

Chairman's Message

On behalf of the Board of Directors, management and staff of your Credit Union, thank you for your loyal support and patience with us in 2017 as we prepared for, and successfully completed, the implementation of an industry-leading computer processing system. We are pleased to be past the inevitable challenges of such a large project and are preparing for a bright future. Our new system will be the foundation upon which we will build new products and enhance our services for the ever-changing financial needs of our members. For example, we are exploring the system's capabilities for launching open lines of credit and overdraft protection products that will round out what we expect to be a much fuller array of products and services in the coming years.

Despite the time committed to the new system implementation, the Credit Union was able to move forward with other projects that will improve our interaction with members, including an online mortgage application and document exchange system, our first homebuyer workshop, remote/mobile deposits and partnerships with both Enterprise Car Sales and Autoland to lessen the pain of car shopping. We will be scheduling additional workshops, loan pre-approval programs and additional electronic services, all in an effort to improve the Credit Union's convenience for you. While we have modernized our facilities and technologies, we have remained keenly aware that the Credit Union's long-term success is contingent upon our ability to attract new members and so our focus over the next several years will also be membership outreach.

I would like to thank you for your continued confidence in the Credit Union. Your volunteer Board of Directors and Supervisory Committee, as well as our staff, work very hard to earn your business and we look forward to prosperous years ahead.

Terry Evans Chairman of the Board

Supervisory Committee Report

The Supervisory Committee is of vital importance to the healthy operation of the Credit Union. It is the Committee's responsibility to ensure that the Credit Union operates with sound internal controls, maintains records which accurately account for the Credit Union's assets, and adheres to practices that will safeguard those assets. These responsibilities are carried out by:

- Conducting periodic audits and reviews of the Credit Union's records and processes;
- · Contracting for a financial statement audit at least annually; and
- Conducting annual member account verifications.

The annual financial statement audit of the Credit Union was completed as of December 31, 2017 by the Certified Public Accounting firm of Turner, Warren, Hwang & Conrad, AC. The audit report, issued directly to the Supervisory Committee and reported to the Board of Directors, did not identify any areas of material concern.

The Supervisory Committee believes that the Credit Union is a financially sound institution which will continue to provide outstanding service to each member. We encourage your participation as a key element for the continued success of the Credit Union. Your input is vital in enhancing the Supervisory Committee's ability to serve the membership.

Ed Nelson Chairman of the Supervisory Committee

Treasurer's Report

I am pleased to report that the Credit Union's year-end financial standing remains strong with our capital ratio rising to over 11%, well above the "well capitalized" floor of 7.0% set by the Credit Union's regulator, the National Credit Union Administration. This strength is also validated by the Credit Union's ability to maintain a superior (the highest) five-star rating from BauerFinancial, Inc., a firm that provides independent assessment of the financial positions of credit unions throughout the United States. What this means to you, our membership, is that your deposits are safe and secure.

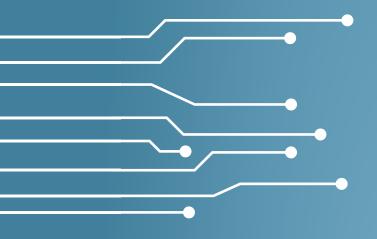
During the year, and despite the disruption of a new computer processing system installation, the Credit Union had positive earnings, maintained an efficient expense ratio and grew its organic loan portfolio by 6.18%. Being able to fulfill our member's financing needs has been of particular importance to us because doing so improves financial results and, more importantly, creates a lasting financial relationship with our members. The Credit Union is unusual amongst its peers in having an investment portfolio of \$150 million (50% of assets), considerably larger than our \$90 million loan portfolio and we will strive to convert some of those investments to loans to better serve our members.

Dividend rates at the Credit Union continue to be better than, or very competitive with, local and regional markets but as we grow the loan portfolio, and as interest rates rise and income on investments begins to inch up, we hope to be able to return more to our depositors. We have been fortunate to have the trust of many long-term members who have contributed to the strength and stability of the Credit Union and we look forward to rewarding your loyalty.

John Kruse Secretary/Treasurer

STATEMENT OF FINANCIAL CONDITION	N	
	2017	2016
Cash	\$45,647,564	\$35,770,314
Investments	155,614,539	165,133,585
Loan to Members (Net)	94,009,983	94,690,373
Building & Equipment (Net)	3,523,122	2,765,606
Other Assets	3,715,226	3,276,671
Total Assets	\$302,510,434	\$301,636,549
LIABILITIES & MEMBERS' EQUITY		
Other Liabilities	\$4,015,301	\$2,586,233
Members' Shares	270,130,412	270,315,307
Total Liabilities	274,145,713	272,901,540
Regular Reserve	20,000,000	20,000,000
Undivided Earnings	13,154,346	12,945,405
Accumulated Other Comprehensive Income	(4,789,625)	(4,210,396)
Total Members' Equity	28,364,721	28,735,009
Total Liabilities & Members' Equity	<u>\$302,510,434</u>	<u>\$301,636,549</u>
STATEMENT OF INCOME & EXPENSE		
Interest Income	\$6,184,767	\$6,030,055
Dividends Paid on Shares	(1,439,368)	(1,134,963)
Net Interest Income	4,745,399	4,895,092
Provision for Loan Losses	(250,000)	(80,673)
Non-Interest Income	488,377	450,469
Non-Interest Expense	(4,774,835)	(4,282,032)
Net Income	<u>\$208,941</u>	<u>\$982,856</u>

Highlights of 2017



Successfully completed our **Technology Upgrade.**



Welcomed **634** new members to the Credit Union.



Introduced Mobile Check Deposit in July 2017 with 583 Users at the end of the year.



Processed
772,401
Debit Card
Transactions
for a total of
\$43,759,526.



Funded \$25,390,337 in new loans to our members.



Implemented
Electronic Delivery
of our lending
documents.



Held First Time
Home Buyers
Workshops.

Board of Directors

Terry Evans, Chairman of the Board Malcolm Oscarson, Vice Chairman John Kruse, Secretary/Treasurer Beverly Bartlow-Nieves, Director Amy Manning, Director Paul Fujita, Director Pat Burns, Director

Supervisory Committee

Ed Nelson, Chairman
Jeff Evans, Vice Chairman
Linda Vu
Eugene Fong
Julissa Jose-Murray
Alan Kosoff, Advisory Member
John Keisler, Advisory Member

Management Staff

Kathleen O'Connell, Chief Executive Officer Michele Megill, Chief Operating Officer Autumn Hoffman, Chief Lending Officer Mike Spray, Manager of Information Systems and Facilities Vince De Vito, Manager of Information Technology Sue Fredrickson, Manager of Accounting Lisa Hess, Branch Manager

Long Beach City Employees Federal Credit Union

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