



OUR VISION:

To be the preferred and most trusted life-long financial partner in the communities we serve.

LEADERSHIP MESSAGE

Committed to you.

As one of the nation's largest credit unions, we take great pride in providing our more than 293,000 member-owners valuable financial solutions and superior service. Through your support, Kinecta finished the year with nearly \$4.3 billion in assets, and we want to thank you for your confidence, loyalty and trust in your Credit Union.

With our members in mind, we continue to pursue a simple, yet effective service delivery strategy that seeks a best-in-class experience for you. This strategy requires that we consistently deliver on four pillars of service: 1) listen and ask the right questions; 2) make it easy for you; 3) get it right the first time; and, 4) build long-term relationships with our members. With this focus on members, we were once again able to deliver solid growth financially and in member service enhancements.

In 2017, Kinecta welcomed a new Member Service Center (MSC) in Palos Verdes Peninsula. Along with our newest branch, we remodeled and upgraded technology at two additional branches in Tustin and Lakewood, bringing the total to 7 newly remodeled, high tech service centers with more on the way. Members visiting one of our new service centers will experience faster transactions, reduced fraud and our new universal banker platform where the employee who greets you is the one that assists you with all your current needs.

Kinecta is one of the largest credit union mortgage originators in the nation, funding more than \$635 million in mortgage loans in 2017. Competitive financing on new and pre-owned vehicles is also top priority. This past year, we assisted members with \$742 million in auto loans, which brings the auto loan portfolio to more than \$1.4 billion. For the fourth consecutive year, Kinecta was the second largest credit union auto loan originator in California.

Your Credit Union again demonstrated significant commitment to member-owned businesses, with a commercial loan portfolio surpassing \$832 million. Kinecta is a Preferred Lender with the Small Business Administration (SBA), and in 2017, Kinecta was once again ranked as the number one credit union in SBA lending for all of Southern California - #3 in the state. In addition, Kinecta was recognized as the 2017 Credit Union of the Year by the SBA's Santa Ana District Office.

Kinecta provided members with nearly 20,000 insurance policies covering life, home, and auto in 2017, and the Chino Valley Chamber of Commerce selected the Kinecta insurance team as the 2017 Large Business of the Year for Chino Valley. Additionally, Kinecta continued a 27-year tradition of helping members save for retirement with investments in stocks, bonds, mutual funds and other investment products, and assets under management exceeded \$1.76 billion at year end.

Kinecta invested further in our convenient and secure digital banking platforms in 2017. The Credit Union launched new online and mobile lending options for personal loans and credit cards, which included immediate notifications upon approval and

funding. Also, Kinecta deployed a new online origination capability that provides members convenient, 24/7 access to mortgage loans. Online Bill Pay received an upgrade too, resulting in a more intuitive, mobile responsive and flexible member experience with new features such as bill alerts and eBill functionality.

OUT IN THE COMMUNITY

Kinecta understands what it means to be a community-based, financial institution, and there are none better than Kinecta employees when it comes to volunteering talent and time to the communities we serve. In 2017, Team Kinecta volunteered more than 8,500 hours of their time at more than 120 community events. Additionally, Kinecta and its members raised more than \$450,000 in support of local nonprofits in the South Bay and surrounding communities.

2017 proved to be a devastating year with multiple natural disasters across our state and nation. Unfortunately, Kinecta members did not escape unscathed; however, their credit union was able to quickly mobilize and support them. Kinecta waived ATM fees, extended loan dates and provided emergency loans for members impacted by natural disasters. We also worked with the American Red Cross to raise funds for their Hurricane Relief Funds, and to provide relief to those impacted by the California wildfires. Similarly, Kinecta partnered with the Foodbank of Santa Barbara to raise funds for those affected by the Thomas Fire.

With your ongoing loyalty and support, Kinecta projects even greater success in 2018. You can count on your Credit Union's continued financial strength, stability and commitment to the community. All of us at Kinecta thank you for your membership and support.

Sincerely,



Robert A. Young
Chair of the Board



Keith Sultemeier
President & CEO

NOT JUST PRODUCTS AND SERVICES, BUT SOLUTIONS.



Kinecta members have different needs and wants at different times in their lives. No problem. We create unique real-world solutions that work.

Here are just a few:



FEEL AT HOME

We can help you with every aspect of home ownership. For starters, we have great rates on home loans, home equity lines of credit, and refinancing solutions. Our Smart Move Homebuyer Program helps you find, buy and protect your home. We even offer HomeAdvantage, which pays you cash when you buy or sell your home.



TAKE THE WHEEL

We can help you with Auto Loans of course, but did you know Kinecta has an auto buying service that takes the work out of finding your next vehicle? Search our national database of dealers from the comfort of your home. Or wait for one of our bi-annual car sales, which have turned out to be the “must-see” events in all of SoCal.



FINANCIAL PLANNING

Whether you're saving for college, retirement, or just a rainy day, we've got a comprehensive array of savings plans that give you more bang for your bucks. Including some that you may not have even thought of.



ACCESS EVERYWHERE

Kinecta gives you all sorts of options to bank with us. Come into one of our branches and talk with the nice Kinecta employees. Or take advantage of more than 30,000 surcharge-free CO-OP ATM locations nationwide. If the internet is where it's at for you, online, mobile, and text banking are available 24/7/365. Or just call us. Your choice.

LEADERSHIP

Delivering insight and
guidance along the way.

BOARD OF DIRECTORS



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Mary Yasui-Yamabe
Vice Chair



Jacqueline Stafsudd
Treasurer



Jeffry Y. Yonemura
Secretary



Suzanne M. Curtin
Associate Treasurer



Paul A. James
Assistant Secretary



Darryl F. Johnson
Director

KINECTA FINANCIAL MANAGEMENT COMPANY, LLC BOARD OF DIRECTORS

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KINECTA ALTERNATIVE FINANCIAL SOLUTIONS, INC. BOARD OF DIRECTORS

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Chair



Jeffrey W. Wells
Member



Keith Landenberger
Member



Mark Byrne
Member



Andrew L. Savoy



Janet Sparrow



John N. Tessier

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Chief Executive Officer



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Executive Vice President,
Chief Operating Officer



Mark Holbrook
Senior Vice President,
Chief Risk Officer



Maria S. Japardi
First Vice President,
Human Resources



Sharon L. Moseley
Senior Vice President,
Chief Information Officer



Luis Peralta
Senior Vice President,
Chief Administration Officer
and President, Kinecta
Alternative Financial
Solutions, Inc.



Brett A. Stubbs
First Vice President,
Chief Financial Officer

KUDOS

From 2011-2017, we were proud and honored to be named the South Bay's Best Credit Union by readers of the *Daily Breeze* newspaper in Torrance, Calif.

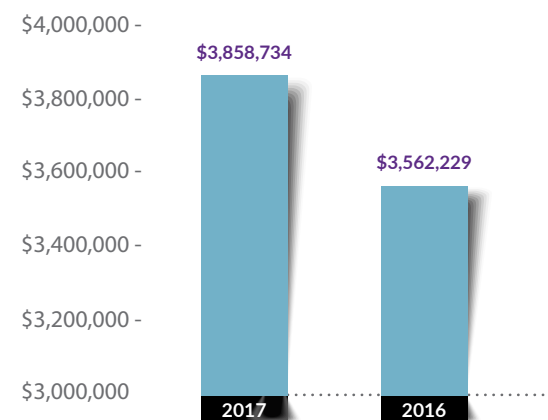


FINANCIALS

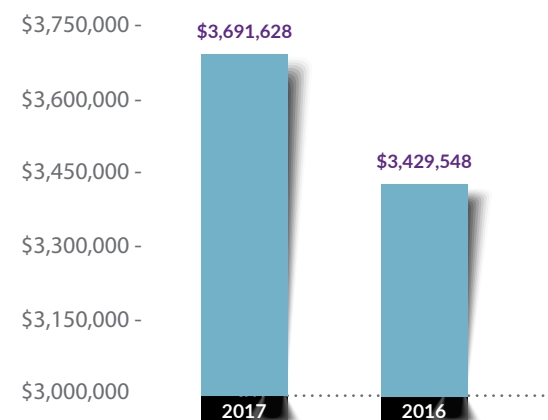
KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2017 and 2016

(in thousands)	2017	2016
Assets		
Cash and investments	\$ 199,876	\$ 177,289
Loans receivable, net	3,858,734	3,562,229
Mortgage servicing rights	33,558	36,023
Premises and equipment	44,588	45,245
Goodwill and other intangibles	37,010	38,358
Other assets	76,316	70,279
Total assets	<u>\$ 4,250,082</u>	<u>\$ 3,929,423</u>
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 3,691,628	\$ 3,429,548
Borrowed funds	160,000	125,000
Accrued expenses and other liabilities	51,351	53,645
Total liabilities	<u>3,902,979</u>	<u>3,608,193</u>
Members' equity	347,103	321,230
Total liabilities and members' equity	<u>\$ 4,250,082</u>	<u>\$ 3,929,423</u>

Loans



Shares



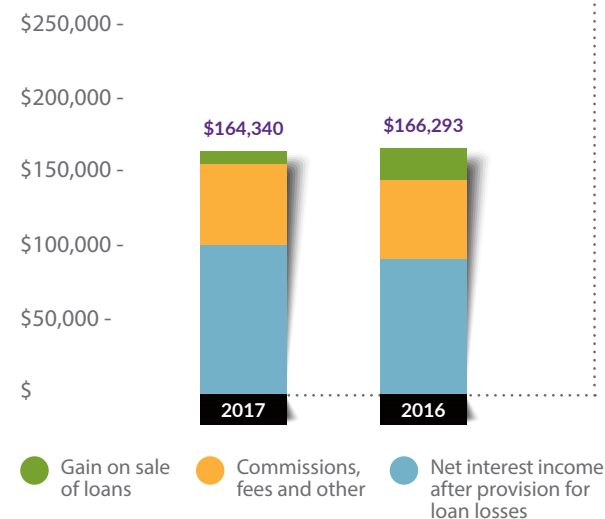
KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

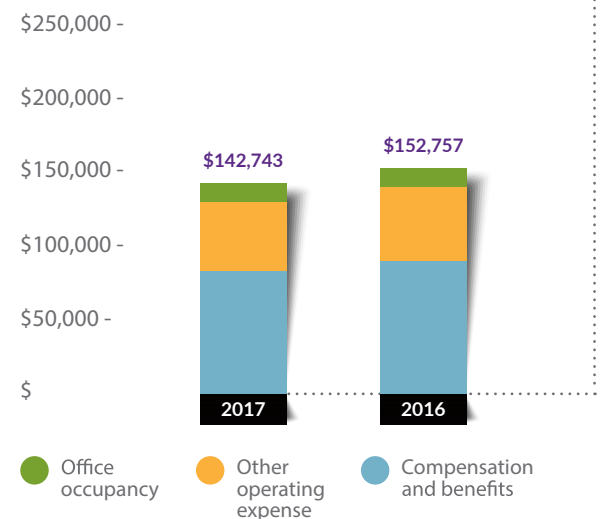
YEARS ENDED DECEMBER 31, 2017 and 2016

(in thousands)	2017	2016
Interest income	\$ 146,632	\$ 134,092
Interest expense	<u>27,791</u>	<u>26,440</u>
Net interest income	118,841	107,652
Provision for loan losses	18,142	15,915
Net interest income after provision for loan losses	<u>100,699</u>	<u>91,737</u>
Noninterest income:		
Commissions, fees and other	54,745	53,518
Gain on sale of loans	<u>8,896</u>	<u>21,038</u>
Total noninterest income	<u>63,641</u>	<u>74,556</u>
Noninterest expense:		
Compensation and benefits	83,377	90,110
Office occupancy	12,551	12,279
Other operating expense	<u>46,815</u>	<u>50,368</u>
Total noninterest expense	<u>142,743</u>	<u>152,757</u>
Net income	<u>\$ 21,597</u>	<u>\$ 13,536</u>
Other comprehensive income	4,276	1,621
Comprehensive income	<u>\$ 25,873</u>	<u>\$ 15,157</u>

Income (in thousands)



Expenses (in thousands)



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 December 31, 2017 and 2016. 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, 2017 and 2016 (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, 2017 and 2016 and Condensed Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2017 and 2016 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 S. Conrad
Chair, Supervisory Committee

SERVICE PROVIDERS

Independent Auditors
Crowe Horwath
Sherman Oaks, CA

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

COMMUNITY

Driven to serve.



What separates Kinecta employees from the crowd? It's their continued passion and commitment to our communities. In 2017, through a variety of employee fundraising efforts and Kinecta/Nix member and customer giving, Kinecta donated more than \$120,000 to Children's Miracle Network Hospitals.

Kinecta's Scholarship Program is dedicated to helping young adults reach their financial and academic goals. In 2017, we awarded a total of \$16,000 to eight outstanding student members. We also provided four \$1,000 grants to teachers to augment their classroom curriculum.

Kinecta's Volunteer Corps joined forces with the following nonprofit organizations in 2017: Al Wooten Jr. Heritage Center, Bob Hope USO, Friendship Foundation, Habitat for Humanity, Karma Rescue, Midnight Mission, and Mychal's Learning Place to name a few.





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