



2015 ANNUAL REPORT

ORNL FEDERAL



CREDIT UNION



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Marcy Catron, Board Chair

BOARD CHAIR'S REPORT

The Credit Union made significant progress on our long-term strategic goals as evidenced by the completion of a number of important initiatives. These initiatives are designed to provide value to members *“at the intersection of technology, convenience, and experience.”*



We were the first financial institution in the market to deploy drive-thru **Interactive Teller Machines (ITMs)**. There are now 13 ITMs installed at various branch offices, and a total of 26 machines are expected by the end of 2016. This technology provides members with a high-quality drive-thru banking experience by producing a great interaction between the teller and the member.



Our Credit Union was the first in the market to issue **EMV-enabled (chip) debit and credit cards**. As more retailers accept this technology and as more institutions deploy these cards, there will be less fraud (and lower costs) for our members.



We were also the first credit union in the market to provide **Apple Pay services** to its members. This is a safe and easy alternative to plastic, and as more retailers make this available, it will become a preferred payment method.

BOARD CHAIR’S REPORT (CONT.)



A new **ORNL FCU brand was introduced** in 2015. The brand has added much needed energy, vibrant colors, modern imagery, and recognizable tones. The brand is evident in new marketing campaigns and also in recently remodeled branches. Take a look at the West Branch! By eliminating the teller lines and incorporating the new brand, the branch offices are inviting and allow staff to meet all needs universally.

In 2015, we embarked on a transformational **Master Facilities Plan**. The plan will result in the following enhancements:



- **Four newly-remodeled branch offices by the end of 2016**
- **A state-of-the-art branch office in Oak Ridge on the site of the original main office—completed and opened in February of 2016**
- **A remodeled main office that will allow various functions and departments to work in the same building, thus reducing lease costs**
- **A significant presence in the Northshore area of Knoxville that will provide space for the CUSO and related functions**



We implemented a **Human Resources Information System** (HRIS) that will allow our Credit Union to better manage a modern and growing workforce.



For the first time in our histories, ORNL FCU collaborated with Y-12 FCU on investments in complementary businesses: **CU Community Title Company and CU Insurance Services of Tennessee**. These business ventures are already proving to be very successful and members have received demonstrated value from these services.

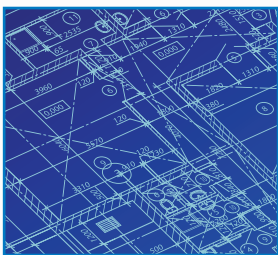
Of course, we aren't done yet. In 2016, there are many more strategic initiatives to be completed, including the following:



Mortgage Servicing Conversion. To better meet members' mortgage servicing expectations, a new mortgage system will be implemented in May 2016. The new system has the features, conveniences, and member service requirements that will provide value to members for years to come.



Core System Reconversion. The core operating system will be updated to ensure a more efficient process for our members and employees. This effort will allow our Credit Union to modernize the deposit product offerings and address internal obstacles.



Continuation of the Master Facilities Plan. By modernizing our facilities, creating service consistency, and consolidating departments, our Credit Union will achieve operating efficiencies that will prepare our membership for the next generation.

On behalf of your Board of Directors, thank you for making ORNL Federal Credit Union your financial partner. We look forward to a thriving 2016!

A handwritten signature in black ink that reads "Marcy Catron". The signature is fluid and cursive, with a large, stylized 'M' and 'C'.

Marcy Catron, Board Chair

TREASURER'S REPORT

ORNL Federal Credit Union's financial condition continues to remain strong and well-positioned to address any potential risk as well as to support future growth. Net Income of \$8.54 Million increased the Credit Union's Regulatory Net Worth to \$187.32 Million. With a Net-Worth Ratio of 10.83%, the Credit Union remains well-capitalized as defined by the National Credit Union Administration Total Assets ended the year at \$1.729 Billion and growth was strong with an increase of \$124.80 Million.

Total Loans ended the year at \$1.373 Billion. This was an increase of \$86.71 Million (6.74%) from the previous year. The Credit Union experienced good growth in all sectors of the loan portfolio.

Consumer Lending was strong with total balances increasing by \$53.46 Million (8.34%) to \$694.12 Million. There was over \$364.10 Million in Consumer Loans granted to members in 2015. Vehicle Loans represent 76.77% of the Consumer Loans and member demand continues to be robust.

6.23% INCREASE IN TOTAL MEMBERSHIP

ORNL Federal Credit Union continues to be one of the top mortgage lenders in East Tennessee. Total Mortgage Loans increased \$30.21 Million (5.24%) to \$607.14 Million in 2015. Mortgage lenders originated over \$196.41 Million in new mortgage loans in 2015. Our

members continue to rely on their Credit Union for their home purchase and building needs.

Member Business Loans ended the year with balances of \$71.95 Million, an increase of \$3.05 Million (4.42%) over 2014. This was the first increase in this portfolio in five years. There was \$11.84 Million in new business loans generated in 2015 and the Credit Union anticipates solid growth in the coming year.

8.72% INCREASE IN TOTAL DEPOSIT BALANCES

Total Deposits increased \$114.08 Million (8.72%) to \$1.423 Billion in 2015. The increase was fueled by strong growth in Money Market Accounts (MMA's) and Share Drafts (SD's) due to attractive rates and the member's desire to keep their assets liquid. MMA's increased \$103.09 Million (33.66%) to \$409.38 Million and SD's increased \$30.76 Million (12.09%) to \$285.11 Million.

The Credit Union continues to attract new members with total membership ending the year at 151,297, a net increase of 8,875 (6.23%) over the previous year. Attractive products and pricing, along with exceptional service and convenience, continue to engage new members and reward current members.

ORNL Federal Credit Union continues to build on a strong financial base with an overall solid performance in 2015.



2015 SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, appointed by the ORNL Federal Credit Union Board of Directors, is responsible for ensuring that our Credit Union's financial records are in order and the necessary internal controls are in place to protect our members' assets. The Supervisory Committee performs these functions by reviewing the data from internal and external financial audits and by testing and monitoring internal controls and business practices.

To assist in the execution of these responsibilities, the Committee engages several external audit and testing companies. The firm Nearman, Maynard, Vallez, CPAs is currently auditing our Credit Union's financial status for the year ending 12/31/2015. This audit's goals are to determine the reliability and integrity of our financial operating information and to review our Credit Union's compliance with generally accepted accounting principles (GAAP).

The Internal Audit Program, under the direction of the Supervisory Committee, provides a risk-based, ongoing review of compliance with Credit Union policies and procedures. This program also includes an annual inspection of internal controls, physical and cybersecurity systems, cash, member loans, and other assets of your Credit Union.

Additional Supervisory Committee actions during 2015 included: creating monthly reports documenting Supervisory Committee activities; attending monthly Board of Directors meetings; completing committee member certification programs; meeting with members of the management team; handling member complaints when directed by the NCUA; and participating in the Credit Union's strategic planning activities. The Supervisory Committee is pleased to report our Credit Union continues a tradition of excellent financial management and compliance.

2015 NOMINATING COMMITTEE REPORT

The ORNL Federal Credit Union Nominating Committee reviewed the qualifications of members who submitted their names for consideration as candidates for the Board of Directors. There are four positions on the Board of Directors to be filled in 2016, three of which are for three-year terms, and one of which is for a one-year term. We hereby nominate the following four individuals (listed in alphabetical order) for the four positions to be filled by the election at our Credit Union's 68th Annual Meeting on March 3, 2016.

The nominees selected to fill the three three-year terms are Mrs. Catron, Mr. McKenzie, and

Marcella (Marcy) Catron
Samuel McKenzie

James Payne
Joel Pearman

Mr. Payne, and the nominee selected to fill the one-year term is Mr. Pearman.

There were no candidate petitions filed with the Credit Union this year.

Respectfully submitted,
Leigha Edwards,
Nominating Committee Chair

MINUTES OF THE 67TH ANNUAL MEETING

1. CALL TO ORDER

a. Welcome: The 67th Annual Meeting of the ORNL Federal Credit Union (operating under NCUA Charter No 5797, issued August 6, 1948) was called to order at 6:00 p.m. by Board Chair Marcy Catron. Ms. Catron stated that, in accordance with Credit Union Bylaws, the meeting would be conducted in adherence with Robert's Rules of Order, with Wayne Hood, Senior Vice President and Chief Legal Officer, serving as Parliamentarian.

b. Quorum Determination: Ms. Catron announced that a sufficient number of members were present to constitute a quorum.

c. Purpose: Ms. Catron stated that the purposes of the meeting were to provide the annual financial and audit reports to the membership, and to present the Board of Directors' current members.

2. MINUTES OF THE 66TH ANNUAL MEETING

A motion was made, seconded and passed to approve the Minutes as included with the 2014 Annual Report.

3. ANNOUNCEMENT OF BOARD MEMBERS

a. Report of the Nominating Committee:

Members of the Committee were Sam McKenzie, Chair, Herb Debban, and Joe Setaro. Incumbent Directors were Leigha Edwards, Randy Gorman,

MINUTES OF THE 67TH ANNUAL MEETING [CONT.]

and Jama Hill, who ran unopposed. A motion was made, seconded, and passed to reinstate Ms. Edwards, Mr. Gorman, and Ms. Hill as Directors for a term of three years.

b. Current Board Member Recognition: Ms. Catron introduced the current Directors, Supervisory Committee members, and members of the Nominating Committee as listed in the Annual Report and thanked them for their service.

c. Report of the Supervisory Committee: Supervisory Committee Chair David Watkins thanked the VP of Audit Services Andrea Griffitts and Audit Services staff for their diligent service. He noted that the Committee’s formal report is located in the printed Annual Report Insert. Mr. Watkins informed the membership that an external audit indicated no findings or recommendations, and congratulated the Credit Union on its fine performance. Mr. Watkins then thanked the staff and management for its continued support.

4. REPORTS

a. Chairman: Ms. Catron referred to the Chairman’s Report in the written Annual Report. She indicated her pride in the Credit Union, the staff, employees, and Board of Directors. She requested that members address her with any questions they might have.


b. Current Executive Team Recognition: The Chair introduced SVP/CFO and Interim President Colin Anderson and announced that he would be giving both the President’s and Treasurer’s Reports. Mr. Anderson thanked the Chair, and recognized the efforts of the Marketing Team, with special thanks to SVP and Chief Marketing Officer Tommy Smith and Public Relations Director Jessica Emert. He noted that the Annual Report had been revised to a more succinct format allowing for more economical printing. Mr. Anderson acknowledged a recent article appearing in the Knoxville News Sentinel concerning the Credit Union, stating that the Credit Union does not comment on personnel matters. Mr. Anderson then introduced the Executive Management Team as listed in the Annual Report and thanked them for their service.

c. Treasurer: Mr. Anderson referred to the written report appearing in the Annual Report. Mr. Anderson noted that new membership and member retention have also increased. The Credit Union was able to provide member value in 2014 by offering the lowest loan rates for a number of months throughout the year. Mr. Anderson reported that due to regulatory restrictions not imposed on banks and insurance companies, Member Business Lending faced great challenges in 2014, and saw a significant decline. Plans to reverse this trend have been made for 2015. He remarked that increased deposits in 2014 helped balance an increased consumer loan portfolio. Investments in member service, convenience, technology, and lower/higher interest rates than competitors did affect the overall Net Income in

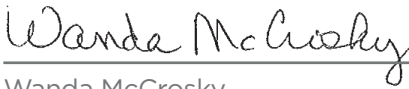
2014, but Mr. Anderson stated that these were planned strategic initiatives to increase member value. He reported that return on assets was .67%, which is acceptable considering the cooperative nature of credit unions and their focus on returning value to members. The Credit Union’s .99% loan/deposit ratio indicates an efficient balance sheet, with a 2.97% net interest margin. Mr. Anderson reported that the net charge-off ratio is .44%: 99.56% of loans are repaid to the Credit Union.

d. President and Chief Executive Officer’s Report: Interim President and CEO Colin Anderson next addressed the membership, giving a presentation concerning member value returned in 2014 and initiatives planned to return more member value in 2015. He announced that the Focus Money Manager tool will be integrated in the new mobile application to be released in 2015. He noted equipment and branch updates in 2014 included investments in technology to increase system speed, reliability, and security. Several videos featuring employees engaged in community activities, fund-raising, and financial education for members and young people were presented. Mr. Anderson announced that more than 200 Credit Union employees had volunteered their time, had raised over \$4,000 for various organizations, and that this community engagement will continue in the future. He then referred to the Annual Report for the strategic initiatives to return member value in 2015. He noted the updated branding’s colors and fonts will be featured in new and remodeled branches, including the landmark branch to be built at 215 Rutgers Avenue. These new and updated locations will focus on member experience at the intersection of technology, convenience, and experience. The upgraded 2015 mobile application will present market-leading technology and will be released in the first quarter of 2015. Mr. Anderson reported that new options will be available to members in 2015, including round-up savings plans for debit cards, Apple Pay for smart phones, EMV enhanced smart-chip technology cards for enhance safety and security, and Interactive Teller Machines. Mr. Anderson expressed his pride in the Credit Union and thanked the membership.

- 5. OLD BUSINESS - None.
- 6. NEW BUSINESS - None.
- 7. ADJOURNMENT - There being no further business, the meeting was adjourned at 6:32 p.m.


Marcy Catron, Board Chair

03/05/2015
Date


Wanda McCrosky

03/05/2015
Date

CONSOLIDATED STATEMENT OF CONDITION

	2015	2014
ASSETS		
Cash & Cash Equivalents	\$ 126,074,443	\$ 83,265,985
Total Investments	\$ 132,044,267	\$ 138,259,694
Gross Loans	\$ 1,373,209,567	\$ 1,286,495,448
Allowance for Loan Losses	\$ (10,792,540)	\$ (9,990,426)
Net Loans	\$ 1,362,417,027	\$ 1,276,505,022
Accrued Interest Receivable	\$ 3,319,633	\$ 3,239,183
Total Fixed Assets	\$ 43,172,847	\$ 37,211,292
Total Other Assets	\$ 61,933,186	\$ 65,682,670
Total Assets	\$ 1,728,961,403	\$ 1,604,163,846
LIABILITIES and MEMBERS' EQUITY		
<u>Liabilities</u>		
Total Deposits	\$ 1,422,573,841	\$ 1,308,497,084
Borrowed Funds	\$ 90,150,876	\$ 88,512,864
Total Other Liabilities	\$ 33,981,940	\$ 32,935,162
Total Liabilities	\$1,546,706,656	\$ 1,429,945,110
<u>Members' Equity</u>		
Total Members' Equity	\$ 182,254,747	\$ 174,218,736
Total Liabilities & Equity	\$ 1,728,961,403	\$ 1,604,163,846

CONSOLIDATED INCOME STATEMENT

	2015	2014
Total Interest Income	\$ 52,198,218	\$ 52,530,962
Total Interest Expense	\$ 6,764,006	\$ 6,264,717
Net Interest Income	\$ 45,434,212	\$ 46,266,245
Provision for Loan Loss	\$ 5,855,000	\$ 5,225,000
Net Interest Income after Provision	\$ 39,579,212	\$ 41,041,245
Total Non-Interest Income	\$ 33,368,973	\$ 30,827,651
Total Operating Expense	\$ 64,393,744	\$ 60,884,395
Income/(Loss) from Operations	\$ 8,554,441	\$ 10,984,501
Non-Operating Gain/(Loss)	\$ (11,786)	\$ (666,659)
Net Income	\$ 8,542,655	\$ 10,317,842

OFFICIALS

BOARD OF DIRECTORS

Marcy Catron, Chair
Randy Gorman, Vice Chair
Jama Hill, Treasurer
Joel Pearman, Secretary
Leigha Edwards
Harvey Gray
Sam McKenzie
James Payne
Debbie Stairs

SUPERVISORY COMMITTEE

David Watkins, Chair
Gerald Smith, Vice Chair
Mary Beth Blair, Secretary
Mary Kiser

NOMINATING COMMITTEE

Leigha Edwards, Chair
Herb Debban
Randy Gorman
Bob Hightower
Debbie Stairs

EXECUTIVE COMMITTEE

Marcy Catron, Chair
Randy Gorman, Vice Chair
Jama Hill, Treasurer
Joel Pearman, Secretary

LEGISLATIVE & GOVERNMENTAL AFFAIRS COMMITTEE

Harvey Gray, Chair
Leigha Edwards
Randy Gorman
Sam McKenzie
Debbie Stairs

VOLUNTEER POLICY & GOVERNANCE COMMITTEE

James Payne, Chair
Randy Gorman
Sam McKenzie
Debbie Stairs

EXECUTIVE MANAGEMENT

Colin Anderson, President/CEO
Dawn Brummett, Senior Vice President/Chief Operating Officer
Janita Clausell, Senior Vice President/Chief Member Experience Officer
Larry Jackson, President/CEO, CU Community, LLC
Melissa McMahan, Vice President/Information Technology
Alex Mendes, Senior Vice President/Chief Financial Officer
Derek Saidak, Senior Vice President/Chief Lending Officer
Joy Wilson, Senior Vice President/Chief Administrative Officer
Tom Wright, Senior Vice President/Chief Marketing Officer