

LAPFCU

*Law Enforcement's Premier
Credit Union Since 1936*

What can we help you find?

ANNUAL REPORT



Prepared for Annual Member Meeting January 23, 2019

Los Angeles Police Federal Credit Union

MISSION

To enhance the quality of life for the Los Angeles law enforcement community and their families by serving as a trusted partner, providing rewarding financial solutions through exceptional service.

VALUES

As stakeholders in the ongoing success of the Los Angeles Police Federal Credit Union, we value:

- Honesty, trust, respect & integrity
- Acting on our members' behalf and safeguarding their assets
- Fair play and good fellowship
- Loyalty and allegiance

The logo for LAPFCU features the letters 'LAPFCU' in a bold, blue, sans-serif font. The text is centered between two horizontal gold bars, one above and one below.

***Law Enforcement's
Premier Credit Union***

— *Since 1936* —

Joint Report of The Chairman of the Board of Directors and The Chief Executive Officer

Since 1936, Los Angeles Police Federal Credit Union has met the financial needs of the law enforcement community. We continued this tradition in 2018 by advancing our mission of improving our members' quality of life with exceptional financial solutions and service. As you will see below, our financial strength increased and we introduced many innovations designed to enhance the LAPFCU member experience.

Our total assets grew by 2.8% to a record \$933 million. Outstanding loans grew 13.6% to \$676 million, deposits increased 2.4% to \$811 million. Additionally, we added nearly 2,800 new members.

In addition to loan and deposit successes, last year we achieved a number of important accomplishments that benefit our members:

Lending Improvements—We introduced many new programs and features which benefit members as well as the credit union.

- *Mortgage Rate Lock*—Members can now conveniently lock their mortgage rates at the time of application.
- *No Closing Cost Mortgage Option*—This feature helps provide members with greater flexibility during the home purchase process.
- *Increased Pre-Approval Limits*—We prudently increased pre-approved consumer loan limits for qualified members, for added convenience.
- *Expanded Loan Terms*—We added new, longer consumer loan repayment terms for members who require more affordable monthly payments.

Checking Account Upgrades—In 2018 we removed monthly maintenance fees from all checking accounts, removed monthly limits on ATM usage reimbursements, and added a new checking account which offers 3% cash back on purchases.

Simplified Member Benefits Program—We made it easier to qualify to receive better rates on savings and loans, and fee waivers – and due to popular demand we even brought back a free box of checks annually.

Personal Money Management—We added a powerful and comprehensive free personal budgeting tool which members can access within online and mobile banking.

Enhanced Security—Our members' security is among our highest priorities. Therefore, we introduced new measures to help protect sensitive private information.

- *Greater Network Security*—We implemented a system that provides added security of member information by proactively alerting us to perceived

potential threats to our network system.

- *Disaster Recovery*—We employed more robust resources to help ensure business continuity in the event of a disaster.
- *Stronger Data Encryption*—We enhanced protection of data at rest and in transit, providing additional layers of security for our members.

In 2019, we'll build upon our successes with innovations that further improve the member experience while providing greater value. A few of the developments that you can look forward to include:

- **Debit and Credit Card Protection**—Members will soon be able to enjoy increased peace of mind from stronger and more customizable credit and debit card security controls, including sophisticated GPS-powered features.
- **Streamlined Account Opening**—We will release a vastly improved and more intuitive online membership and account opening system that will make it much easier for people to securely open new LAPFCU accounts online.
- **Website Redesign**—Our website will feature an updated design with streamlined navigation, and a user experience that actively adapts to members' individual behaviors.
- **Customized Experience**—We are expanding our use of data to anticipate the wants and needs of our members, in order to make the products, services and solutions we offer more personally relevant and timely.

It was a highly productive 2018 but as you can see, we're not resting on our laurels and slowing down in 2019. LAPFCU remains committed to being a trusted financial partner for the Los Angeles law enforcement community, and to growing and adapting to meet the needs of those we serve. We will always strive to ensure that we provide value to our members and hold in high esteem the trust that they place in us.

We wish to thank our official family, the management team and employees for their commitment, and especially want to thank our loyal members for their continued support.

Andre Plummer
Chair, Board of Directors

Edwin W. Hada
President & CEO

Joint Report of the Treasurer of the Board of Directors and the Chief Financial Officer

In 2018, Los Angeles Police Federal Credit Union continued to make effective management of financial resources a central focus, while also continuing to provide value to our members. It was once again another year where we were faced with economic challenges, including a volatile interest rate environment. Despite this, we continued to benefit from our members' steadily improving financial condition and increased demand for our products and services.

As a result, we are pleased to report that LAPFCU delivered another very strong financial performance in 2018. We continued to provide competitive savings rates and loan rates, increased borrowing opportunities, and added greater convenience for members. We saw continued growth in deposits and generated significant levels of lending activity.

The Credit Union had a positive net income performance of \$6.5 million, which helped to grow our net worth to a record high of \$118 million. Our net worth ratio remained strong at 12.7%, well above the 7.0% level required by the National Credit Union Administration to earn their classification of being "well-capitalized."

Deposits grew 2.4% or \$18.9 million over the prior year. This growth was mostly attributable to increases in checking and regular savings accounts. Loans grew significantly by 13.6%, or \$80.1 million, when compared to year end 2017. Loan growth this year was driven by our members' strong demand for new and used vehicles. Increases in home values also provided opportunities for our members to take advantage of our second mortgage products.

Total investments amounted to \$233 million – a reduction of 18.3% due to the net growth in savings and in loans. Still, investment income amounted to a healthy \$4.7 million for 2018. This is an increase of \$929 thousand, or 24.5%, over the prior year. We invest only in high quality investments that emphasize safety first, then liquidity and then finally yield. With regard to our investment portfolio, all of our investments have the guarantee of the United States government.

In all, total assets for 2018 reached a record high of \$933 million, which is an increase of nearly \$26 million, or 2.8%, when compared to 2017.

We are pleased with our solid financial results for 2018. We remain a safe and secure financial institution for our members' finances, while providing rewarding financial solutions through exceptional service.

In closing, we would like to thank our Directors and other Officials, the Credit Union staff, and especially our members for the continued success of LAPFCU.

Warren D. Spayth
Treasurer, Board of Directors

Angelino Cayanan
Sr. VP of Finance & Administration/CFO

Statements of Financial Condition

(Thousands)

Assets	12-31-18	12-31-17
Loans to Members	\$675,964	\$595,231
Deferred Mortgage Fees	(636)	(1,037)
Allowance for Loan Losses	(2,876)	(2,354)
Cash On Hand	3,623	7,716
Investments	233,085	285,217
Fixed Assets	6,006	6,105
Other Assets	17,776	16,467
Total Assets	\$932,942	\$907,345
Liabilities & Members' Equity		
Members' Savings	\$810,734	\$791,879
Payables	563	353
Other Liabilities	5,589	5,606
Reserves and Undivided Earnings	116,056	109,507
Total Liabilities and Members' Equity	\$932,942	\$907,345

(Unaudited)

Statements of Income

January - December (Thousands)

	2018	2017
Interest Income	\$35,670	\$32,255
Interest Expense	2,942	2,676
Net Interest Income	32,728	29,579
Provision for Loan Losses	2,167	856
Net Interest Income After Provision for Loan Losses	30,561	28,723
Non-Interest Income	8,876	7,801
General & Administrative Expenses	33,482	31,515
Net Income From Operations	5,955	5,009
Net Income	\$6,538	\$5,009

(Unaudited)

Supervisory Committee Report

The Supervisory Committee is appointed by the Board of Directors and is currently comprised of a member of the Board of Directors, who serves as the Committee Chair, two volunteer members and one non-voting Associate Director. Together they function as the Credit Union's audit committee. The Committee's responsibilities include: ensuring that internal controls are effectively maintained; verifying that accounting records and reports are promptly prepared and accurately reflect the results of operations; monitoring that the operations of the Credit Union are in accordance with laws, regulations, and policies and procedures established by the Board of Directors; selecting an external CPA firm to perform the annual audit of the Credit Union's financial records and books; conducting annual member account verifications; and ensuring member account inquiries are promptly and fairly considered.

The Supervisory Committee fulfilled its responsibilities in 2018 by:

- Retaining a national certified public accounting firm to conduct the Credit Union's annual audit in accordance with generally accepted auditing standards in order to help ensure the financial statements of the Credit Union adhere to generally accepted accounting principles.
- Working closely with the Credit Union's Internal Audit department, which reviews in detail the financial and operational components of the Credit Union, to ensure that internal controls are in place and policies and procedures are followed;
- Reviewing management reports;
- Attending relevant educational seminars;
- Meeting with Credit Union management to evaluate the Credit Union's compliance efforts regarding changing laws and regulations;
- Hiring outside firms to conduct a comprehensive Bank Secrecy Act/OFAC/USA Patriot Act audit, a physical security audit, an ATM security audit, a website compliance audit, and an information technology security assessment.

As an independent body, the Supervisory Committee also investigates members' concerns not resolved to their satisfaction by management. Members are encouraged to send any comments or inquiries regarding your concerns or the financial condition of the Credit Union to the Supervisory Committee. You may address your correspondence to:

Supervisory Committee
P.O. Box 14452
Van Nuys, CA 91409

All member communications are handled with the utmost confidentiality.

We are pleased to report that again in 2018, reports from our external auditors, the NCUA examiners, and the work performed by the Internal Audit department gave Los Angeles Police Federal Credit Union a clean bill of health. Your Credit Union continues to maintain the highest levels of financial safety and soundness along with providing exceptional member service.

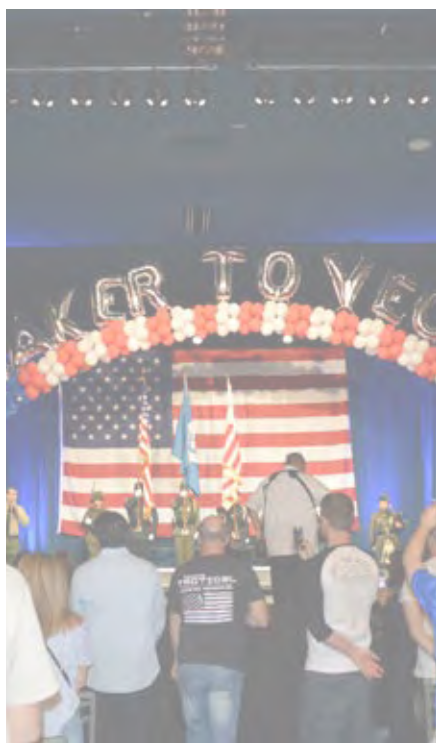
We would like to thank our Board of Directors, the management team and the employees for their dedication, and we especially want to thank our members for your continued support. The Committee members are proud to volunteer our time to serve the members of LAPFCU and to be associated with such an outstanding organization. We look forward to serving you in 2019.

Glynn Martin, Chairman

Michael Albanese, Member

Amira Eppolito, Member

James Howley, Associate Director



Branch Locations

Academy Branch (ATM)

1880 N. Academy Dr.
Los Angeles, CA 90012
8 a.m. - 5 p.m., Monday - Friday

Jesse Brewer Branch (ATM)

5651 West Manchester Ave.,
Los Angeles, CA 90045
8 a.m. - 5 p.m., Monday - Friday

Van Nuys Branch (ATM)

16150 Sherman Way
Van Nuys, CA 91406
8 a.m. - 5 p.m., Monday - Friday

Santa Clarita Branch (ATM)

19195 Golden Valley Road
Santa Clarita, CA 91387
9 a.m. - 5 p.m., Monday - Friday

Police Station ATMs

LAPFCU operates deposit-taking ATMs at all LAPD police stations.

Communications Center

P.O. Box 10188
Van Nuys, CA 91410
24 Hours a Day, 7 Days a Week
877-MY-LAPFCU (877-695-2732)

24-Hour Lending Center

877-MY-LAPFCU (877-695-2732), press 3

lapfcu.org

LAPFCU Convenience Services

PATROL Online Banking – lapfcu.org

Effortlessly manage all aspects of your accounts online, pay bills and manage your finances.

Mobile Banking

The LAPFCU Mobile Banking App is available in the App Store and on Google Play.

CODE 3 Telephonic Banking

Call 877-MY-LAPFCU (877-695-2732) to access your accounts and conduct transactions via phone. Or, speak to a branch representative 24/7.

CO-OP® Shared Branch

Access your accounts and perform transactions at almost 5,000 shared branch locations including participating 7-Eleven® stores. Make deposits, loan payments and more. Download iPhone or Android mobile applications to access the CO-OP Shared Branch nearest you.

GO-Deposit

Make a deposit using your smart phone camera.

CO-OP® ATM Network

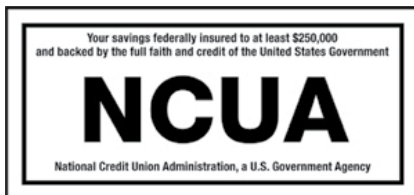
Enjoy access to 25,000 Surcharge-Free CO-OP Network ATMs.

Online Loan Applications

Fast, secure, convenient. For autos, mortgage, credit cards and more.

E-Statements

Never wait again for statements to arrive in the mail. Access and download 18 months of statements online.



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