



2018 Annual Report

Service. Value. Convenience. Trust

PFFCU is federally insured by the NCUA.

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Board of Directors

Anthony LaRosa
Chairman

John H. Richardson
Vice Chairman

James E. Cunningham
Secretary

John LaRosa
Treasurer & CEO

Joann Zarro
Director

Robert Gavin
Director

Patricia Fox
Director

PFFCU's Commitment to Staff

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

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.

Recognition and Financial Rewards for Superior Performance

PFFCU staff have the opportunity to earn more if they perform at a superior 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 based upon their contribution to PFFCU.

Friendly and Teamwork Oriented 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.

Training in the Skills Staff Need to Succeed and Knowledgeable Managers who Help Staff Succeed

Your success and satisfaction at work can be closely correlated to having a quality department manager and the appropriate level of training for your position. It is PFFCU's responsibility to ensure that we have effective new hire and ongoing training programs to provide you with the skills needed to succeed in your position. It is also PFFCU's responsibility to ensure that the leadership in each department is managing in a way consistent with PFFCU's core values of Member Service and Teamwork, is very knowledgeable in their area of expertise, and works constructively with staff to help them succeed.

Honesty

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.

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

PFFCU's Values represent the staff's commitment to the Credit Union. It is a statement of how staff 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.

PFFCU's Commitment to Our Members

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.

2018 Annual Report

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 2018, members who responded to our Branch and Call Center surveys gave PFFCU industry leading member service scores. PFFCU had 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 2018 and our Net Promoter Score was 92% and our overall experience score was 4.74. We surveyed every member who received a Real Estate Loan during 2018 and our Net Promoter Score was 87% and our overall experience score was 4.69. Our members' confidence in PFFCU is clearly demonstrated by our member survey results.

PFFCU's 14 branches serviced 2.4 million members in 2018. We dramatically renovated our 901 Arch Branch in the summer of

2018 that transformed the branch's appearance. We also renovated our Grant Ave. Branch. We purchased property on Haverford Ave. to replace our City Ave. Branch with a better facility that has more parking and capacity to service members. We identified a location near the Montgomery Mall that we are in the process of getting building approvals from the township.

Our Telephone Member Service Representatives successfully answered 1.95 million calls, with 82% of those calls being answered in less than 30 seconds with an average delay before answering of 28 seconds. Our answer delay was less than typical for PFFCU in the fourth quarter because of the call volume associated with the member bonus and the debit card conversion and staffing levels. These are good results and are a testament to the commitment of the Call Center staff.

With regard to financial performance results, total assets grew 6% to \$5.2 billion. Net Worth, which is the reserve that protects member deposits, climbed to \$951 million, or 18.2% of total assets. Overall deposit balances grew 6% to \$4.2 billion while overall loan balances grew 6% to \$3.7 billion. The total number of checking accounts grew 11% to 268,000 while the total number of member households grew 11% to 233,000.

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. We monitor our member service performance very closely and contact members who express a concern on our loan surveys. We have invested significantly in technology and staffing to improve our member service experience. PFFCU originated 40,000 new unsecured and auto loans for \$456 million. We also processed 6,000 PLOC and Visa line increases. PFFCU closed 5,188 1st mortgage and home equity loans for \$522 million.

Our unsecured loan balances grew 7% during the year to \$414 million. Credit card loan balances grew 7% while Signature Loans grew 11% and PLOC balances grew 1%. Unsecured loan losses were very low at 1.9% for the year.

Auto loan balances grew 18% to \$689 million. Direct auto loans grew \$21 million or 7% while indirect auto loans grew \$85 million or 30%. Indirect auto loan balances are now \$368 million. PFFCU entered the indirect auto loan business to enhance convenience for members and to attract new members. Total auto loan losses continued to remain low at only 0.2%.

Home Equity balances grew 5% to \$494 million. Members closed 3,391 Home Equity's for \$176 million. With the Prime rate rising, HELOC balances only grew 1%. Home Equity losses were very low at 0.1%.

First Mortgage loans grew 3% to \$2.1 billion. 1st Mortgage origination volume was good at 1,797 loans for \$346 million. 1st Mortgage loan losses remain very low at 0.1%.

During 2018, the Federal Reserve Bank raised the Fed Funds rate four times to 2.5%. PFFCU has responded by raising our money market and short term CD rates. In the fourth quarter, the market became concerned that the Fed may have gone too far to slow the economy and treasury yields from 2 years to 10 years declined by about .5%. PFFCU lowered 1st mortgage and auto loan rates in response while maintaining our deposit rates.

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.

Supervisory Committee Report

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 2017 was completed successfully and PFFCU's financial statements were certified without qualification in March, 2018. The Supervisory Committee concurs with this assessment. CliftonLarsonAllen LLP has been hired to perform the annual audit of PFFCU's 2018 financial statements and its audit opinion is expected in March, 2019. 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

Margaret Kaufman

Timothy Haggerty

Dexter Green

Toni Rosen

Unconsolidated Statement of Financial Condition

As of December 31, 2018 (Unaudited)

Cash & Cash Equivalents	\$725,934,000
Investments	\$1,463,758,000
First Mortgages	\$1,367,235,000
Home Equity Loans & HELOC	\$494,413,000
Auto Loans	\$694,038,000
Unsecured/Other Loans	\$420,022,000
Allowance for Loan Losses	(\$14,831,000)
Other Assets	\$83,919,000
Total Assets	<u>\$5,234,488,000</u>

Savings, Checking, & Escrow	\$1,390,661,000
Premium Yield	\$1,445,293,000
Regular Certificates	\$731,626,000
IRAs	\$665,988,000
Total Member Deposits	<u>\$4,233,568,000</u>

Borrowings	\$0
Other Liabilities	\$44,317,000
Equity Capital	\$956,603,000
Total Liabilities and Equity	<u>\$5,234,488,000</u>

Financial Ratios

Net Worth/Total Assets	18.2%
Loan Growth (including sold mortgage loans)	6%
Deposit Growth	6%
Total Asset Growth	6%
Household Growth	11%
# of Households	232,535
# of Checking Accounts	268,414
# of Full and Part-time Staff Members	779