

integrity quality  
trust security  
value  
strength



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2013 ANNUAL REPORT

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## ANNUAL MEETING AGENDA

- 1.** Call To Order
  - a. Welcome
  - b. Quorum Determination
- 2.** Minutes of 65th Annual Meeting
- 3.** Announcement of Board Members
  - a. Current Board Member Recognition
  - b. Introduction of Newly Elected Board Members
- 4.** Reports
  - a. Board Chair
  - b. Treasurer
  - c. Supervisory Committee
  - d. President & CEO
- 5.** Old Business
- 6.** New Business
- 7.** Adjournment

## BOARD CHAIR'S MESSAGE



On behalf of your Board of Directors, I am pleased to report that 2013 was another outstanding year of delivering value, convenience and exceptional service to our membership. The combined efforts of the Board, management, employees and our members produced record levels of financial performance and membership.

Throughout 2013, the Board's focus has been on two key objectives: preserving the spirit and benefits of the credit union movement, while making the strategic and policy decisions required to ensure ORNL Federal Credit Union's ability to grow and better serve its membership.

In the face of continued regulatory and governmental pressures, management and employees, with the Board's support, developed a comprehensive advocacy program to protect our members' interests. Programs like "Don't Tax My Credit Union" served to protect the Credit Union's not-for-profit tax status. Meetings with congressional representatives helped to advocate the Credit Union's positions regarding proposed reforms in the mortgage lending laws that would hinder the Credit Union's ability to provide home loans, which is one of our most important member benefits.

Building on our 65 years of growth and strong commitment to our more than 160,000 members, our plans for 2014 and beyond include an unprecedented reinvestment in the future of the Credit Union. In addition to meeting the needs of our members and employees in an ever

changing environment, we will be making significant improvements and deploying new technology and service innovations. Our priority continues to be the experience of our members and employees.

2013 was another outstanding year of delivering value, convenience and exceptional service to our members.

As we look forward to 2014, I want to remind fellow members that everyone who has an account at ORNL Federal Credit Union is truly an owner in the Credit Union. Our future success is greatly dependent on your commitment as a member. The more you use your membership, the stronger ORNL Federal Credit Union becomes.

Together, we can build an even stronger and healthier Credit Union.

**Marcy Catron**  
Board Chair, ORNL FCU

## PRESIDENT & CEO'S MESSAGE



2013 was a very productive year for ORNL Federal Credit Union, and for the great credit union movement we are fostering. For a second consecutive year we achieved record earnings, increasing our financial strength and stability.

Every day we have the privilege to help our members achieve their financial goals. We made the dream of home ownership a reality for many members, and helped others who already owned homes reduce their cost of ownership by refinancing over \$170 Million in high-rate mortgages. The Credit Union helped countless other members drive away with a car, boat or RV by financing over 16,000 loans totaling over \$292 Million. Many of these members refinanced their higher-rate loans from other institutions and benefited from a lower monthly payment amount at ORNL Federal Credit Union. Over 17,000 of our members enjoyed the convenience and benefits of our low interest rate credit card.

The usage of our Online and Mobile banking service for day-to-day banking needs steadily increased. Our member enrollment in Online Banking increased by 70%, and Mobile Banking usage was up 81%. One of the most popular features is our Online Bill Pay service. In total, we helped facilitate over 373,000 Bill Pay transactions for our members in 2013.

Keeping with the spirit of the credit union cooperative – standing by our members through life's good times and its challenges, remains an important value at the heart of our Credit Union. When many of our members were facing uncertainty during the time of the government shutdown, ORNL Federal Credit Union created a special loan program for members in need. We supported the financial health of small business

through the launch of our highly successful Small Business Counts cash mob program, and over 175 local organizations received support from the Credit Union and its staff, including a 65% increase in our employee-based United Way Giving Campaign.

Looking forward, we remain committed to enhancing the value of your membership: to constantly deliver a superior experience, sound financial advice, and the right products and services from people you can count on. In 2014, we will deliver increased access and convenience through new ATMs that accept deposits, the rollout of an enhanced mobile banking product, and the introduction of debit and credit cards with smart-chip technology to support added security for our members. Additionally, we are pleased to announce multiple facilities projects, all designed to enhance the experience of our members and employees. These include the opening of a new regional center and branch at Northshore Town Center; the remodel of our corporate headquarters in Oak Ridge; and the repositioning of our current main branch in Oak Ridge to an adjacent property. Overall, our focus is on reimagining the branch experience and meeting the needs of our members when and where they need us. There are a number of people, including our dedicated staff, volunteer Board members and you, our membership, who have helped make these projects a reality.

From all of our employees and management, thank you for being a member of ORNL Federal Credit Union.

A handwritten signature in black ink, appearing to read 'Chris Johnson'.

**Chris Johnson**  
President & CEO, ORNL FCU

## TREASURER'S REPORT 2013

The financial condition of ORNL Federal Credit Union remains strong and the balance sheet is healthy.

I am pleased to report that your Credit Union achieved record earnings for the second consecutive year. After realizing record earnings of \$14.665 Million in 2012, the Credit Union actually produced net income of \$15.267 Million in 2013. An increase of \$602 Thousand – or 4.10%!

These earnings created additional capital to support balance sheet growth and to protect the institution against future risks. In fact, the Net Worth Ratio increased from 10.66% at the end of 2012 to 11.28% at the end of 2013 – an increase of 62 basis points.

During the year, Total Assets increased by \$55.8 Million and ended the year at \$1.492 Billion. Contributing to this growth during 2013, Mortgage Loan balances increased nearly \$13 Million and remain the largest loan portfolio with \$560 Million in outstanding balances. The Consumer Loan portfolio increased nearly \$76 Million to end the year at \$538 Million in outstanding balances. The Consumer Loan growth resulted primarily from both Credit Card lending and new and used vehicle loans. Business lending remains the most challenging line of business because other financial institutions have returned to aggressive pricing and underwriting practices on long-term, fixed-rate products.

This level of loan production ensured that ORNL Federal Credit Union was among the top three loan originators in East Tennessee in both Mortgage and Auto Lending in 2013.

Total Deposits increased by \$17.6 Million and ended the year at \$1.237 Billion in total balances. Because of the prolonged low-interest rate environment, members continue to seek the liquidity and security offered by share draft, savings and money market deposit accounts. These short-term deposit categories increased by \$37 Million, while certificates of deposit declined by about \$19 Million.

This combination of loan and deposit growth resulted in a loan to deposit ratio of 95.6% at year end. This is a 2.1% increase from the 93.5% loan to deposit ratio at the end of 2012. A higher loan to deposit ratio implies that we are meeting both the loan and deposit needs of members in an efficient manner.

I am also pleased to report that CU Community (CUC), a wholly-owned credit union service organization, produced net income of \$1.4 Million in 2013. CUC continues to meet the mortgage loan needs of the membership by delivering affordable and desirable mortgage loan products and services. Our investment in CUC has been profitable and beneficial to homeowners throughout the region.

Respectfully submitted,  
**Jama Hill, Treasurer**

The financial  
condition of ORNL  
Federal Credit Union  
remains strong and  
the balance sheet  
is healthy.



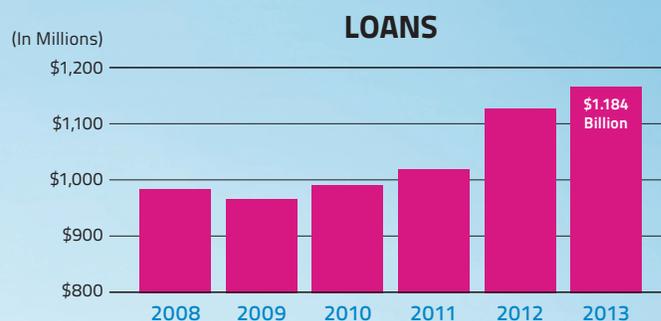
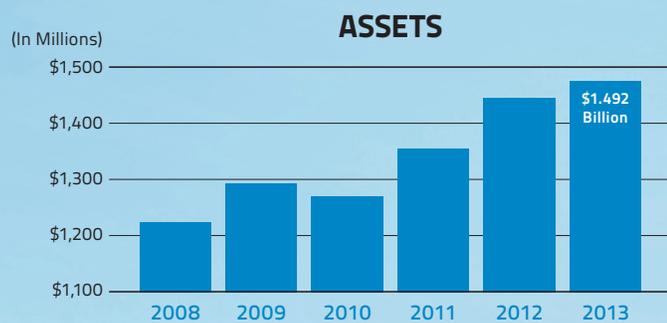
## TREASURER'S REPORT 2013

### CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

ASSETS	2013	2012
Cash and due from banks	\$ 67,323,864	\$ 86,225,703
Total investments	\$ 154,874,053	\$ 127,709,376
Gross loans	\$ 1,184,030,088	\$ 1,140,411,778
Less: Allowance for loan losses	\$ 10,119,023	\$ 10,333,008
Net Loans	\$ 1,173,911,065	\$ 1,130,078,770
Fixed Assets	\$ 31,542,486	\$ 30,103,952
Other assets	\$ 64,877,945	\$ 62,590,654
Total assets	\$ 1,492,529,413	\$ 1,436,708,455
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<u>Liabilities</u>		
Total deposits	\$ 1,237,419,469	\$ 1,219,824,443
Borrowed funds	\$ 64,417,769	\$ 30,172,679
Other liabilities	\$ 25,001,189	\$ 36,774,918
Total liabilities	\$ 1,326,838,427	\$ 1,286,772,040
<u>Members' Equity</u>		
Regular reserve	\$ 8,270,000	\$ 8,270,000
Undivided earnings	\$ 160,158,609	\$ 144,891,375
Accumulated other comprehensive income	\$ (2,737,623)	\$ (3,224,960)
Total members' equity	\$ 165,690,986	\$ 149,936,415
Total liabilities and members' equity	\$ 1,492,529,413	\$ 1,436,708,455

### CONSOLIDATED STATEMENT OF INCOME & EXPENSE

INCOME	2013	2012
<u>Interest Income</u>		
Interest on loans to members	\$ 50,915,398	\$ 53,586,675
Interest on investments and cash equivalents	\$ 2,387,410	\$ 3,003,277
Interest income	\$ 53,302,808	\$ 56,589,952
<u>Interest Expense</u>		
Dividends on members' deposits	\$ 5,417,497	\$ 6,959,755
Interest paid on borrowed funds	\$ 1,245,426	\$ 1,383,869
Interest expense	\$ 6,662,923	\$ 8,343,624
Net Interest Income	\$ 46,639,885	\$ 48,246,328
Provision for Loan Losses	\$ 5,650,000	\$ 6,233,219
Net Interest Income After Provision for Loan Losses	\$ 40,989,885	\$ 42,013,109
<u>Non-Interest Income</u>		
Fee income	\$ 12,447,120	\$ 11,715,267
Other non-interest income	\$ 19,907,122	\$ 18,212,096
Gain/(Loss) on sale of investments	\$ 209,959	\$ 210,751
Non-interest income	\$ 32,564,201	\$ 30,138,114
Income Before Non-Interest Expense	\$ 73,554,086	\$ 72,151,223
<u>Non-Interest Expense</u>		
Compensation and employee benefits	\$ 30,705,105	\$ 28,578,506
Operations	\$ 7,061,937	\$ 7,371,130
Professional & outside services	\$ 8,719,055	\$ 8,124,047
Occupancy	\$ 4,401,893	\$ 4,520,395
Loan servicing	\$ 4,841,646	\$ 3,821,322
NCUSIF premium	\$ 949,700	\$ 1,082,135
Education and promotion	\$ 2,703,500	\$ 2,140,333
(Gain)/Loss on assets	\$ (1,095,977)	\$ 1,847,623
Non-interest expense	\$ 58,286,859	\$ 57,485,491
Net Income	\$ 15,267,227	\$ 14,665,732



## NOTES TO FINANCIAL STATEMENTS

**1. CASH AND DUE FROM BANKS** Cash and cash due from banks consist of cash on hand and deposits at other financial institutions.

**2. INVESTMENTS** Investments consist primarily of government agency securities and mortgage backed securities.

### 3. LOANS TO MEMBERS

	2013	2012
Member Business Non-Exempt	\$ 77,805,366	\$ 121,229,631
Member Business Exempt	\$ 7,070,330	\$ 8,317,932
Participation Loans Purchased	\$ 793,879	\$ 551,481
Total Member Business Loans	\$ 85,669,575	\$ 130,099,044
First Mortgage Loans	\$ 414,482,740	\$ 393,777,291
Loans Held For Sale	\$ 7,045,527	\$ 10,635,977
Other Real Estate Loans	\$ 138,489,016	\$ 142,930,937
Total Mortgage Loans	\$ 560,017,283	\$ 547,344,205
New Vehicle Loans	\$ 93,443,465	\$ 68,685,394
Used Vehicle Loans	\$ 313,719,507	\$ 281,990,820
Other Unsecured Loans	\$ 26,213,394	\$ 22,040,154
Credit Card Loans	\$ 40,142,441	\$ 30,499,435
All Other Loans To Members	\$ 64,824,423	\$ 59,752,725
Total Consumer Loans	\$ 538,343,230	\$ 462,968,528
Gross Loans	\$ 1,184,030,088	\$ 1,140,411,777
Less: Allowance for Loan Losses	\$ (10,119,023)	\$ (10,333,008)
Net Loans	\$ 1,173,911,065	\$ 1,130,078,769

**4. LOAN SERVICING** Mortgage loans sold to FNMA are not included in the accompanying statements of financial condition. The unpaid principal balances as of December 31, 2013 and 2012 were \$599,217,535 and \$536,109,417, respectively.

**5. NATIONAL CREDIT UNION SHARE INSURANCE FUND (NCUSIF) DEPOSIT** The deposit in the NCUSIF is in accordance with the National Credit Union Administration regulations, which requires a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares.

**6. BORROWED FUNDS** Borrowed funds advances from the Federal Home Loan Bank which are primarily used to lend to members for fixed rate mortgages.

### 7. MEMBERS' SHARES

	2013	2012
Share Drafts	\$ 235,473,103	\$ 216,002,318
Shares & Club Savings	\$ 376,389,260	\$ 359,048,157
Money Market Deposits	\$ 249,604,465	\$ 249,400,622
Certificates of Deposit	\$ 273,549,136	\$ 288,815,854
IRA Accounts	\$ 102,125,453	\$ 106,454,536
Negative Accounts	\$ 278,052	\$ 102,956
Total Deposits	\$ 1,237,419,469	\$ 1,219,824,443

**8. ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)** Certain changes in assets and liabilities, such as 1) unrealized gains and losses on available-for-sale securities and 2) gains and losses on assets in defined benefit plans that are not recognized as components of net periodic benefit costs.

**9. CONSOLIDATED STATEMENTS** The Credit Union wholly owns CU Community, LLC, a credit union service organization. The Credit Union's financial statements are consolidated as required by generally accepted accounting principles.



## SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, appointed by the ORNL FCU Board of Directors, is responsible for ensuring that our Credit Union's financial records are in order and that necessary internal controls are in place to protect our Credit Union's 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 goal of the audit is to determine the reliability and integrity of our Credit Union's financial and operating information and to review our Credit Union's compliance with generally accepted accounting principles. The firm Nearman, Maynard, Vallez, CPAs audited our Credit Union's financial status for the year ending 12/31/2013. The Credit Union received a clean audit report.

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 our Credit Union. The 2013 audit program found no major issues.

Additional Supervisory Committee actions during 2013 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.

Respectfully submitted,  
**W. Harvey Gray, Chair**

## 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. The Nominating Committee submitted the names of four members as candidates for the three available positions on the Board of Directors. The nominees are Herb Debban, W. Harvey Gray, Wanda McCrosky, and Deborah Stairs. There were no candidate petitions filed with the Credit Union this year.

The winners of the three, three-year positions available on the Board of Directors will be announced at the Annual Meeting on Thursday, March 6, 2014 as part of the meeting agenda. The winners will have been elected to serve on the Board of Directors based on their total member votes received during the online voting process held February 19 – February 28, 2014.

Respectfully submitted,  
Randy Gorman, Chair  
Jim McKinley  
Joe Setaro



Herb Debban



W. Harvey Gray



Wanda McCrosky



Deborah Stairs



## MINUTES OF THE 65TH ANNUAL MEETING

MARCH 7, 2013 DoubleTree Hotel, Oak Ridge

### 1 CALL TO ORDER

**a. Welcome.** The 65th 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 Marcy Catron, Chair of the Board of Directors. Ms. Catron stated that the purposes of the meeting were to report to the membership, receive the report of the Nominating Committee, and to elect four Board members.

Ms. Catron introduced President & Chief Executive Officer Chris Johnson, current Board members, and members of the Supervisory Committee. She also thanked members listed in the 2012 Annual Report for their service.

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

### 2 MINUTES OF THE 64TH ANNUAL MEETING

A motion was made, seconded, and passed to approve the minutes as printed in the 2012 Annual Report.

### 3 ELECTION

**a. Report of the Nominating Committee.** Members of the committee were Randy Gorman, Chair; James McKinley; and Joe Setaro. Mr. Gorman referred to the Nominating Committee's report as published in the 2012 Annual Report. Nominees were Marcy Catron, Sam McKenzie, and James Payne for three-year terms; and Cindy Mayfield for a one-year term.

**b. Election.** Motion was made, seconded, and passed to elect the four nominees.

### 4 REPORTS

**a. Chairman.** Ms. Catron referred to the Chairman's Report contained in the 2012 Annual Report. She stated that the Credit Union had a very good year, and the outlook for 2013 is very exciting.

**b. Treasurer.** Jama Hill referred to the printed Treasurer's Report contained in the 2012 Annual Report. She also

said the Credit Union had a good year financially and complimented staff.

**c. Supervisory Committee.** Supervisory Committee Chair Harvey Gray referred to the Supervisory Committee's report. He said the audit went exceedingly well. He thanked Andrea Griffiths and her Internal Audit team. There were no questions about the Supervisory Committee's report.

**d. Legislative and Governmental Affairs Committee.** Chair James Payne stated that he and Randy Gorman were in Washington, D.C. the prior week meeting with legislators and seeking support for legislative and regulatory items important to the credit union industry. He discussed the role of the National Association of Federal Credit Unions (NAFCU), and referred to small stuffed bears called PAC PALS that are being sold to generate funds for NAFCU's Political Action Committee (PAC). In addition to providing PAC PALS to Credit Union employees and members attending the Annual Meeting, the Credit Union plans to sell bears for \$5 each, with funds going to the NAFCU PAC.

**e. President & Chief Executive Officer.** President & CEO Chris Johnson welcomed all in attendance. He introduced Chief Financial Officer Dennis Bowker, who will soon retire after 32 years of service to the credit union community. Mr. Johnson also welcomed Colin Anderson, the Credit Union's new Senior Vice President and Chief Financial Officer.

Mr. Johnson also introduced Melodie Godfrey, Executive Vice President and Chief Operating Officer; and Wayne Hood, new Senior Vice President and General Counsel. Mr. Johnson said that the Credit Union is pleased to have Mr. Hood on staff to help interpret new regulations such as the Dodd-Frank Act, and stated that the regulatory environment for the Credit Union is more challenging in 2013 than ever before.

Mr. Johnson's presentation to the members present began with the Credit Union's Dream in 2011 to "become the preferred Credit Union in East Tennessee by

delivering unparalleled, enhanced member value." He mentioned four goals: to remain financially strong, to become service-driven, to be operationally efficient, and to be employee-focused. He said the results for 2012 show that the Credit Union continues to improve in each of these areas. He highlighted growth in assets, members, shares, and loans. He said cash and investments have actually decreased during 2012, with loans up considerably.

With respect to interest rates, Mr. Johnson noted that the Credit Union is always looking for ways to best invest its capital. He said we are in an unprecedented period of low rates, and it is hard to foresee when interest rates will go up.

Mr. Johnson stated that our Board has chosen six key performance indicators to monitor. These include efficiency ratio and net worth, which are the Credit Union's "rainy day" reserves. The Board has agreed that the Credit Union is in a good position as to its net worth.

Mr. Johnson noted that the Credit Union became a community chartered Credit Union in 2003 and serves persons who live, work, worship, or attend school in 16 East Tennessee counties. The Credit Union is a top contributor to United Way, and supports more than 200 organizations in its community. Mr. Johnson said that looking ahead to 2013, the Credit Union is in a position of strength.

#### **QUESTIONS BY MEMBERS**

Fred White noted that years ago the banking industry was up in arms about taxing credit unions, and asked whether that is still the case. President & CEO Chris Johnson responded that ORNL FCU is still concerned that it could happen. It remains vigilant to that possibility, as taxation would mark the beginning of the end for credit unions.

A member said she is back again this year to ask about low interest rates members are getting. She said she today went to four different banks to get rates, and

that members can make a lot more on money market accounts at banks, and she compared cost of loans, mentioning her daughter's experience with re-financing. President Johnson responded, noting that there is no doubt that it is a challenge to set rates in the current financial environment. He remarked that the Credit Union has decided that its first driver is service. He noted new membership goals have been met, and that the Credit Union increased services available to present members in spite of current interest rates. Mr. Johnson said he will take the member's suggestions under consideration, and offered to meet with her personally if she chooses.

A member asked about the charge-off ratio, and Mr. Johnson noted net charge-offs as a percentage of average loans decreased from 0.72% in 2001 to 0.31% in 2012.

#### **5 OLD BUSINESS**

None.

#### **6 NEW BUSINESS**

Proclamation for Mary Helen Rose. Chair Marcy Catron stated that the Board would like to pay special recognition to Mary Helen Rose, who is retiring after almost 30 years of service as Board Recording Secretary. Ms. Catron read aloud the framed Resolution, and presented it to Ms. Rose, stating that, "On behalf of the entire Board of Directors, we would like to present you with this proclamation, formally thanking you for your many years of service."

#### **7 ADJOURNMENT**

The meeting adjourned at 6:45 p.m.

**BOARD OF DIRECTORS**

Marcy Catron, Chair  
Herb Debban, Vice Chair  
Jama Hill, Treasurer  
Wanda McCrosky, Secretary  
Leigha Edwards  
Randy Gorman  
Cindy Mayfield  
Sam McKenzie  
James Payne

**EXECUTIVE COMMITTEE**

Marcy Catron, Chair  
Herb Debban, Vice Chair  
Jama Hill, Treasurer  
Wanda McCrosky, Secretary

**LEGISLATIVE & GOVERNMENTAL  
AFFAIRS COMMITTEE**

James Payne, Chair  
Leigha Edwards  
Randy Gorman  
Sam McKenzie

**SUPERVISORY COMMITTEE**

Harvey Gray, Chair  
David Watkins, Vice Chair  
Gerald Smith, Secretary  
Joel Pearman  
Vickie Caughron

**VOLUNTEER POLICY &  
GOVERNANCE COMMITTEE**

Wanda McCrosky, Chair  
Randy Gorman  
Cindy Mayfield  
James Payne

**NOMINATING &  
ELECTION COMMITTEE**

Randy Gorman, Chair  
Jim McKinley  
Joe Setaro

**EXECUTIVE MANAGEMENT**

Chris Johnson, President & Chief Executive Officer  
Melodie Godfrey, Executive Vice President & Chief Operating Officer  
Colin Anderson, Senior Vice President & Chief Financial Officer  
Wayne Hood, Senior Vice President & General Counsel  
Larry Jackson, President CU Community, LLC.