Supervisory Committee Report

The Supervisory Committee’s duty is to assure that your Credit Union conducts its operations and activities in a safe and sound manner. The Committee also acts as your ombudsman, addressing issues brought forth by members and staff.

Management is responsible for the preparation, presentation, accuracy and consistency of the financial reporting contained in this Annual Report. The financial summary is developed from statements prepared in accordance with generally accepted accounting principles, and are considered by management to fairly present the financial position and results of operations of the Credit Union.

Management has developed and maintains the necessary systems of internal controls. These controls provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records are maintained. Internal auditors employed by the Credit Union, as well as federal examiners and independent certified public accounting firms, also monitor the controls.

To ensure accuracy and the strength of internal controls, the Supervisory Committee meets periodically with management and internal auditors, to review the quality of financial reporting, the regular completion of internal audits, various external operational audits, and that sound operations and compliance are in place.

Finally, the Supervisory Committee also engaged the accounting firm of Moss Adams, LLC in 2015 to conduct the annual “Agreed Upon Procedures Audit”. In addition, the National Credit Union Administration (NCUA - the regulating agency for all federally chartered credit unions) conducted a Safety and Soundness Exam and also a Fair Lending Review. Both reports confirmed Peninsula Credit Union is well managed and properly accounting for your resources as a well capitalized institution.

Respectfully,

Lane Johnson, M.D., Chairman
Supervisory Committee

“Peninsula Credit Union’s financial performance will always be closely monitored to ensure the financial foundation of your credit union remains well capitalized.”

Board of Directors
Robert J. Close, Chairman
John Bolender, Vice Chairman
Len Williams, Secretary/Treasurer
Sue Barnard
Lisa Frazier
Kathy Haigh
Bill Schultz

Supervisory Committee
Lane Johnson, M.D., Chairman
Darryl Cleveland
Kathy Haigh
John Lester
Steve Wright

Our Priority is You
We do business in accordance with the Federal Fair Lending Law and the Equal Credit Opportunity Act. This credit union is federally insured by the National Credit Union Administration.
Peninsula Community Federal Credit Union

2016 ANNUAL MEETING

10 a.m. Saturday, March 12, 2016
Port Orchard Branch
Port Orchard, Washington

I. Call to Order, Robert J. Close, Chairman

II. Determination of a Quorum

III. Introductions
   a. Board Members
   b. Supervisory Committee

IV. Approval of 2015 Annual Meeting Minutes

V. Nominating Committee
   a. Election – Board of Directors

VI. Chairman’s Report

VII. Supervisory Committee Report,
     Lane Johnson, M.D.,
     Supervisory Committee, Chair

VIII. President/CEO’s Report,
      Jim Morrell, President/CEO

IX. Keynote Speaker, Matt Murphy,
    Executive Director
    Port Orchard Chamber of Commerce

X. Questions and Answers, Jim Morrell,
   President/CEO

XI. Door Prize Drawings

XII. Adjournment
The Annual Meeting for 2015 was held on Saturday, April 18, 2015 at the Belfair Branch Office.

The 79th Annual Meeting was called to order by Chair, Jim Davenport at 10:04 a.m. who welcomed those present. Chair Davenport thanked everyone present including staff and family members for attending.

Chair Davenport ascertained that there was a quorum of members present.

Bob introduced the Board Members and Supervisory Committee Members in attendance and thanked them for the work they have done over the course of the past year.

The minutes from the 2014 Annual Meeting were available for everyone present to review. A motion was made and seconded to approve the 2014 Annual Meeting minutes.

Lisa Frazier gave the Nominating Committee report stating that four members had been nominated to serve on the Board of Directors and there were no other nominations received or petitions challenging any of the nominated candidates.

Lisa asked that a unanimous ballot be cast for those candidates for the Peninsula Community Federal Credit Union Board of Directors. A nomination to cast a unanimous ballot was made and seconded. All present were in favor of this motion.

Elected was:
Position #4  John Bolender  Two Year Term
Position #5  Kathy Haigh  Three Year Term
Position #6  Robert Close  Three Year Term
Position #7  Len Williams  Three Year Term

Chair Davenport made reference to the Annual Report for 2014, available to those present. This report contains Chair’s Report, Management and Supervisory Committee Report. Also shown in this report were the Statement of Financial Condition, the Statement of Earnings and Financial Summary.

Chair Davenport gave the Report of the Chairman noting that the Credit Union’s loan portfolio was growing and that deposits were up, overall for a 7.71% growth. Chair Davenport stated that PCFCU is a good, healthy Credit Union and that everyone should be proud of the organization. Chair Davenport indicated that this was his last annual meeting and that he was leaving as a volunteer. He thanked the staff and volunteers stating that the credit union was being left in good hands.

Darryl Cleveland, Supervisory Committee Chairman, gave the annual report for the Supervisory Committee. Darryl welcomed those present and read the report from the 2014 Annual Report representing the Supervisory Committee. Darryl also introduced the 2015 Supervisory Committee as Kathy Haigh, John Lester, Lane Johnson, MD, and Steven Wright.

Jim Morrell, President/CEO welcomed everyone present and introduced the Executive Management and Leadership Teams, and named long term employees with 20/30 and even 40 years with the credit union.

Jim Morrell gave the President’s Report noting that a 4.8% increase in the loan portfolio had been seen over the last year. With the addition of the VISA Credit Card program that growth was realized. Assets have increased, as well as loans, increasing capital to 7.89%.

Jim Morrell noted that the economy is improving particularly in the Kitsap County region. The Credit Union remains continuously optimistic as community relevancy continues to escalate. During the year the Shelton Chamber of Commerce awarded the Credit Union “Business of the Year” and the North Mason Chamber of Commerce nominated the Credit Union for business of the year as well. With the offering of Save to Win. We have 298 members with deposits totaling $564,000 that participate in the program. Thirty members have won $1,200 in prize winnings. He noted that one member has won four times. Jim Morrell also highlighted new products introduced in 2014 as Borrow to Save, Mobile banking (PCU), Trustage Insurance, Fraud Defender, and a presence on Facebook and Twitter.

Jim Morrell spoke to the subject of data breaches like Home Depot and Premera that continue to afflict the financial industry, where lack of responsibility for financial data by merchants is a constant message being sent to our legislative representatives. He also highlighted increasing regulatory pressures and similarly indicated those that have the largest financial institutions and adverse impact on consumers should be the primary targets. Conversations with elected officials and regulatory agencies will continue in an effort to send this message.

Jim Morrell stated that 2015 was the Credit Union’s 80th Anniversary, with 17,500 members and $157,000,000 in assets.

Mr. James Pearson was introduced as the Communications Evangelist for the Northwest Credit Union Association. James shared that Northwest credit unions, as businesses, drove more than $6.8 billion dollars in economic impact, provided more than 15,000 family-wage jobs and delivered $352 million in direct benefits to their 4.9 million members in 2014. In Washington State with 10,415 family-wage credit union jobs the impact is $250 million in direct member impact. Peninsula Credit Union’s economic impact is $17 million providing 69 jobs, with $1.3 million in direct benefit averaging to $75 per credit union member.

James reminded those present that the Credit Union is just more than a business, rather, a financial institution empowering people's dreams by sharing the story of PCFCU's Bryan Shorten.

Jim Morrell asked for questions. A question was asked about the Credit Union’s use of credit scores and loan decision making; Jim Morrell explained how credit scores were derived. Jim Morrell also mentioned a new product called LIFT (Lower Interest for Timely Payments) pending Board approval that will offer a loan with incentive to folks whose credit scores are low.

Chair Davenport was presented with a parting gift and thanked for this service to the Credit Union as a volunteer. Chair Davenport thanked everyone present and said goodbye…cowboy style.

John Bolender conducted the door prize drawings.

Teresa Miller, Recording Secretary
President’s Report

Almost three years ago, Peninsula Credit Union received its certification as a Community Development Financial Institution. This was a strategic step to enhance the Credit Union’s relevancy in our communities and with the members we serve. It reflects our commitment to serving people’s financial needs with affordable financial services, providing education to help create personal financial plans, demonstrating our care in each interaction with our members and creating bottom line financial stability, benefiting our members and the credit union.

This past September, the CDFI Fund of the U.S. Treasury awarded Peninsula CU a $2 million grant to enhance our community financial education and to extend credit to those who have had a difficult financial past. Peninsula Credit Union was one of thirty-one credit unions and the only one located in the Northwest to receive this grant.

Lending, membership and deposit growth were all strong in 2015 although net income was encumbered by a couple of different one-time extraordinary expenses. As the economic environment remains unstable locally and globally, many members have brought their deposits to us at a greater rate than anticipated. These two circumstances of lower than expected net income and greater than expected asset growth, led to a slight decline in our net worth to 7.45% year-end. The Credit Union also saw very low good loan growth of 6.67%.

There continues to be strong growth for financial planning through Peninsula Wealth Management, growing 67% and 55% each of the past two years, respectively. The Visa Credit Card program, has seen strong usage and exceeded our goals for loan balances. Our social media efforts continue to grow and are a tremendous way to publicize the value you are receiving from the Credit Union.

Additional value is being provided by a wider array of mortgage products. We also stepped up to implement EMV chip technology in a significant step towards helping to protect your card data.

In 2016 Peninsula Credit Union will continue to provide the best possible service to our members, be an active member in our communities, and work as a team to ensure that we fulfill our mission statement that “We listen, we serve, we educate, we care…Always!”

Respectfully,

Jim Morrell, President/CEO

Report of the Chairman

Having concluded my first year as Board Chair, it is gratifying to see the many ways Peninsula Community Federal Credit Union is serving the financial needs of members. Whether low-to-moderate income or wealthy, we are dedicated to promoting community development.

The Board of Directors revisits the strategic direction of the Credit Union annually. We are all focused on maintaining our financial stability, particularly during this time of continued economic uncertainty. While there are glimmers of economic hope, there are equal headwinds that blow against our members’ financial lives.

To ensure that the goal of financial stability is maintained, the Board of Directors has crafted four additional goals. First, the creation of Member Value is identified by membership and loan growth generated by core relationships with existing and new members. Second, Efficient Delivery of products and services supported by enhancing member engagement through all delivery channels. Third, it is important for Peninsula Credit Union to maintain Relevancy. The Credit Union strives to do this through community engagement, providing value to members who may be low to moderate income, unbanked, underbanked or of higher income by listening, serving, educating and caring about enriching people’s lives.

Finally, Leadership is necessary to ensure these goals are achieved and maintained. Our CEO, Jim Morrell, leads a talented Leadership Team who collectively ensure the organization is fulfilling its goals. Your elected volunteer leadership on the Board of Directors and the Supervisory Committee help to ensure things are heading strategically in the right direction and being well managed.

As a member of Peninsula Credit Union, you have a voice into how this cooperative financial institution is run. Please share those benefits with family, friends, and your community and do not hesitate to contact the credit union if you are interested in serving in a volunteer capacity.

Sincerely,

Robert J. Close, Chairman

Statement of Financial Condition

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$153,685,239</td>
<td>$165,967,617</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$1,292,130</td>
<td>$1,292,130</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$1,292,130</td>
<td>$1,292,130</td>
</tr>
<tr>
<td>Equity</td>
<td>$152,393,109</td>
<td>$164,721,820</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$152,393,109</td>
<td>$164,721,820</td>
</tr>
</tbody>
</table>

Income

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Interest Income</td>
<td>$5,102,232</td>
<td>$5,097,918</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>$459,360</td>
<td>$512,931</td>
</tr>
<tr>
<td>Other Income</td>
<td>$2,368,051</td>
<td>$2,403,969</td>
</tr>
<tr>
<td>Total Income</td>
<td>$7,927,643</td>
<td>$8,014,818</td>
</tr>
</tbody>
</table>

Expense

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expense</td>
<td>$7,146,200</td>
<td>$7,416,994</td>
</tr>
<tr>
<td>Interest on Borrowed Money</td>
<td>$136</td>
<td>$22</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$7,146,336</td>
<td>$7,417,016</td>
</tr>
<tr>
<td>Non Operating Income (Expense)</td>
<td>($27,979)</td>
<td>($51,915)</td>
</tr>
<tr>
<td>Net Income</td>
<td>$753,328</td>
<td>$545,887</td>
</tr>
<tr>
<td>Distribution of Net Income</td>
<td>$396,589</td>
<td>$321,671</td>
</tr>
<tr>
<td>To Reserves</td>
<td>$356,739</td>
<td>$624,218</td>
</tr>
<tr>
<td>Total Distribution</td>
<td>$753,328</td>
<td>$545,887</td>
</tr>
</tbody>
</table>

Capital

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities</td>
<td>$12,221,773</td>
<td>$13,669,559</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$152,393,109</td>
<td>$164,721,820</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$153,685,239</td>
<td>$166,391,389</td>
</tr>
</tbody>
</table>

Table of Financial Data

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>$1,104,019</td>
<td>$1,105,803</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$1,292,130</td>
<td>$1,245,797</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$152,393,109</td>
<td>$164,721,820</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$153,685,239</td>
<td>$166,391,389</td>
</tr>
</tbody>
</table>