

ANNUAL REPORT

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BOARD CHAIR'S REPORT



Randy Gorman,
Board Chair

As demonstrated by the 2018 financial results, the Credit Union maintained a safe and sound profile while experiencing

an incredible year in terms of balance sheet growth, net income, and operational efficiency.

Because of this continued financial progress, the Credit Union was able to continue:

- **Returning value to members**
- **Investing in our communities**
- **Investing in the future of the organization**

Returning Value to Members

For the first time since 2005, the Credit Union paid a Special Dividend to members. However, unlike the previous payment, the formula for the Special Dividend

gave equal credit to both borrowers and depositors. This payment recognized the value of membership appropriately and can be paid reliably in the future. Deeper relationships result in larger dividends.

The Credit Union extended its Call Center services and is now available by phone every day of the year, with the exception of Thanksgiving and Christmas Day.

A number of fees were either reduced or eliminated in 2018, and the new fee schedule became effective January 1, 2019. Most notably, members now qualify for free coin counting services, free ACH loan payments to an ORNL FCU loan from a different financial institution, and free replacement of damaged, lost, or stolen debit cards.





BOARD CHAIR'S REPORT (CONT.)

Free ATM services were made available in Wartburg. By providing surcharge refunds on two local ATMs, members in Morgan County can now access funds quickly, easily, and free of charge.

The Credit Union made the decision to eliminate a number of third-party insurance products that generated revenue for the organization, but also resulted in unwanted solicitations to members.

Investing in Our Communities

ORNL Federal Credit Union celebrated its 70th Anniversary in 2018 and acknowledged the event by supporting the community in the following ways:

- To recognize non-profit organizations and the important work they do in the East Tennessee community, members nominated

over 150 non-profit organizations to receive one of seven \$10,000 grants through our \$70,000 Community Giveback & Investment campaign.

- The inaugural Summer Sessions concert series started at Bissell Park in Oak Ridge. The concerts featured Americana/bluegrass music and were free to the community to honor and recognize the Credit Union's namesake community. The concerts in 2019 promise to be even bigger and better.

- The Credit Union made a substantial donation to the Freedom Bell in Oak Ridge and partnered with WDVX to create the Secret City Radio Show.

- In celebration of the Credit Union's anniversary, a member appreciation day was held at all branches on August 6, 2018.

Investing in the Future of the Organization

The Credit Union continued to invest in new ideas and new technology in order to remain progressive and provide leading-edge products and services to the membership.

• A new Pay a Person (P2P) payment platform was implemented early in the year. This platform allows for instantaneous payments to member’s family and friends because the transactions no longer travel through traditional payment channels.

• An upgrade to the mobile banking platform occurred late in the year. The upgrade modernized the platform by changing the layout of certain features, resulting in fewer steps to perform tasks. The new platform is also

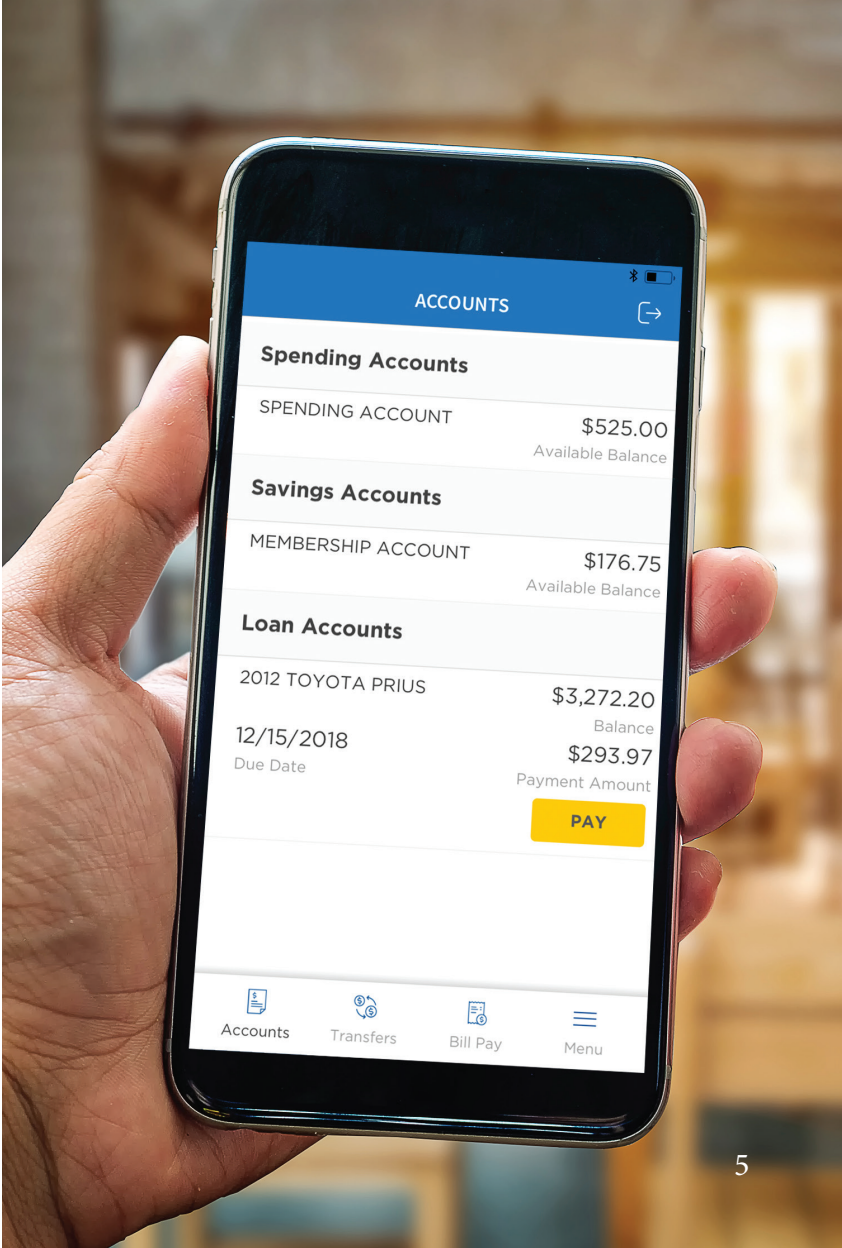
less expensive to maintain, so the Credit Union saves money, too.

• The Credit Union purchased a former bank building in Maryville, TN. Once the building is remodeled, the new facility is expected to open in the third quarter of 2019. This is an attractive market and a full-service branch is needed to capitalize on the opportunity there.

Thanks for your membership.
Together, we thrive!

W.R. Gorman

Randy Gorman, Board Chair



TREASURER'S REPORT

ORNL Federal Credit Union's financial condition remains strong and well-positioned for future growth. Considerable investments in technology and facilities, completed in 2018, will enhance the member service processes and experience. The Credit Union continues to exhibit strong growth while investing in the future of the organization and returning value to the membership.

9.67% INCREASE
IN TOTAL
ASSETS

In 2018, the Credit Union increased net income by \$8.02 million ending the year with earnings of \$20.83 million. The efficiency ratio declined to 70.52% in 2018 as a result of continued attention to expense control. Because of this performance, regulatory net worth ended the year at \$231.47 million—resulting in a net worth ratio of 10.74%, which is considered “Well-Capitalized” according to the National Credit Union Administration. The Credit Union

experienced considerable growth in 2018 with assets increasing by \$190.12 million (or 9.67%) to end the year at \$2.156 billion. Gross loan balances increased by \$197.15 million (or 12.79%) which produced the greatest loan growth in the history of the Credit Union. Total commercial loans continued the trend of positive growth with balances increasing by \$5.45 million to end the year at \$99.09 million. Total mortgage loans increased by \$103.18 million to end the year at \$930.41 million, demonstrating that the Credit Union remains a mortgage lender of choice for members. Overall, total consumer loans increased by \$88.52 million. The Credit Union offered a cash back incentive for members to refinance their vehicle loans and expanded the market to make financing easier at dealerships. The increases in loan portfolio balances combined with four Federal Reserve rate increases resulted in a \$12.05 million increase in interest income.

Total deposits increased by \$164.61 million (or 10.06%) to end the year at \$1.80 billion. Share draft and share savings balances increased by \$39.65 million and \$45.75 million, respectively.

10.06% INCREASE
IN TOTAL
DEPOSITS

The Credit Union continued to offer attractive share certificate promotions which drove a \$111.13 million increase in balances in 2018, while money market accounts declined by \$31.92 million as members continued to reinvest funds as rates increased. The Credit Union paid a \$3.06 million Special Dividend in 2018 as a way to directly return value to members.

The Credit Union continues to attract new members as total memberships increased by 7,638 (or 4.83%) to end 2018 at 165,696. ORNL Federal Credit Union will continue to offer attractive products, pricing, and exceptional service to engage members.

CONSOLIDATED INCOME STATEMENT

	2018	2017
Total Interest Income	\$ 73,162,755	\$ 61,111,746
Total Interest Expense	\$ 14,642,277	\$ 8,479,126
Net Interest Income	\$ 58,520,478	\$ 52,632,620
Provision for Loan Loss	\$ 7,775,000	\$ 7,800,000
Net Interest Income after Provision	\$ 50,745,478	\$ 44,832,620
Total Non-Interest Income	\$ 38,494,735	\$ 36,298,237
Total Operating Expense	\$ 67,782,691	\$ 69,182,587
Income/(Loss) from Operations	\$ 21,457,522	\$ 11,948,269
Non-Operating Gain/(Loss)	\$ (632,511)	\$ 861,030
Net Income	\$ 20,825,012	\$ 12,809,299

“...BECAUSE TOGETHER,
WE **THRIVE.**”

CONSOLIDATED STATEMENT OF CONDITION

	2018	2017
Cash & Cash Equivalents	\$ 97,603,159	\$ 95,794,076
Total Investments	\$ 198,477,919	\$ 207,296,178
Gross Loans	\$ 1,738,504,027	\$ 1,541,359,477
Allowance for Loan Losses	\$ (15,001,247)	\$ (11,543,808)
Net Loans	\$ 1,723,502,780	\$ 1,529,815,669
Accrued Interest Receivable	\$ 4,817,153	\$ 4,142,354
Total Fixed Assets	\$ 53,772,199	\$ 54,946,543
Total Other Assets	\$ 77,873,789	\$ 73,929,628
Total Assets	\$ 2,156,046,999	\$ 1,965,924,448
LIABILITIES & MEMBERS' EQUITY		
<u>LIABILITIES</u>		
Total Deposits	\$ 1,800,877,246	\$ 1,636,270,866
Borrowed Funds	\$ 113,571,484	\$ 104,885,553
Total Other Liabilities	\$ 20,488,362	\$ 18,399,790
Total Liabilities	\$ 1,934,937,092	\$ 1,759,556,209
<u>MEMBERS' EQUITY</u>		
Total Members' Equity	\$ 221,109,907	\$ 206,368,239
Total Liabilities & Equity	\$ 2,156,046,999	\$ 1,965,924,448

OFFICIALS

BOARD OF DIRECTORS

Randy Gorman, *Chair*
James Payne, *Vice Chair*
Marcy Catron, *Treasurer*
Joel Pearman, *Secretary*
Jama Hill
Leigha Humphries
Sam McKenzie
Debbie Stairs
Harriet Walker

SUPERVISORY COMMITTEE

Gerald Smith, *Chair*
Mary Kiser, *Secretary*
Mary Beth Blair
Vickie Caughron
David Watkins

NOMINATING COMMITTEE

Leigha Humphries, *Chair*
Jessica Emert
Randy Gorman

EXECUTIVE COMMITTEE

Randy Gorman, *Chair*
James Payne, *Vice Chair*
Marcy Catron, *Treasurer*
Joel Pearman, *Secretary*

LEGISLATIVE & GOVERNMENTAL AFFAIRS COMMITTEE

Leigha Humphries, *Chair*
Randy Gorman
Sam McKenzie
James Payne
Harriet Walker

VOLUNTEER POLICY & GOVERNANCE COMMITTEE

Harriet Walker, *Chair*
Randy Gorman
Jama Hill
Leigha Humphries
Joel Pearman
Debbie Stairs

EXECUTIVE MANAGEMENT

Colin Anderson	President/CEO
Chris Boler	President/CEO, 7, LLC
Dawn Brummett	Senior Vice President/ Chief Operating Officer
Janita Clausell	Senior Vice President/ Chief Retail Officer
Becky Curry	Senior Vice President/Finance
Steve McAtee	Senior Vice President/ Chief Technology 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



2018 SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, appointed by ORNL Federal Credit Union's Board of Directors, is responsible for ensuring that your Credit Union's financial records are in order and the necessary internal controls are in place to protect 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 independent external audit firms. The goal is to validate the reliability and integrity of our financial reporting information, confirm that we comply with generally accepted accounting principles (GAAP), and ensure our Credit Union is in compliance with federal regulations.

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. Key 2018 accomplishments include a satisfactory IT General Control Review and continued Social Engineering testing to ensure that privileged information and access remains within the Credit Union. Also, monthly internal/external risk assessments were rated as "meets standards." The Supervisory Committee, as directed by the NCUA, is also responsible for the review and response to member complaints. The Supervisory Committee is pleased to report your Credit Union continues a tradition of excellent financial management and compliance.

2018 NOMINATION & ELECTION COMMITTEE REPORT

There are four positions on the Board of Directors to be filled in 2019, three of which are for three-year terms and one of which is for a one-year term.

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. We hereby nominate the following four individuals for the positions to be filled by board appointment at our Credit Union's 71st Annual Meeting on March 7, 2019:

The three-year term nominees are **Marcy Catron**, **Sam McKenzie**, and **James Payne**.

The one-year term nominee is **Harriet Walker**.

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

Respectfully submitted,
Leigha Humphries
Nomination & Election Committee Chair

MINUTES OF THE 70TH ANNUAL MEETING

1. CALL TO ORDER

a. Welcome: The 70th 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 PM by Board Chair Randy Gorman. Mr. Gorman stated that, in accordance with Credit Union Bylaws, the meeting would be conducted in adherence with Robert's Rules of Order, with Joy Wilson, Senior Vice President & Chief Administrative Officer, serving as Parliamentarian.

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

c. Purpose: Mr. Gorman stated that the purpose of the meeting was to provide the annual financial and audit

reports to the membership and to introduce the Board of Directors.

2. MINUTES OF THE 69TH ANNUAL MEETING

A motion was made, seconded, and passed to approve the Minutes as included with the 2017 Annual Report.

3. ANNOUNCEMENT OF BOARD MEMBERS

a. Current Board Member Recognition: Mr. Gorman introduced the current Board of Directors, Supervisory Committee Members, and Members of the Nominating Committee as listed in the Annual Report and thanked them for their service.

b. Report of the Supervisory Committee: Mr. Gerald Smith presented the Supervisory Committee Report. Mr. Smith stated that the purpose of the Supervisory

MINUTES OF THE 70TH ANNUAL MEETING (CONT.)

Committee is to ensure that the Credit Union’s financial records are in order and to protect the members’ assets by ensuring the proper controls are in place. Mr. Smith noted that the 2017 audit plan concluded on-time and that all findings have been addressed. Mr. Smith stated that the Credit Union successfully completed an 18-month year-end financial audit. Mr. Smith thanked Andrea Griffiths (VP of Auditing), Auditing staff, the Executive Management Team, and the Board of Directors.

c. Report of the Nomination & Election Committee: The Nominating Committee submitted the names of three members as candidates for the three available positions on the Board of Directors; all positions are for a three-year term. The nominees selected to fill the three positions are Mr. Randy Gorman, Ms. Jama Hill, and Ms. Leigha Humphries. A motion was made, seconded, and passed to reinstate Mr. Gorman, Ms. Hill, and Ms. Humphries as Directors for a term of three years.

4. REPORTS



a. Chairman: Mr. Gorman referred to the Chairman’s Report in the written 2017 Annual Report. Mr. Gorman recognized the Board of Directors for their work throughout the year.

b. Treasurer: Ms. Catron referred to the written report appearing in the 2017 Annual Report. Ms. Catron reported that the Credit Union’s financial condition remains strong and well-positioned for future growth. Ms. Catron stated that the Credit Union ended the year with earnings of \$12.81 million and that the efficiency ratio declined to 76.83% in 2017 as a result of greater attention to expense control. Ms. Catron stated that the Credit Union’s regulatory net-worth ratio at the end of the year was 10.69% which is considered “Well-Capitalized” according to the National Credit Union Administration. Ms. Catron reported that 2017 total assets increased by \$102.83 million (or 5.52%) to end the period at \$1.966 billion. Ms. Catron stated that gross loan balances increased by \$140.84 million which is the greatest loan growth in the history of the Credit Union.

Ms. Catron continued on to say that total member business loans increased by \$13.07 million to end the period at \$93.64 million and total mortgage loans increased by \$142.89 million to end the period at \$827.23 million as the Credit Union remains a mortgage lender of choice for members. Ms. Catron reported that total interest income increased \$3.87 million. Ms. Catron added that the Credit Union’s attractive share certificate promotions drove a \$30.31 million increase in balances in 2017. Ms. Catron stated that the Credit Union increased rates across all deposit products in 2017 as a way to directly return value to members. Ms. Catron concluded the report by stating total membership increased by 3,733 (or 2.42%) to end 2017 at 158,058 and that the Credit Union will continue to offer attractive products, pricing, and exceptional service to engage members.

c. President & Chief Executive Officer’s Report: The Chair introduced President & CEO, Colin Anderson. Mr. Anderson welcomed everyone to the new Northshore facility. Mr. Anderson thanked the Board of Directors and recognized their volunteer services to the Credit Union. Mr. Anderson stated the Board of Directors demonstrate their dedication to the Credit Union by attending monthly meetings, quarterly committee meetings, and performing annual training among other responsibilities. Mr. Anderson introduced the Executive Management Team as listed in the 2017 Annual Report noting their lengths of service to the Credit Union. In recognition of the Credit Union’s 70th Anniversary, Mr. Anderson shared historic headlines and Credit Union data from 1948. Mr. Anderson added that in honor of the Credit Union’s 70th anniversary, the Credit Union is working on a “70 Days of Giving” program as a way to give back to the community.

Mr. Anderson asked if there were any questions. A member of the Credit Union asked what the Credit Union is doing to assist members in the loan process to ensure they are receiving the loan that is right for them and also asked how the Credit Union assists members that would like to purchase commercial properties to start a business. Mr. Anderson responded that the Credit Union’s balance sheet management allows the Credit Union to offer competitive loan rates. Mr. Anderson also stated that the Credit Union will not put any member in a product that would be considered predatory or injure the member’s financial future and that there is no variable rate product in the Member Business Loan (MBL) portfolio which protects the member’s rate risk. Mr. Saidak added that detailed research is performed on all business loans to ensure credit is being structured appropriately. The same member asked if the Credit Union provides financial education. Mr. Anderson responded that the Credit Union’s website provides financial education material and is organized by stage-of-life to address the various stages of financial needs. Mr. Anderson stated that the majority of education is performed one-on-one between the lender and borrower. Mr. Wright added that the Marketing department is currently working on several short financial education videos that will be posted to the Credit Union’s website.

	03/07/2019
Randy Gorman, Board Chair	Date
	03/07/2019
Joel Pearman, Secretary	Date