

**Improving lives
& strengthening
communities.**



Pen
Financial
CREDIT UNION



2016
Annual Report

OUR COMMITMENT



At **PenFinancial Credit Union**,
we improve lives and strengthen communities.

WE BELIEVE IN

PASSION

We deliver exceptional service by listening, guiding, nurturing and caring.

INTEGRITY

We develop trusting relationships and maintain the highest ethical standards by taking care of the needs of others as we would our own.

RESPECT

We build mutual respect through honest and meaningful relationships.

KNOWLEDGE

We are committed to continuous learning.

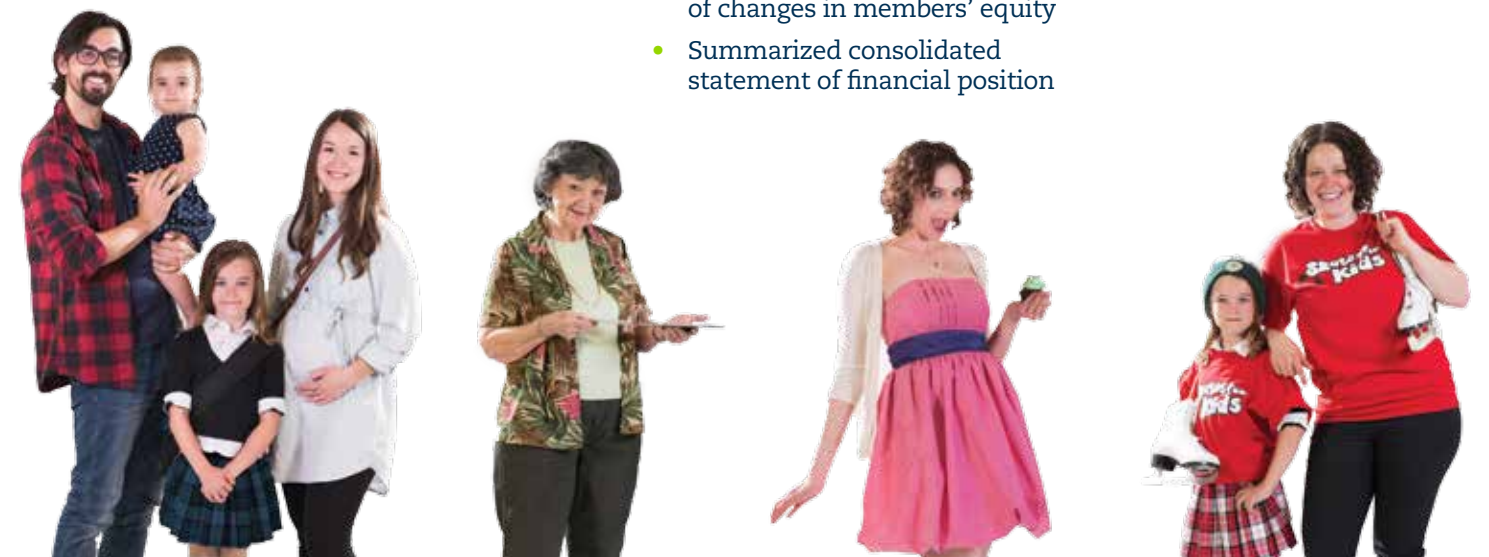
SUCCESS

We secure growth while ensuring accountability, social responsibility and cooperative principles.

We are proud ambassadors of
PenFinancial Credit Union

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We believe supporting the community should mean much more than simply offering financial support.

At PenFinancial Credit Union, our values support **Our Commitment** to improve lives and strengthen communities right here in Niagara.

Quite simply, PenFinancial members are our owners. When you open an account with us you become a member, hold a share, and have a say. We are locally based and owned by residents in our neighbourhoods, so growing and nurturing our members' financial well-being is important to us. Building trust and solution based relationships are at the foundation of our success.

Whether you're buying your first home, opening a small business or saving for your retirement, we've got everything you need. We place a high value on the timely, professional advice we provide, which will help you through all the stages of your life.

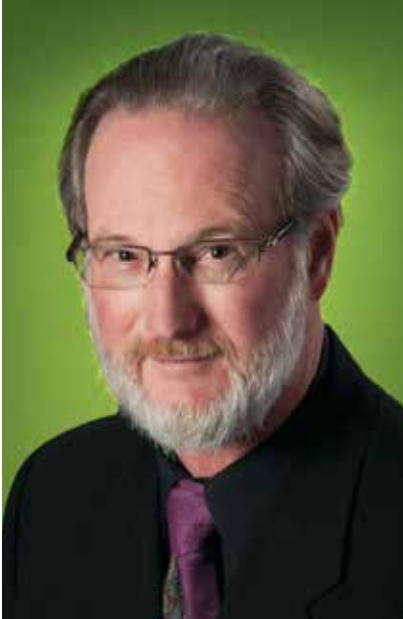
We believe supporting the community should mean much more than simply offering financial support. Through volunteering, education and sharing our expertise, we can proudly say that we truly support the communities where we live and work.

No matter how we 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.

The more our credit union grows, the more work, more branches and more jobs at PenFinancial. It also means more money invested back into our community.



Report from the Board Chair



Now that the dust has settled on 2016, I took the time to reflect on the activities your Board was involved in and life in general at PenFinancial.

In my report to the members in 2015, I stated that 2016 would be a very exciting year at PenFinancial, and true to form, it was that and more.

Your Board of Directors has been busy representing you in all that we participate in.

Some of the activities we were involved with include:

- Director training in order to remain current with our education.
- Community events where we represented PenFinancial across our operating geography.
- Attending all of our scheduled and special board meetings and committee meetings.

- We continue to be active in the area of governance, ensuring we are in compliance with the regulations that dictate how we are to operate our business, ensuring we have up to date policies in place and that we are in compliance with these policies.

- Attending conferences and meetings related to our credit union system.

- Working with our internal and external auditors to ensure compliance and long-term sustainability.

Your Board of Directors is committed to overseeing PenFinancial in its endeavours to improve the financial well being of our members, strengthen our communities, and to provide meaningful employment to our staff while ensuring we are sustainable for our future generations.

In support of that statement, we formed a special committee to work with a consultant to search for a new CEO. Working with the consultant and the committee, which consisted of Board members and our Director of Human Resources, successfully completed the search and hired our new CEO, Ken Janzen. Ken has had the opportunity to meet many of our members and this Annual Meeting will provide another opportunity for you, the members, to introduce yourself to him.

“Thank you to the employees of PenFinancial who work hard to live our brand”

The merger with Dunnville and District Credit Union was completed in 2016 and harmonization of systems for that merger has taken place. On behalf of the Board of Directors, I extend a warm welcome to Dunnville and District Credit Union members to the PenFinancial family.

Your Board, along with management and consultants, have undertaken a review of

our branching strategies and decided to merge our Lake and Heritage branches and then move the location from Lake St. to a new branch location on Fourth Ave. in St. Catharines. This was not a decision taken lightly and a lot of time and thought went into the final decision. In order to prepare for long-term sustainability in the Fort Erie area, we also merged our Jarvis St. Branch with our Garrison Road Branch. Another decision not taken lightly but with the future sustainability and growth of our credit union in mind.

Along with the move to Fourth Ave. we decided to grow into the Fonthill area and we will open a new branch on Highway 20 in Fall 2017.

On behalf of the Board of Directors, it is with great pleasure I thank Bob Watson, our former CEO, for his support and leadership of PenFinancial and the many years of service he has provided us. We wish him and his family many happy years of retirement.

I would also like to welcome Ken Janzen to our PenFinancial family and look forward to his leadership as we continue to grow.

Thank you to the employees of PenFinancial who work hard to live our brand and provide you, our loyal members, with all of the products, services and expert financial advice you deserve.

It has been a pleasure for me to serve you, our members and employees, as Chair of the Board and I would not have been able to fulfill my responsibilities without the guidance and support of Management and the Board of Directors.

Yours sincerely,

N. Reg Sonnenberg

Chair, Board of Directors

PenFinancial Credit Union

Every time you make a withdrawal at PenFi's Community ATM in Thorold, 50 cents is donated to a local Niagara charity!

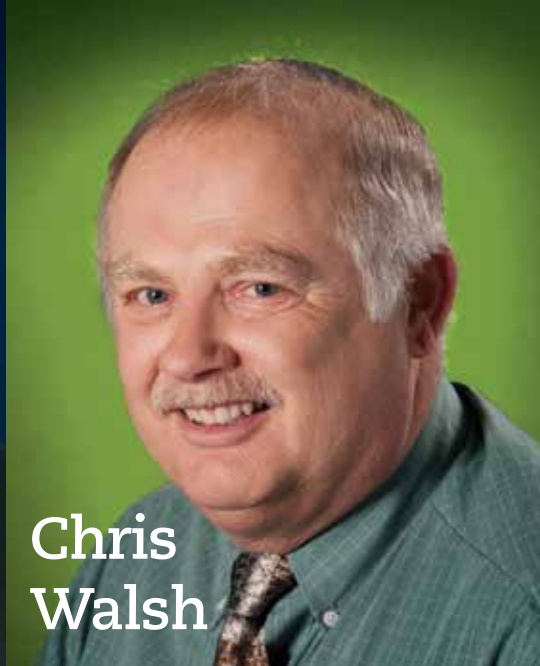




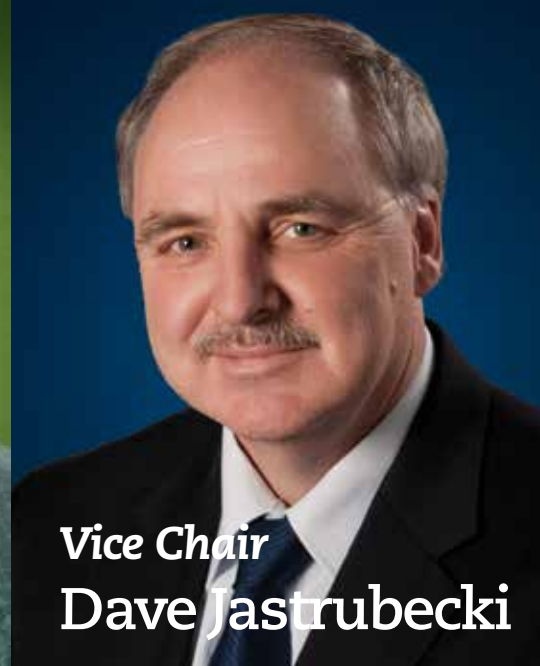
Chair
Reg Sonnenberg



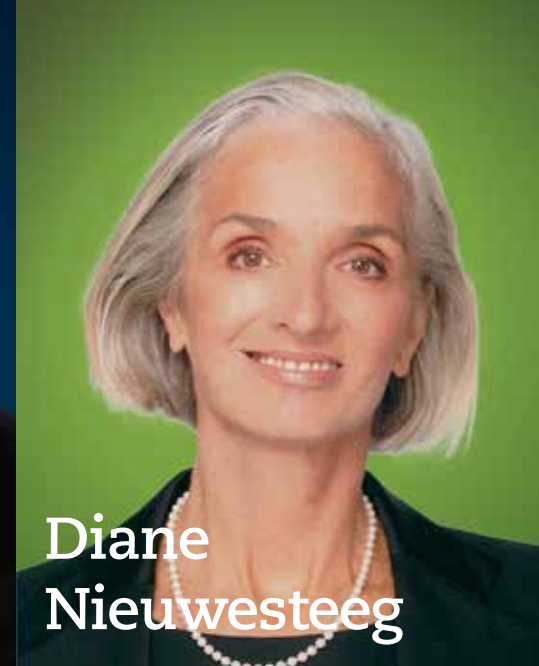
Frank
Perugino



Chris
Walsh



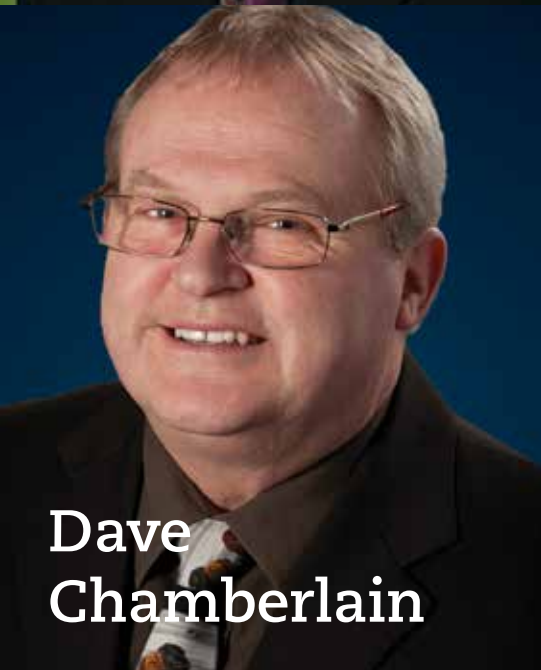
Vice Chair
Dave Jastrubecki



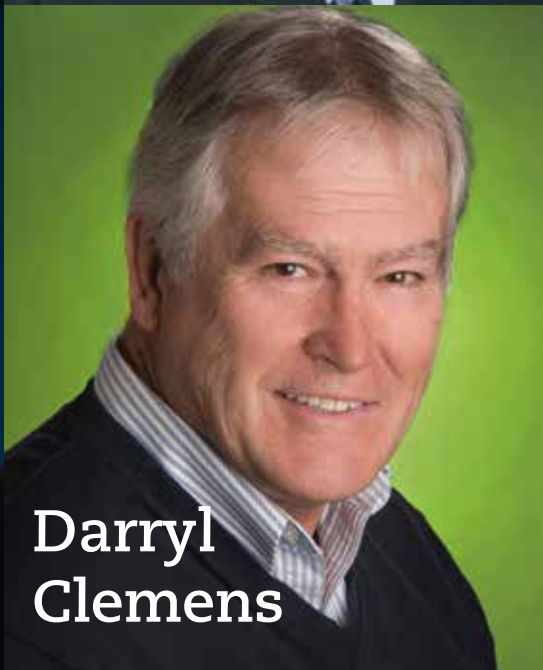
Diane
Nieuwesteeg



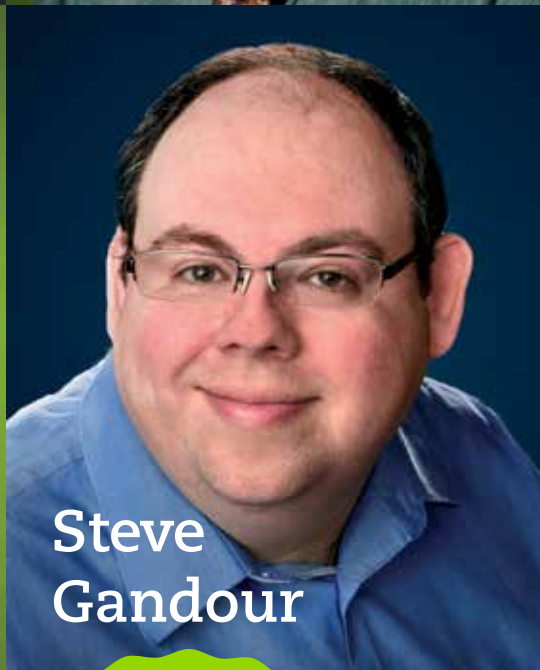
Kirbi
Simpson



Dave
Chamberlain



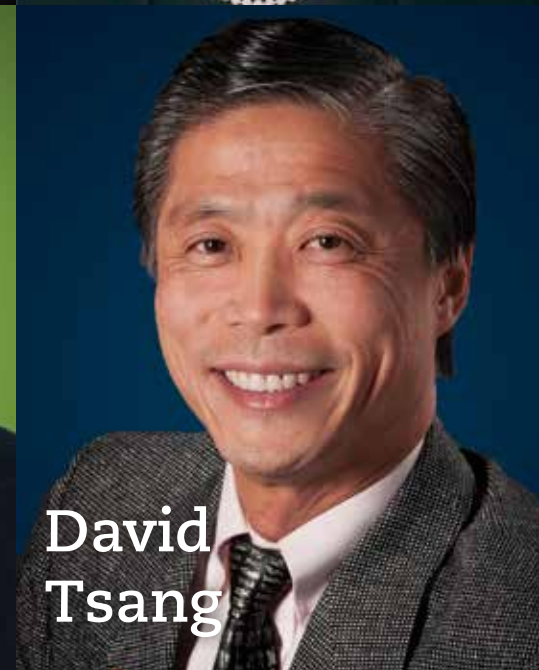
Darryl
Clemens



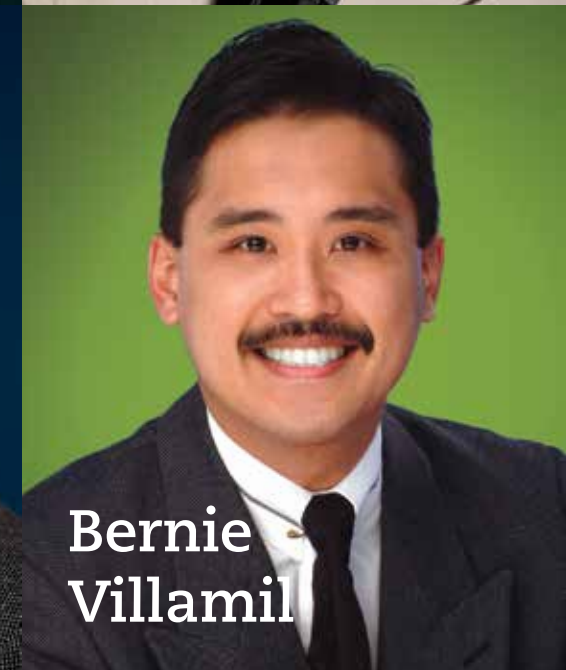
Steve
Gandour



Rick
Tabaka



David
Tsang



Bernie
Villamil

Board of Directors



Looking for some truly
local financial advice?
Visit trulylocaladvice.ca



Report from the Chief Executive Officer



The ability to transition and move forward tests the resilience of every organization and ultimately will determine its success. The ever changing climate influenced by economics, government policy, technology and consumer expectations ensures that no organization is allowed to stand still and succeed.

PenFinancial has a rich tradition of demonstrating its resilience by adapting to change and prospering. Over the past decade, the Credit Union has grown, thanks to like-minded credit unions who have merged with us and also by growing organically, thanks to the support of over 20,000 members and businesses who value our relationship based advice, expertise and delivery of competitive products and services. By partnering with community organizations, we are proud to have helped to grow the overall strength and vitality of the Niagara peninsula.

All of this has been accomplished with the guiding principal of "improving lives and strengthening communities."

2016 represents a year in which PenFinancial once again met the challenges and embraced the opportunity of change in an exemplary fashion. The Credit Union welcomed close to 2,000 new members and expanded on its commitment to improving the lives of members through our successful merger with Dunnville and District Credit Union, increased product offerings, improved technology platforms and refinement of our member experience. This activity was supported with financial results which exceeded our goals and continue to support stability moving forward.

"The Credit Union welcomed close to 2,000 new members"

The results achieved reflect the best of the co-operative spirit. The support and contributions of our members, Board of Directors, employees and community partners have all culminated in the success of the past year. We are very proud to celebrate our rich tradition and bright future.

Highlights of 2016

Financial results for the year showed substantial asset growth of \$73.4 million representing a year over year growth rate of nearly 16%. The addition of Dunnville Credit Union represented \$25 million or 5.4% of this growth. Member loans/ mortgages experienced growth of \$58.8 million and deposits experienced growth of \$54.4 million. We maintained a strong balance sheet with our capital adequacy ratio now standing at 6.98%. The Credit Union continues to exceed all financial thresholds of the Credit Union Act. Retained earnings improved as a result of the merger and the positive after tax earnings.

In support of our employees, our most important asset, we invested in our first employee engagement survey in December. The results reinforced our employees experience a great deal of pride working for PenFinancial, and have a substantial degree of alignment with our vision to improve lives and strengthen communities. They consider the work they do to be significant in the lives of our members. The survey also provides opportunities to increase support of our employees and we will be acting on the results in 2017.

We continued to invest significant resources in the

area of leadership training for emerging leaders, managers and senior leadership. We also provided internal training programs, cross-training and technology based training to employees.

We continue to look for opportunities to tell our PenFinancial story. In 2016 we launched our refreshed brand. PenFinancial's Truly Local Banking rebrand supports our effort to create awareness for the residents of Niagara on how we are different and why Niagara residents and businesses should want to do business with us.

Expansion of our wealth and commercial offerings form part of our strategic planning initiatives and we achieved success in growing this business. PenFinancial Wealth Management experienced strong growth of \$15 million with assets under management totaling \$65 million at year end. A growing number of members of all ages are accessing our wealth offering to support and plan for their future. The growth of our wealth was supported with strong compliance and regulatory monitoring as evidenced with strong audit scores. A solid Niagara economy coupled with our strong commitment to service saw our commercial book grow by \$21 million.

Member Focused Initiatives

Our members are at the centre of everything we do. We continually strive to develop new products and services and improve existing services to help our members through the various stages of their lives. We had numerous projects begin, continue or finalize during 2016. Here are some examples:

- Launched Skype for business - our Financial Advisors and Branch Managers can now have conversations with Members via video.
- Piloted E-Signatures - which will now provide members the ability to sign documents remotely rather than coming into a branch.
- Introduced Interac Flash - a quick and easy way to pay for small everyday purchases without having to swipe or insert your PenFinancial debit card. This service is new in 2017.
- The launch of Member Direct Alert to enhance member security when using online banking.
- Creation of our Truly Local Advice blog (trulylocaladvice.ca), which focuses on advice and truly local financial literacy topics that matter most to our membership.



- Our branch network was also reviewed in accordance with our Branching Strategy. This strategy was adopted in 2015 to guarantee optimum stewardship of our resources and ensure branches are located in areas that support our current membership but also expected population growth. To that end we completed the following:

- Amalgamation of our Heritage and Lake Street locations. This amalgamation was completed in conjunction with our announced relocation of our Lake Street branch to Fourth Avenue, St. Catharines. The Lake Street branch building was sold in August 2016.
- Expansion of our ATM network with the establishment of Niagara's first Community ATM on Schmon Parkway

in Thorold. This ATM provides Thorold members and residents with convenient ATM access and 50 cents from every withdrawal transaction is donated to local charities.

- Merged our Jarvis and Garrison branches. The Garrison branch was renovated to enhance our member experience. The Jarvis property was sold and closed in early 2017.
- The merger and successful integration of Dunnville and District Credit Union data with PenFinancial, and the amalgamation of branches were all completed with minimal disruption to member service.
- Announcement of a new branch location in Fonthill. The branch will support the current

membership we have in the Pelham area and will provide an opportunity to expand the Credit Union in one of the fastest growing communities in Niagara.

As we continue to build our physical footprint in our communities we also continue to support numerous community groups through financial support, volunteering and expertise and financial literacy education. In the past year, our membership, through PenFinancial's Community Investment Program, provided over \$130,000 in direct support to programs, events and activities to strengthen our communities. I encourage you to read the report from our Member and Community Relations Committee as it provides a wonderful overview of the work that PenFinancial and its employees have accomplished in support of our neighbourhoods.

Moving Forward

The Credit Union will continue to move forward with its opportunity to be the Truly Local alternative for business and residents of the Niagara peninsula. 2017 will be a very important year as the construction of our new Fourth Avenue branch in St. Catharines will commence in the spring with completion scheduled for the fall. Our new Fonthill Branch on Highway 20 will open in late summer. This location provides current and future PenFinancial members with convenient access to our services in the heart of Niagara and the fastest growing commercial area in the Pelham community.

"We continue to support numerous community groups."

We are also very pleased to announce that we will be issuing a new series of PenFinancial shares. As with our current share offerings, the new issue will provide a strong opportunity to invest in the future of our credit union while enjoying a very strong rate of return.

In 2017, our goals include improving the member experience through the implementation of centralized

operations which will ultimately enhance the time our employees will have to guide and nurture relationships with our members. 2017 will also bring a number of enhanced electronic, online and mobile services for our members to improve the digital experience as well.

In June of 2017, our employees and Board will work together to revisit our strategic plan and chart the future of PenFinancial. Enhanced training, educational opportunities and wellness initiatives will be implemented to support positive employee experiences and continue our journey to become a truly local employer of choice.

In closing, I wish to express my sincere appreciation to those who have contributed to PenFinancial Credit Union's success. Our organization continues to show its resilience and will steadily move forward to fulfill Our Commitment of improving lives and strengthening communities. The success of the past year would not be possible without the guidance of our Board, our loyal membership and dedicated employees. A special thank you to Darryl Clemens, who will be retiring from the Board of Directors. Darryl served both Fort Erie Credit Union and PenFinancial. I would also like

to acknowledge and thank Bob Watson for his leadership and visionary dedication to the Credit Union and his support in my transition to the role of CEO. I would also like to thank the membership, Board of Directors and our 100 employees for their supportive welcome and guidance over the past months. I consider it a privilege to have had the opportunity to lead PenFinancial during the past year and I look forward to contributing to the strong legacy which has been established.

Respectfully submitted,

Ken Janzen

Chief Executive Officer



Education Social Wellness Economic Vitality Active Communities



Investing money, time, knowledge & expertise to strengthen our communities across Niagara

Improving lives and strengthening communities across the Niagara peninsula is our commitment as a co-operative organization. Through PenFinancial's Community Investment Program, our volunteer and fundraising efforts and the sharing of knowledge and expertise with community partners, we support a variety of Niagara organizations, charities and community efforts that align with our investment pillars:

- Education
- Social Wellness
- Economic Vitality
- Active Communities.

Niagara is home to all of us, so we have a vested interest in ensuring we do what we can to work and grow together to make our communities strong, vibrant, healthy and sustainable. In 2016, we continued to take great pride in building lasting relationships with partners and providing monetary support to over 40 events and organizations, investing \$130,000 and countless volunteer hours.

The PenFinancial Community Leadership scholarships award funding to students entering Brock University and Niagara College every year.





- 1 In the summer, we supported **Eagle Wing Ranch's** Summer Riding Series which allows the opportunity for riders of all ages to enjoy some fun competition.
- 2 Selfie time! PenFinancial's Adam Rempel and Keith Maxim tried to squeeze everyone in the picture at the **Early Childhood Community Development Centre's** annual awards banquet.
- 3 Our Lake Street Branch surprised St. Nicholas Elementary School with a brand new playhouse in celebration of Random Acts of Kindness Day.
- 4 Several students from Dewitt Carter Elementary School in Port Colborne were excited to hit the ice as one of our Skates for Kids partner schools.
- 5 The Storm Troopers stopped by the PenFinancial table at the Fort Erie **Shows in the Sugarbowl** viewing of Star Wars: The Force Awakens. Don't worry they didn't keep the staff captive!
- 6 Our annual Sprowt Video Scholarship was once again a big success by awarding \$4,000 in scholarship funding to local students.

- 7 Our Main Street Branch was 'tough enough' as they competed in the Pelham Mudfest at Bissell's Hideaway to benefit **Big Brothers Big Sisters of South Niagara**.
- 8 Our Huggins Street Branch got into the Christmas Spirit by collecting toys for the **Salvation Army**.
- 9 The tail-end of 2016 saw the launch of our brand new **Community ATM** on Schmon Parkway in Thorold. Each month, a charity in Niagara is selected to receive a donation based on ATM usage.
- 10 In 2016, we said goodbye to our Chief Executive Officer, Bob Watson. Bob was a well-known community builder and credit union advocate for many years. We wish him all the best in retirement.

15 Niagara area elementary schools have regular skating programs in place thanks to our Skates for Kids Program





Chair
Cliff Priest



**Evan
Acs**



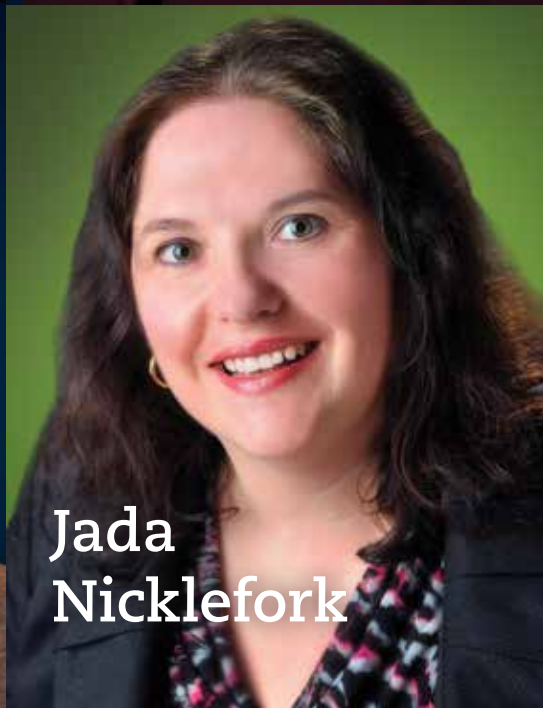
**Joanna
Amodeo**



**Mike
Cowan**



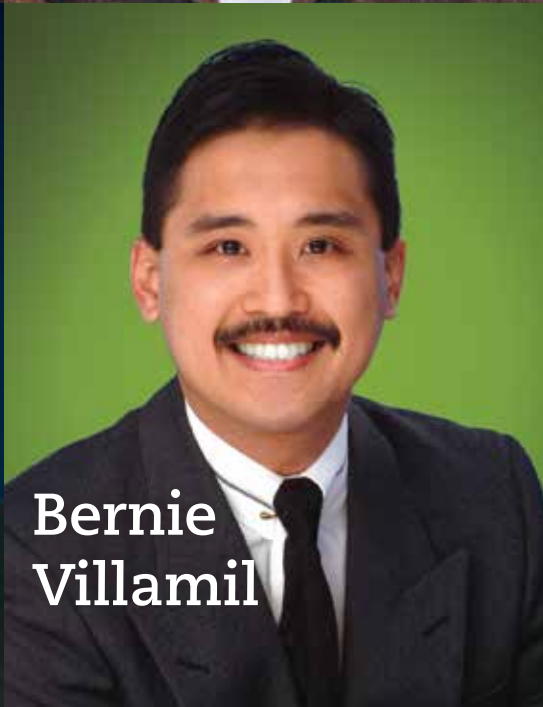
**Kathy
Hunemund**



**Jada
Nicklefork**



**Frank
Perugino**



**Bernie
Villamil**

Member & Community Relations Committee

Report from the Member & Community Relations Committee

The role of the Member and Community Relations 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 gains assurance that appropriate processes are in place to communicate effectively with members and other stakeholders.

The Committee is also responsible for reviewing all policies related to member privacy, member concerns and member communications, as well as annually electing a nomination subcommittee to assist with Board recruitment.

*If you're looking to
buy a new home
or save money
for retirement,
our advisors' customized advice
will get you there!*



Nurturing Relationships to Help our Members Grow

Over the past year, we have listened and guided thousands of our members to help them tend and grow their financial lives. In 2016, we initiated many new products, services and programs that have positively impacted our level of member service and engagement – and reached some exciting milestones along the way.



- Successfully integrated the Dunnville and District Credit Union members to PenFinancial including data conversion and product and service alignment.
- Completion of our Dorchester and Garrison branch face-lifts, providing our members and employees with newly decorated and refreshed environments.
- PenFinancial's Truly Local Banking refreshed brand was introduced, including our new video series which visually illustrates our genuine local brand.
- Established our Truly Local Advice Blog (trulylocaladvice.ca) which focuses on advice and truly local financial literacy topics that matter most to our membership.
- Rolled out the first phase of our Branching Strategy including the migration of our Heritage branch members to Lake Street in preparation for the move to the new Fourth Avenue Branch in 2017 and the migration of Jarvis members to our newly renovated Garrison Branch.
- Initiated E-Documents – Ability to see electronic documents via online banking.
- Piloted E-Signatures – Providing members the ability to sign documents remotely rather than coming into a branch.
- Launched Skype for Business – our Financial Advisors and Branch Managers can now have conversations with Members via video.
- Soft launch of Dealertrack portal – a tool to help increase loan revenues while building member relationships. Generated \$1.3M in new business in 2016.
- Introduced Interac Flash – a quick and easy way to pay for small everyday purchases without having to swipe or insert your PenFinancial debit card.
- Received a \$10,000 financial award from Concentra Financial in support of our Skates for Kids Program.
- Our Life Events Member workshop series continued with a very well attended Fraud Prevention workshop and a Small Business Taxes lunch and learn.
- Over 1,000 members completed our online survey. The feedback greatly assists our ongoing efforts to ensure we are providing members with the advice, service and products they want and need to grow their financial lives.
- The introduction of the Robert Watson/PenFinancial Bursary to annually support a first year student attending Niagara College, to celebrate Bob's 33 year leadership as the CEO of our credit union.
- Secured our new drive-thru Community ATM in Thorold. This new ATM provides our Thorold area members and residents with convenient ATM access. We also took the opportunity to be truly local in our approach to strengthening our communities by dedicating this new ATM as our "Community ATM" this means that each month, we will donate 50 cents per withdrawal to a local Niagara charity.

Improving Lives and Strengthening Niagara Communities

While other financial institutions focus on providing profits to shareholders, PenFinancial's purpose is to provide service to members and communities. Building strong and vibrant communities requires focus to understand the underlying systemic issues impacting each Niagara neighbourhood. The pillars of our Community Investment Program closely align with the twelve critical indicators that are outlined in the 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 drives community economic development, supports members' financial empowerment and is impactful to the sustainability of our communities.

It's our mission to create a lifetime of truly local banking!



Account (IDA) to Niagara. This Growth IDA is open to participants of NPH's Team ENERGI Program (a work experience program for youth with barriers to employment). The IDA is a matched savings program which encourages participants to save towards a particular goal which will assist them to move from poverty to prosperity. Participants must attend group-based financial literacy workshops along with one-on-one coaching sessions led by the PenFinancial team, to enhance their level of financial awareness.

In 2016, we established a partnership with the Job Gym in Welland, providing monthly financial literacy sessions to clients who are entering the work force in Niagara.

Our in-school Financial Literacy Program Presentations are very popular across elementary and secondary schools in Niagara and in 2016, our employees delivered over 20 workshops to over 600 students.

14 students entered our Sprout.ca Video Scholarship Contest in 2016 and we awarded \$4,000 in scholarship prizes

to five winning entries. It was tough for our guest judges to narrow down the entries to their top five as they were all very well executed videos that creatively expressed the "What I Want to Be When I Grow Up" theme. We pushed the top five out to the public to vote to determine the top 5 placement, and we were pleasantly surprised to receive over 20,000 votes! Our Grand Prize winner was Kuda Charamba, a graduate of Westlane Secondary who is now enrolled in Niagara College's Television & Broadcasting Program.

Every year, our Sprout.ca Video Scholarship Contest awards \$4,000 to students attending post-secondary school.



Milestones

Our Community Investment Program provides both monetary and volunteer support to close to 40 charities, local events and other activities and organizations that align to our Corporate Social Responsibility pillars – Education, Social Wellness, Economic Vitality and Active Communities. From the Education Foundation of Niagara to Wellspring Niagara to the Family Mental Health Support Network, our Member and Community Relations Committee had the pleasure of leading the investment of \$130,000 to organizations that contribute to improving lives and strengthening communities across Niagara.

Skates for Kids, our signature Corporate Social Responsibility program, has made a total contribution of over 3,500 pairs of gently used skates and over 2,500 new helmets to 15 schools across Niagara since 2009. We are very proud of our award winning Program and we will continue to work towards achieving our goal of assisting all Niagara schools in implementing school wide skating programs. In 2016, PenFinancial was named one of the 2016 emPOWERING Your Communities Campaign recipients and was awarded a \$10,000 financial award in support of our Skates for Kids Program.

Financial literacy is a strong focus for PenFinancial Credit Union. We recognize that it's essential to have the skills and knowledge to make informed and effective financial decisions. Just like we invest in our employee education program, we are also committed to growing the financial capacity of our community members by providing opportunities that will help develop money management skills.

We are proud to continue our partnership with Niagara Peninsula Homes (NPH), bringing the first ever Independent Development

Focusing on creating memorable member experiences

In the coming year, we look forward to continuing our branch revitalization work and the opening of our new Fourth Avenue Branch in St. Catharines and our Fonthill location on Highway 20. New product and service enhancements that will elevate and delight our member's banking experiences will be our focus including a new member onboarding solution and enhanced Wealth management and Personal Financial Management tools. We'll be sure to continue to keep the lines of communication open by conducting regular member satisfaction surveys, so that we never lose sight of the needs of our members and communities.

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,

E. Acs, J. Amodeo, M. Cowan, K. Hunermund, J. Nicklefork, F. Perugino, C. Priest (Chair), B. Villamil



Report from the Governance & Human Resources Committee

The Governance & Human Resources Committee is comprised of five (5) directors who are appointed each year from and by the 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. Collaboratively, the committee

works with management to monitor the regulatory environment and corporate governance trends to identify opportunities for development and growth.

Three areas of responsibility:

- 1 To facilitate the Board of Directors in providing effective governance to PenFinancial Credit Union, and to ensure that governance practices evolve with the needs of the Credit Union. The Committee ensures Board members have adequate development and succession plans, the Board is held accountable to stakeholders, and that duties and regulatory requirements are being fulfilled.
- 2 To assist in protecting the reputation of PenFinancial through the oversight of the development and monitoring of ethical conduct policies that are followed by directors and employees of the Credit Union.
- 3 With respect to Human Resources, ensures policies are in place to provide PenFinancial employees with fair and meaningful employment in a safe and respectful workplace.

The Governance & Human Resources Committee is pleased to report that throughout 2016 all responsibilities were carried out in accordance with the Terms of Reference assigned to it by the Board of Directors. The following briefly outlines a few of the many important initiatives the Committee was involved with:

- Conducted the probationary period Performance Review for the new CEO
- Performed annual self-assessment reviews of the Board and enhanced the overall reviewing and reporting process
- Reviewed all governance related policies for relevance, and recommended changes to the Board of Directors where appropriate.

PenFinancial Credit Union has always been committed to governance excellence as we believe this is essential to our continued success and maintaining your trust. We pledge to ensure our level of governance grows with our Credit Union so that we may thrive and be even stronger in the future.

Respectfully submitted by your 2016 Governance Committee,

K. Simpson (Chair), R. Sonnenberg, R. Tabaka, D. Nieuwesteeg, C. Walsh

We always expect and encourage our employees to offer solutions that are in the best interests of our members. Always.





Below are some examples of the work performed by the Committee in 2016 fiscal year:

- Reviewed with Management on compliance of financial reporting and filing;
- Met with the external auditor, Deloitte LLP, Chartered Professional Accountants on audit plans and year end financial statements;
- Reviewed the internal auditor audit plan and internal audit reports of all branches;
- Oversaw the Enterprise Risk Management program to monitor potential issues that could adversely impact the organization's financial position;
- Ensured the implementation of the recommendations received from DICO regarding on site verification previously conducted;
- Reviewed and revised policies, relating to operation procedures and any outstanding legal matters;
- Observed detailed audit checklist to ensure the organization operates effectively and financially profitable;
- Participated in various training opportunities, seminars and conferences to ensure directors' knowledge and skill are current and up to date as expected by our regulators.



Report from the Audit & Risk Committee

PenFinancial Credit Union Limited maintains an Audit & Risk Committee in accordance with Section 125 of the Credit Union and Caisses Populaires Act of 1994, and Ontario Regulation 237/09.

The Audit and Risk Committee has received and reviewed the Audited Financial Statements for the year ending December 31, 2016 from our auditors,

Deloitte LLP, Chartered Professional Accountants. Our auditors have expressed an opinion that the financial statements present fairly the financial position and results from operations of the Credit Union, and are free of material misstatement. Additionally, the auditors, through their Management Letters, have indicated that their examination has not raised any

significant concerns with our procedures or internal controls.

The Audit & Risk Committee met bimonthly in 2016. The primary duties of the Committee are to assist the Board of Directors in fulfilling its responsibility in ensuring the adequacy of: accounting functions, financial reporting, internal controls, policies and procedure adherence.

The Audit and Risk Committee is satisfied that the Credit Union's procedures, policies and internal controls engaged by Management in conducting the business of PenFinancial are in accordance with the Act and Regulations, and International Financial Reporting Standards.

To the best of the Committee's knowledge, there is no known matter requiring disclosure to the members pursuant to the Act or Regulations at this time.

Thank you to the staff, management and fellow Committee members for their support and cooperation for the fine work we jointly accomplished in 2016.

Respectfully submitted by your 2016 Audit & Risk Committee,

D. Tsang (Chair), D. Chamberlain, D. Clemens, S. Gandour, D. Jastrubecki.

2016 Meeting Attendance

Member & Community Relations Committee

Name	MCR Committee	Honourarium	Place of Residence
Cliff Priest, Chair	5/6	\$750	St. Catharines
Evan Acs	6/6	\$690	St. Catharines
Joanne Amodeo	4/6	\$460	Virgil
Mike Cowan (Acclaimed)	5/6	\$575	Dunnville
Kathy Hunermund	6/6	\$690	Vineland
Jada Nicklefork	3/6	\$345	Thorold
Karrie Porter	1/6	\$115	St. Catharines

Board of Directors

Name	Board Meetings Attended	Audit & Risk	Governance & HR	MCR Committee	Honourarium	Place of Residence
Reg Sonnenberg, Chair	12/12	-	6/6	-	\$7,300	Niagara Falls
Dave Jastrubecki, Vice Chair	11/12	6/6	-	-	\$5,550	St. Catharines
Dave Chamberlain	12/12	6/6	-	-	\$4,800	St. Catharines
Darryl Clemens	10/12	5/6	-	-	\$4,800	Fort Erie
Diane Niewesteeg	12/12	-	6/6	-	\$4,800	Niagara Falls
Frank Perugino	9/12	-	-	5/6	\$4,800	Niagara Falls
Kirbi Simpson	9/12	-	5/6	-	\$5,550	Wainfleet
Rick Tabaka	9/12	-	5/6	-	\$4,800	Niagara Falls
David Tsang	9/12	6/6	-	-	\$5,550	Welland
Bernie Villamil	12/12	-	-	5/6	\$4,800	Niagara Falls
Chris Walsh	12/12	-	6/6	-	\$4,800	Niagara Falls
Steve Gandour (Acclaimed April 2016)	8/8	5/5	-	-	\$4,800	Dunnville

* In 2016, there were additional meetings due to the Dunnville merger.



2016 Summarized Financial Statements



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Summarized consolidated statement of comprehensive income

year ended December 31, 2016
(In Canadian dollars)

	2016	2015
	\$	\$
Interest income	16,592,812	16,112,085
Investment income	411,521	431,904
	17,004,333	16,543,989
Interest expense	5,869,075	5,824,461
Other interest expense	596,654	600,884
	6,465,729	6,425,345
Net interest income	10,538,604	10,118,644
Provision for impaired loans	(127,975)	(253,596)
Net interest margin	10,410,629	9,865,048
Net gain from other financial instruments carried at fair value through profit or loss	28,476	9,972
Gain on sale of property and equipment	435,500	-
Other income	2,584,086	2,523,788
Total operating income	13,458,691	12,398,808
Deposit insurance premium	322,964	252,598
General and administrative	3,882,310	3,734,796
Occupancy	1,356,628	1,261,174
Personnel expenses	6,573,567	6,907,643
Total operating expenses	12,135,469	12,156,211
Amalgamation expenses	298,213	213,368
Dividends on Class B special shares	53,143	52,237
	351,356	265,605
Income (loss) before income taxes	971,866	(23,008)
Income tax expense (recovery)	189,800	(204,431)
Net income	782,066	181,423
Other comprehensive income, net of income taxes	21,411	41,739
Total comprehensive income	803,477	223,162

Report of the Independent Auditor on the Summarized Consolidated Financial Statements

To the Members of PenFinancial Credit Union Limited,

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2016, and the summarized consolidated statement of comprehensive income and summarized consolidated statement of changes in members' equity for the year then ended, are derived from the audited consolidated financial statements of PenFinancial Credit Union Limited for the year ended December 31, 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 15, 2017.

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

Management's Responsibility for the Summarized Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the summarized consolidated 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 consolidated financial statements derived from the audited consolidated financial statements of PenFinancial Credit Union Limited for the year ended December 31, 2016 are a fair summary of those consolidated financial statements, in accordance with International Financial Reporting Standards.

Deloitte LLP.

Chartered Professional Accountants
Licensed Public Accountants
February 15, 2017

Summarized consolidated statement of changes in members' equity

year ended December 31, 2016
(In Canadian dollars)

	Class B special shares	Membership shares	Retained earnings	Accumulated other comprehensive income	Total
	\$	\$	\$	\$	\$
As at January 1, 2015	15,514,870	215,529	16,536,921	734,083	33,001,403
Total comprehensive income	-	-	181,423	41,739	223,162
Total dividends declared on Class B special shares	-	-	(522,371)	-	(522,371)
Dividends declared on Class B special shares qualifying as liabilities reclassified to expense	-	-	52,237	-	52,237
Dividends reinvested in Class B special shares	522,371				522,371
Net shares redeemed	(700,887)	(1,994)	-	-	(702,881)
Class B special shares reclassified to liabilities	(25,117)	-	-	-	(25,117)
As at December 31, 2015	15,311,237	213,535	16,248,210	775,822	32,548,804
Total comprehensive income	-	-	782,066	21,411	803,477
Business combination	-	-	1,841,784	-	1,841,784
Total dividends declared on Class B special shares	-	-	(531,431)	-	(531,431)
Dividends declared on Class B special shares qualifying as liabilities reclassified to expense	-	-	53,143	-	53,143
Dividends reinvested in Class B special shares	531,431	-	-	-	531,431
Net shares issued	41,889	69,906	-	-	111,795
Class B special shares reclassified to liabilities	(57,333)	-	-	-	(57,333)
As at December 31, 2016	15,827,224	283,441	18,393,772	797,233	35,301,670

Summarized consolidated statement of financial position

as at December 31, 2016
(In Canadian dollars)

	2016 \$	2015 \$
Assets		
Cash	21,422,561	10,060,044
Investments	42,253,144	39,463,220
Loans to members	463,117,335	404,330,217
Other assets	635,835	444,974
Investment in joint venture	77,487	77,487
Property and equipment	8,669,434	8,133,288
Intangible assets	485,671	746,034
	536,661,467	463,255,264
Liabilities		
Deposits from members	458,183,870	403,828,697
Other liabilities	1,793,342	1,614,874
Mortgage securitization liability	39,148,803	23,266,640
Current income tax liability	142,014	-
Deferred income tax liability	333,186	295,000
Class B special shares	1,758,582	1,701,249
	501,359,797	430,706,460
Members' equity		
Membership shares	283,441	213,535
Class B special shares	15,827,224	15,311,237
Retained earnings	18,393,772	16,248,210
Accumulated other comprehensive income	797,233	775,822
	35,301,670	32,548,804
	536,661,467	463,255,264

Approved by the Board



Director

Director



  @PenFinancial
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