

NW
NORTHWEST
FEDERAL CREDIT UNION

2021

**ANNUAL
REPORT**

Board of Directors



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Vice Chair

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Chuck Molina
Treasurer

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David Eldred
Director

Barbara Holmes
Director

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Director

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Mark Rumbarger
Associate Director

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Executive Officer

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Experience Officer

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Financial Officer

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Officer

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SVP Lending

Jeff Margeson
SVP Retail

Jean Cain
SVP HR & Talent
Development

Leslie Houseman
Corporate Chief
of Staff

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Christine Perritt
Committee Member

Susan Wilson
Committee Member

Robert Grieve
Associate Member

Report from the Chair and President/CEO



TOGETHER, WE WEATHERED THE STORM

Despite the challenges of the past two years, and as pandemic-era restrictions ease and communities create their new normal, Northwest Federal remains committed to our members and the communities in which we serve. While most people are again moving more freely throughout the country, 2021 created many hardships and challenges that we are still dealing with in 2022. We are not out of the woods yet, but we want to assure our members that Northwest remains strong with a regulatory

capital ratio of 10.60%, where 7% is considered well capitalized. We grew our capital through prudent, conservative, and fiscally responsible management. While there is still a lot of uncertainty on the horizon, rest assured that Northwest will be here as we have been for 74 years to assist our members with their financial endeavors.

NORTHWEST FEDERAL MAINTAINS A STRONG FINANCIAL POSITION

In a time of significant change and uncertainty, Northwest Federal remains focused on maintaining its financial health by keeping risks low and prudently using its income. As mentioned earlier, capital is the strongest indicator of a financial institution's health and long-term sustainability. At 10.60%, we are very strong. Our financial success in 2021 was due in large part to our conservative lending strategy that put quality ahead of quantity and assured industry-leading low loan delinquencies and charge-offs. This resulted in our being able to add to net income and our capital, which sustained and strengthened our position during the year.

Loan growth is another vital measurement of a credit union's performance. In 2021, Northwest Federal exceeded its financial goals. We are proud to report that our loan balances grew 2.8% to \$2.38B. We funded \$1.74B in total loans, with \$888M in auto loans and \$656M in first mortgage loans.

SUBSIDIARY PARTNER SUCCESS

Northwest Capital Management, a wholly owned subsidiary of Northwest Federal Credit Union, significantly contributed to our 2021 financial performance. They provide our members expanded financial products and services not offered by the credit union.

Since 1995, Northwest Capital Management has provided holistic management of investment, insurance, tax, and real estate settlement needs of individuals and businesses across the nation. The subsidiary operates as Northwest Financial Advisors, NW Insurance Agency, and Northwest Title & Escrow.

STRATEGIC GROWTH

Since 2019, Northwest Federal has opened three branch locations and completed one merger. This strategic growth has allowed us to increase our membership, expand access to banking services in Ashburn, Arlington, and Middleburg, Virginia, and partner with local philanthropic organizations. While Northwest did not open any new branches in 2021, we continued to explore potential branch locations.

Our enhanced digital offerings enabled our members to seamlessly transition to digital online banking and mobile banking when the pandemic hit. This channel of banking has grown since the pandemic, and we are seeing more volume in online banking and mobile banking. Going forward into 2022 and beyond, we will continue to invest in digital technologies ensuring Northwest has the digital capabilities to keep pace with member needs and preferences and the ever-changing technology landscape.

TECHNOLOGY ENHANCEMENTS

As part of our long-term commitment to improving our member experience, Northwest Federal unveiled a new look for our website. While the web address remains the same — nwfcu.org — we believe members will find the updated website's simplified navigation, improved functionality, and fresh layout and design to be a welcome change in clarity and convenience.

CORE INFRASTRUCTURE IMPROVEMENTS

Northwest Federal embarked on a change to its information technology infrastructure to allow for expanded services, simplified installation of new technologies, and the ability to be quicker-to-market with new product offerings. The rapid evolution of new member servicing technologies, the rapid advance in mobile banking, and the need for tailoring services to an expanding range of needs and offerings meant that our old core system was being challenged. This growth in complexity led us to conclude that we needed to make a major change to continue delivering the service we aspire to — and that our members expect and deserve. This change not only better positions us for growth, it will enable us to offer better member services and service technologies more rapidly than in the past.

Despite intense and careful planning, the core conversion process produced unexpected disruptions to our online banking system and a poor experience for our members. While we attempted to keep interruptions to a minimum, we regret that members were adversely affected. We have since completed the conversion and have resolved the issues that created a degradation in member service. This upgrade merged our systems into a single online platform. All member accounts are now housed in one system, ensuring more efficient interactions with our Member Service representatives and increased financial data security. And, using a single login and password, members can now access all their account statements — credit cards, mortgages, checking, and savings — and view all accounts for which they are an owner or joint

owner. Moreover, our front-line Member Service Representatives will be able to provide more immediate and seamless support for transactions affecting all of your accounts and they will, in the future, be better able to offer services that will be uniquely valuable to individual members based on their historical service usages and needs, especially as new technology-based offerings become available.

CREDIT CARD CONVERSION

Northwest Federal Mastercard® credit and debit cardholders transitioned to Visa® in 2021. The credit card conversion opened the doors to convenient card management within Online Banking and enhanced security features with the launch of the CardControl+ mobile app. With CardControl+, members can turn cards off and on when needed, set transaction alerts, and so much more. This transition promises much more sophisticated and capable fraud detection and alerts, and we instituted accompanying card processes to dramatically speed our detection and countering of card fraud.

As was the case with our Core Conversion, this transition did not go as smoothly as we had hoped and planned, and members were adversely impacted. A coding glitch from our VISA® provider resulted in one of the key features, Tap & Pay, to be declined on some cards that were issued. After an intense several months of work by our staff and inconvenience for our members, these problems have now been fully resolved and the benefits are being realized.

Northwest's new cards also provide cardholders with new and valuable Visa® lifestyle benefits. Travel benefits include trip cancellation insurance, lost luggage reimbursement, travel accident insurance, auto collision damage waiver, and more. Plus, additional luxury benefits such as Visa® Luxury Hotel Collection and Visa® Concierge became available to NOW REWARDS cardholders with a credit limit of \$5,000 or more. Members also benefit from expanded contactless payment convenience with Tap & Pay capabilities and additional digital wallet options.

COMMITMENT TO COMMUNITY

Northwest Federal continues to expand its Community Partner Program, which creates lasting relationships with non-profits in our communities. These valuable alliances allow us to support our local communities through sponsorships, in-person and online events, and staff volunteer hours. Each Northwest Federal staff member receives 24 hours of paid volunteer time per year.

Employees, members, and volunteers associated with these non-profit partner organizations are eligible for Northwest Federal membership, which helps us grow. As we grow, we can offer our members even more services.

Northwest Federal Credit Union Foundation, the philanthropic arm of Northwest Federal Credit Union, continued its support of our communities and the areas where our members and staff live and work. During the

pandemic, it was more important than ever to assist those in our community who were facing hardships. This past year provided another opportunity to live out our Why statement: "Together, we serve and inspire to transform lives." Some highlights of the Foundation's impact on our communities are listed below:

- Distributed 300 blankets and 450 plush toys to comfort children in vulnerable situations
- Through a partnership with Giant Food, provided 43,000 food items for children to take home from their local schools and after school programs
- Collected 3X more items than in 2020 for our Coats for Kids drive, with over 2,000 coats, hats, and gloves delivered to four local high schools and two local service organizations
- Awarded \$105,000 in scholarships to outstanding students to help defray the cost of college

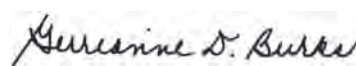
JUST OVER THE HORIZON

We believe that better technology translates to an improved member experience. On the heels of our core infrastructure update and credit card conversion, Northwest Federal is exploring artificial intelligence (AI) initiatives and how they could enhance the products and services we offer.

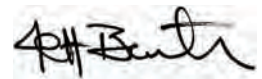
In 2021, the credit union added a Chief Member Experience Officer (CMXO) position to the Executive team. This individual is dedicated to exploring how we might adopt customized AI solutions without losing the human experience associated with face-to-face interactions. The CMXO will assist in creating focused strategies and practices to improve the member experience across all areas of the organization. Areas of focus include analysis of our products and marketing to ensure we deliver the right solution at the right time, understand the needs of our members when they're using our technology, branches, and Member Service Center to create high-value, frictionless interactions, and capture feedback from members through multiple touchpoints to confirm that we are consistently improving our service.

As we enter 2022, there is a great deal of uncertainty on the horizon. Life as we know it has changed in ways that many of us couldn't fathom several years ago. The Great Resignation, economic uncertainty, world events, remote work, and the lingering effects of the pandemic have all contributed to new challenges. What hasn't changed is Northwest's commitment to our members and our laser focus on ensuring that we are here for the long haul. You can be confident of our commitment to being your lifetime financial partner.

We look forward to a healthy and prosperous 2022!



Gerianne "Winky" Burks
Chair



Jeff Bentley
President/CEO

Report from the Treasurer & Financial Management Committee



Northwest Federal Credit Union continued to drive success in 2021, despite the challenges created by the COVID-19 pandemic and its Omicron variant and the technology advancements begun by the credit union in the form of the conversion of its core system

and online banking product to new platforms, by building value-added financial relationships designed to serve the communities in which we do business.

The credit union's assets grew in 2021 to over \$4.4 billion from \$4.2 billion in 2020. Deposit balances grew by over \$181 million, to \$3.60 billion as the credit union continued to focus on serving members' needs in a challenging economy and adding additional companies and organizations to its field of membership. The credit union funded nearly \$1.74 billion in loans during 2021. The low rate environment was a primary reason the credit union was able to fund \$656 million in First Mortgage loans, helping our members to save money each month to achieve their personal goals. Additionally, the credit union funded \$888 million in Auto loans in 2021.

The credit union's asset quality remained strong, as evidenced by the net loan loss ratio of 0.20%. The credit union earned net income of \$19.7 million in 2021 and when combined with the growth in assets, attained a net worth ratio of 10.60%. This strong net worth ratio supports the ability of the credit union to improve service channels and provide a safety net for the credit union as the nation continues to deal with the effects of the pandemic, increasing inflation and recent geopolitical events in Europe.

The Small Business Administration-led Paycheck Protection Program (PPP) continued into 2021 with some businesses securing a second loan. The credit union funded an additional \$73.4 million in PPP loans in 2021. Numerous small businesses had their SBA PPP loans forgiven in 2021 with \$122.6 million in loan forgiveness applications processed. The credit union funded over \$179.3 million of PPP loans for our members since the program began as the effects of the pandemic took a toll on these businesses.

Northwest Federal has maintained its core values of Service, Integrity, and Excellence while we have grown. The continued focus on employee training and development has helped to provide staff with the resources to create a better member experience. While

the pandemic greatly curtailed volunteer opportunities, Northwest Federal employees volunteered over 2,600 hours in 2021 demonstrating our commitment to make a positive difference in our members' lives and in the communities we serve.

We are pleased to present this report to our members as evidence of Northwest Federal's strong financial strength and commitment to our members to provide convenient, safe, and sound financial services.

Thank you for choosing to be part of Northwest Federal Credit Union.

Chuck Molina
Treasurer, Board of Directors
Chairman, Financial Management Committee

NWFCU FOUNDATION SCHOLARSHIP PROGRAM

In 2021 the NWFCU Foundation awarded \$105,000 in scholarships to deserving students and an additional \$20,000 to Northern Virginia Community College for their Lifeline and Helping Hands programs.

The Foundation has awarded \$1.6 million to a total of 353 award recipients since its inception, due in part to the generosity of NWFCU Foundation donors.

Report from the Supervisory Committee



Northwest Federal's Supervisory Committee (the Committee) strives to be a voice for you, the Member.

The Committee is a Board-appointed volunteer organization that provides an additional layer of checks and balances to the Credit Union's governance structure. The

Committee works on behalf of the membership by providing an independent view of Northwest Federal's safety and soundness by:

- Monitoring the financial health of the Credit Union.
- Monitoring the controls, policies and systems put in place by the Credit Union to mitigate financial, operational, and compliance risks.
- Investigating perceived violations of Credit Union rules and policies or unethical behavior.

The Committee meets regularly to execute, coordinate, review, and assess the effectiveness of its responsibilities. Below are key activities the Committee performs on behalf of the Members:

- **Oversight of Northwest Federal's Internal Audit (IA)** – Through direct lines of communication, the Committee oversees and meets regularly with the Director of IA to review the risk assessment and internal audit planning process, the results of ongoing and completed audits, progress on activities, management's responses addressing recommendations, and the adequacy of the resources, executive support, and training the IA function needs to execute its mission.
- **Review of External Regulatory Examinations** – The National Credit Union Administration (NCUA) conducts regular examinations of the Credit Union. The Committee monitors the results of the NCUA examinations as well as tracks management's responses to NCUA recommendations.
- **Monitor Internal/External Complaints** – Through IA, the Committee reviews and delegates, as appropriate, investigations of complaints received through channels such as the NCUA's Consumer Assistance Center and the Employee Ethics Hotline.
- **Focus on Emerging Issues** – As an independent voice, the Committee meets regularly with the Board and Members of the management team to review emerging initiatives, issues, and challenges that could impact the Credit Union's internal control environment and warrant ongoing attention and monitoring.

In addition to the above, a fundamental responsibility of the Committee is engaging an independent accounting firm to conduct an external audit of the Credit Union's financial statements. In order to ensure the highest levels of due diligence and best practices are optimized, the Committee regularly engages with external CPA firms. This year, the Committee conducted a rigorous search and evaluation process; resulting in a new firm being selected to conduct the annual external audit.

The Committee is pleased to confirm that the Credit Union is providing its utmost attention to maintaining a sound financial and internal control environment. For transparency, our Independent Auditor's Report, along with Northwest Federal's consolidated financial statements, are posted on the Credit Union's website for your review.

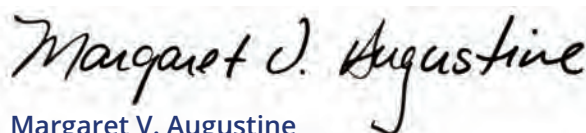
The Committee expresses our sincere appreciation to the Credit Union's Board, management, and staff for their exceptional service during yet another year of uncertainty. In addition, I would like to thank my colleagues on the Committee who volunteer their time and display a sincere commitment to their responsibilities – Charlie Barlow, Sandera Oliver, Christine Perritt, Susan Wilson and Bob Grieve.

In order to effectively serve as your representatives, we welcome hearing your concerns. If you have a question relating to the financial soundness or management of this organization, please do not hesitate to contact us:

Supervisory Committee
P.O. Box 1167
Herndon, VA 20172-1167

Or, to contact a member of the Supervisory Committee, you may also send an email to supervisory@nwfcu.org. The Committee is made up of Members just like you and is here for your benefit.

We are honored to serve you, as the voice of the Member.



Margaret V. Augustine
Chair, Supervisory Committee

Together, we serve and inspire to transform lives



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