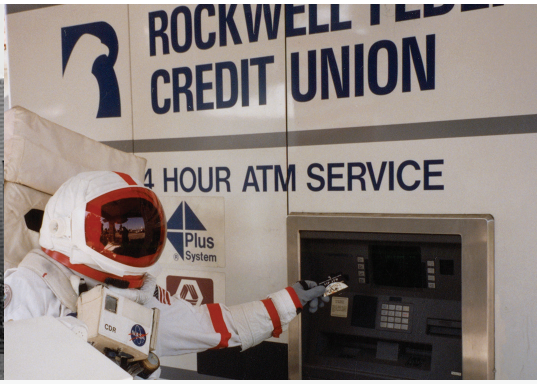




2018 ANNUAL REPORT







Introducing Our New Logo & Brand



Since our founding in 1937, there have been several updates representing the evolution of the Credit Union. Over the last several years, we have made significant investments in enhanced technology and innovations to better serve you and your family. With these major milestones in the recent years, it seemed natural to present a new, modern look that goes hand-in-hand with the next chapter of the Financial Partners story. To put it simply, we wanted the logo and the brand to better reflect who we are – a forward leaning organization with a passion for providing our hardworking members with a better way to bank!



“Our new logo is more than a rebrand – it’s a commitment to our brand promise and to our members. I love that it clearly relays our three internal pillars of Clarity, Capability and Motivation. When those three things come together, excellence occurs. We combine these foundations of excellence to assist our members in achieving financial well-being.”

Nader Moghaddam
President & CEO

▲ BOARD CHAIR & CEO'S MESSAGE

The Great Depression had ended by 1937, but the residual impact remained for the workers of North American Aviation who had no access to credit and limited ability to get a fair return on their savings. A few big dreamers collaborated and pooled their hard-earned savings to form a credit union with \$900 in assets dedicated to providing financial solutions to their colleagues and community. This cooperative spirit has guided Financial Partners for the past 81 years and continues to this day with our vision of "building lifetime financial partnerships."

Unlike banks and other for-profit financial institutions, which focus on share value, Financial Partners Credit Union focuses on the value we return to you - our owners. We are proud that the 2018 Credit Union National Association report¹ showed that **Financial Partners provided \$584 in financial benefit for each member household**. Representing more than \$21.6 million in overall value through lower loan rates, higher savings rates, and fewer fees compared to banks and other financial institutions.

Members and communities also directly benefited from our efforts. In addition to earning great rates on their savings, we provided loans to finance 1,162 moderate rent apartments in our communities and over \$151 million in loans to members to purchase a home - in many cases their first home. We also provided loans to 3,717 members so they would have reliable transportation to get to work, school and worship.

We made significant investments of time and talent in the communities we are privileged to serve. With a focus on the next generation, we support three main pillars: financial

literacy, child/family health and STEM education (Science Technology Engineering and Mathematics). In recognition of our aerospace heritage, we once again partnered with Columbia Memorial Space Center to support two popular events; the City of STEM which is a month-long science festival and Rocket Fever, a southern California tradition and the only program of its kind in an urban setting. Additionally, for the 20th year in a row, we continued to support the Boeing Educational Fund and separately, helped send 400 fifth graders to Science Camp! At the same time, we provided local high schools with digital financial literacy curriculum, and instructor facilitated training. We were particularly gratified to hold community classes geared toward helping kids (and their parents) navigate the process of getting into college; understanding credit; and how to build a workable budget. All this is in addition to our support of Children's Hospital Orange County (CHOC), Los Angeles (CHLA) and Rady in San Diego. We are incredibly proud of our caring employees who volunteered and cheerfully helped with more than 50 events this year.

We strive to find new ways to provide financial services we believe will be of value to our members. In 2018, we created the Partnership Insurance Agency (PIA), a wholly owned subsidiary of Financial Partners, designed to cover all of a member's personal insurance needs - home, auto, renters, boats and more - with a focus on getting each member the best possible coverage at the best possible rate!

The financial services market continues to offer consumers digital options to conduct their business when, where and how they want, and in a fraction of the time. Financial Partners is committed to a digital solution that is highly respon-

▲ TREASURER'S REPORT

Alan Bergman
Treasurer



Financial Partners delivered a strong financial performance for its member-owners in 2018. During the year, assets grew by \$62.8 million or 5% reaching \$1.38 billion. On the operating front, the Credit Union posted revenue of \$65.5 million, 8% better than the prior year and a Net Income of \$6.2 million, unchanged from the prior year. As the Fed raised interest rates, Management worked diligently to shore up the income stream and strengthen the balance sheet in response to the changing financial climate.

Core building blocks for fulfilling our vision of "Building Lifetime Financial Partnerships" - shares, loans, and capital - continued to grow in 2018. At year-end total shares were \$1.1 billion, up 4% from the prior year, while the Credit Union's loan portfolio was at \$1.1 billion, up 16% from the prior year. The Credit Union's capital ended 2018 with total equity of \$128.9 million and a net worth ratio of 9.21%, comfortably above the "Well Capitalized level of 7%," as defined by the National Credit Union Administration.

The credit quality continued to be strong, driven by solid performance in commercial and residential mortgage portfolios. The net charge-offs as a percentage of average loans was 0.45%, a little higher than prior year, but still remaining near historic lows.

The Board of Directors, Management, and all of Financial Partners team members continue to be committed to providing a better financial future for our member-owners.

sive to the dynamic marketplace. In 2018, we advanced a number of key elements of our digital strategy including:

- Launched the digital mortgage application enabling members to apply for a mortgage and upload the necessary documents from their desktop, tablet or mobile device.
- Enhanced the online membership application and made it more intuitive.
- Implemented a self-service loan modification program for both autos and unsecured loans - giving members greater convenience and control.

The 2019 plan calls for upgrading online and mobile banking and implementing an enterprise texting solution to make interacting with your Credit Union more convenient. In addition, we will provide more digital means for you to apply for and close a new loan. In response to your feedback, we will also add to the branch network, so keep your eyes open for future announcements.

As a member-owned financial institution, we never lose sight of the fact that you have many options for your financial needs, and we are glad that over 81,000 members have chosen Financial Partners as their financial institution. We value member feedback about our services, and enlist a well-respected third party to survey members who have interacted with us. This year we achieved a Net Promoter Score (NPS) of 80, which is superior in the market place and more than twice the banking industry average of 34.² We are listening and using your feedback to build a better credit union.

We ended a successful 2018 with over 81,000 members, almost \$1.4 billion in assets, and a loan-servicing portfolio of over \$2.1 billion. This success would not have been possible without your active participation and usage of credit union services. Membership at Financial Partners Credit Union is a smart choice and one that provides even more value with greater usage and participation.

We are excited about the year ahead and remain relentlessly committed to building lifetime financial partnerships by meeting your financial needs and earning your trust as your financial partner.

It is our great privilege to serve you!



Ralph Crowther
Ralph Crowther
Board Chair



Nader Moghaddam
Nader Moghaddam
President & CEO

SUPERVISORY COMMITTEE'S REPORT

Caryn Phillips
Chair



Financial Partners Credit Union has the responsibility to ensure that your funds are safe and are as productive as possible. The Supervisory Committee is responsible for monitoring the financial safety and soundness of the Credit Union and to ensure compliance with various financial and regulatory requirements.

To accomplish this, the Supervisory Committee retained the services of the independent audit firm of Moss Adams, LLP to complete the annual financial statement audit for the year ending December 31, 2018. The summary of Financial Partners' Consolidated Statement of Financial Condition as of December 31, 2018, is included herein. In addition, throughout the year, we reviewed internal audit reports, internal controls, risk management processes and examinations by regulatory agencies.

Based on our reviews and the result of the auditor's efforts, the Supervisory Committee believes the Credit Union has maintained accurate and timely accounting records, is in a strong financial position and is operating in a safe and sound manner.

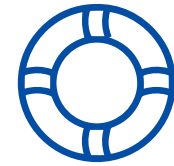
¹ Credit Union National Association 2018

² www.npsbenchmarks.com/blog/financial-services-nps-benchmarks



MIKE & ANGIE, Members since 2017

"We 'Made the Switch' to FPCU from a bank last year and it was the best financial decision we have made! The staff made us feel welcome and important since the day we walked through the door."



5,800+

MEMBERS RESCUED FROM THE BIG BANKS

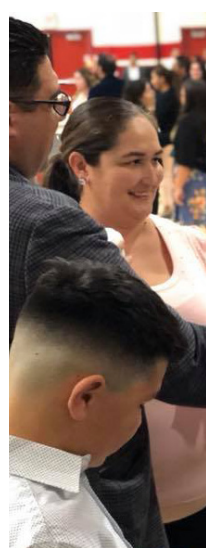


IN THE COMMUNITY

We support the next generation by providing Financial Literacy, STEM Education

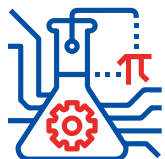
4,600

FINANCIALLY FIT ONLINE MODULES VIEWED



OVER

\$50,000



TOWARDS SCIENCE, TECHNOLOGY, ENGINEERING, & MATH (STEM) EDUCATION



SAMI SANCARI, Member since 2016

"It's been a longer lasting relationship with FPCU because of the level of customer service. It's something you don't experience with banks. The high standard has continued throughout."



\$65,000

DONATED TO C.H.O.C.
& OTHER CHILDREN'S
HEALTH FOUNDATIONS

COMMUNITY

by focusing on these three pillars:
Education and Children's Health

AMY FRIAS, Member since 2011



"I get paid a whole day before my check actually goes in so it's nice. I don't have to go into the Credit Union very often because you got your mobile app. It makes life so much easier."

MANNY CASTRO, Member since 2017



"The home loan process was just full disclosure. It was so painless. They didn't even ask us for an appraisal. That, in itself, saved us \$600. Life was easy. It was amazing."



\$85,000

DONATED TO
LOCAL
NON-PROFITS

BOARD OF DIRECTORS



Ralph Crowther
Chairman of the Board



Barbara Smith
Vice Chair



Alan Bergman
Treasurer



Yves Pinkowitz
Secretary



Donna Clawson



William Feaster



Mario A. Guerra



Gary Macheel



Joe Spetz

ASSOCIATE BOARD MEMBERS



Paul Geery



Jo-Anne Martin



Alex Saab

SUPERVISORY COMMITTEE



Caryn Phillips
Chair



Steve Koester



Vince Workman

EXECUTIVE MANAGEMENT



Center: Nader Moghaddam, President & CEO. (L to R) Darren Herrmann, Chief Operations Officer; Jill Erps, Chief Retail Officer; Mary Torsney, Chief Financial Officer; Wanda Williams, Chief Administrative Officer; Lori Reeves, Chief Marketing Officer; Joseph Brancucci, Chief Lending Officer.

STATEMENT OF FINANCIAL CONDITION

	2017	2018
ASSETS		
Cash and cash equivalents	\$88,773,222	\$66,677,272
Investments		
Available for Sale	155,289,746	126,632,293
Other	12,814,008	10,479,459
Loans held for sale	45,631,743	25,534,966
Loans (net)	944,448,614	1,092,914,514
Accrued interest receivable	3,307,800	3,530,471
Payroll service reimbursement receivable	13,084,578	-
Mortgage servicing rights	6,624,963	7,597,447
Property & equipment (net)	17,113,429	15,680,992
NCUSIF deposit	10,164,517	10,345,894
Other assets	18,024,290	18,714,874
Total Assets	\$1,315,276,910	\$1,378,108,182
LIABILITIES AND MEMBERS' EQUITY		
Members' shares	1,093,182,752	1,137,830,157
Borrowed funds	80,000,000	95,000,000
Accrued expenses & other liabilities	17,765,698	16,424,552
Total Liabilities	\$1,190,948,450	\$1,249,254,709
Members' equity		
Retained earnings	97,318,462	103,484,057
Equity acquired in mergers	28,797,821	28,797,821
Accumulated other comprehensive loss	(1,787,823)	(3,428,405)
Total Members Equity	\$124,328,460	\$128,853,473
Total Liabilities and Members' Equity	\$1,315,276,910	\$1,378,108,182

STATEMENT OF INCOME

	2017	2018
INTEREST INCOME		
Loans	\$37,072,673	\$42,612,934
Investments & cash equivalents	4,919,786	4,448,500
Total Interest Income	\$41,992,459	\$47,061,434
INTEREST EXPENSE		
Members' shares	5,580,132	7,203,669
Borrowed funds	2,265,538	1,621,347
Total Interest Expense	\$7,845,670	\$8,825,016
Net interest income (NII)	34,146,789	38,236,418
Provision for loan losses	3,202,489	5,645,803
NII after Provision for Loan Losses	\$30,944,300	\$32,590,615
NON-INTEREST INCOME		
Overdraft income	3,372,012	3,544,271
Interchange income	2,762,489	4,157,411
Service charges and other fees	1,771,359	2,004,804
Financial services and insurance commission income	1,222,157	1,519,813
Mortgage banking income	2,718,645	1,904,269
Gain on building sale	-	431,739
Bargain purchase gain	4,365,641	-
Other non-interest income	2,332,632	4,871,772
Total Non-Interest Income	\$18,544,935	\$18,434,079
NON-INTEREST EXPENSE		
Salaries & benefits	23,024,188	24,120,782
Office operations	8,351,456	8,592,891
Loan servicing	4,053,465	4,561,628
Professional fees	3,248,474	2,429,625
Office occupancy	2,860,331	3,183,164
Other non-interest expense	1,759,462	1,971,009
Total Non-Interest Expense	\$43,297,376	\$44,859,099
Net Income	\$6,191,859	\$6,165,595



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Your savings are federally insured to at least \$250,000 by the National Credit Union Administration (NCUA), a U.S. Government Agency, and backed by the full faith and credit of the United States Government.