

2018 ANNUAL REPORT



kinecta  SM

A MEMBER'S
BEST FRIEND

LEADERSHIP MESSAGE

A year of strength and service.

For nearly 80 years, Kinecta Federal Credit Union has put its members' interests first. In 2018, Kinecta demonstrated its passion for serving members by providing valuable and unbiased financial solutions and contributing wholeheartedly to local communities. With your support, your Credit Union finished the year at nearly \$4.4 billion in assets and remains one of the largest in the country.

Ensuring the ongoing safety and soundness of the Credit Union is critically important, and the Kinecta Board of Directors and management take this responsibility very seriously. Again, in 2018, Kinecta delivered solid financial results, balance sheet growth, and a strong capital position. Our financial performance and controls are reviewed annually by federal regulators and external auditors. In 2018, they confirmed that Kinecta remains well capitalized with properly stated financial reports and effective systems of internal control. Please see the summary of 2018 financial results on pages 6-7 of this report.

In addition, we're especially proud to have enhanced member service, including the ease of digital banking with Kinecta. We developed and deployed a fully-digital new member application, available online or via mobile device, with the ability to electronically open and fund accounts. We also introduced "instant-issue" debit cards at all Kinecta branches, so that members who need a new or replacement card can walk out of a branch with a permanent debit card, activated and ready to use. Finally, in collaboration with other large credit unions across the country, we began building Constellation, a new digital banking platform, which will revolutionize the digital banking experience by 2021.

To provide our members and employees an inviting, in-person experience, we renovated the Manhattan Beach headquarters building with enhancements to the building façade, parking lot, lighting, and landscape. We also remodeled and upgraded technology at the Member Service Center in Brea, bringing the total of newly-remodeled, high-tech service centers to six. We will continue upgrading the branch experience by transforming another three service centers in 2019.

As in prior years, Kinecta's commitment to meeting members' needs for credit remained strong in 2018. The commercial loan portfolio surpassed \$900 million, and Kinecta was ranked the #1 credit union in Small Business Administration lending for all of Southern California. We will continue to be a significant supporter of member-owned businesses.

Also, as one of the largest credit union mortgage originators in the nation, Kinecta funded more than \$540 million in mortgage loans during 2018. In addition, competitive financing on new and pre-owned vehicles was a priority, and we

assisted members with \$680 million in auto loans. Kinecta's auto loan portfolio now stands at more than \$1.5 billion, and, for the fifth consecutive year, Kinecta was the second-largest auto loan originator among California credit unions.

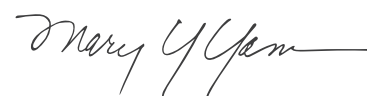
We know that members have needs beyond traditional banking services, and that's why Kinecta Financial and Insurance Services remained focused on helping members build and protect their financial well-being. Insurance services ended the year with over 5,600 auto and home policies that provided our members the best combination of coverage and price. And Kinecta Wealth Management (KWM) guided members with long-term investments in stocks, bonds, mutual funds and other non-deposit investment products. By year end, KWM assets under management exceeded \$1.7 billion.

As a not-for-profit financial cooperative, we consider it both a privilege and an obligation to give back to the communities where our members and employees live and work. In 2018, Team Kinecta volunteered more than 7,500 hours at over 150 community events, providing essential resources to roughly 200 local nonprofits. Additionally, Kinecta and its members raised more than \$435,000 to support community charities. Also in 2018, Kinecta custom-designed a branded ice cream truck to increase consumer awareness of the Credit Union and provide a fun and novel way to support community events. For every member the truck serves, Kinecta donates \$1 to Children's Miracle Network Hospitals.

We are extremely grateful for the tremendous support of our loyal members and community partners. This past year, we were humbled to be named "South Bay's Best Credit Union" for the eighth consecutive year by readers of the Daily Breeze, as well as 2018's "Best of the Westside" by readers of the Argonaut News.

Thank you for making Kinecta what it is today – a strong and growing organization dedicated to serving members and giving back to our communities. With your continued support, we look forward to sharing many more successes in 2019.

Sincerely,



Mary Yasui-Yamabe
Chair of the Board



Keith Sultemeier
President & CEO

COMMUNITY COMMITMENT

Giving hearts and hands.

We're part of the communities where our members and employees live and work, and we strive daily to make a difference. Members, employees, family, and friends are invited to get involved through volunteerism, fundraising, charitable contributions, and more!

In 2018, Team Kinecta volunteered more than 7,500 hours of time at more than 150 community events and served more than 200 nonprofits. Together with our members, we raised more than \$435,000 for local nonprofits to bolster our communities.



FOOD DRIVE

Kinecta Community Foundation's 45th Annual Holiday Food Drive provided traditional non-perishable Thanksgiving food items and \$75 grocery store gift certificates to 1,000 local families in need. Families were selected in partnership with approximately 40 local organizations, who also helped distribute the food. More than \$63,000 was raised by members, employees, and business partners for the 2018 Food Drive.



SCHOLARSHIP & TEACHING GRANT PROGRAM

Kinecta's Scholarship and Teaching Grant Program is dedicated to helping students reach their financial and academic goals. In 2018, Kinecta awarded \$16,000, consisting of eight \$2,000 scholarships, to students. Kinecta also provided three \$1,000 teaching grants to help teachers enhance their regular curriculum with special activities.



FINANCIAL EMPOWERMENT

Kinecta loves to help its members succeed and offers engaging classes on credit, increasing savings, understanding taxes, and other personal finance topics. In addition, Kinecta provides "Bite of Reality" simulations for high school students, helping them grasp the responsibilities of adulthood, bills and budgeting. In 2018, Kinecta facilitated 13 financial empowerment sessions for nearly 900 participants.



EL SEGUNDO POOL

Kinecta was proud to support the City of El Segundo's new Aquatics Center, designed to support the aquatic needs of local families and competitors. Adjacent to Wiseburn High School in El Segundo, the Center features a 10-lane competition pool with seating for more than 500 spectators. It is home to El Segundo and Wiseburn swim and water polo teams and offers expanded times for community lessons, fitness classes, and recreational programs.



ICE CREAM TRUCK

In 2017, Kinecta had a sweet vision to bring free ice cream to neighbors and community events in the South Bay area. To the delight of many, Kinecta's custom-designed Ice Cream Truck was introduced in Q3 of 2018 and began making its neighborhood rounds, donating \$1 to Children's Miracle Network Hospitals (CMNH) each time a Kinecta member partook in a treat. In 2018, the Kinecta Ice Cream Truck attended 29 events and donated nearly \$1,300 to CMNH.



THE KINECTA FRENCHIES

In addition to charitable work, Kinecta sponsored 21 local community events and became the Exclusive Financial Services Partner of the LA Galaxy in 2018. Kinecta's proud mascots, the Kinecta Frenchies, represented the Credit Union and delighted attendees at many events.

LEADERSHIP

Providing focus and direction.

BOARD OF DIRECTORS



Mary Yasui-Yamabe
Chair



Jeffrey Y. Yonemura
Vice Chair



Jacqueline Stafsudd
Treasurer



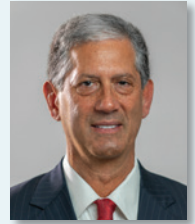
Robert A. Young
Secretary



Suzanne M. Curtin
Associate Treasurer



Jeffrey S. Conrad
Assistant Secretary



Paul A. James
Director

KINECTA FINANCIAL MANAGEMENT COMPANY, LLC BOARD OF DIRECTORS:

Jeffrey Y. Yonemura, Chair; Jacqueline Stafsudd, Vice Chair; Robert A. Young, Treasurer; Keith Sultemeier, Secretary; Jeffrey W. Wells, Director

SUPERVISORY COMMITTEE



Jeffrey W. Wells
Chair



Mark Byrne
Member



Keith Landenberger
Member



Kristen Stewart
Member



Mark Vlasic
Member



Jeffrey S. Conrad
Liaison

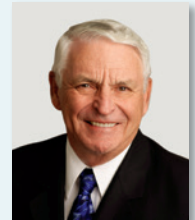
DIRECTORS EMERITI



Andrew L. Savoy



Janet Sparrow



John N. Tessier

EXECUTIVE STAFF



Keith Sultemeier
President and
Chief Executive Officer



Kim Graham
Vice President,
Human Resources and
Talent Development



Mark Holbrook
Senior Vice President,
Chief Risk Officer



Donna McNeely
Senior Vice President,
Chief Operating Officer



Sharon L. Moseley
Senior Vice President,
Chief Information Officer



Luis Peralta
Senior Vice President,
Chief Strategy and
Administrative Officer



Michael Squire
Senior Vice President,
Chief Lending Officer



Brett A. Stubbs
Senior Vice President,
Chief Financial Officer

KUDOS

In 2018, Kinecta was humbled to be named "South Bay's Best Credit Union" for the eighth consecutive year by readers of the Daily Breeze, as well as "Best of the Westside" by readers of the Argonaut News.



FINANCIALS

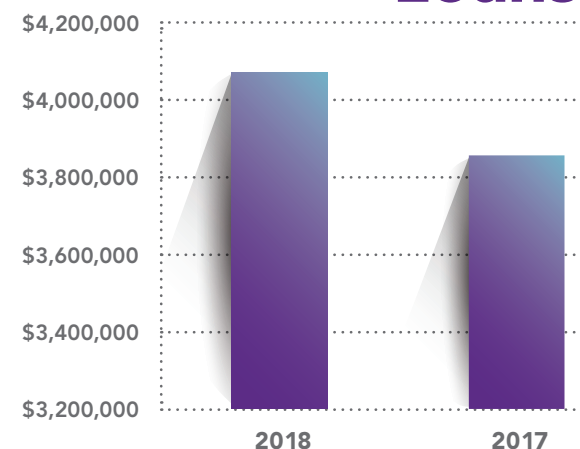
KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

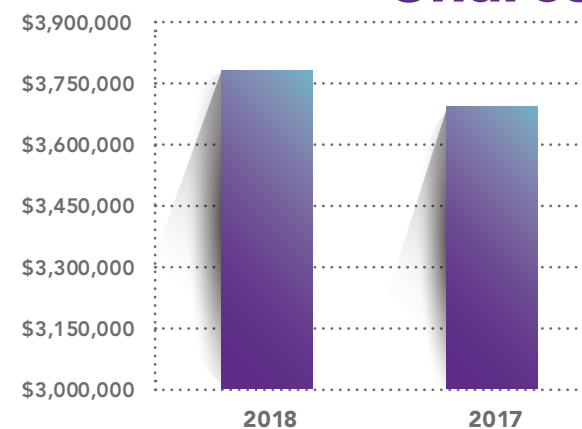
AS OF DECEMBER 31, 2018 and 2017

(in thousands)	2018	2017
Assets		
Cash and investments	\$ 174,438	\$ 199,876
Loans receivable, net	4,075,691	3,858,734
Mortgage servicing rights	33,914	33,558
Premises and equipment	44,018	44,588
Goodwill and other intangibles	26,841	37,010
Other assets	81,341	76,316
Total assets	<u>\$ 4,436,243</u>	<u>\$ 4,250,082</u>
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 3,781,761	\$ 3,691,628
Borrowed funds	250,000	160,000
Accrued expenses and other liabilities	44,672	51,351
Total liabilities	<u>4,076,433</u>	<u>3,902,979</u>
Members' equity	<u>359,810</u>	<u>347,103</u>
Total liabilities and members' equity	<u>\$ 4,436,243</u>	<u>\$ 4,250,082</u>

Loans



Shares



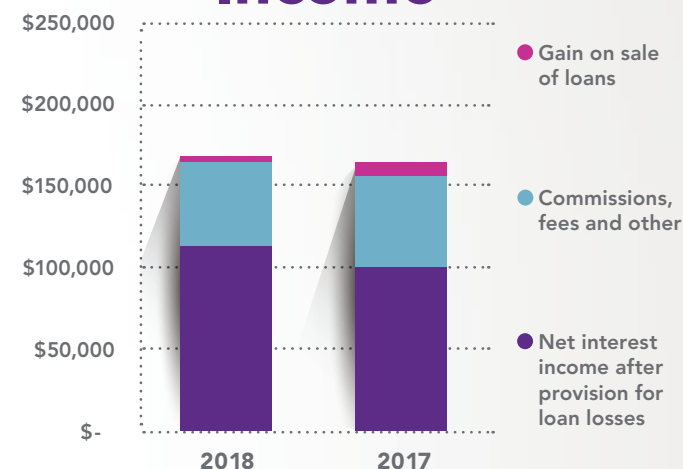
KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

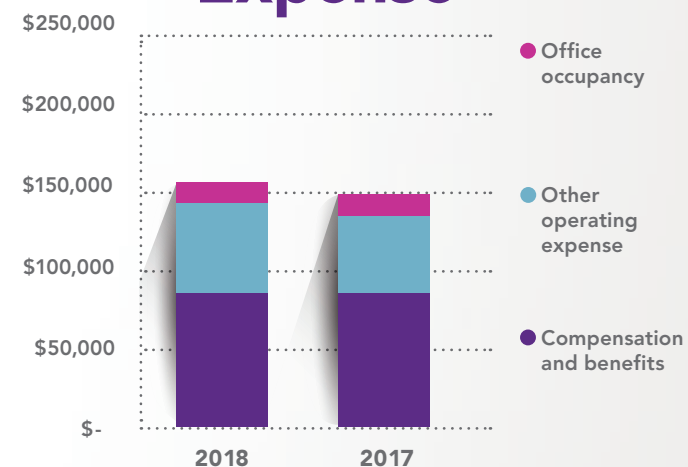
YEARS ENDED DECEMBER 31, 2018 and 2017

(in thousands)	2018	2017
Interest income	\$ 163,245	\$ 146,632
Interest expense	33,104	27,791
Net interest income	130,141	118,841
Provision for loan losses	17,520	18,142
Net interest income after provision for loan losses	112,621	100,699
Noninterest income:		
Commissions, fees and other	51,746	54,745
Gain on sale of loans	3,641	8,896
Total noninterest income	55,387	63,641
Noninterest expense:		
Compensation and benefits	83,277	83,377
Office occupancy	12,474	12,551
Other operating expense	54,712	46,815
Total noninterest expense	150,463	142,743
Net income	\$ 17,545	\$ 21,597
Other comprehensive income	(4,838)	4,276
Comprehensive income	\$ 12,707	\$ 25,873

Income



Expense



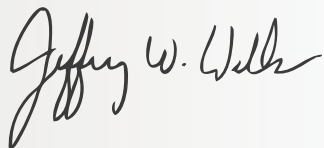
REPORT

of the Supervisory Committee

The Supervisory Committee has engaged independent auditors to complete Kinecta Federal Credit Union's financial audit and examine the consolidated financial statements as of and for the years ended December 31, 2018 and 2017. The independent auditors have issued an unmodified opinion in their Independent Auditor's Report. The audited consolidated financial statements as of and for the years ended December 31, 2018 and 2017 (not presented herein) are available by calling the Credit Union's Member Contact Center at 800.854.9846.

The Credit Union's Condensed Consolidated Statements of Financial Condition as of December 31, 2018 and 2017 and Condensed Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2018 and 2017 are included herein on pages 6 and 7.

Based on our review and the result of our independent auditors' efforts, the Supervisory Committee believes the Credit Union has maintained accurate and timely accounting records and applied the policies and procedures established by the Board of Directors.



Jeffrey W. Wells
Chair, Supervisory Committee

SERVICE PROVIDERS

Independent Auditors
Crowe, LLP
Los Angeles, CA

Legal & Regulatory Counsel
Styskal, Wiese & Melchione, LLP
Glendale, CA

VETERAN SUPPORT

Serving those who served us.



Kinecta thanks and honors veterans who have served our great country and championed our freedom. Our military neighbors are an important part of the Kinecta family.

VetFest BeerBQue: In 2018, Kinecta was the proud presenting sponsor of the first VetFest BeerBQue, in partnership with the Manhattan Beach Rotary Club. 100% of the day's proceeds benefited organizations that Manhattan Beach Rotary supports, including Team Rubicon, UCLA Operation Mend, and Bob Hope USO. More than 450 attendees enjoyed a Texas-style barbecue with craft brews, an 80s-style rock band, the Kinecta Ice Cream Truck, and a visit by KISS frontman, Gene Simmons.

VA Home Loans: To further support veterans and their goals, Kinecta became an approved Veterans Affairs (VA) lender and launched the VA Home Loan Program in 2018. This federal program helps active and retired military purchase a home, and eligible participants can enjoy 100% financing on loans up to \$1 million, with no money down, low interest rates, and low closing costs.

Thank you, veterans and all military men and women, for your commitment, service, and selflessness.



1440 Rosecrans Avenue, Manhattan Beach, CA 90266
800.854.9846 | kinecta.org

