



kinecta   
banking done different



2019 Annual Report



# LEADERSHIP MESSAGE

## A year of growth and innovation

As your trusted financial partner for 80 years, Kinecta offers a different kind of banking with an approach that's as unique as the members we serve. Our members aren't just customers. They are our neighbors, the people in our communities, each with hopes and dreams. They need a partner who understands them, someone who's willing to stick with them on their road to financial security, even when that road takes unexpected twists and turns. We're here to help keep our members on course, and in 2019, Kinecta demonstrated its commitment by providing member-focused financial solutions and partnering with local communities to support more than 200 local nonprofits. With your help, your Credit Union closed 2019 with nearly \$4.7 billion in assets and remains one of the largest in the country.

We understand that the ongoing stability and security of the Credit Union is critically important to you, and the Kinecta Board of Directors and management take this responsibility very seriously. Kinecta delivered solid financial results, balance sheet growth, and a strong capital position again in 2019. Our financial performance and controls are reviewed annually by federal regulators and internal and external auditors. In 2019, they confirmed that Kinecta remains well capitalized with properly stated financial reports and effective systems of internal control. Please see the summary of 2019 financial results on pages 6-7 of this report.

Kinecta revamped and relaunched its brand in 2019, including a refreshed logo and tagline, "banking done different." We wanted to more directly convey how our approach to banking prioritizes members' needs and our commitment to the communities in which they live. We focus on connecting with each individual member to learn about their unique needs, and then design a plan that offers the best solutions for them. At Kinecta, we understand that our members are seeking long-term financial security, something everyone deserves, and we strive to guide every member to that goal.

In 2019, Kinecta launched an online portal where members can apply for loans and deposit accounts, removing the delays of branch visits and repetitive data entry and ensuring a better application experience for members who prefer to conduct their banking online. Since launching this portal, one-third of all new mortgage loan applications have been completed online and 35% of consumer loans have been digital. Kinecta also launched a new one-time-close construction loan for members building their dream homes. This new loan eliminates the hassle, expense and risk of closing both an interim construction loan and a permanent mortgage.

Kinecta's commitment to meeting members' needs for credit has always been a priority. In 2019, Kinecta was again ranked the #1 credit union in Small Business Administration lending for all of Southern California. For commercial lending, we ranked #4 in the nation among credit unions, with a total portfolio of \$959 million.

Additionally, Kinecta funded more than \$870 million in mortgage loans during 2019 and assisted members with \$535 million in auto loans. Our auto loan portfolio now stands at \$1.4 billion and Kinecta was the fifth-largest auto loan originator among California credit unions.

In 2019, our Volunteer Corps of employees participated in over 180 community events and donated 8,800 hours of service. In addition, Kinecta and its members raised more than \$650,000 to support community charities.

Kinecta was proud to be named "South Bay's Best Credit Union" by readers of the Daily Breeze for the ninth year in a row, as well as the "Best of the Westside" for the second time by readers of the Argonaut News and the "Best of Santa Barbara" by readers of the Santa Barbara Independent. Kinecta also received certification as a "Great Place to Work" from The Best Place to Work Institute (BPWI), a leading surveyor of workplaces in the U.S.

In 2019, Kinecta's goal was to earn and keep your loyalty by providing improved service, as well as new and more efficient online offerings. Looking ahead to 2020, we will continue finding new ways to benefit our members, employees and communities. Thank you for trusting Kinecta to be your lifelong financial partner. We look forward to serving you throughout every step of your financial journey.

Sincerely,

Mary Yasui-Yamabe  
Chair of the Board

Keith Sultemeier  
President & CEO



# COMMUNITY ENGAGEMENT

Providing support and opportunity

Service to the community plays an important role at Kinecta. Our members are also our neighbors and we strive to improve their lives in the larger world by offering scholarship and education opportunities, as well as support for small businesses and families in need.

In 2019, our Volunteer Corps donated over 8,800 hours at 180 community events and provided service to more than 200 nonprofits. With the help of our generous members, we raised more than \$650,000 for local nonprofits to support their ongoing and invaluable work in our communities.



## ANNUAL FOOD DRIVE

Kinecta Community Foundation hosted our 46th Annual Holiday Food Drive in 2019, giving \$75 grocery store gift cards and traditional Thanksgiving food items to 1,100 families. The families were identified as being in need by the 40 local organizations we partnered with to provide some support and holiday cheer.



## SCHOLARSHIP & TEACHING GRANT PROGRAM

Our Scholarship and Teaching Grant Program was created to aid students and educators alike in pursuing their education goals. In 2019, Kinecta awarded \$16,000 to students through the provision of eight \$2,000 scholarships. We also recognized teachers in our community, offering five \$2,000 teaching grants to help supplement their curriculum.



## FINANCIAL EMPOWERMENT

Kinecta values education and aims to provide practical, lifelong guidance. Whether it's improving credit, increasing savings, understanding taxes or other personal finance topics, we are here to help our members. Kinecta facilitated 25 in-person financial empowerment sessions and provided local schools with 4,077 online modules, engaging over 5,800 participants in 2019.



## BITE OF REALITY

Kinecta provides Bite of Reality financial empowerment simulations for high school students to help them grasp the responsibilities of adulthood. Each participant receives an "about me" sheet that contains an occupation and salary, student loan debt owed, credit card debt owed, and the cost of medical insurance. Participants build a monthly budget based on their incomes and monthly living expenses.



## DEFYING THE ODDS

Defying the Odds is a series of table talks and panels led by African American community leaders to address the unique challenges African American boys face while transitioning from high school to college or full-time employment. Topics include etiquette, how to deal with law enforcement, financial preparation for college, goal setting and resiliency.



## KINECTA KINDNESS

In 2019, we launched a new initiative to recognize acts of kindness throughout our community with Kinecta Kindness awards. To participate, members can nominate a caring friend, neighbor or someone in their community for their acts of goodwill and we'll donate \$250 to the nonprofit where they volunteer.



## CALIFORNIA GREAT SANTA STROLL

As part of the first-ever California Great Santa Stroll benefitting Mychal's Learning Place, Kinecta helped cover registration fees for walkers, who received a five-piece Santa Suit. The 5K stroll, walk and run raised funds for Mychal's, which provides support, training and opportunities for young adults with developmental disabilities.



# LEADERSHIP

Offering guidance and support

## BOARD OF DIRECTORS



Mary Yasui-Yamabe  
Chair



Jeffrey Y. Yonemura  
Vice Chair



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

## SUPERVISORY COMMITTEE



Jeffrey W. Wells  
Chair



Keith Landenberger  
Secretary



Mark Byrne  
Member



Kristen Stewart  
Member



Mark Vlasic  
Member

## 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 Officer



Michael Squire  
Senior Vice President,  
Chief Lending Officer



Brett A. Stubbs  
Senior Vice President,  
Chief Financial Officer

## KUDOS

In 2019, Kinecta was honored to be recognized as the "South Bay's Best Credit Union" for the 9th consecutive year by Daily Breeze readers and as the "Best of the Westside" by readers of the Argonaut News. Kinecta was also certified as a Great Place to Work.



(2011 - 2019)



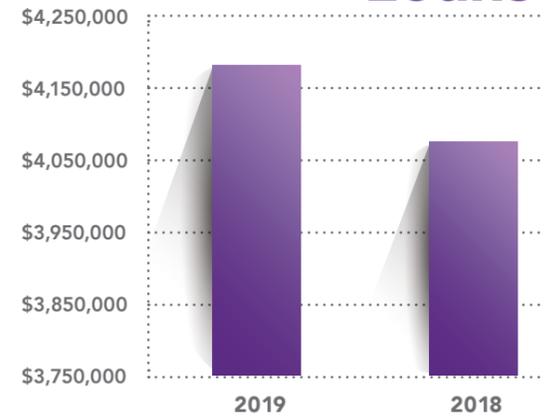


# FINANCIALS

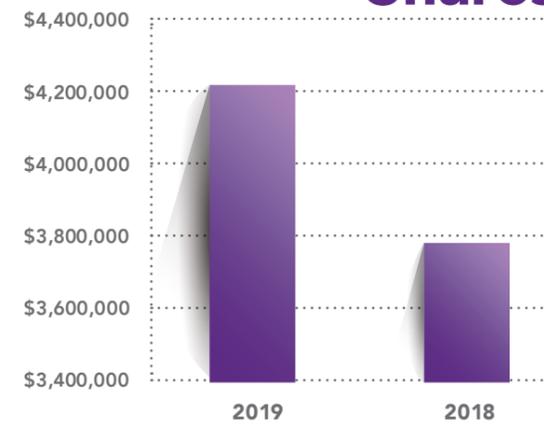
## KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION YEARS ENDED DECEMBER 31, 2019 and 2018

(in thousands)	2019	2018
<b>Assets</b>		
Cash and investments	\$ 295,722	\$ 174,438
Loans receivable, net	4,186,945	4,075,691
Mortgage servicing rights	23,161	33,914
Premises and equipment	47,899	44,018
Goodwill and other intangibles	26,841	26,841
Other assets	122,533	81,341
Total assets	<u>\$ 4,703,101</u>	<u>\$ 4,436,243</u>
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Members' shares	\$ 4,222,396	\$ 3,781,761
Borrowed funds	50,000	250,000
Accrued expenses and other liabilities	40,217	44,672
Total liabilities	<u>4,312,613</u>	<u>4,076,433</u>
Members' equity	390,488	359,810
Total liabilities and members' equity	<u>\$ 4,703,101</u>	<u>\$ 4,436,243</u>

## Loans



## Shares

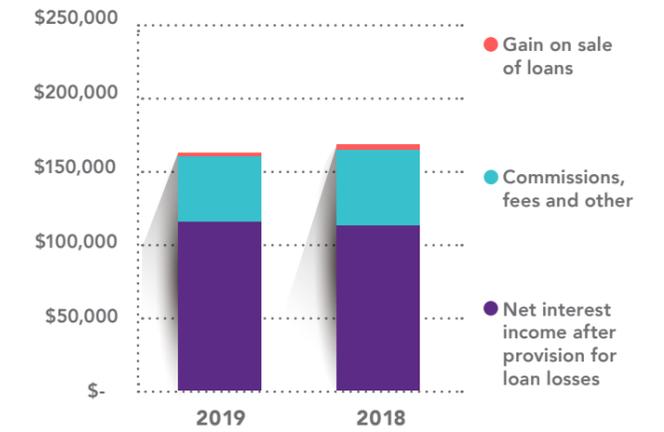


## KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

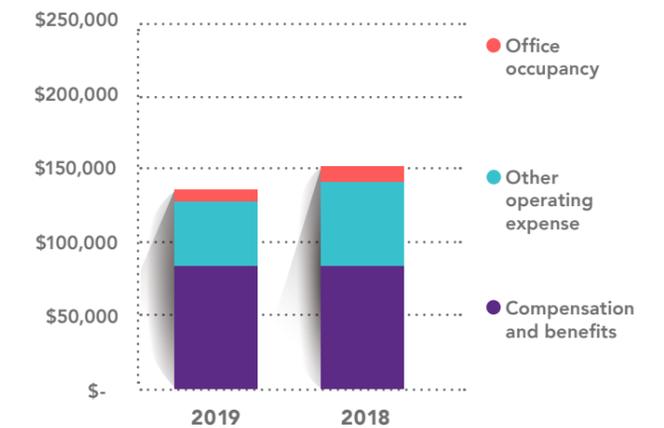
YEARS ENDED DECEMBER 31, 2019 and 2018

(in thousands)	2019	2018
Interest income	\$ 176,374	\$ 163,245
Interest expense	47,525	33,104
<b>Net interest income</b>	128,849	130,141
Provision for loan losses	14,314	17,520
<b>Net interest income after provision for loan losses</b>	<u>114,535</u>	<u>112,621</u>
<b>Noninterest income:</b>		
Commissions, fees and other	46,391	51,746
Gain on sale of loans	3,160	3,641
Total noninterest income	<u>49,551</u>	<u>55,387</u>
<b>Noninterest expense:</b>		
Compensation and benefits	77,070	83,277
Office occupancy	10,782	12,474
Other operating expense	45,751	54,712
Total noninterest expense	<u>133,603</u>	<u>150,463</u>
<b>Net income</b>	<u>\$ 30,483</u>	<u>\$ 17,545</u>
Other comprehensive income	195	(4,838)
<b>Comprehensive income</b>	<u>\$ 30,678</u>	<u>\$ 12,707</u>

## 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, 2019 and 2018. 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, 2019 and 2018 (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, 2019 and 2018 and Condensed Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2019 and 2018 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

# YOUR FINANCIAL PARTNER

Prioritizing members' goals and dreams



**I**would like to take this opportunity to truly thank Kinecta. They're a solid, trusted institution, which I have used for over 45 years. Their staff is courteous and professional. Their leadership is outstanding and I've gotten to know many of their employees. I truly appreciate all that they do for the community, and I even like when they have that ice cream truck out there.

~ Victor Valdez, member since 1975



**M**y career started in 1966 when I was hired at Hughes Aircraft Company, where I remained for all of my working life. Mr. Hughes began coaching me at a young age on the importance of employee benefits and opportunities, such as membership in the Hughes credit union. In 2017, I was asked to come to the Kinecta branch in Fountain Valley to sign documents. A group of Kinecta employees and their manager greeted me with a gift and card saying, "Congratulations to you, Nancy Jo. How does it feel to celebrate your 50th anniversary?" What a memorable and delightful surprise.

~ Nancy Jo Flint, member since 1966

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