



# Annual Report

2014



**BANKING MADE**  
**LIGHTER**



**PenFinancial**  
CREDIT UNION  
let's grow together.

## Our Commitment

At PenFinancial we are dedicated to being the best financial institution in the Niagara Peninsula.

We are committed to our members and our communities. PenFinancial is the place to bank and a wonderful place to work.

**Passion • Respect • Knowledge • Success**



# Table of Contents

Let's Grow Together	1
Report from the Board Chair	2
Board of Directors	4
Report from the Chief Executive Officer	5
Investing in Niagara	10
Report from the Member & Community Relations Committee	13
Member & Community Relations Committee	19
Report from the Governance & Human Resources Committee	20
Report from the Audit & Risk Committee	22
Report of the Independent Auditor on the Summarized Financial Statements	25
Summarized Financial Statements	26

BANKING MADE LIGHTER

**Listen · Guide · Nurture · Care**

## Let's Grow Together

PenFinancial is almost 19,000 members strong with roots firmly planted in Niagara soil. Our values support our Commitment to be the best financial institution in the Niagara Peninsula. We are committed to our members and the communities we serve. PenFinancial is the place to bank and a wonderful place to work.

This Commitment along with our brand principles shared by everyone at PenFinancial Credit Union, make a meaningful difference to the lives of our members. Our brand principles are a reflection of who we are and what we stand for. While we continue to grow, we always remember where we came from and what separates us from other financial institutions. It's our caring and nurturing nature that makes the difference – we put the humanity back into banking.

**We Listen...**by giving our members a say in how PenFinancial operates and what services we offer. We also listen to members to help understand their needs and work with them to help them reach their financial goals.

**We Guide...**by helping our members grow through all stages of their lives. We anticipate our members' financial needs and deliver outstanding service based on our professional relationships with them.

**We Nurture...**by treating our members like we would a family member. We always steer them in the right direction and offer products that are in their best interests.

**We Care....**by partnering with like-minded organizations to help grow the overall strength and vitality of the Niagara communities we serve.

## Report from the Board Chair

On behalf of the Board of Directors I would like to thank you, the members of PenFinancial Credit Union, for your support and loyalty. Without you, PenFinancial would not exist.

It is my pleasure to report to you about your Board and the governance activities conducted throughout the year 2014. Board activities during the past year included: the successful completion of the merger with our friends at Fort Erie Community Credit Union, strategic planning sessions, Director training and Board training, improved Board and Committee structure, overseeing compliance as stipulated by our regulator, the Deposit Insurance Corporation of Ontario (DICO), participating on a working committee of our regulator (DICO) regarding Director competencies, and remaining current with industry best practices by attending various conferences and conventions, as well as knowledge exchange-based events.

At our strategic planning session, your Board and Management reaffirmed our company's direction regarding: our culture, our commitment to be passionate about what we do, to respect the relationships we build, and to continually seek and willingly share knowledge with our members and staff. These then lead to the success of not only PenFinancial but also to the success of our members, staff and the communities we live in. We also reaffirmed our growth strategy through both organic and merger growth.

Your Board has set a direction for our Management team that provides for continued growth and sustainability for the future of PenFinancial in a manner that respects and celebrates our members and staff. This is not an easy task for any business in this current economic environment we live in today, but one we feel is achievable.

While attending various industry events we are often complimented on our reputation of treating our staff in a respectful manner and supporting the members and community as we do. We are being observed all the time and are seen to be true examples of co-operative banking.

Your Board is committed to overseeing the credit union in its successful endeavour to improve the financial well-being of our members, to provide meaningful employment to our staff, and supporting our communities while ensuring that PenFinancial is sustainable into the future.

As I mentioned earlier, 2014 was once again a year of growth through a merger. I am pleased to inform all of our members that this was a very successful initiative. The two former credit unions are operating as a new and improved PenFinancial. A big welcome from the family goes out to the former Fort Erie Community Credit Union members. Together we look forward to a future of strong community presence and enhanced services.

I would like to thank the Board members for their support in my abilities as I fulfill my role as Board Chair and for being passionate about their role as Directors of PenFinancial. Together we are successful. It is also with great pleasure that I say thank you to our CEO, Management and Staff for providing the financial advice and service that contribute to the success of our members, and PenFinancial Credit Union.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Reg Sonnenberg', with a stylized flourish at the end.

Reg Sonnenberg

Chair, Board of Directors.

## Board of Directors



Chair  
Reg Sonnenberg



1<sup>st</sup> Vice Chair  
Frank Perugino



2<sup>nd</sup> Vice Chair  
Darryl Clemens



Stewart A. Black



Dave Chamberlain



Bill Daley



Dave Jastrubecki



Diane Nieuwesteeg



Kirbi Simpson



Karen Stewart



Rick Tabaka



David Tsang



Bernie Villamil



Chris Walsh

## Report from the Chief Executive Officer



Bob Watson, CEO

PenFinancial Credit Union has completed another successful year comprised of many notable accomplishments. As a values-based financial cooperative, we believe that you can only truly prosper as an individual if you are surrounded by and connected to a vibrant, sustainable community. We multiply the power of our members' deposits by lending to and investing in local businesses, organizations and initiatives that create positive economic, social and community impact. We are not doing this alone. You, our members, are as much a part of this as we are. With your deposits, you empower us to place the right tools in the hands of individuals and organizations working to make our world a better place. At PenFinancial, we believe in the famous words, *"You will get what you want in life if you help enough people get what they want."*

We contribute to our members' well-being by offering financial products, services and advice that meet their needs. We also enhance our members' well-being by investing in our local communities. We focus on delivering distinctive banking services that not only meet the needs of our members quickly and efficiently, but that are also accessible and inclusive, community-based, transparent, credible and empowering. We are quite proud that many of our most engaged employees work in our branches. Their contributions to the financial well-being of our members are extraordinary, and they have a strong and positive influence on the financial successes of our credit union.

We support our members and their communities because we believe one cannot prosper without the other. This requires significant and continuing change on our part so that our members are able to get what they want—products, service, financial advice—and what they need—healthy communities in which to live, work and play. By focusing on member and community needs, we believe we can create the kind of growth that has positive impact.

### Financial Performance

We believe that banking has an important role to play in building a better future for people and their communities. As our earnings grow, we will have the necessary capital to invest in building strong, vibrant and healthy communities. Our financial plan is built upon the concept of sustainable growth where, in the long run, our asset growth occurs

continued...

### Report of the CEO continued...

simultaneously with the development of our regulatory capital, without one outpacing the other. To achieve this, we set measurable targets and track our progress throughout the year.

As at December 31, 2014, our total “Managed Assets” are now \$833 million. These are comprised of member loans and mortgages, deposits and wealth management assets of approximately \$50 million.

The following table illustrates strong financial results despite a challenging economic environment:

TOPIC AREA	ACTUAL	TARGET	RESULT
Assets	\$458 million	\$447 million	<i>Achieved</i>
Loans & Mortgages	\$398 million	\$387 million	<i>Achieved</i>
Member Deposits	\$385 million	\$393 million	<i>Not Achieved</i>
Financial Margin	\$9.0 million 2.07% of average assets	\$8.9 million 2.05% of average assets	<i>Achieved</i>
Non-Interest Expenses (Operating Expenses)	\$10.1 million	\$10.9 million	<i>Achieved</i>
Total Comprehensive Income	\$725 thousand	\$918 thousand	<i>Not Achieved</i>
Regulatory Capital	7.55% of Assets	7.50%	<i>Achieved</i>

continued...

## Report of the CEO continued...

Commercial and agricultural loans also experienced good results during the year by growing 15%, while maintaining an overall delinquency rate well below that of our peer credit unions here in Ontario. We are also pleased to report that our year-end allowance for impaired loans is adequate to offset the potential risks of credit loss that might occur in the near future.

The low-interest environment continued throughout 2014. This continued to exert downward pressure on our financial margin, which is the difference between the income we earn from loans and the interest we pay on deposits. We also balance a desire for revenue diversification (less reliance on interest income) while acting in our members' best interests. As a result, our fee and commission income is lower than that of the big banks, but it is still an important contributor to earnings.

On the expense side, careful cost management saw total operating expenses come in on budget. This was quite an accomplishment considering the strong growth in managed assets and the accomplishment of a merger during the year.

Overall, total comprehensive income from operations of \$725 thousand fell short of our expectations due primarily to merger-related expenses. We are pleased to note that PenFinancial's deposit insurance premium, which is the cost paid to insure our members' deposits, is at the lowest rate possible. This is directly attributable to the quality of our operations and our financial success.

Historically, credit unions were eligible for the small business tax rate, based on a percentage of our members' shares and deposits. In 2013, the federal government announced that this tax deduction would be phased out over five years, beginning in 2013. The removal of this deduction will, therefore, result in higher taxes for PenFinancial in the future.

## Our People

At PenFinancial, we are dedicated to being the best financial institution in Niagara. We know that our people are our most important asset and that they are the lifeline to our members' greatest financial successes. PenFinancial's dedication to encouraging continuing education for all employees ensures that we are providing timely and valuable investment advice to our members. In 2014, we launched our Leadership Development Program. This program provides our next generation of leaders with the education and tools to continue to sustain and grow our credit union long into the future. Our robust Performance Review process, including regular one-on-one sessions with all employees and their Managers, acknowledges and rewards meaningful contributions and addresses any gaps. Our PRKS (Passion, Respect, Knowledge and Success) Values Recognition Program continues to recognize employees

continued...

## Report of the CEO continued...

who demonstrate our Values with over 225 submissions in 2014. These important programs ensure the continued growth, engagement and success of all PenFinancial Credit Union employees, our members and our credit union.

### Support for Co-operatives

Co-operatives are a unique form of business. They are member-owned, democratically controlled (one member, one vote), autonomous and guided by the seven principles of co-operation. Co-ops are focused on serving members' needs, from housing, transportation and food, to financial services, health and social services, and employment opportunities. They also benefit local communities and economies in other ways—co-ops keep their profits circulating within their own communities. They are also resilient as they are more likely than other types of business to survive their first crucial years, and they tend to do better during difficult economic times. We have many co-ops as members and we are proud to serve and support them. During the past few years, we have begun to see the rise of several new co-ops being formed right here in Niagara. Our credit union is a co-operative that has done some truly remarkable things to enhance the lives of many thousands of individuals and businesses over the years.

We will, therefore, continue supporting and encouraging the ongoing growth of the co-operative movement.

### 2014 in Review

There were numerous accomplishments in 2014, and I believe you will be proud when you read about them in the report provided by our "Member and Community Relations Committee". Please take a moment to review that report as it illustrates the many important initiatives we have been involved in to serve our members better, and to move our credit union forward.

### The Future

Credit unions continue to look toward merging with other credit unions so that they might become larger, stronger and even more resilient. Today, there are fewer than 100 credit unions in Ontario but those credit unions are larger and more sophisticated than ever. Due to their size and ability to compete even more effectively, they are achieving asset and membership growth rates that far exceed historic rates. PenFinancial has successfully accomplished several mergers and they have all added more depth and strength to the

continued...

## Report of the CEO continued...

organization, and have enabled it to compete and grow with wonderful results here in Niagara. We believe that mergers bring many benefits so we will continue to consider them as a viable growth strategy to supplement our organic growth expectations.

Credit unions have tremendous potential in Ontario. Today, about 15% of Ontarians are members of a credit union. Compared to other parts of Canada, such as British Columbia, Alberta and Quebec, credit union membership in Ontario is considerably lower. Nevertheless, the popularity and growth of credit unions in Ontario have never been higher. We believe that ongoing initiatives similar to the current “Co-operative Banking Awareness Campaign” will enhance the reputation, growth and development of credit unions here in Ontario. We are a proud partner in the current awareness Campaign, alongside 35 other Ontario based credit unions, and are very much looking forward to growing the credit union brand.

Ladies and gentlemen, the purpose for this report was to provide you with a brief review of our activities and performance of this past year, and to give you a glimpse at some of our plans for the future. I hope you have found it both interesting and meaningful to you.

I wish to express my sincere appreciation to PenFinancial’s Management, and all staff members, for their contributions toward our achievements in 2014. You are an amazing team and you have helped to create and nurture this wonderful organization of ours. The dedication and hard work provided by the members of our Board of Directors, and by the members of our various committees, are instrumental in leading and influencing our organization. These volunteers are deeply appreciated. Most of all, I wish to express a very special thank you to our members for your continuing loyalty and support. Thank you also for referring membership in PenFinancial Credit Union to your friends and family members.

Bob Watson



Chief Executive Officer

# Investing in Niagara to Keep our Communities Strong and Vibrant

Reinvesting our earnings to contribute to the strength and vitality of the Niagara communities we serve is a priority for PenFinancial Credit Union. Through our Community Investment Program, and our fundraising and volunteer efforts, we support Niagara based organizations, not-for-profits and community events that align with our Community Investment Pillars – Education, Social Services, Economic Vitality and Active Communities.

Niagara is home to all of us, so we have a vested interest in ensuring we do what we can to grow together to make our communities strong, vibrant, healthy and sustainable. In 2014, we took great pride in strengthening existing and building new partnerships, volunteering and providing monetary support to over 50 events and organizations, investing over \$85,000 and countless volunteer hours to make our communities stronger.





1



2



3



4



5



6



7

1. Our Heritage Branch collected over 150 toys to donate to Community Care. Pictured here: Karin Morrison, Linda Ingham, Sheila Smith-Community Care, Carm Mancini
2. PenFinancial proudly sponsored the annual Women & Wellness event. Pictured here: George Kurzawa- Canadian Mental Health Association Niagara, Executive Director, Bob Watson
3. PenFinancial employees Vicki and Linda (and friend Mary-Lynn in centre) were happy to volunteer at the annual Empty Bowls event in support of Bethlehem Housing and Support Services
4. PenFinancial invested a total of \$50,000 to five non-profits in the Fort Erie Community. Pictured here: Bob, Becky, John, Kristen, Jackie, Mary, Nancy, Walter, Nathan
5. Jaclyn (far left) from the Education Foundation of Niagara picks up donated formal wear for Prom Project from Cathy and Jacki of our Bunting Road Branch
6. Five local students were awarded a total of \$4,000 in scholarship funding from our Sprowt Video Scholarship Contest. Pictured here: Dan Dakin- Judge, Vincent Atallah- Contest Winner, Bob Watson, Pauline Carroll- Judge, Marina Rose- Judge, Mario De Divitiis- Judge, Yashvi Shah- Scholarship Recipient, Jessica Wilson- Scholarship Recipient, Emma Hudson- Scholarship Recipient
7. Our Annual Skates for Kids Trivia Night raised over \$11,000! Pictured here: Tami, Jayne, Bob, Charlotte, Matt



8



9



10



11



12



13



14



15

8. Our Main Street Branch donated \$1,000 to the Hope Centre in Welland. Pictured here: Mark Carl- Hope Centre, Chris Nemcko, Darlene Bone, Penny Smith
9. PenFinancial CEO, Bob Watson, helps a couple of St. Mary students get ready to hit the ice!
10. After finding some of PenFinancial's #CareCash this past summer, Aneta, decided to give back to an organization that has done so much for her, the Multiple Sclerosis Society of Niagara. Pictured here: Jennifer Roberge- MS Society, Aneta Prantera, Monique Armstrong- MS Society
11. The Annual Bonnie Barron Memorial Glo-Ball Tournament raised \$9,200 to benefit Wellspring Niagara. Pictured here: Phil- Wellspring Niagara, Cindy, Stella, Rob, Jason, Alicia and Jim from Hospice Niagara
12. We're proud to sponsor lacrosse teams, along with many other minor house league sports teams.
13. PenFinancial was well represented in the Fort Erie Santa Claus Parade! Pictured here: Nellie Zylstra, Tami Johnsen, Wayne Colli and Adam Rempel
14. St. Mary students take a quick photo break at our Skates For Kids Skate Day
15. PenFinancial employees participated in "bring your donation to work day" in support of Goodwill Niagara. Pictured here: Akshat, Josh, Sandi, Linda, Vicki, John

# Report from the Member & Community Relations Committee

In 2014, PenFinancial formed the Member and Community Relations Committee. The role of this new Committee is to ensure that PenFinancial develops and pursues objectives to maximize member engagement in the credit union, and foster self-reliant, sustainable Niagara communities. Additionally, the Committee is responsible for the Board of Director Nomination policies and processes, and they are also accountable for gaining assurance that appropriate processes are in place to communicate effectively with members and other stakeholders. The Committee is also responsible for supporting the Credit Union's commitment, value discipline and brand promise.

## Nurturing relationships to help our members grow

In 2014, our employees lived our brand promise by listening and guiding our members by helping them grow their financial lives. By treating our members like we would a family member, we're nurturing relationships, steering them in the right direction and offering products and services that are always in their best interests. In addition to growing our members' lives, this past year was filled with new digital service enhancements, exciting new products, co-operative partnerships, brand awareness for our Credit Union and continued community support in the Niagara neighbourhoods we serve.

Over the past year we've initiated many new products, services and programs that have positively impacted our level of member service and engagement - and reached some pretty cool milestones along the way. Here is a snapshot of some of the highlights:

- Launched our *Banking Made Lighter* brand
- Introduced *Deposit Anywhere* mobile cheque deposit services
- Launched a Branch Strategy Project including research and stakeholder focus groups to assist us in developing a branch strategy for the next five years
- Implemented a New Member Welcome Communication Program
- Continued to support the Credit Unions of **Ontario Awareness Campaign**, partnering with 35 credit unions from across the province
- Our Advisors met with over 350 members to provide *Life Events Conversations* to help guide them towards a healthy financial future
- Introduced refreshed Sprowt.ca website

continued...

## Report from the Member & Community Relations Committee continued...

- Completed our Bunting branch revitalization and will continue with our branch facelifts into 2015, to allow our members and employees to enjoy newly decorated and refreshed environments
- Launched a partnership with SunMedia to bring a PFCU branched “Our Niagara” weekly page to the St. Catharines Standard, Niagara Falls Review, Welland Tribune and Fort Erie Times
- Delivered three Financial literacy webinars and 8 financial workshops to local organizations and employer groups
- Sponsored six young members to attend Co-operative Young Leaders Summer Camp
- Introduced a new mobile app for iPhone and Android users
- Implemented a US Cash pilot at our Huggins Branch ATM
- New PenFinancial branded debit cards
- Implementation of ACE – our Member Relationship Management program now enables our employees to garner a more holistic approach to managing member relationships
- Created conversations and established relationships through social media that have resulted in over 1,400 Twitter followers and over 1,800 Facebook likes
- Launched #CareCash and #TrulyLocalAdvice contests to encourage social media fans and members to engage in conversations to establish strong brand equity for the credit union
- Partnered with the Performance Auto Group to bring our members a spring and fall Car and Loan Sale Program, offering members discounted pricing on used and new car loans
- Launched our **Friends and Family Referral Program** that provides members and new members with very generous incentives to join our credit union
- Placed in **Financial Brand's** Power 100 Social Media ranking
- Hosted two co-operative roundtable discussions to further the co-operative movement in Niagara
- Received an *Achievement in Marketing Excellence Award* from the **Marketing Association of Credit Unions** for our “Who Cares? Community Investors in Niagara” Program

continued...

Report from the Member & Community Relations Committee continued...

### **Giving the next generation of members the tools they need to grow and thrive**

In the summer of 2014, we launched a newly branded Sprowt.ca website. Since the launch of *Sprowt.ca No Fee Student Banking* thousands of students – from elementary to post-secondary – have been enjoying the benefits of our innovative, free banking solution. Our popular **Sprowt Financial Literacy Program** continues to be delivered to students at various schools and workshops across Niagara. Some of the topics in the presentation include; budgeting, credit and savings tips and the difference between a bank and a credit union. The Program is gaining considerable momentum in Niagara and we are proud to be the only financial institution to offer this free financial literacy workshop to schools across our communities.

In the Spring of 2014, our fourth annual **Sprowt Video Scholarship Contest** was an amazing success, with 13 video entries from graduating secondary school and post-secondary school students and over 15,000 votes. We invited six community judges to narrow down the two minute videos that featured students highlighting what they want to be when they grow up, to five finalists. We then invited the Niagara public to vote for their favourite video via our Sprowt.ca website. Vincent Atallah received the \$2,000 grand prize and four runner up students also received scholarships to assist them with their education expenses. This popular video scholarship contest is being offered again this year, with \$4,000 in scholarship funding to be awarded. Winners will be announced this summer.

PenFinancial was proud to send six Niagara students to the **Co-operative Young Leaders (CYL)** summer camp program in July and August 2014. These week-long camps help young people develop self-awareness, communication and leadership skills through co-operative activities in a fun, safe outdoor environment. We are proud to be sponsoring students between the ages of 14 and 18 to participate in CYL Camp this summer.

continued...

Report from the Member & Community Relations Committee continued...

### **A Caring Community Partner**

Building strong and vibrant communities requires focusing on member and community needs. This means that how we engage with our communities will vary based on our understanding of the underlying systemic issues impacting each neighbourhood. Our Community Investment Program pillars closely align with the twelve critical indicators that are outlined in the 2014 **Living in Niagara Report**. We believe that while ‘giving back’ is part of our co-operative DNA, it’s important that we reinvest in a way that is meaningful and impactful to the sustainability of our communities. Here are a few highlights of our commitment to community in 2014:

Through our **Community Investment Program**, PenFinancial reinvested over \$85,000 to a number of charities, local events and other activities that align to our Corporate Social Responsibility pillars – Education, Social wellness, Economic Vitality and Active Communities. From the Niagara Nutrition Partners Annual Breakfast Gala to the Education Foundation of Niagara’s Prom Project to the Niagara Mental Health Association, our Member and Community Relations Committee had the pleasure of investing in events that contribute to the vitality and strength of the Niagara community.

We received 10 nominations for our **Who Cares? Community Investors in Niagara Program**. This award winning program recognizes the many residents across our Region who are doing wonderful things to help make our Niagara communities strong, vibrant and healthy. We encourage members to nominate their ‘good neighbours’ to be highlighted in our **Who Cares?** Feature. Nomination forms can be found under the “Community” section of our website at [www.penfinancial.com](http://www.penfinancial.com)

In the summer of 2014 we launched #CareCash – a social media corporate social responsibility initiative that encouraged residents from across Niagara to pay it forward. By retweeting and sharing our #CareCash posts, our fans and followers increased the amount of #CareCash we hid each Friday morning in a ‘hidden’ location somewhere in Niagara. Picture clues helped our followers look for the hidden cash and when found, PenFinancial donated an equal amount to the finder’s Niagara charity of choice. Over \$1,400 was donated to 8 different causes over the summer campaign period.

In addition to our monetary support, we were also pleased to lead fundraising events and provide volunteers and professional expertise to many local organizations. Our **Skates for Kids** signature program has made a total contribution of over 3,000 pairs of gently used skates and 1,500 new helmets to 13 schools across Niagara since 2009. We are very proud

continued...

## Report from the Member & Community Relations Committee continued...

of our award winning Program and we will continue to work towards achieving our goal of assisting all Niagara schools in developing a school wide skating program. Our second annual **Skates for Kids** Trivia Night was held in October and we raised close to \$12,000 to assist us in funding the purchase of new helmets. This is important so our sponsored schools can continue to run their programs in arenas where CSA approved helmets are mandatory. We have the passion of our employees and the support of our members, sponsors and communities to thank for the continuing success of PenFinancial's **Skates for Kids** Program.

In an effort to express our commitment to social wellness in our neighbourhoods, we were pleased to present Wellspring Niagara with a cheque in the amount of \$9,200. These funds were raised through our annual **Bonnie Barron Glo Ball Tournament** which celebrates the life of Bonnie Barron, a former CEO of Cataract Savings and Credit Union.

On a hot summer day in 2014, PenFinancial hosted a Business After Five event in conjunction with the Greater Fort Erie Chamber of Commerce. We were proud to welcome hundreds of members, business owners and community leaders who dropped by our Garrison Road branch to enjoy food, refreshments and entertainment. At the event, we were proud to announce a \$50,000 donation divided amongst five not-for-profit organizations including COPE (Community Outreach Program Erie), Head Injury Association of Fort Erie, Meals on Wheels, TASC (Therapies and Alternatives for Special Children) and the Fort Erie Historical Railway Association (Friends of 6218). These organizations are making a huge difference in the lives of residents and members in the Fort Erie Communities and we are proud to partner with them.

## Growing and changing to meet our members' needs

As we continue to grow, we promise our members that we will always take a caring, careful and creative approach to serving their financial needs and the needs of our Niagara communities. The upcoming year will be filled with many great service delivery enhancements, including our branch revitalization work which will allow our members and employees alike to continue to enjoy doing business and working in newly decorated and refreshed environments. We'll also be launching a number of online banking enhancements in 2015, including: Alerts and e-documents, me-to-me money transfers, Personal Financial Management and Account Plus for Credential Direct members. There are also plans to replace our ATM fleet and introduce electronic signature which will afford members with the ability to sign documents without having to visit a branch. Financial

continued...

### Report from the Member & Community Relations Committee continued...

literacy will continue to be a focus and in addition to the life events conversations that our Advisors will continue to have with our members, we plan on hosting a selection of member webinars to assist members with financial decisions throughout all stages of their lives.

We are very excited about the future of our Credit Union and we will be working hard to maintain your respect as a genuine, local, co-operative and professional financial provider. As your representatives, we are pleased to present this report to you and we thank you for your continued support, feedback and loyalty.

Co-operatively yours,

Chair C. Priest, E Acs, J. Amodeo, D. Clemens, W. Colli, K. Hunermund, J. Nicklefork,  
F. Perugino, R. Tabaka, J. Trinder, D. Tsang

## Member & Community Relations Committee



Evan Acs



Joanna Amodeo



Darryl Clemens



Wayne Colli



Kathy Hunermund



Jada Nicklefork



Frank Perugino



Cliff Priest



Rick Tabaka



Joshua Trinder



David Tsang

# Report from the Governance & Human Resources Committee

PenFinancial's Governance Committee is comprised of five (5) members who are appointed each year by and from your Credit Union's Board of Directors. Any member of the Board of Directors may attend the meetings of this Committee as participants, however, they do not have a vote on matters placed before the Committee. The mandate of the Committee is to fulfill the duties that are prescribed by the Board of Directors, as detailed in the Terms of Reference.

The Committee is required to meet at least once each quarter. During this past year, the Committee met six (6) times. The Committee has three (3) primary areas of responsibility.

## 1. Effective Governance of the Credit Union

The Committee shall:

- Ensure that the credit union's governance practices evolve with the needs of the credit union
- Ensure the Board's own development and succession
- Assist the Board in holding Directors and Committee members accountable for fulfilling their mandate/duties

## 2. Protection of the Credit Union's Reputation

- The Committee shall oversee the development and monitoring of policies which provide for the required ethical conduct of Directors and employees, and to prevent the exercise of undue influence by related and restricted parties

## 3. Human Resources Policy

- The Committee shall ensure that governing policies are in place and implemented by Management to provide employees of the credit union with fair and meaningful employment in a safe and respectful workplace
- The Committee leads the evaluation and compensation process for the CEO

continued...

### Report from the Governance & Human Resources Committee continued...

The Governance Committee is pleased to report to the members that throughout 2014, it carried out its responsibilities in accordance with the Terms of Reference assigned to it by the Board of Directors. The following briefly details a few of the many, important issues/projects the Committee was involved in:

- The continuation of a comprehensive educational program for all directors, including: performance assessment, gap analysis and continuing education
- Reviewed all governance related policies for relevance and recommended changes to the Board of Directors, where appropriate
- Conducted the CEO's performance review
- Reviewed adherence to governance related Standards of Sound Business Practice, and considered appropriate improvements
- Considered and recommended changes to the governance of the Credit Union, including size of the Board of Directors and composition of its various committees

The Committee is also pleased to report that Management continues to work with it in close cooperation. The Committee notes that it presented numerous recommendations to the Board of Directors during the past year, and that agreement was achieved regarding all matters. There are no matters of concern requiring disclosure or reporting to the members at this time.

Respectfully submitted by your 2014 Governance Committee,

K. Simpson, Chair, D. Nieuwesteeg, R. Sonnenberg, K. Stewart, B. Villamil

## Report from the Audit & Risk Committee

PenFinancial Credit Union Limited maintains an Audit & Risk Committee in accordance with Section 125 of the Credit Unions and Caisses Populaires Act of 1994, and Ontario Regulation 237/09. This Committee is comprised of five (5) members who are appointed each year from your Credit Union's Board of Directors. Any member of the Board of Directors may attend the meetings of the Audit & Risk Committee as participants, however, they do not have a vote on matters placed before the Committee. The mandate of the Committee is to fulfill the duties that are prescribed for Audit & Risk Committees in the Regulations that are associated with the Act. The Committee also works diligently to ensure that our credit union complies with industry best practices and other guidelines that are defined by our primary regulator, the Deposit Insurance Corporation of Ontario. The directors who are appointed to this Committee receive their appointments based on their: professional skills and knowledge, our efforts to achieve geographic diversification, and more.

The Act requires that meetings of the Audit & Risk Committee are to be held at least once per quarter. PenFinancial's Audit & Risk Committee chooses to meet more regularly. During this past fiscal year, the Committee met six (6) times. The duties of the Committee are primarily to assist the Board of Directors in fulfilling its responsibility to ensure the adequacy of: accounting functions, financial reporting, internal controls, policies and procedures. Based on our findings, we issue reports and make recommendations to the Board of Directors and/or senior management. We also follow up to ensure that our recommendations are considered and implemented, where appropriate. Below are examples of some of the important work that our Committee performed during 2014:

- Met periodically with management to discuss internal controls involving: financial reporting processes, auditing and reporting issues, and to review the internal financial reporting packages.
- Met with the external auditor, Deloitte LLP, to: discuss the audit plans, receive the Management Letter, and to review the draft financial statements for the period ending December 31, 2014 prior to their presentation to the Board of Directors for final approval.
- Met with the internal auditor, Belsby & Associates, to discuss: the annual internal audit plan, the organization's effectiveness and efficiency, and general business matters. During the year, we also received regular reports and recommendations from the internal auditor regarding the operations of all branches, security, anti-money laundering processes, policy compliance, etc.

continued...

## Report of the Audit & Risk Committee continued...

- Oversaw the Enterprise Risk Management program to provide reasonable assurance that the strategic, operational, financial and regulatory objectives of the credit union are achieved.
- Received the results and recommendations of examinations that were performed by our Deposit Insurer and Risk Management Insurer.
- Reviewed and approved the expenses of Directors and Officers.
- Regularly reviewed detailed audit checklists to ensure that numerous aspects of our operations are managed on an ongoing basis both effectively and efficiently. This would include but is not limited to: new and revised policies, certain operating procedures, outstanding legal matters, etc.
- Received or participated in numerous training opportunities, seminars and conferences to ensure that our professional skills are further developed, maintained and evolving so that we might contribute as effectively as possible to our credit union.

The Committee was also pleased to see the appointment of Rebecca Havill, the former CEO of Fort Erie Community Credit Union, to the position of Director of Governance, Risk and Compliance. Her experience and knowledge of credit union operations, and the credit union system, made her an ideal choice for this important position.

The Audit & Risk Committee is pleased to report to the members that it continues to conduct its affairs in accordance with the Act and Regulations, and International Financial Reporting Standards. Management also continues to provide the support and cooperation needed for the Committee to play an effective role in enhancing the overall control structure of the credit union. The Committee further reports that its recommendations have been duly considered and implemented, where appropriate. Additionally, there are no matters requiring disclosure to the members pursuant to the Act or Regulations.

I would now like to express how pleased I am with the performance and dedication of the members of our Audit & Risk Committee. My compliments to them for the fine work they are doing on behalf of all members and our credit union.

Respectfully submitted by your 2014 Audit & Risk Committee,

D. Jastrubecki (Chair), S. Black, W. Daley, D. Chamberlain, C. Walsh,

# Summarized Financial Statements





Deloitte LLP  
25 Corporate Park Drive  
3rd Floor  
St. Catharines ON L2S 3W2  
Canada

Tel: 905-323-6000  
Fax: 905-323-6001  
[www.deloitte.ca](http://www.deloitte.ca)

## **Report of the Independent Auditor on the Summarized Financial Statements**

To the Members of PenFinancial Credit Union Limited

The accompanying summarized financial statements, which comprise the summarized statement of financial position as at December 31, 2014, and the summarized statement of comprehensive income, summarized statement of changes in members' equity and summarized statement of cash flows for the year then ended, are derived from the audited financial statements of PenFinancial Credit Union Limited for the year ended December 31, 2014. We expressed an unmodified audit opinion on those financial statements in our report dated February 25, 2015.

The summarized financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized financial statements, therefore, is not a substitute for reading the audited financial statements of PenFinancial Credit Union Limited.

### **Management's Responsibility for the Summarized Financial Statements**

Management is responsible for the preparation of a summary of the audited financial statements in accordance with International Financial Reporting Standards.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the summarized financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

### **Opinion**

In our opinion, the summarized financial statements derived from the audited financial statements of PenFinancial Credit Union Limited for the year ended December 31, 2014 are a fair summary of those financial statements, in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
February 25, 2015

# PenFinancial Credit Union Limited

## Summarized Statement of Financial Position

### PenFinancial Credit Union Limited

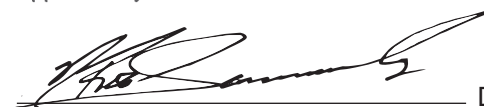
Summarized statement of financial position

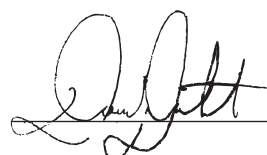
as at December 31, 2014

(In Canadian dollars)

	2014	2013
	\$	\$
<b>Assets</b>		
Cash	11,377,368	7,332,844
Investments	38,632,860	29,691,724
Loans to members	397,809,556	325,584,234
Other assets	574,408	305,361
Investment in joint venture	118,083	118,083
Property and equipment	7,995,202	6,231,976
Intangible assets	946,249	339,244
Current income tax asset	58,484	-
	<b>457,512,210</b>	<b>369,603,466</b>
<b>Liabilities</b>		
Deposits from members	385,102,661	322,325,241
Borrowings	10,500,000	5,000,000
Other liabilities	1,539,454	853,719
Mortgage securitization liability	25,794,049	13,663,805
Deferred income tax liability	484,439	217,163
Class B special shares	1,090,204	929,644
	<b>424,510,807</b>	<b>342,989,572</b>
<b>Members' equity</b>		
Membership shares	215,529	178,131
Class B special shares	15,514,870	13,895,687
Retained earnings	16,536,921	11,950,094
Accumulated other comprehensive income	734,083	589,982
	<b>33,001,403</b>	<b>26,613,894</b>
	<b>457,512,210</b>	<b>369,603,466</b>

Approved by the Board

 Director

 Director

# PenFinancial Credit Union Limited

## Summarized Statement of Comprehensive Income

### PenFinancial Credit Union Limited

Summarized statement of comprehensive income  
year ended December 31, 2014

(In Canadian dollars)

	2014	2013
	\$	\$
Interest income	14,816,895	13,073,937
Investment income	472,542	363,189
	15,289,437	13,437,126
Interest expense	5,333,693	4,420,565
Other interest expense	491,818	286,185
	5,825,511	4,706,750
Net interest income	9,463,926	8,730,376
Provision for impaired loans	(474,600)	(211,000)
Net interest margin	8,989,326	8,519,376
Net loss from other financial instruments carried at fair value through profit or loss	(63,002)	(23,831)
Other income	2,138,356	1,704,536
Total operating income	11,064,680	10,200,081
Deposit insurance premium	258,785	204,866
General and administrative	3,281,671	2,874,833
Occupancy	1,044,875	922,299
Personnel expenses	5,561,895	5,019,335
Total operating expenses	10,147,226	9,021,333
Amalgamation expenses	267,899	-
Dividends on Class B special shares	32,625	28,726
Income before income taxes	300,524	28,726
Income before income taxes	616,930	1,150,022
Current income tax	20,000	-
Provision for deferred income tax	16,000	148,000
Total income tax expense	36,000	148,000
Net income	580,930	1,002,022
Other comprehensive income (loss), net of income taxes		
Items that may be reclassified subsequently to net income	144,101	(20,696)
	725,031	981,326

The accompanying notes to the financial statements are an integral part of this financial statement.

# PenFinancial Credit Union Limited

## Summarized Statement of Changes in Members' Equity

### PenFinancial Credit Union Limited

#### Summarized statement of changes in members' equity

#### year ended December 31, 2014

(In Canadian dollars)

	Class B special shares	Membership shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
	\$	#	\$	\$	\$	\$
<b>As at January 1, 2013</b>	<b>13,401,541</b>	<b>173,402</b>	<b>-</b>	<b>11,375,435</b>	<b>610,678</b>	<b>25,561,056</b>
Total comprehensive income (loss)	-	-	-	1,002,022	(20,696)	981,326
Total dividends declared on Class B special shares	-	-	-	(456,089)	-	(456,089)
Dividends declared on Class B special shares qualifying as liabilities reclassified to expense	-	-	-	28,726	-	28,726
Dividends reinvested in Class B special shares	456,089	-	-	-	-	456,089
Net shares redeemed	70,111	4,729	-	-	-	74,840
Class B special shares reclassified to liabilities	(32,054)	-	-	-	-	(32,054)
<b>As at December 31, 2013</b>	<b>13,895,687</b>	<b>178,131</b>	<b>-</b>	<b>11,950,094</b>	<b>589,982</b>	<b>26,613,894</b>
Total comprehensive income	-	-	-	580,930	144,101	725,031
Acquisition	-	-	4,480,133	-	-	4,480,133
Re-classified to retained earnings	-	-	(4,480,133)	4,480,133	-	-
Total dividends declared on Class B special shares	-	-	-	(506,861)	-	(506,861)
Dividends declared on Class B special shares qualifying as liabilities reclassified to expense	-	-	-	32,625	-	32,625
Dividends reinvested in Class B special shares	506,861	-	-	-	-	506,861
Net shares issued	1,272,883	37,398	-	-	-	1,310,281
Class B special shares reclassified to liabilities	(160,561)	-	-	-	-	(160,561)
<b>As at December 31, 2014</b>	<b>15,514,870</b>	<b>215,529</b>	<b>-</b>	<b>16,536,921</b>	<b>734,083</b>	<b>33,001,403</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# PenFinancial Credit Union Limited

## Summarized Statement of Cash Flows

### PenFinancial Credit Union Limited

#### Summarized statement of cash flows

year ended December 31, 2014

(In Canadian dollars)

	2014	2013
	\$	\$
<b>Operating activities</b>		
Net income	580,930	1,002,022
Adjustments for		
Provision for impaired loans	474,600	211,000
Interest income	(14,816,895)	(13,073,937)
Interest expense	5,333,693	4,420,565
Depreciation and amortization	637,103	499,394
Net loss from other financial instruments carried at fair value through profit or loss	63,002	23,831
Deferred income tax expense	16,000	148,000
Changes in operating assets/liabilities		
Change in loans to members	(35,595,469)	(43,811,190)
Change in deposits from members	15,056,425	28,764,431
Change in other assets and liabilities	(2,195,209)	168,973
Interest received	14,751,144	13,058,386
Interest paid	(4,779,070)	(4,337,913)
	<b>(20,473,746)</b>	<b>(12,926,440)</b>
<b>Investing activities</b>		
Net increase (decrease) in financial investments	(572,352)	4,509,254
Purchase of intangible assets	(120,987)	(150,619)
Purchase of property and equipment	(564,397)	(555,075)
Cash received on acquisition	8,255,341	-
	<b>6,997,605</b>	<b>3,803,560</b>
<b>Financing activities</b>		
Proceeds from securitization of mortgages	13,562,602	13,756,172
Payment of mortgage securitization liabilities	(1,432,358)	(92,367)
Issuance (redemption) of membership share capital - net	(88,467)	4,729
Issuance of Class B special shares - net	453,123	526,200
Dividends on Class B shares	(474,236)	(427,363)
(Repayment) issuance of borrowings	5,500,000	(4,000,000)
	<b>17,520,664</b>	<b>9,767,371</b>
Net change in cash	4,044,523	644,493
Cash, beginning of year	7,332,844	6,688,351
Cash, end of year	<b>11,377,368</b>	<b>7,332,844</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

## This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

## This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

# Brand Promise

Listen • Guide • Nurture • Care

let's grow together.





**Pen**Financial

CREDIT UNION

let's grow together.

