

ENHANCING
LIVES SINCE
1936

IN MEMORIAM

John Cihota

Pen Air lost one of our beloved volunteers, Master Sergeant John Cihota, in February 2019. John served the credit union for more than 35 years on the Board of Directors in many roles, including Chairman. He was a retired Air Force veteran, who had a passion for serving our members and employees. John will be remembered for his selfless service to others; his warm and loving personality; and his great love for God, family, friends, and country.



RETIREMENT

Maurice Johnson

With sincere gratitude, we thank Maurice Johnson for 40 years of volunteer service to Pen Air. He served on the Supervisory Committee, the Board of Directors, and was Chairman of the Board for nearly 20 years. We will miss his friendly sense of humor. We thank you, Maurice, for your dedication and passion for our members.



EXECUTIVE MANAGEMENT



- » Stewart Ramsey, President/CEO
- » Carroll Scarborough, EVP/CAO
- » Angie Betts, EVP/COO
- » Shirley Harris, SVP/CFO
- » Dana Mullins, SVP/CPO
- » Ryan Ross, SVP/CRO

BOARD OF DIRECTORS



- » Grady Hester, Chair
- » Eileen Ehrsam, Secretary
- » Ann McCall, Treasurer
- » Randy Roy
- » Robert Jacobson, Vice Chair
- » Stephanie Oram
- » John Cihota



Associate Volunteer
Kevin Krieger

CEO & CHAIRMAN REPORT



◀ Stewart Ramsey
President & CEO



Grady Hester ▶
Chairman of the Board

The economy had another strong year in 2018, and the financial sector had one of its strongest years on record. Pen Air Federal Credit Union benefited as well and had its best year on record in 2018. In 2016, the Board of Directors and Management Team established long term goals for the credit union and we were fortunate to be able to attain those goals by the end of 2018 – well ahead of schedule.

While we certainly were aided by a strong economy, the reason for the great success of the credit union is the focus and hard work of the 300 plus employees of the Pen Air team. Throughout the past two years, we have been transforming our delivery approach and upgrading our systems and tools. Our team has been working diligently to continually improve the service we provide to you, our members, and our results would indicate it is working.

So, as we look toward 2019, there are more improvements on the way! Our two downtown locations will be consolidating into a single location within the Studer Community Institute tower on Garden Street. In addition, construction has begun on a new Car City location on Hwy 29 which will open near the end of the year. Lastly, construction will also begin on an additional building at our corporate office to allow us to consolidate our support departments and reduce our dependence on leased offices.

All these investments and more are being made to continually improve our service to each of you in an efficient and cost-effective manner. Thank you for being a loyal member of Pen Air Federal Credit Union.

Enhancing lives through exceptional

SERVICE
& **STRENGTH**
FINANCIAL SOLUTIONS

COMMUNEROSITY

Communerosity is one of our core values. At Pen Air it means having a spirit of generosity and a sense of community. It is important that our credit union continues to be an integral part in supporting our vibrant and growing community as we have for more than eighty-three years.

2018 Communerosity Highlights

- » \$420K was poured back into our community through giving to more than 100 local organizations.
- » 4,868 volunteer hours were served by our employees to 190 local organizations.
- » \$40K was given to Navy-Marine Corps Relief Society through the 18th Annual Friends of the Navy-Marine Corps Relief Society, Inc. Charity Golf Tournament which provides financial assistance and education to service members.
- » \$25K was presented to Marine Federal Credit Union to assist those affected by Hurricane Florence.
- » \$47,250 was awarded to local high school senior students through the Pen Air College Scholarships program since 2010.

Jeans for Communerosity

Jeans for Communerosity (J4C) is an employee-driven fundraising effort to give back to those in need in our community. Through J4C, the employees have given more than \$240,000 since the program began in 2013. In 2018, \$40,000 was given to eight local, nonprofit organizations:

- » Baldwin County Child Advocacy Center
- » Covenant Care
- » Magic Moments of AL
- » MyBELONGings
- » Prodissee Pantry of Baldwin County
- » Ronald McDonald House Charities of NWFL
- » SouthBARK Animal Rescue
- » Willow Farms

AWARDS

- » 2 CUNA Diamond Awards
- » 10 American Advertising Federation ADDY® Awards
- » Bauer Financial Exceptional Performance Award for earning a 5-Star Superior Rating for 112 consecutive quarters.

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee's responsibility is the monitoring and evaluation of Pen Air Federal Credit Union's financial activities on behalf of its members to ensure continued viability of the credit union. It is the committee's responsibility to affirm that the credit union's management is protecting the assets of the credit union by establishing and maintaining sound internal controls in accordance with Generally Accepted Accounting Principles, the Federal Credit Union Act, and Pen Air's Bylaws. The Supervisory Committee is also responsible for providing an independent assessment of the protection and soundness of your credit union by monitoring all operational areas and determining that the financial condition of Pen Air is accurately presented in its financial statements.

The Supervisory Committee engaged the Firm of Clifton Larson Allen, Certified Public Accountants, for the 2018 audit. This independent firm was contracted by the committee to verify the financial statements, the accuracy of member account statements, and compliance with federal regulations and Board policy. Annual examinations are also performed by the National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions. The NCUA evaluates the credit union's financial condition, integrity, and soundness.

Under the direction of the committee, Pen Air's Internal Audit Department maintains a wide-ranging and persistent review of the credit union's processes. This guidance ensures that all activities are in compliance with the policies and procedures and that the interests of the members and credit union are protected.

The primary role of the Supervisory Committee is to review Pen Air's financial records and to ensure that all is in order and that internal controls are in place to protect both the credit union and its members. Each member of the Supervisory Committee is a volunteer

appointed annually by Pen Air's Board of Directors. We assist the Board of Directors in its general oversight of the credit union's financial reporting, internal controls, and audit function.

The committee affirms, based on its audits, the annual report of independent accountants, and the examination report by the NCUA that the policies, programs, and management practices of Pen Air are sound, and that members' assets are well safeguarded. The committee is appreciative of the support provided by the Board of Directors, President, committees, and staff.

Your Supervisory Committee Members are honored to serve and to assist in ensuring the financial well-being of our members' assets. The Committee will continue to exercise best practices to ensure the financial integrity of Pen Air for its members. We look forward to Pen Air's continued success in providing financial protection, seeking solutions, and meeting the needs of its members.

Respectfully Submitted,
Donald J. Bailey, Chair



- » Darryl Johnson
- » Donald Bailey, Chair
- » Randy Smith
- » Ricky Crews

STATEMENT OF FINANCIAL CONDITION

As of December 31, 2018 (unaudited)

ASSETS

Cash and Cash Equivalents	\$ 93,117,487.27
Investments	\$ 382,529,988.56
Loans and Leases Net of Allowance for Loan Losses	\$ 900,869,321.69
Other Assets	\$ 92,543,685.29
Total Assets	\$ 1,469,060,482.81

LIABILITIES, SHARES, AND EQUITY

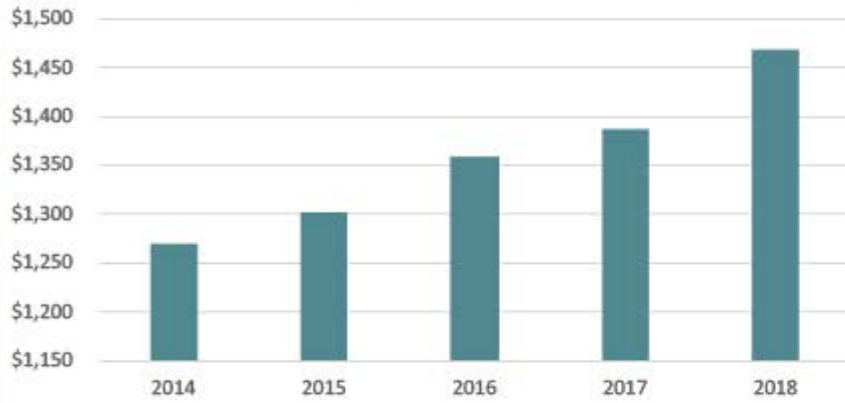
Accounts Payable and Other Liabilities	\$ 57,372,726.13
Member Shares and Deposits	\$ 1,221,075,986.34
Total Equity	\$ 190,611,770.34
Total Liabilities, Shares, and Equity	\$ 1,469,060,482.81

INCOME STATEMENT

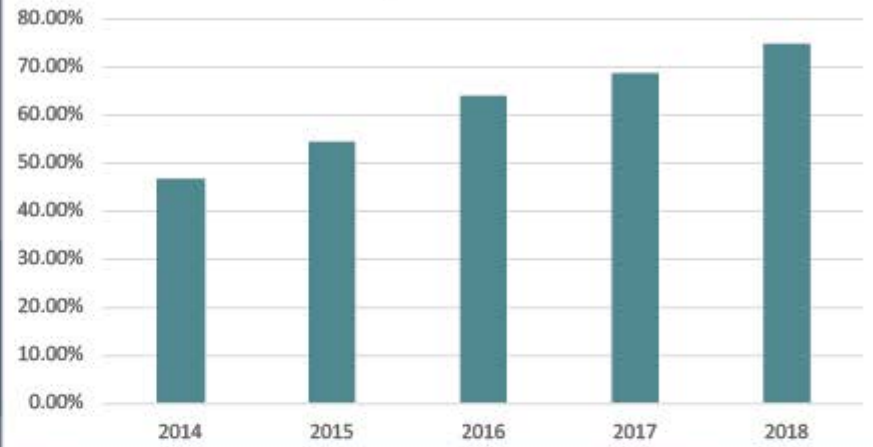
Interest on Loans	\$ 42,394,453.21
Income from Investments	\$ 9,795,507.52
Interest Expense	\$ 8,401,906.12
Net Interest Income	\$ 43,788,054.61
Fee Income	\$ 13,844,190.29
Other Operating Income	\$ 12,265,336.30
Non-Operating Income (Loss)**	\$ 383,244.42
Provision for Loan Losses	\$ 7,627,395.00
Non-Interest Expense	\$ 46,738,253.12
Net Income (Loss)	\$ 15,915,177.50

**Includes \$0.00 of accumulated other comprehensive income reclassifications for YTD gains realized on securities available for sale.

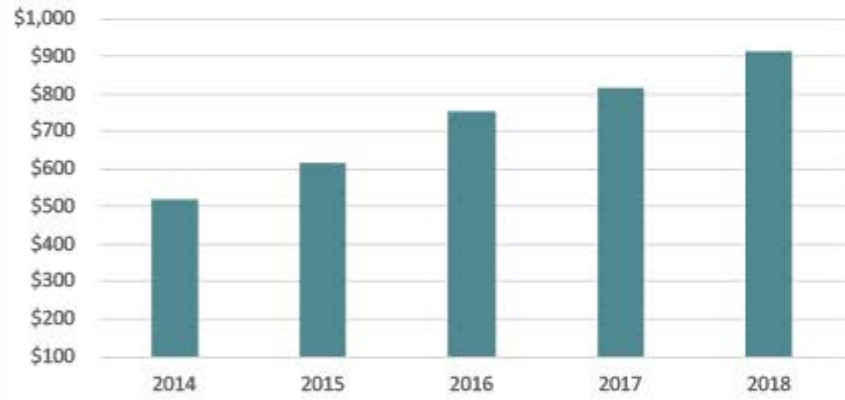
Total Assets
(in Millions)



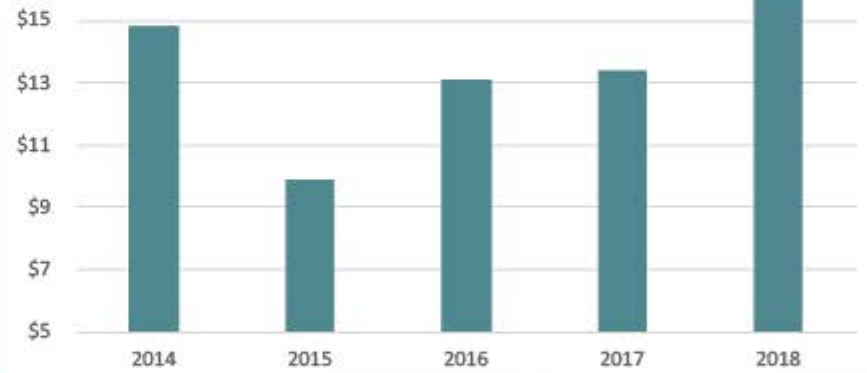
Loan/Share Ratio



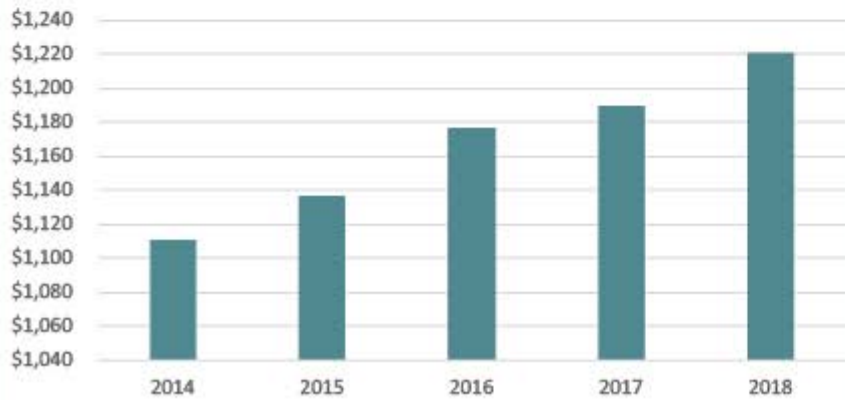
Total Loans
(in Millions)



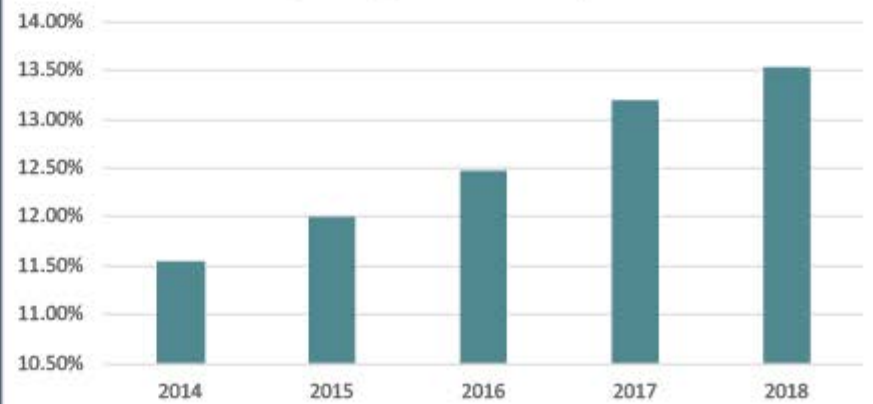
Net Income
(in Millions)



Total Shares
(in Millions)



Capital Ratio
(Safety & Soundness)



2018 ANNUAL MEETING MINUTES

It has been my honor to serve as your Secretary on Pen Air Federal Credit Union's Board of Directors. Each monthly Board Meeting and periodic sub-committee meetings are carefully documented for National Credit Union Administration (NCUA) review, as well as, for Pen Air FCU's records. As is required by the NCUA, I respectfully present below the minutes from the 2018 Annual Meeting of the membership.

2018 Pen Air Federal Credit Union Annual Meeting of the Membership Minutes:

The 82nd Annual Meeting of Pen Air Federal Credit Union was held at the Pensacola Grand Hotel, April 26, 2018.

Mr. Grady Hester, Chair, called the meeting to order at 7:00 p.m., and gave the invocation. Mr. John Cihota led the membership in the Pledge of Allegiance.

Ascertainment of the quorum was made that the required fifteen (15) members were present, with total attendance of 100.

Mr. Hester noted to the membership that Mr. Palmer Williams, Attorney, would serve at Parliamentarian.

Mr. Hester introduced to the membership the Officials at the Head Table, the Supervisory Committee, and special guests.

Mr. Hester asked for a motion to accept the Minutes of the 81st Annual Meeting, as printed in the 2017 Annual Report, and the CEO & Chairman's Report, Treasurer's Report, and Supervisory Committee Report, as printed in the 2017 Annual Report.

Motion made, seconded, and carried to accept the Minutes of the 81st Annual Meeting, as printed in the 2017 Annual Report, and the CEO & Chairman's Report, Treasurer's Report, and Supervisory Committee Report, as printed in the 2017 Annual Report.

Mr. Hester turned the meeting over to Mr. Stewart Ramsey, President/CEO.

Mr. Ramsey introduced to the membership the employees of Pen Air Federal Credit Union.

Mr. Ramsey presented the Members Matter video to the membership.

Mr. Ramsey briefed the membership on the accomplishments of the past year.

Mr. Ramsey turned the meeting back over to Mr. Hester.

Mr. Hester presented the Nominating

Committee Report to the membership.

Mr. Hester noted to the membership that the three nominees, consequently, Ms. Eileen Ehram, Ms. Ann McCall and Ms. Stephanie Oram were elected to serve on the Board of Directors by acclamation.

Mr. Hester asked if there was any Unfinished Business to be brought before the membership.

There was no Unfinished Business brought up.

Mr. Hester asked if there was any New Business to be brought before the membership.

There was no New Business brought up.

Mr. Ramsey and Mr. Hester presented to the membership the four 2018 scholarship recipients that were in attendance.

Upon motion regularly made, seconded, and carried, the meeting adjourned.

Eileen Ehram, Secretary
Grady Hester, Chair

UNEXPIRED TERM OF THE BOARD OF DIRECTORS

Eileen Ehram	3 Years	Robert Jacobson	2 Years
Ann McCall	3 Years	John Cihota	1 Year
Stephanie Oram	3 Years	Maurice Johnson	1 Year
Grady Hester	2 Years		