

Annual Report

2016



*Success
Community
Partnership
Trust
Value*



Federally Insured
By NCUA

Chairman's Message

It is with great pleasure that I submit to you our 2016 financial statement and report on the operations of your credit union. The last 12 months have been a very busy but exciting time for us. We launched new products and services, measured the success of some of our recent initiatives, and spent time planning for an even better future.

New services unveiled during the year included Balance Financial Counseling, a financial education resource for our members. The program focuses on creating personalized budgets, overcoming financial challenges, planning for a mortgage and credit counseling. We also partnered with Autoland, a service that promises a hassle-free car buying experience. Members can shop online or enlist the help of a consultant to get a fair price on a new or pre-owned vehicle. So far, a dozen of our members have taken advantage of this service to find the right car at the right price. We will be holding our First Time Homebuyers workshops in early 2017, another valuable and free service for our members.

With the goal of increasing our convenience for members, the Credit Union developed an integrated mortgage loan system that makes the online application and approval process easy and convenient. Credit Union staff are also preparing to launch Remote Deposit Capture, making it simple and effortless to deposit checks anytime, from anywhere.

Key to our ability to continually offer better products and services will be the replacement of our "Core" information and processing system in late 2017. The Credit Union's current Core has been around a long time and is no longer a good fit with our vision of becoming, and remaining, each of our member's primary financial institution. While a big undertaking, the Credit Union is fully staffed for the first time in several years and we've been fortunate to find highly experienced, innovative and committed employees who have chosen to work at credit unions rather than shareholder-owned banks. It is that difference that will make our Core conversion successful and lay the foundation for better service in the future.

I am proud to serve on a volunteer board of directors who all support innovation and growth while ensuring the strength and stability of the Credit Union. You, our valued members, are our genuine focus and we hope that you will continue to endorse your Credit Union.

Terry Evans
Chairman of the Board of Directors

Treasurer's Report

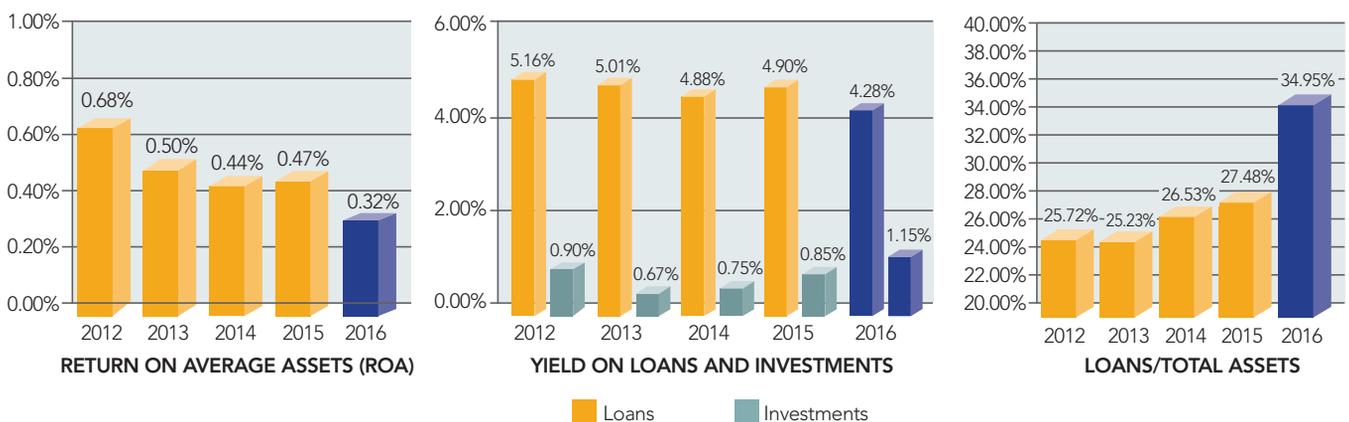
The Credit Union ended 2016 with positive operating results and a strong balance sheet. Net income for the year of \$978,530 means that net worth once again rose, from 10.66% at December 31, 2015 to 11.24% at December 31, 2016. Total assets at December 31, 2016 stood at \$301.6 million, up slightly from the December 31, 2015 total of \$299.7 million.

With the uncertainty surrounding the outcome of the November election and with economic indicators softer than expected throughout the year, 2016 proved to be a stagnant year for interest rates. Declining yields on the Credit Union's investment portfolio inspired management to seek higher earnings through the purchase of several pools of consumer and real estate loans originated and serviced by another local credit union. Organic loan growth will continue to be a challenge due to rising home prices and lower affordability. The lack of action by the Fed during the year also delayed any meaningful increases to deposit rates in 2016 but it appears the course is changing and rates are rising modestly in 2017.

Following the successful remodel of the branch in 2014, the Credit Union completed a long overdue facelift of the administration building at 2845 Temple Avenue. The building was reconfigured to support advanced technology and digital filing, eliminating much of the filing cabinet requirements of the past and creating more "usable space". The excess capacity has been put to good use. In February 2017, we executed a lease with another credit union for the second floor of the building. That credit union will use the space for their back office operations which means lease income for us, and a comfortable and convenient location for them.....truly a win-win for us both.

The Credit Union has remained committed to prudent spending and our expense ratio remains well below our industry peers. However, we will continue to be challenged by ever-increasing regulatory burdens and by necessary investments in technology and information protection. Rest assured, however, that the Board of Directors will continue to watch the bottom line and the financial health of your Credit Union.

John Kruse
Secretary/Treasurer



2016 Financials (Unaudited)

Statement of Financial Condition

December 31, 2016

ASSETS

Cash and Cash Equivalents	\$ 35,770,314
Investments:	
Available for Sale (AFS)	102,649,841
Held to Maturity	61,729,000
Loans to Members, Net	94,329,299
Accrued Interest Receivable	589,588
Property and	
Equipment, Net	2,765,606
Share Insurance Deposit	2,513,487
Other Assets	1,289,415
Total Assets	<u>\$ 301,636,550</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Members' Share	
Accounts	\$ 270,315,307
Accrued Expenses	
and Other Liabilities	<u>2,586,233</u>
Total Liabilities	272,901,540

Members' Equity:

Regular Reserve	20,000,000
Undivided Earnings	12,945,406
Unrealized Gain (Loss) on	
AFS Securities	(1,656,935)
Accumulated Other	
Comprehensive Income	<u>(2,533,461)</u>
Total Members' Equity	28,735,010
Total Liabilities and	
Members' Equity	<u>\$ 301,636,550</u>

Statement of Operations

December 31, 2016

INTEREST INCOME

Loans	\$ 4,064,658
Investments	1,965,397
Total Interest Income	<u>6,030,055</u>

INTEREST EXPENSE

Members' Share Accounts	1,134,963
Total Interest Expense	<u>1,134,963</u>

NET INTEREST INCOME 4,895,092

PROVISION FOR LOAN LOSSES

85,000

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES 4,810,092

NON-INTEREST INCOME

Fees and Charges	416,747
Other Income	33,722
Total Non-Interest Income	<u>450,469</u>

NON-INTEREST EXPENSE

Compensation and Benefits	2,602,074
Office Occupancy	280,659
Office Operations	1,399,299
Total Non-Interest Expense	<u>4,282,032</u>

NET INCOME \$ 978,530

Notes to Financial Statements

December 31, 2016

The financial statements of the Long Beach City Employees Federal Credit Union (Credit Union) are a partial presentation of the financial position and results of operations of the Credit Union as of and for the year ended December 31, 2016, and are not a complete presentation in accordance with generally accepted accounting principles.

The Credit Union's full disclosure financial statements will be audited by Certified Public Accountants, Turner, Warren, Hwang & Conrad. The audited financial statements, including auditors' report and notes to the financial statements, will be provided upon request.

Supervisory Committee Report

The Supervisory Committee is comprised of five credit union member volunteers, appointed by the Board of Directors to provide oversight to credit union operations and to ensure that the credit union complies with National Credit Union Administration (NCUA) regulations governing federally chartered credit unions. On behalf of your Supervisory Committee, I am happy to report that for the year ended December 31, 2016, the LBEFCU has operated in a fiscally sound manner and in accordance with applicable federal regulations.

In 2016, the Committee met monthly to review financial reports, assess operational policies and procedures, receive inspection reports from regulators, and monitor corrective action recommended during those examinations. A Committee member also attended Board of Directors meetings to ensure the Board was capably and thoughtfully conducting the business of members. Other highlights include:

- A competitive request for proposal process was conducted to identify a qualified public accounting financial firm Turner, Warren, Hwang & Conrad to audit annual financial statements
- Two non-voting advisory positions were created by the Board to participate in all Committee activities, and provide for succession planning
- Multiple Credit Union policies and procedures were updated by staff to resolve audit findings, improve internal controls, and protect member assets
- Committee members received federally mandated training to ensure that Committee members were well qualified

The Committee has concluded, based on the results of examinations and audits, that the credit union is safe and sound. On behalf of the Committee, we look forward to another year working with the Board, management, staff and our members to ensure the continued success of the Credit Union.

John Keisler
Chairman, Supervisory Committee



Member Appreciation 2016



Gift Wrappers



Toy Drive Long Beach Police 2016

2016 Highlights



Member Appreciation Day
Served 430 members a
Super Mex lunch and raffled
off many prizes



Added 444 new
Free checking
accounts



Funded \$19,914,864 in
loans to our members



Added Service Delivery Enhancements including:

- Autoland Car Buying Service
- Balance: Free Financial Counseling
- Online Mortgage Application System



Improved our member
Convenience ratings by 10%

Volunteers & Management

Board of Directors

Terry Evans
Chairman

Malcolm Oscarson
Vice Chairman

John Kruse
Secretary/Treasurer

Pat Burns

Paul Fujita

Amy Manning

Beverly Bartlow-Nieves

Supervisory Committee

Committee Members

John Keisler
Chairman

Ed Nelson
Vice Chairman

Eugene Fong

Linda Vu

Jeff Evans

Advisory Members

Alan Kosoff

Julissa Jose-Murray

Management

Kathleen O'Connell
Chief Executive Officer

Michele Megill
Chief Operating Officer

Autumn Hoffman
Chief Lending Officer

Vince DeVito
Manager of Information Technology

Mike Spray
Manager of Information Systems and Facilities

Sue Fredrickson
Manager of Accounting

Kelly Fair
Manager of Administration

Frank Perez
Manager of Lending

Lisa Hess
Branch Manager

Public Works Breakfast



