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## 2017 Annual Report

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Service. Value. Convenience. Trust

PFFCU is federally insured by the NCUA.

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# Board of Directors

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Anthony LaRosa

*Chairman*

John H. Richardson

*Vice Chairman*

James E. Cunningham

*Vice Chairman*

William A. Myers

*Secretary*

John LaRosa

*Treasurer & CEO*

Joann Zarro

*Director*

Robert Gavin

*Director*

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# PFFCU's Commitment to Staff

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At PFFCU, we recognize that a motivated and knowledgeable staff is critical to the success of our organization. We can't achieve our member service and loan and deposit growth goals without our dedicated staff.

## **Employment Stability & Financial Opportunities**

It is management's responsibility to develop and execute appropriate business strategies to be successful so that we avoid the cycle of hiring and firing that exists at many large companies. Management takes the responsibility for our staff's job security very seriously. In addition to stability, PFFCU staff have the opportunity to earn more if they perform at an above average level. We have awarded annual performance bonuses every year since 1992. We want every staff member to have the opportunity to share in the success of PFFCU.

## **Enjoyable Work Environment**

Management wants PFFCU to continue to be a great place to work. We hope the staff look forward to coming to work, enjoy the people they work with, and the type of work they do. At PFFCU, staff have the opportunity to help people achieve their financial goals with our deposit and loan products. In addition, staff members at PFFCU can enjoy an appropriate balance between the requirements of work and family life.

## **Honesty & Fairness**

At PFFCU, we tell the truth to our members as well as our staff. PFFCU should do what's right, even if it is not easy or convenient. Honesty is a simple principle, but as we have seen with many corporate scandals, it is not always followed. This principle also requires that each individual staff member be honest when dealing with the membership and fellow staff members. Management also strives to ensure that PFFCU staff members are treated fairly.

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## PFFCU's Values (*Staff Commitment to PFFCU*)

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PFFCU's Values represent the staff's commitment to the Credit Union. It is a statement of how staff members should think and act with regard to their position at PFFCU. We urge staff members to use these principles as a guide in their decision making because it will help them make the right decision.

### **Member Service**

Member Service comes first. Members are the reason PFFCU exists. PFFCU's member service philosophy is "Try to bend the rule to fit the member; don't bend the member to fit the rule". PFFCU is a not-for-profit, financial services cooperative. We are willing to accept lower profitability than a bank in order to give more benefits to the membership. The benefits of membership are lower loan rates, higher deposit rates, lower fees, and better member service.

### **Teamwork**

We must work constructively within our department and with other departments to achieve the common goals of PFFCU. One of the reasons teamwork is a key value is because it is much more effective and enjoyable to work together to achieve our member service and financial performance goals. If each department were self-centered and indifferent toward the needs of other departments, it would create a work environment where much time and energy was wasted on inter-departmental conflict.

### **Commitment**

We must devote the energy and effort needed to achieve excellence. We must embrace change, continually learn, and strengthen our current business processes to improve member service, reduce operating expenses, and increase revenues.

### **Performance**

We must achieve results, take responsibility for our individual and team performances and learn from our mistakes.

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# PFFCU's Commitment to Our Members

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**PFFCU's mission** is to be our members' primary financial services provider, focusing on loans and deposits. We will earn our members' **Trust** by providing quality financial products at very attractive prices, delivered with superior **Service, Value and Convenience**.

PFFCU's Business Performance Goals are the quantitative measures we use to determine if we are achieving our mission. PFFCU cannot survive by just doing what it has always done. We must move forward or we will fall behind the competition.

**Our long term business goals are the following:**

- a. Member Service superior to the competition as measured by our Member Surveys.
- b. Loan Growth of 5% to 10%.
- c. Deposit Growth of 5% to 10%. In the current economic environment, we are only focused on active Checking Account growth of 5% to 9%.
- d. Household Growth of 5% to 8%.
- e. ROA or profitability of 0.8% to 1.0%.

PFFCU's commitment to our staff, combined with the staff demonstrating PFFCU's values, enables us to accomplish our mission and achieve our business goals.

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# 2017 Annual Report

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## **John LaRosa**

*Treasurer and Chief Executive Officer*

At PFFCU, our mission is to be our members' primary financial services provider, focusing on loans and deposits. We will earn our members' Trust by providing quality financial products at very attractive prices, delivered with superior Service, Value, and Convenience. At PFFCU, we take our commitment to our members seriously, so we only offer products and services that serve your best interests.

Our first goal is to keep PFFCU financially strong so member deposits are safe. Secondly, we will continue to reward members with great loan and deposit rates and superior member service so that members can benefit from our high level of financial strength. Finally, we will focus our resources on developing new products and services to enhance our members' experience with PFFCU.

While we believe we are doing a great job serving our members, it is gratifying to have our members confirm this view. During 2017, 21,000 members responded to our daily email survey of members who visited a Branch or contacted the Call Center. Members gave PFFCU an average Net Promoter Score of 92% and overall experience score of 4.72 on a scale of 1 to 5. These results indicate PFFCU is accomplishing its mission to provide the best Branch and Call Center service in the Philadelphia metro area. We surveyed every member who received a Consumer Loan during 2017 and our Net Promoter Score was 92% and our overall experience score was 4.74. Our members' confidence in PFFCU is clearly demonstrated by our member survey results.

In February of 2017, we opened our 14th branch in Springfield, Delaware County. We are working to identify a location to open our 15th branch in Montgomery County along Route 309. We renovated our Castor Avenue Branch to make visiting a more pleasant experience for members. We plan to renovate the Grant and 901 Arch Branches

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in the first half of 2018. During 2017, PFFCU's branches serviced 2.1 million members who visited.

Our Telephone Member Service Representatives successfully answered 1.9 million calls, with 89% of those calls being answered in less than 30 seconds with an average delay before answering of 15 seconds. These are very good results and are a testament to the commitment of the Call Center staff. PFFCU is committed to investing in the staffing and technology resources to provide the best Call Center member service. In December of 2017, we implemented an advanced communication system to support the entire organization with more reliability and geographic redundancy along with more functionality to improve member service.

With regard to financial performance results, total assets grew 7% to \$4.9 billion. Net Worth, which is the reserve that protects member deposits, climbed to \$880 million, or 17.9% of total assets. Overall deposit balances grew 7% to \$4.0 billion while overall loan balances grew 9% to \$3.5 billion. The total number of checking accounts grew 12% to 242,000 while the total number of member households grew 12% to 210,000.

Our Loan Growth strategy is to differentiate PFFCU from the competition by delivering superior member service, along with attractive loan rates, and a convenient loan approval process. With our new member survey process, we are able to monitor member service more effectively and benchmark our performance against bank and credit union peers. We have invested significantly in technology and staffing to improve our member service experience during the lending process. We used our financial strength to reward members with very attractive loan rates which generated a record 142,000 Auto, Unsecured, and Home Equity Loan applications.

Our unsecured loan balances grew 7% during the year to \$389 million. Credit card loan balances grew 7% while Signature Loans grew 9% and

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PLOC balances grew 6%. Unsecured loan losses were very low at 1.6% for the year. We lowered our PLOC rate and held our Signature loan rate during 2017, even though the Fed Funds rate increased 0.75%. In March 2017, we converted to a new credit card processing vendor to improve member service and enhance our technology platform so that we can offer new services faster and be more effective at managing credit card fraud. We have already seen improved fraud loss performance and better member service and our credit card rewards program is better with the new processing vendor.

Auto loan balances grew 39% to \$583 million. Direct auto loans grew \$26 million or 10% while indirect auto loans grew \$138 million or 94%. Indirect auto loan balances are now \$284 million. PFFCU entered the indirect auto loan business to enhance convenience for members and to attract new members. Auto loan losses continued to remain low at only 0.2%.

First Mortgage loans grew 4% to \$2.1 billion. 1st Mortgage origination volume was very strong at 2,138 loans for \$386 million. 1st Mortgage loan losses declined to 0.1%. The new mortgage loan origination system we implemented in late 2016 enables PFFCU to offer members a completely digital loan experience until closing. Documents can be sent, received, and signed electronically, which enables PFFCU to close loans faster and provide a higher quality member service experience.

Home Equity balances grew 8% to \$469 million. Members closed 3,514 Home Equity's for \$178 million. HELOC balances grew 10%. We have the best HELOC rates in the industry with a 3.75% current rate and an ongoing rate of Prime minus 0.75%. Home Equity losses were very low at 0.1%.

In December of 2017, the Federal Reserve Bank raised the Fed Funds rate to 1.5%. PFFCU has responded by raising our money market and short term CD rates. While we have no idea how much further the Federal Reserve will raise interest rates, our goal is to raise our deposit rates every time they raise the Fed Funds rates.

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Our goal is to be very convenient for the membership, and that means giving members' access to PFFCU anytime, anywhere, and any way they choose. More than 190,000 members are enrolled in Online Banking and they conduct 2.2 million sessions each month. Members pay more than 100,000 bills each month through Bill Pay. 75,000 members use Mobile Banking each month and they deposit 13,000 checks per month remotely using their smartphone camera. Members also call *EXPRESSBanker* 225,000 times per month.

PFFCU is a 24-hour per day, 365 day per year operation. We rely heavily upon lower cost, more convenient ways to service our members, like Online Banking, Mobile Banking, 24-Hour *EXPRESSBanker*, ATMs, Debit Cards, and Direct Deposit. While the Information Systems and Operations departments may appear to be back-office functions, they are responsible for more member transactions than any other department. PFFCU is never closed and we cannot afford for our systems to be out-of-service at any time. Our systems must be as close to 100% reliable as possible. We also continue to devote considerable human and financial resources to improving our computer security systems to ensure that member data is protected.

To stay competitive in the financial services industry, we must adapt to changing circumstances, introduce new products, improve member service and streamline operations to become more efficient. Our balance sheet strength, record loan volume, and member survey results demonstrate that we are providing our members with the financial products, and services they desire and that our staff is doing a great job providing quality member service.

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# Supervisory Committee Report

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The Supervisory Committee's major responsibilities are to ensure an independent audit is performed at least annually to verify member account balances. To carry out these responsibilities, the Supervisory Committee employs certified public accountants to perform auditing and account verification work under its supervision. In this regard, the Supervisory Committee hired CliftonLarsonAllen LLP to perform an annual audit of PFFCU's financial statements to ensure that they comply with generally accepted accounting principles and fairly represent the financial condition of PFFCU.

In addition, the Supervisory Committee works with the National Credit Union Administration (NCUA), our federal regulator, when it conducts its annual examination of PFFCU. The Supervisory Committee also oversees the internal audit group to ensure PFFCU operations are in compliance with PFFCU's policies and procedures and that internal controls exist to protect member assets.

We are pleased to report that the annual audit conducted by CliftonLarsonAllen LLP for 2016 was completed successfully and PFFCU's financial statements were certified without qualification in March, 2017. The Supervisory Committee concurs with this assessment. CliftonLarsonAllen LLP has been hired to perform the annual audit of PFFCU's 2017 financial statements and its audit opinion is expected in March, 2018. The Committee is pleased to report that PFFCU is a financially sound organization dedicated to serving its members.

## **PFFCU Supervisory Committee**

Anne Kelly King, *Chairperson*

Joann Chapman

Timothy Haggerty

Patricia Fox

Margaret Kaufman

Dexter Green

Toni Rosen

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## Unconsolidated Statement of Financial Condition

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As of December 31, 2017 (Unaudited)

Cash & Cash Equivalents	\$760,995,000
Investments	\$1,277,292,000
First Mortgages	\$1,371,294,000
Home Equity Loans & HELOC	\$469,257,000
Auto Loans	\$587,246,000
Unsecured/Other Loans	\$393,945,000
Allowance for Loan Losses	(\$16,228,000)
Other Assets	<u>\$81,060,000</u>
<b>Total Assets</b>	<b><u>\$4,924,861,000</u></b>

Savings & Checking & Escrow	\$1,099,959,000
Money Markets	\$1,462,929,000
Regular Certificates	\$747,856,000
IRAs	<u>\$674,295,000</u>
<b>Total Member Deposits</b>	<b><u>\$3,985,039,000</u></b>

Borrowings	\$0
Other Liabilities	\$54,418,000
Equity Capital	<u>\$885,404,000</u>
<b>Total Liabilities and Equity</b>	<b><u>\$4,924,861,000</u></b>

### **Financial Ratios**

Net Worth/Total Assets	17.9%
Loan Growth (including sold mortgage loans)	9%
Deposit Growth	7%
Total Asset Growth	7%
Household Growth	12%
# of Households	209,633
# of Checking Accounts	242,127
# of Full and Part-time Staff Members	736