

Supervisory Committee Report

The Supervisory Committee works on the members' behalf to ensure that the highest degree of integrity is maintained in the credit union. This Committee is responsible for the financial safety and soundness of Peninsula Community Federal Credit Union.

Controls are in place to assure that your Credit Union conducts its operations and activities in a safe and sound manner. These controls provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records are maintained.

An Internal Auditor is employed by the Credit Union. The Supervisory Committee meets quarterly with the Internal Auditor and Management to review internal audit services, internal controls and risk management processes, and examinations by regulatory agencies. We would like to say a special thank you to Brenda Killian who plans to retire in 2018 after serving as the credit union's internal auditor for the past 29 years.

The financial reports are developed by management from detailed statements prepared in accordance with generally accepted account principles, and are considered by management to fairly present the financial position and results of operations of the Credit Union.

During 2017, the Supervisory Committee engaged the accounting firm of Moss Adams LLC to conduct the annual "Agreed Upon Procedures Audit." In addition, the NCUA also conducted their periodic examination. Both reports confirmed Peninsula Credit Union is accounting for your resources and continues to be a well-capitalized institution.

As we have seen in the news, data security is critically important. So it is important to note that the Credit Union also has an annual information security audit and an electronic payments audit completed every year. Both audits last year were passed with flying colors.

Respectfully,

Kathy Haigh, DVM
Chairman, Supervisory Committee



Shelton Chamber Expo 2017



North Mason Food Bank
Day of Service



Financial Reality Fair at
Shelton High School



All Staff Day of Training



Port Orchard Lemonade Stand

2017 ANNUAL REPORT

Supervisory Committee

Kathy Haigh, Chairperson

Darryl Cleveland

John Lester

Steve Wright

1.800.426.1601 www.pcfcu.org

Administrative Offices:
521 W. Railroad Ave., Shelton, WA 98584

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.

Our Priority is You!

Peninsula
CREDIT UNION



President's Report

On behalf of our entire Leadership Team and staff, thank you for choosing to be a member of Peninsula Credit Union. Every day our team pursues our vision "To be recognized about more than just money!"

Over the past year, we have spent considerable time listening to you, our members. Last spring, a membership survey captured reasons why members like doing business with Peninsula Credit Union: Member Service, Local, Convenience, and Loyalty (feeling valued). Some results of the same survey indicated there were also some things that

were not perceived as easy to use such as poor website functionality and lack deposit taking ATMs. In mid-2018, you will see both a new website and deposit taking ATMs.

We are continuing to focus on how to make Peninsula Credit Union "easy" to use. Our team is pursuing a detailed review of new member and loan processes to identify ways to make things easier for you, our member. We strive to further increase members' trust and to make "Wow" differences for you financially. Similar to the oysters that grow on our shores, it takes a lot of grit and determination to understand the complexities of personal finances and attain your financial goals. One day together, we can open your financial oyster and find that pearl.

To help make this happen, every staff person will be certified by 2018 as a Community Development Certified Financial Counselor. Additional resources found on our website for helping with personal budgets and within online banking to track your financial goals.

A new "Community Financial Educator" position was created to meet with people who may be intimidated by entering a traditional financial institution. Appointments are scheduled at two locations in Mason County – Sound Learning in Shelton and North Mason Resources in Belfair. A number of our staff also teach financial education efforts through cooperative work with the Asset Building Coalitions of Kitsap and Mason Counties.

Indeed, Peninsula Credit Union ended 2017 with 19,000 members (4% growth) with asset, deposit and checking growth of 4%. Net income also remained strong. Security was strengthened at our ATM machines with EMV technology and in addition to the new loan programs mentioned in the Chairman's report, a new overdraft protection program and bill pay system were introduced.

Peninsula Credit Union will continue to provide the best possible service to our members, be an active member of each of the communities we serve, 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

Statement Of Financial Condition

ASSETS	2016	2017	Change
Cash on Hand and on Deposit	\$4,637,434	\$11,059,631	\$6,422,197
Loans	\$129,460,694	\$133,153,848	\$3,693,154
Allowance for Loan Loss	(\$848,021)	(\$927,057)	(\$79,036)
Investments	\$30,808,700	\$27,501,295	(\$3,307,405)
Land, Building, Fixed Assets	\$3,611,117	\$3,402,527	(\$208,590)
Other Assets	\$4,464,825	\$4,853,453	\$388,628

Total Assets	\$172,134,749	\$179,043,697	\$6,908,948
---------------------	----------------------	----------------------	--------------------

Liabilities	2016	2017	Change
Other Liabilities	\$733,230	\$711,902	(\$21,328)
Notes Payable	\$0	\$0	\$0

Total Liabilities	\$733,230	\$711,902	(\$21,328)
--------------------------	------------------	------------------	-------------------

Equity	2016	2017	Change
Shares Held by Members	\$157,473,477	\$163,746,849	\$6,273,372
Regular Reserve	\$368,501	\$368,501	\$0
Undivided Earnings	\$13,573,923	\$14,219,454	\$645,531
Unrealized Gain (Loss) On Investments	(\$14,382)	(\$3,009)	\$11,373
Total Equity	\$171,401,519	\$178,331,795	\$6,930,276

Total Liabilities & Equity	\$172,134,749	\$179,043,697	\$6,908,948
---------------------------------------	----------------------	----------------------	--------------------

Statement Of Earnings

INCOME	2016	2017	Change
Loan Interest Income	\$5,136,574	\$5,612,397	\$475,823
Income from Investments	\$608,444	\$536,368	(\$72,076)
Other Income	\$2,399,217	\$2,451,763	\$52,546

Total Income	\$8,144,235	\$8,600,528	\$456,293
---------------------	--------------------	--------------------	------------------

EXPENSE	2016	2017	Change
Operating Expense	\$7,509,816	\$8,074,923	\$565,107
Interest on Borrowed Money	\$219	\$3,123	\$2,904
Total Expenses	\$7,510,035	\$8,078,046	\$568,011

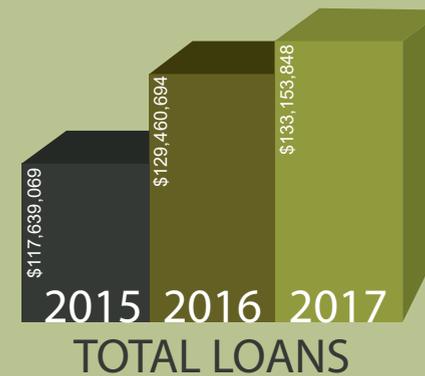
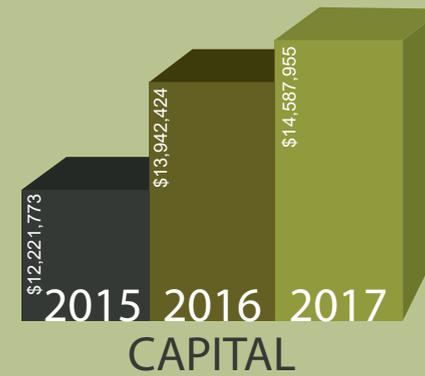
Non Operating Income (Expense)	\$1,354,079	\$384,378	(\$969,701)
--------------------------------	-------------	-----------	-------------

Net Income*	\$1,988,279	\$906,861	(\$1,081,418)
-------------	-------------	-----------	---------------

Distribution of Net Income	2016	2017	Change
Dividends to Members	\$267,628	\$261,330	(\$6,298)
To Reserves	\$1,720,651	\$645,531	(\$1,075,121)

Total Distribution	\$1,988,279	\$906,861	(\$1,081,418)
---------------------------	--------------------	------------------	----------------------

*Includes CDFI grant income of \$1,372,300 (2016) and \$313,850 (2017)



Chairman's Report

As a financial cooperative, the Board of Directors is elected to represent you and ensure things are heading strategically in the right direction. Your Board is excited to see the progress Peninsula Community Federal Credit Union is helping generate in people's financial lives.

Every month we hear about "Wow stories" from members who have experienced the PCU difference. The focus being placed on increasing the financial capability of our members and their households is making a difference.

There are many changes rapidly occurring with banking and the delivery of financial services. Amidst all of these changes, your Board of Directors maintains the most significant aspect of a banking relationship, As our member, it is critical that the Credit Union seek understanding, provide the best service possible and help with understanding complex financial topics.

Here are a few quick examples of the credit union creating "Wow moments" and trust with members:

- A member in Poulsbo with high debt-to-income needed \$12,000 to fix their logging truck engine – Loan Approved!
- A member in Port Townsend came in to report their debit card was stolen – Card cancelled and new card re-issued on the spot!
- Credit challenged non-members in Belfair needed a secured loan of \$1,000. Other financial institutions had a minimum requirement of \$5,000. – New member received an approved secured loan and savings account with a plan to rebuild credit!
- Debt protection was accepted by a member in Port Orchard. Unfortunately the member passed away and fortunately the debt protection coverage paid the \$17,900 balance within a week!

A significant responsibility any Board has is to establish policies that help support the mission of the organization. Over the past year, new programs have been established for first time auto buyers including, a new "Credit Rebuilder" loan, and we lowered the minimum credit limit for a Visa card to \$250. The response has been great as we are able to continue expanding credit to more members.

As you experience the "Wow" of Peninsula Credit Union, we would ask you to share those benefits with family, friends, and your community. Also, please do not hesitate to contact the credit union if you are interested in serving in a volunteer capacity.

Sincerely,

Robert J. Close, Chairman

Board of Directors

Robert J. Close *Chairman*
John Bolender *Vice Chairman*
Len Williams *Secretary/Treasurer*

Sue Barnard
Lisa Frazier
Kathy Haigh, DVM
Lane Johnson, MD

