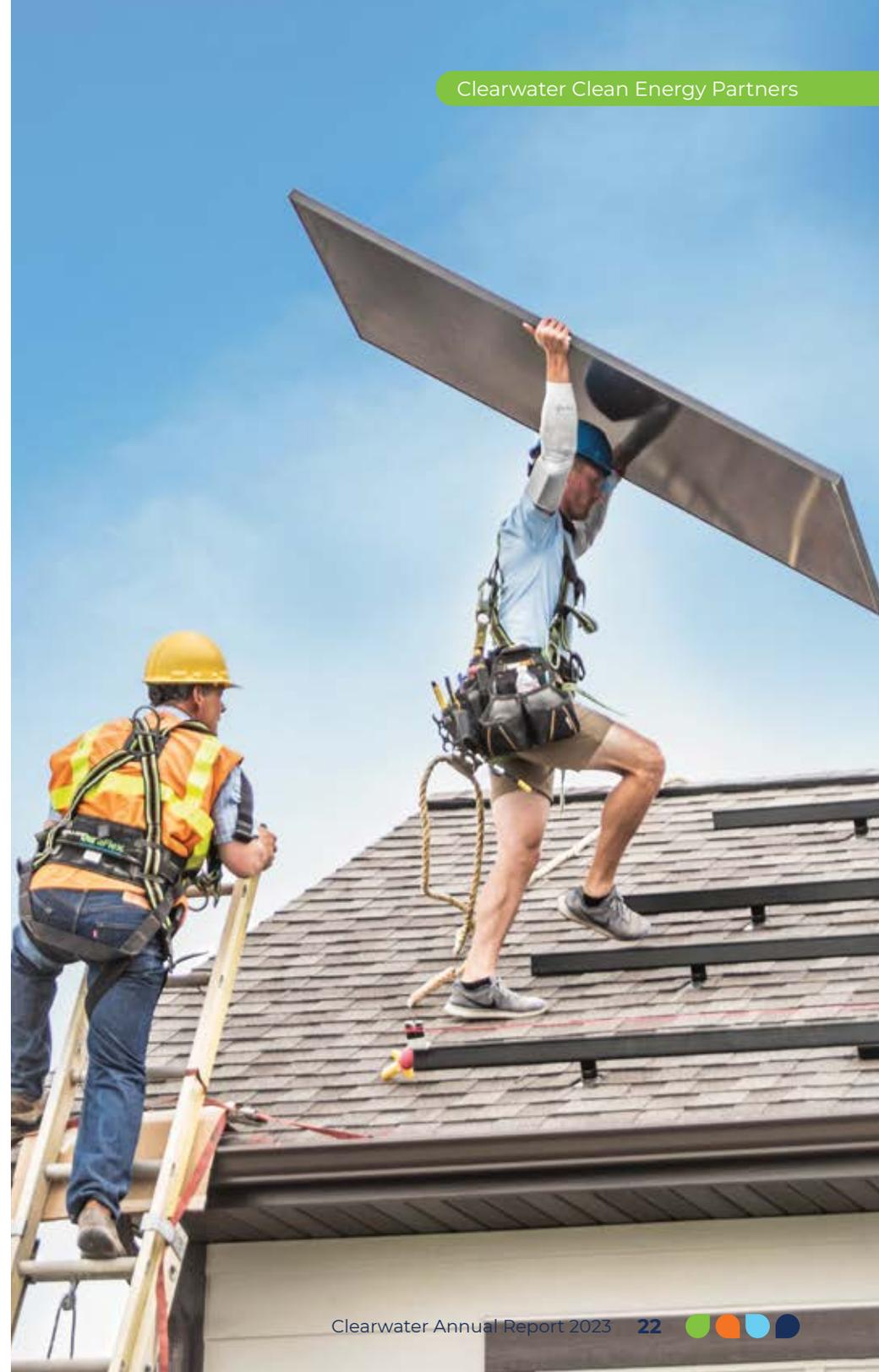
Home Retrofits

Our Clean Energy Mortgage Loan option offers an interest rate discount if at least 50% of the improvements go towards increasing the home energy's performance - improvements that also make it more comfortable and help to save money.

Energy Advisory

There are lots of reasons to improve home or business energy performance, but it can be hard to make sense of all the different options. To help, Clearwater is developing an energy advisory service. Free to Clearwater members, this service will help members understand their options for improving the efficiency and comfort of their homes or businesses, help create an energy plan, and connect members with trusted contractors to perform the work.

We plan to have this service up and running by early 2025, so stay tuned! For more information about our Clean Energy Program, just visit www.clearwatercreditunion.org.







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