

Growing for Good



 **FreedomFirst**
Where people bank for good.®

2018 ANNUAL
REPORT



Our Mission: *Helping People Prosper — Helping Communities Thrive.*

Our Purpose: Freedom First is a member-owned, democratically operated, not-for-profit organization managed by a volunteer board of directors, with the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means. The purpose of this Credit Union is to promote thrift among its members by affording them an opportunity to accumulate their savings and to create for them a source of credit for provident, business, or productive purposes.

Our Team: Over 180 people who embody our mission as they live, work, play, and serve in Virginia's Valley Region. At Freedom First, the staff, management, and all-volunteer Board of Directors are all dedicated to helping their fellow members prosper and helping their communities thrive.

Chairman & CEO Report

We are proud to report that 2018 was among the best years in the history of the Credit Union! Freedom First grew at a record pace in terms of loans, deposits and new members. Most importantly, this growth was rooted in our commitment to the communities we serve. Giving back to our community and truly exemplifying the idea of Banking for Good allowed us to take on more ambitious initiatives than ever.

While the business of banking is complex, Freedom First is successful because we stick to a simple formula. That is, make prudent financial decisions so the credit union remains financially strong. We understand the needs of the members and the communities being served and deliver convenient and affordable products in a way that requires little effort on their part. We seek to add value to the member experience by providing such things as world-class digital services and robust security features that protect member information and assets. And, we develop programs and solutions for distressed communities and struggling consumers who need a helping hand.

Delivering great service requires committed and engaged employees. Our internal service scores, a metric that tells us how well employees serve each other, is the highest among our Member Loyalty Group peers. Also, our employee engagement and satisfaction scores are nearly twice the Gallup poll average. Our team is the reason our member service scores, particularly in the branch and call center, have increased to new highs and are exceeding the peer benchmarks.

Our focus on service is working. Total assets have grown 91 percent over the last five years, increasing our assets to over \$600m and far exceeding our credit union peer group that grew 26 percent over the same period. Members are better informed and more engaged than ever, driving significant loan and deposit growth. Loans increased \$72m (17%), and deposits increased \$70m (16%) respectively during the year, far exceeding our peer credit unions. Innovative new checking products, Freedom Stash™ and Freedom Cash™, actually pay *you* for checking with Freedom First. As a result, the number of new checking accounts opened in 2018 increased 45.8 percent over 2017 and 78.9 percent over 2016.



As important as growth is, we must be certain our growth is productive and sustainable. We are happy to report that operating results produced \$5.6m in net income in 2018, exceeding the budget by \$1.8m. Loan quality remains high, reflected by a delinquency ratio of just 0.67 percent and loan loss expense well below budget. Safety and soundness was validated independently by the National Credit Union Administration and numerous external audits, including the annual Supervisory Audit performed by the auditing firm of Nearman, Maynard, and Vallez.

Despite the strong economy, nearly 40 percent of adults can't pay an unexpected bill of \$400 without selling something or borrowing the money.* Additionally, consumer debt has surpassed \$4 trillion, and while all of this credit helps fund economic expansion, if left unchecked it can cause significant harm to hardworking families. To help our members with their finances, we provide award-winning financial coaching from the most basic - how to borrow, save and balance your checkbook - to advanced - retirement and investment planning through Freedom First Wealth Management.

The needs in our community are many, and there are hundreds of passionate non-profits delivering services directly to our friends and neighbors. We value their work, and to help in their efforts our Community Grant program distributed \$35,000 in grant funds to eight area non-profits. An additional \$110,000 was distributed in community

sponsorship, and we can't forget that Scoop gave free ice cream to over 20,000 kids! We are also pleased to announce having received a grant of nearly \$1m from the U.S. Treasury. These funds will be deployed throughout the Roanoke Valley to worthy families buying Habitat for Humanity® homes.

In the following pages of this report, we outline in more detail our accomplishments throughout the year as we experienced this period of rapid growth. It is important to note that we could not accomplish any of this without our members. When you choose to bank with Freedom First, you are choosing to invest in the life and health of your community, and for that we are extremely grateful. We are also thankful for our dedicated team of employees and the leadership of our board of directors, who work hard every day to make our mission of *Helping People Prosper – Helping Communities Thrive* a reality.

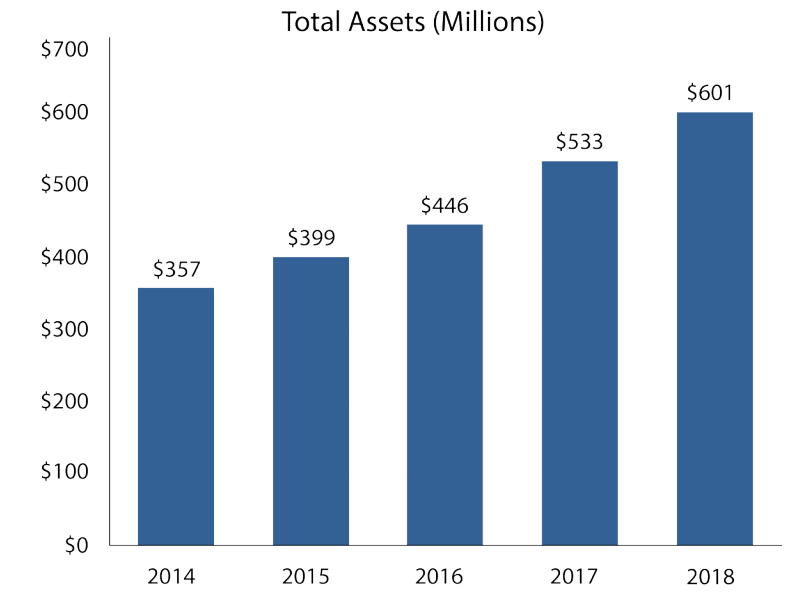
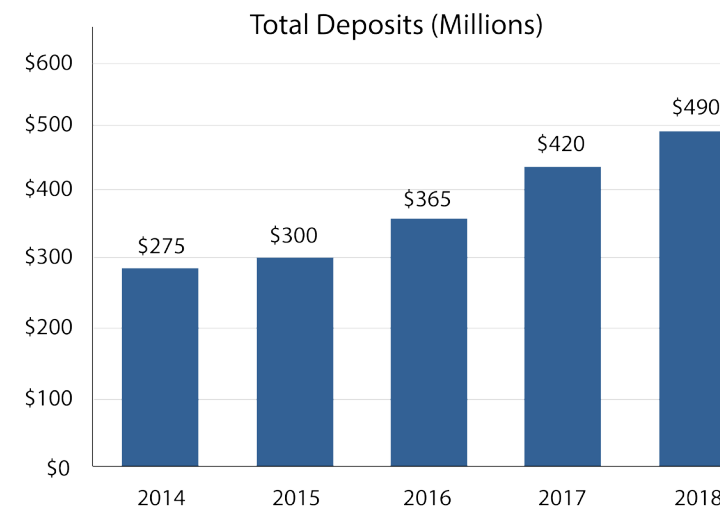
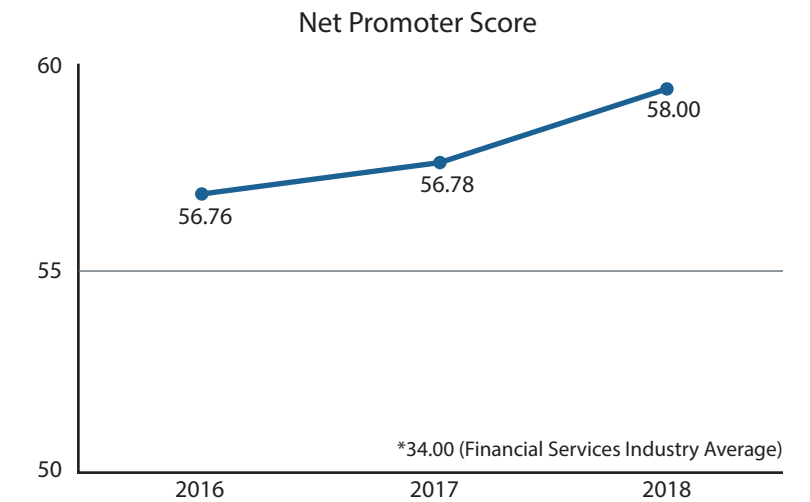
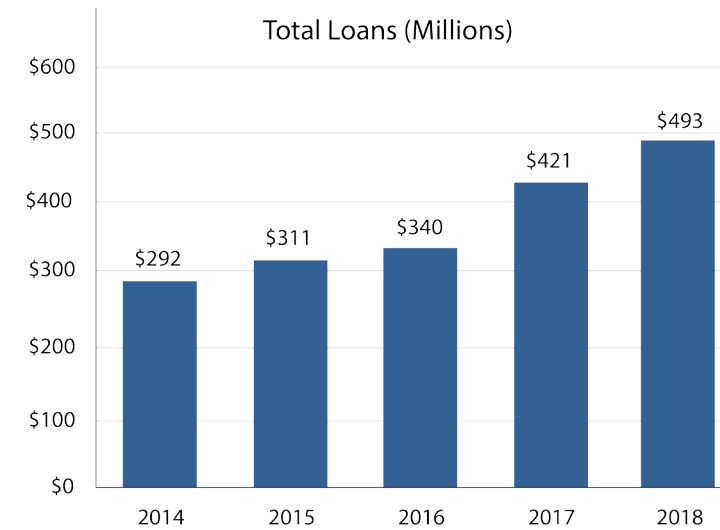


Daniel W. Merenda
Daniel W. Merenda, Chairman



Paul Phillips
Paul Phillips, President/CEO

*Source: Federal Reserve Board, Report on the Economic Well-Being of U.S. Households (SHED) (2017)





Awards & Recognition

In 2018, Freedom First was recognized by numerous organizations for a broad range of initiatives, projects, and local impact, including:

- **Roanoke Regional Chamber of Commerce:** 2018 Small Business of the Year Award, Large Not-for-Profit
- **Downtown Roanoke, Inc.:** 2018 Roanoke St. Patrick's Day Parade & Shamrock Festival Best in Show

- **Public Relations Society of America Blue Ridge:** 2018 Summit Gold Award for the "Bank For Good" branding campaign
- **Credit Union National Association:** 2018 Dora Maxwell Award for the Invest Health initiative
- **Roanoke Valley Association of REALTORS®:** 2018 Individual Affiliate of the Year for Paula Brown, SVP Mortgage at Freedom First
- **The Financial Brand:** Ranked #10 for the 2018 Q4 Power 100 Social Media Rankings for financial institutions in English-speaking countries



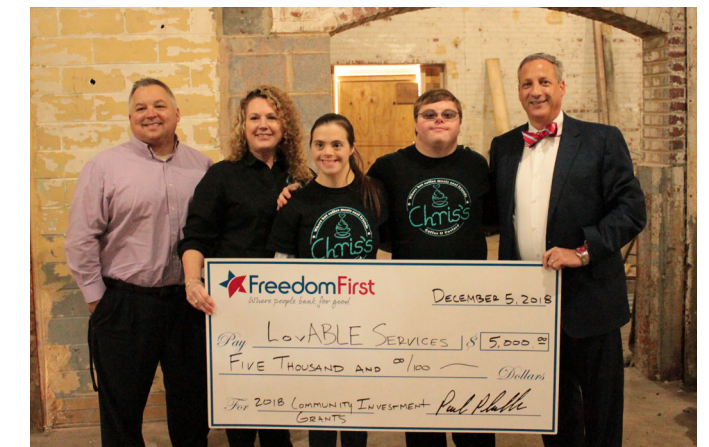
Community Grants

Freedom First supports our partners by offering community grants to local non-profits to assist them in carrying out their missions. This is in addition to over \$125,000 in community event sponsorships.

In 2018, we received over 30 grant proposals and were able to award worthy programs throughout our entire service area. The eight recipients were:

- **Blue Ridge Literacy** - \$5,000: For Citizenship Classes to help English learners to succeed in passing the U.S. Citizenship test.
- **Children's Museum of Blacksburg** - \$5,000: To subsidize the cost of transportation for students of Title 1 schools throughout the NRV to and from the museum.
- **LovABLE Services** - \$5,000: For workforce training and special food service equipment for staff with special needs at Chris's Coffee & Custard.

- **Mill Mountain Theatre** - \$2,500: To promote literacy among children attending Young Audiences performances by distributing free books.
- **NRV Agency on Aging** - \$4,500: To hire a home health aide to provide reprieve for the primary caregiver.
- **Prevention Council of Roanoke County** - \$3,000: To enhance community outreach through parental education on internet safety for children.
- **STEP, Inc.** - \$5,000: To hire part-time staff to manage the Volunteer Income Tax Assistance program.
- **Turn the Page, Inc.** - \$5,000: To support the Books and Breakfast program for families of students at Hurt Park & Westside Elementary schools.





Scholarships

Freedom First is proud to continue the tradition of offering several direct academic scholarships to exceptional students in the Roanoke and New River Valleys, plus the counties of Botetourt, Craig, and Franklin. The 2018 scholarship recipients were:

Charles Perkins Scholarship

Named in honor of Charles Perkins, who served as general manager and president of Freedom First Credit Union.

- **Morgan Fisher** - Attending UNC Chapel Hill
- **Julie McKnew** - Attending Longwood University
- **Ryea Young** - Attending Virginia Tech

Fred "Fritz" Kehn Scholarship

Dedicated to the memory of Fred D. "Fritz" Kehn, one of the original members of the Credit Union and first president in 1956.

- **Kailyn Janiga** - Hidden Valley High School, attending the University of Notre Dame

City of Salem/Frank Turk Scholarship

In recognition of the City of Salem Employees Credit Union and its president Frank Turk, who served from 1978-2004.

- **Elissa Look** - Attending Radford University

Torie Phillips Memorial Scholarship

Dedicated to the memory and life of Lord Botetourt High School student Torie Phillips.

- **Clara Keeley** - Lord Botetourt High School, attending the University of Virginia



Consolidated Statements of Financial Condition

ASSETS

	March 31,	
	2018	2017
Cash and cash equivalents	\$ 5,701,872	\$ 6,245,469
Investments:		
Available-for-sale	26,950,314	20,089,498
Other	34,966,473	49,017,612
Federal Home Loan Bank (FHLB) stock	1,818,600	1,767,700
Loans held-for-sale	895,065	482,168
Loans receivable, net of allowance for loan losses	428,050,355	366,484,143
Accrued interest receivable	1,320,897	1,143,561
Premises and equipment, net	11,792,150	11,778,331
National Credit Union Share Insurance Fund deposit	3,651,136	3,490,869
Assets acquired in liquidation	97,346	320,142
Other assets	15,726,484	15,250,002
Total Assets	\$ 530,970,692	\$ 476,069,495

LIABILITIES AND MEMBERS' EQUITY

	March 31,	
	2018	2017
Liabilities		
Members' share and savings accounts	\$ 441,143,132	\$ 391,575,684
Borrowed funds	33,800,000	34,500,000
Interest payable	129,019	132,536
Dividend payable	9,527	8,302
Accrued expenses and other liabilities	7,230,486	6,341,942
Total liabilities	482,312,164	432,558,464
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	5,751,716	5,751,716
Undivided earnings	42,429,944	37,119,414
Accumulated other comprehensive income (loss)	(123,083)	39,950
Equity acquired in merger	599,951	599,951
Total members' equity	48,658,528	43,511,031
Total Liabilities and Members' Equity	\$ 530,970,692	\$ 476,069,495



Consolidated Statements of Income

	March 31,	
	2018	2017
Interest Income		
Interest on loans receivable	\$ 19,449,786	\$ 16,397,673
Interest on investments	799,970	640,342
Interest income	<u>20,249,756</u>	<u>17,038,015</u>
Interest Expense		
Dividends on members' share and savings accounts	2,153,432	1,708,191
Interest on borrowed funds	1,218,395	1,182,309
Interest expense	<u>3,371,827</u>	<u>2,890,500</u>
Net Interest Income	16,877,929	14,147,515
Provision for Loan Losses	2,035,770	3,079,662
Net Interest Income After Provision for Loan Losses	<u>14,842,159</u>	<u>11,067,853</u>
Non-Interest Income		
Fees and service charges	5,850,135	5,467,825
Other non-interest income	3,631,368	2,865,377
Gain on sale of mortgage loans, net	929,718	1,026,229
Gain on disposition of premises and equipment, net	258	8,337
Non-interest income	<u>10,411,479</u>	<u>9,367,768</u>
	25,253,638	20,435,621
Non-Interest Expense		
Compensation and employee benefits	11,909,205	10,659,642
Operations	4,391,264	3,907,938
Occupancy	1,154,894	1,055,647
Loan servicing	1,116,926	1,012,227
Education and promotion	1,033,810	734,318
Professional and outside services	256,840	293,553
Loss on disposition of assets acquired in liquidation, net	80,169	148,320
Non-interest expense	<u>19,943,108</u>	<u>17,811,645</u>
Net Income	\$ 5,310,530	\$ 2,623,976



Consolidated Statements of Members' Equity & Comprehensive Income

COMPREHENSIVE INCOME

	March 31,	
	2018	2017
Net Income	<u>\$ 5,310,530</u>	<u>\$ 2,623,976</u>
Other Comprehensive Income or (Loss)		
Net unrealized holding (losses)/gains on securities arising during the year	(163,033)	(87,245)
Less reclassification adjustment for net losses/(gains) included in net income	-	-
	<u>(163,033)</u>	<u>(87,245)</u>
Comprehensive Income	\$ 5,147,497	\$ 2,536,731

MEMBERS' EQUITY

	Regular Reserve	Undivided-Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired In Merger	Total
Balance, March 31, 2016	\$ 5,751,716	\$ 34,495,438	\$ 127,195	\$ 599,951	\$ 40,974,300
Net income	-	2,623,976	-	-	2,623,976
Change in unrealized gain on securities	-	-	(87,245)	-	(87,245)
Balance, March 31, 2017	\$ 5,751,716	\$ 37,119,414	\$ 39,950	\$ 599,951	\$ 43,511,031
Net income	-	5,310,530	-	-	5,310,530
Change in unrealized loss on securities	-	-	(163,033)	-	(163,033)
Balance, March 31, 2018	\$ 5,751,716	\$ 42,429,944	\$ (123,083)	\$ 599,951	\$ 48,658,528

**Consolidated Statements of Cash Flow**

	March 31,	
	2018	2017
Operating Activities		
Net income	\$ 5,310,530	\$ 2,623,976
Adjustments to reconcile net income to net cash		
Provision for loan losses	2,035,770	3,079,662
Depreciation and amortization of premises and equipment	865,552	947,866
Gain on disposition of premises and equipment, net	(258)	(8,337)
Gain on sale of mortgage loans, net	(929,718)	(1,026,229)
Loss on disposition of assets acquired in liquidation, net	80,169	148,320
Amortization of investment premiums/discounts	70,658	160,162
Amortization of deferred loan origination fees/costs	822,964	970,184
Changes in operating assets and liabilities		
Loans held-for-sale	(412,897)	589,406
Accrued interest receivable	(177,336)	(193,374)
Other assets	(476,482)	5,427,308
Dividends payable	1,225	(7,096)
Interest payable	(3,517)	2,264
Accrued expenses and other liabilities	888,544	2,719,964
Net cash provided by operating activities	<u>\$ 8,075,204</u>	<u>\$ 15,434,076</u>
Cash Flows from Investment Activities		
Purchases of:		
Available-for-sale securities	(14,936,614)	(2,981,169)
Premises and equipment	(881,113)	(1,095,247)
Proceeds from:		
Maturities and paydowns of available-for-sale securities	7,740,307	3,000,030
Sale of FHLB stock	50,900	875,400
Sale of premises and equipment	2,000	-
Sale of mortgage loans	38,348,220	40,406,677
Sale of assets acquired in liquidation, net	1,362,328	1,481,258
Net change in:		
Other investments	14,051,139	(22,343,183)
Loans receivable, net of charge-offs	(102,750,106)	(88,313,122)
Assets acquired in liquidation	(1,122,701)	(1,222,595)
NCUSIF deposit	(160,267)	(759,780)
Recoveries on loans charged off	809,658	545,588
Net cash used in investing activities	<u>\$ (57,486,249)</u>	<u>\$ (71,216,143)</u>

*Consolidated Statements of Cash Flow, continued*

	March 31,	
	2018	2017
Cash Flows from Financing Activities		
Net change in members' share and savings accounts	\$ 49,567,448	\$ 77,586,443
Proceeds from borrowings	49,000,000	80,000,000
Repayments of borrowings	(49,700,000)	(101,500,000)
Net cash provided by financing activities	<u>\$ 48,867,448</u>	<u>\$ 56,086,443</u>
Net Change in Cash and Cash Equivalents	\$ (543,597)	\$ 304,376
Cash and Cash Equivalents at Beginning of Year	6,245,469	5,941,093
Cash and Cash Equivalents at End of Year	<u>\$ 5,701,872</u>	<u>\$ 6,245,469</u>
Supplemental Cash Flow Disclosures		
Dividends and interest paid	\$ 3,375,344	\$ 2,897,596
Loans receivable transferred to assets acquired in liquidation	<u>\$ 97,000</u>	<u>\$ 143,003</u>



Governance Committee Report

The Governance Committee plays an important role ensuring elected officials adhere to business conduct policies, actively participate in meetings and ongoing training, fulfill their fiduciary responsibilities, exercise independence in their thinking and incorporate best practices whenever prudent.

The committee also directs and analyzes Board Self-Assessments and Management Needs Assessments. The purpose of these assessments is to help achieve a diverse board of directors comprised of a cross section of our community that fairly represents different demographic groups as well as industry sectors and professional competencies.

This year there were three open Board positions and three incumbents qualified and were nominated to fill those three positions. There were no nominations by petition received. Therefore, no election was held and candidates are hereby affirmed.

The following candidates will continue their service on Freedom First's Board of Directors for a term of three years.

- John Budd
- Wayne Strickland
- Melinda Payne

Daniel Merenda
Chairman, Governance & Ethics Committee

Supervisory Committee Report

The Credit Union's Supervisory Committee has the responsibility to ensure that the operations of the Credit Union are carried out in accordance with the Federal Credit Union Act and the rules and regulations of the National Credit Union Administration.

In order to carry out our responsibility, we regularly review reports of management's internal and external audits and also engage the services of a certified public accounting firm to perform an annual financial audit and verification of member accounts. The purpose of this financial audit is to determine whether or not the consolidated financial statements contain any materially significant misrepresentations. This includes tests of

the Credit Union's internal controls necessary for the auditor to render an opinion.

This year's external audit resulted in an opinion that the Credit Union's financial statements do fairly represent its financial position and results of operations for the year. Based on their report and our own observations, we can report to you that Freedom First Credit Union continues to maintain a safe and sound financial institution and compliant with Federal regulations.

We have also engaged an independent audit agency to perform our internal audit function. The Supervisory Committee independently directs the internal audit program. We would like to thank you for your continued support of our member-owned Credit Union.

Jay A. Lanz
Chairman, Supervisory Committee

Treasurer's Report

One of the most important goals of the Board of Directors and Management is to remain financially safe and sound. Toward that end, the Credit Union achieved a high level of growth and net profitability for the year 2018.

Over the 12 months ended December 31, 2018, total assets increased from \$533 million to \$601 million, an increase of \$68 million. That is equivalent to 13% annual growth in assets. Loans to members increased from \$421 million to \$493 million, which included growth in consumer, home and business loans. For example, vehicle loans increased about \$21 million, ending the year at \$153 million outstanding. Residential 1st mortgages increased over \$9 million, ending the year at nearly \$81 million. And, business loans increased nearly \$44 million, ending the year at \$191 million.

Member deposits increased from \$420 million to \$490 million. Both consumer and business account balances increased substantially. Their combined growth totaled nearly \$70 million.

Our net income for the year totaled \$5.6 million, an increase of about \$1.6 million compared to the prior year's operating results. Revenues totaled \$33.7 million, representing nearly 16% growth due largely to increased income from loans and investments. In contrast to the growth in revenues,

total operating expense increased only 10%. However, the cost of funds increased over 62% due mostly to increased dividends paid on member deposits.

The Credit Union's net worth represents a financial cushion against losses. During 2018, our net worth was increased by \$5.6 million by net income retained from operations. The Credit Union's total net worth includes \$2.3 million secondary capital.

Again this year, an audit of the credit union's financial statements was completed and fairly represented by an independent certified public accounting firm. The firm issued an unmodified opinion on the credit union's financial statements as of March 31, 2018.

Consolidated financial statements as of December 31, 2017 and 2018 are displayed below. Questions regarding this information may be forwarded to Credit Union management or me.

As your Treasurer and on behalf of the entire Credit Union family, I want to express our sincere appreciation to the management and staff of Freedom First. This success would not be possible without their diligence and efforts.

Wayne Strickland
Treasurer



CONSOLIDATED STATEMENT OF CONDITION (UNAUDITED)

\$ Amounts in Thousands

12/31/2017 12/31/2018

ASSETS		
Loans (net)	\$ 418,136	\$ 489,301
Cash	51,129	42,750
Investments	38,194	32,163
Other assets	25,588	36,761
Total Assets	\$ 533,047	\$ 600,939
LIABILITIES & NET WORTH		
Payables	\$ 63,781	\$ 56,734
Secondary capital	2,500	2,300
Member shares	420,066	489,808
Net worth	46,700	\$ 52,097
Total Liabilities & Net Worth	\$ 533,047	\$ 600,939

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

\$ Amounts in Thousands

12/31/2017 12/31/2018

INCOME		
Income from member loans	\$ 18,579	\$ 22,034
Investment & other income	10,532	11,650
Total Income	\$ 29,111	\$ 33,684
EXPENSES		
Operating expenses	\$ 19,656	\$ 21,468
Dividends & interest expenses	3,209	4,626
Loan loss provision	2,279	1,986
Total Expenses	\$ 25,144	\$ 28,080
NET INCOME	\$ 3,967	\$ 5,604



BOARD OF DIRECTORS

EXECUTIVE COMMITTEE



Daniel W. Merenda
Chairman



Brent Cochran
Vice-Chairman



Wayne Strickland
Treasurer



Melinda Payne
Secretary

DIRECTORS



Judith Harrison
Director



Michelle Davis
Director



Andrea Garland
Director



John Budd
Director



Ron Williams
Director

ALCO (Finance) Committee

Daniel W. Merenda
Wayne Strickland
John Budd
Frank Turk

Audit and Risk Committee

Judith Harrison
Ron Williams
Andrea Garland

Corporate Social Responsibility Committee

Judith Harrison
Michelle Davis
Melinda Payne

Employee Relations Committee

Judith Harrison
Andrea Garland
Ron Williams



SUPERVISORY COMMITTEE



Jay Lanz
Chairperson



Michael Williams
Secretary



Gerald Barnes



Cynthia DiFrancesco



Adrienne Sowers

LEADERSHIP TEAM



Paul Phillips
President/CEO



Sarah Andrews
EVP/COO



Keith Rickoff
EVP/CFO

Governance Committee

Daniel W. Merenda
Brent Cochran
Michelle Davis

Lending Committee

Brent Cochran
Wayne Strickland
John Budd

Employee Relations Committee

Judith Harrison
Ron Williams
Andrea Garland

BLACKSBURG

1204 South Main Street

CHRISTIANSBURG

417 North Franklin Street

DALEVILLE

1171 Roanoke Road

ROANOKE

5240 Valleypark Drive—Operations Center

5102 Williamson Road—Crossroads

102 Campbell Avenue—Downtown Roanoke

4203 Electric Road—Tanglewood

2221 Colonial Avenue—Towers Shopping Center

1210 Patterson Avenue—West End Center

SALEM

1235 Electric Road

VINTON

203 Virginia Avenue

(540) 389-0244 / (866) 389-0244

www.freedomfirst.com



Federally insured by NCUA.