



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

2019 ANNUAL
REPORT



CHAIRMAN/CEO REPORT

We are proud to report that 2019 was another great year for the Credit Union. Low unemployment and high consumer confidence helped to create an environment supportive of our continued growth. The Freedom First brand has grown in prominence as more and more people are drawn to our competitive products, exceptional team of professionals, local ownership, and community development efforts. All of these elements are critical in fulfilling our mission of Helping People Prosper and Helping Communities Thrive.

Delivering great service requires committed and engaged employees, and competition for talent has been fierce. With our highest participation ever, our internal service scores increased from 88 to 90 in 2019. These scores evaluate how well departments within the Credit Union support each other. With a score of 90, Freedom First ranks the highest among all participating credit unions under \$1B in assets and third among all credit unions above \$1B. 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 call center and at our branches, have increased to new highs and are exceeding the peer benchmarks.

Our focus on service is working. Total assets have grown 65 percent over the last five years, increasing our assets to over \$658M. Members are better informed and more engaged

than ever, driving significant loan and deposit growth. Loans increased \$22M, and deposits increased \$41M respectively during the year. Our innovative checking accounts, Freedom Stash™ and Freedom Cash™, paid our members over \$650,000 in rewards and perks. The number of new checking accounts opened in 2019 increased 32 percent over 2018 and 81 percent over 2017. We also help members protect their accounts by adding security features such as multi-factor authentication, text alerts for suspicious card activity, and a secure live chat feature within our mobile and online banking platforms.

As important as growth is, we must be certain our growth is productive and sustainable. We are happy to report that operating results produced \$6.5M in net income in 2019, exceeding the budget by \$900,000. Our 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.

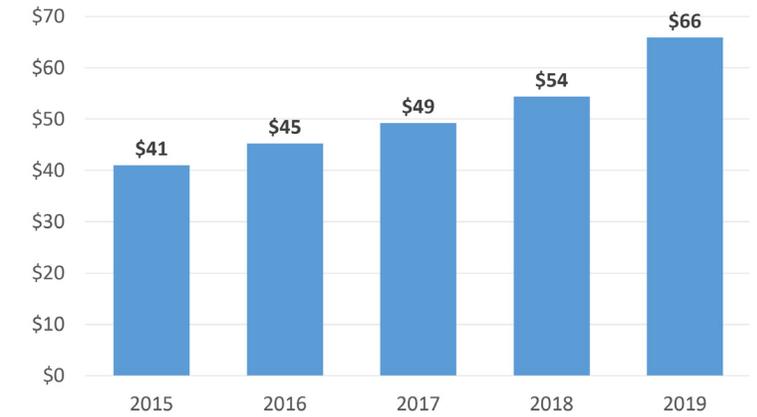
Helping struggling families and communities solve persistent challenges is part of our DNA. And, thanks to the excellent work of our Community Development team, we've become known for not only our programs, but also our compassion and caring. During the year we leveraged our community development accomplishments and were awarded grants and secondary capital to help fund our affordable housing and financial education initiatives.



Total Loans (Millions)



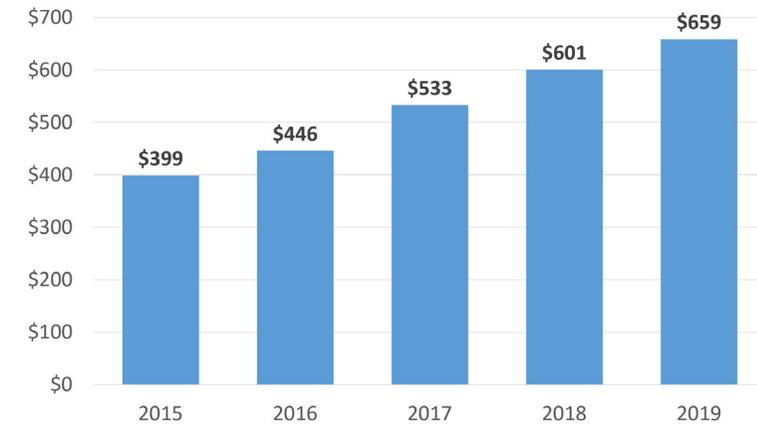
Net Worth Including Secondary Capital (Millions)



Total Deposits (Millions)



Total Assets (Millions)





Our lending teams had an excellent year, providing \$140M in home and commercial financing. We also gave back more than ever before in volunteer hours, employee donations, and free ice cream! New initiatives were started, such as Local Impact for Tomorrow (LIFT), a partnership between Freedom First Credit Union, Freedom First Enterprises, Carilion Clinic, Delta Dental of Virginia, and Roanoke City Public Schools. We contributed \$125,000 to the LIFT initiative, which initially involves construction of an addition onto the new Fallon Park Elementary School. The addition will provide space for a multi-disciplinary team of health, dental, education and financial professionals to provide various services in hopes of achieving better outcomes than we see through traditional service models.

Lastly, we successfully moved our Crossroads branch from its Williamson Road location to a larger, more easily accessible building nearby. This new facility is notable in that our Community Development department is now located on-site, and our non-profit affiliate, Freedom First Enterprises will be providing no-cost financial coaching services to Roanoke residents as part of a partnership with Roanoke City and with the help of a grant from the Cities for Financial Empowerment Fund.

In the following pages of this report, we outline in more detail our accomplishments throughout the year. We encourage you to also read our most recent Community Impact Report that describes the accomplishments and initiatives undertaken by our Community Development team. 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 volunteer 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*



Consolidated Statements of Financial Condition

ASSETS

	March 31,	
	2019	2018
Cash and cash equivalents	\$ 6,044,825	\$ 5,701,872
Investments:		
Trading	4,286,887	-
Available-for-sale	26,854,245	26,950,314
Other	65,801,723	34,966,473
Federal Home Loan Bank (FHLB) stock	2,713,800	1,818,600
Loans held-for-sale	893,807	895,065
Loans receivable, net of allowance for loan losses	494,028,957	428,050,355
Accrued interest receivable	1,655,585	1,320,897
Premises and equipment, net	13,131,159	11,792,150
National Credit Union Share Insurance Fund deposit	3,929,484	3,651,136
Assets acquired in liquidation	378,232	97,346
Other assets	16,776,990	15,726,484
Total Assets	\$ 636,495,694	\$ 530,970,692

LIABILITIES AND MEMBERS' EQUITY

	March 31,	
	2019	2018
Liabilities		
Members' share and savings accounts	\$ 521,418,746	\$ 441,143,132
Borrowed funds	53,100,000	33,800,000
Interest payable	155,959	129,019
Dividend payable	10,193	9,527
Accrued expenses and other liabilities	7,748,417	7,230,486
Total liabilities	582,433,417	482,312,164
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	5,751,716	5,751,716
Undivided earnings	47,783,595	42,429,944
Accumulated other comprehensive income (loss)	(72,985)	(123,083)
Equity acquired in merger	599,951	599,951
Total members' equity	54,062,277	48,658,528
Total Liabilities and Members' Equity	\$ 636,495,694	\$ 530,970,692



Consolidated Statements of Income

	March 31,	
	2019	2018
Interest Income		
Interest on loans receivable	\$ 23,129,068	\$ 19,449,786
Interest on investments	1,361,654	799,970
Interest income	<u>24,490,722</u>	<u>20,249,756</u>
Interest Expense		
Dividends on members' share and savings accounts	3,943,705	2,153,432
Interest on borrowed funds	1,412,438	1,218,395
Interest expense	<u>5,356,143</u>	<u>3,371,827</u>
Net Interest Income	19,134,579	16,877,929
Provision for Loan Losses	2,314,894	2,035,770
Net Interest Income After Provision for Loan Losses	<u>16,819,685</u>	<u>14,842,159</u>
Non-Interest Income		
Service charges	4,801,751	4,666,472
Card income	3,278,888	2,889,398
Miscellaneous other income	799,440	1,168,598
Grant Income	730,000	757,035
Gain on sale of mortgage loans, net	781,124	929,718
Gain on disposition of assets acquired in liquidation, net	14,194	-
Gains on Trading Investments, net	5,333	-
Gain on disposition of premises and equipment, net	1,120	258
Non-interest income	<u>10,411,850</u>	<u>10,411,479</u>
	27,231,535	25,253,638
Non-Interest Expense		
Compensation and employee benefits	12,904,440	11,909,205
Operations	4,818,403	4,391,264
Occupancy	1,057,046	1,154,894
Loan servicing	1,063,979	1,116,926
Education and promotion	1,727,001	1,033,810
Professional and outside services	361,479	256,840
Other non-interest expense	82,798	-
Loss on disposition of assets acquired in liquidation, net	-	80,169
Non-interest expense	<u>22,015,146</u>	<u>19,943,108</u>
Net Income	\$ 5,216,389	\$ 5,310,530



Consolidated Statements of Members' Equity & Comprehensive Income

COMPREHENSIVE INCOME

	March 31,	
	2018	2018
Net Income	\$ 5,216,389	\$ 5,310,530
Other Comprehensive Income or (Loss)		
Net unrealized holding (losses)/gains on securities arising during the year	187,360	(163,033)
Less reclassification adjustment for net losses/(gains) included in net income	-	-
	<u>187,360</u>	<u>(163,033)</u>
Comprehensive Income	\$ 5,403,749	\$ 5,147,497

MEMBERS' EQUITY

	Regular Reserve	Undivided-Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired In Merger	Total
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 gain on securities	-	-	(163,033)	-	(163,033)
Balance, March 31, 2018	\$ 5,751,716	\$ 42,567,206	\$ (260,345)	\$ 599,951	\$ 48,658,528
Net income	-	5,216,389	-	-	5,216,389
Change in unrealized loss on securities	-	-	187,360	-	187,360
Balance, March 31, 2019	\$ 5,751,716	\$ 47,783,595	\$ (72,985)	\$ 599,951	\$ 54,062,277



Consolidated Statements of Cash Flow

	March 31,	
	2019	2018
Operating Activities		
Net income	\$ 5,216,389	\$ 5,310,530
Adjustments to reconcile net income to net cash		
Provision for loan losses	2,314,894	2,035,770
Depreciation and amortization of premises and equipment	844,794	865,552
Gain on disposition of premises and equipment, net	(1,120)	(258)
Gain on sale of mortgage loans, net	(781,124)	(929,718)
Loss on disposition of assets acquired in liquidation, net	(14,194)	80,169
Amortization of investment premiums/discounts	(84,781)	70,658
Amortization of deferred loan origination fees/costs	1,483,279	822,964
Changes in operating assets and liabilities		
Trading investments	(4,149,625)	-
Loans held-for-sale	1,258	(412,897)
Accrued interest receivable	(334,688)	(177,336)
Other assets	(1,050,506)	(476,482)
Dividends payable	666	1,225
Interest payable	26,940	(3,517)
Accrued expenses and other liabilities	518,033	888,544
Net cash provided by operating activities	<u>\$ 3,990,215</u>	<u>\$ 8,075,204</u>
Cash Flows from Investment Activities		
Purchases of:		
Available-for-sale securities	(6,953,730)	(14,936,614)
FHLB stock	(895,200)	-
Premises and equipment	(2,813,758)	(881,113)
Proceeds from:		
Maturities and paydowns of available-for-sale securities	7,184,678	7,740,307
Sale of FHLB stock	-	50,900
Sale of premises and equipment	1,075	2,000
Sale of mortgage loans	37,680,930	38,348,220
Sale of assets acquired in liquidation, net	487,508	1,362,328
Net change in:		
Other investments	(30,835,250)	14,051,139
Loans receivable, net of charge-offs	(107,569,355)	(102,750,106)
Assets acquired in liquidation	(375,968)	(1,122,701)
NCUSIF deposit	(278,348)	(160,267)
Recoveries on loans charged off	514,542	809,658
Net cash used in investing activities	<u>\$ (103,222,876)</u>	<u>\$ (57,486,249)</u>



Consolidated Statements of Cash Flow, continued

	March 31,	
	2018	2018
Cash Flows from Financing Activities		
Net change in members' share and savings accounts	\$ 80,275,614	\$ 49,567,448
Proceeds from borrowings	33,600,000	49,000,000
Repayments of borrowings	(14,300,000)	(49,700,000)
Net cash provided by financing activities	<u>\$ 99,575,614</u>	<u>\$ 48,867,448</u>
Net Change in Cash and Cash Equivalents	\$ 342,953	\$ (543,597)
Cash and Cash Equivalents at Beginning of Year	5,701,872	6,245,469
Cash and Cash Equivalents at End of Year	<u>\$ 6,044,825</u>	<u>\$ 5,701,872</u>
Supplemental Cash Flow Disclosures		
Dividends and interest paid	\$ 5,329,203	\$ 3,375,344
Loans receivable transferred to assets acquired in liquidation	<u>\$ 378,232</u>	<u>\$ 97,000</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.

- Brent Cochran
- Judith Harrison
- Andrea Garland

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 2019.

Over the 12 months ended December 31, 2019, total assets increased from \$601 million to \$659 million, an increase of \$58 million. That is equivalent to 10% annual growth in assets. Loans to members increased from \$493 million to \$515 million, which included growth in home and business loans. Residential 1st mortgages increased over \$5 million, ending the year at \$86 million. Business loans increased \$23 million, ending the year at \$214 million.

Member deposits increased from \$490 million to \$531 million. Our net income for the year totaled \$6.5 million, an increase of about \$900 thousand compared to the prior year's operating results. Revenues totaled \$39.5 million, representing nearly 17% 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 54% due mostly to increased dividends paid on member deposits.



The Credit Union's net worth protects the organization against future losses. During 2019, our net worth was increased by \$4.8 million from the addition of secondary capital and another \$6.5 million in net income retained from operations for a total of \$11.3 million. The Credit Union's total net worth includes \$7.1 million in 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, 2019.

Consolidated financial statements as of December 31, 2018 and 2019 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

12/31/2018 12/31/2019

ASSETS

Loans (net)	\$ 489,301	\$ 511,170
Cash	42,750	71,316
Investments	32,163	29,593
Other assets	36,761	46,518
Total Assets	\$ 600,939	\$ 658,597

LIABILITIES & NET WORTH

Payables	\$ 56,734	\$ 72,100
Secondary capital	2,300	7,100
Member shares	489,808	520,577
Net worth	52,097	\$ 58,820
Total Liabilities & Net Worth	\$ 600,939	\$ 658,597

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

\$ Amounts in Thousands

12/31/2018 12/31/2019

INCOME

Income from member loans	\$ 22,034	\$ 25,439
Investment & other income	11,650	14,055
Total Income	\$ 33,684	\$ 39,494

EXPENSES

Operating expenses	\$ 21,468	\$ 24,070
Dividends & interest expenses	4,626	7,129
Loan loss provision	1,986	1,803
Total Expenses	\$ 28,080	\$ 33,002

NET INCOME

	\$ 5,604	\$ 6,492
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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 Lantz
Chairperson



Michael Williams
Secretary



Gerald Barnes



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

5002 Cross Road NW—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 W Virginia Avenue

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www.freedomfirst.com



Federally insured by NCUA.