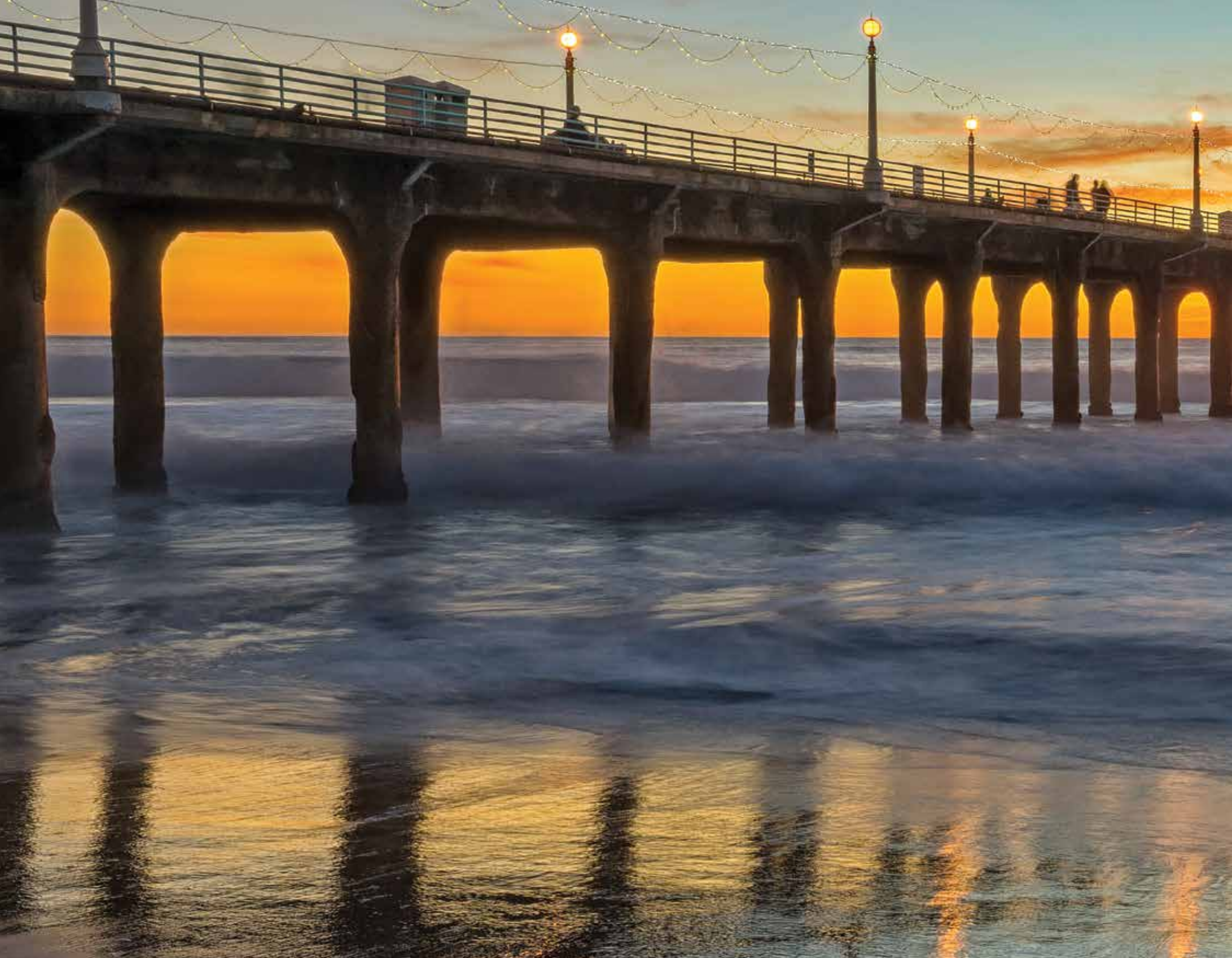


EXPECT THE



UNEXPECTED

KINECTASM





Expect the Unexpected.

In 2016, Kinecta asked its members to Expect the Unexpected. This simple phrase is our brand promise and serves as a constant reminder of our goal to deliver member service beyond your expectations. To do that, we focus on four pillars of service: we listen and ask the right questions, make things easy for you, get it right the first time, and build long-term relationships with our members.

Kinecta is honored that more than 290,000 members have placed their trust, confidence and savings in this financial cooperative. The Credit Union finished the year with nearly \$4 billion in assets. Managing our members' investments for safety, soundness and service is a great responsibility, and one that we take seriously. We are happy to report that once again Kinecta achieved solid results both financially and in member service enhancements.

One of the biggest and brightest changes in 2016 occurred in our branches. In addition to opening a new branch in Redondo Beach, we remodeled and upgraded several others. This included a completely redesigned approach to serving members in our branches, leveraging the latest technology to make it easier and more convenient for you to get your business done. (See next page.)

We realize that one size does not fit all when it comes to our members. With this in mind, Kinecta introduced a completely new line of new credit cards in 2016. Based on research and feedback from our members, we designed these cards to meet the specific needs of different groups of members. From cards with generous and free cash back rewards to those with absolutely zero fees, our members can choose the card that best fits their needs. And to help prevent fraud, all of these new cards are chip enabled.

Your Credit Union had another strong year in meeting member demands for credit. Kinecta funded more than \$1.38 billion in new mortgage loans, and the auto loan portfolio passed \$1.25 billion. For the third year in a row, Kinecta was the second largest California credit union in auto loan originations.

Kinecta's commitment to member-owned businesses also remained strong in 2016. Our member business loan portfolio exceeded \$709 million at year end. Additionally, Kinecta is a Preferred Lender with the Small Business Administration (SBA), and in 2016, Kinecta was once again ranked as the No. 1 credit union in SBA lending for all of Southern California.

Additionally, the Credit Union continued providing its members outstanding investment management services with assets under management growing beyond \$1.5 billion. We were also pleased to help our members with over 20,000 insurance policies covering life, home, auto and many others.

Nix Neighborhood Lending

Kinecta is dedicated to improving the financial well-being of underserved communities by providing affordable small-dollar loans through Nix Neighborhood Lending (Nix), a wholly owned subsidiary. In addition to launching a redesigned online platform, Nix enhanced the loan experience by providing online real-time results for loan eligibility.

In 2016, Kinecta was certified by the Community Development Financial Institutions (CDFI) Fund and was awarded a grant of \$2 million to further its work serving low-income communities. Additionally, Kinecta is the largest Juntos Avanzamos-designated credit union in California. Juntos Avanzamos, meaning "Together We Advance," recognizes credit unions that have demonstrated an ongoing commitment to empowering Hispanic and minority consumers and to serving their communities.

Community Service

Perhaps the best examples of Expect the Unexpected come from our work in the community. Your Credit Union understands what it means to be a community-based financial institution, and Kinecta staff is unmatched when it comes to the intensity of our investment in and commitment to the communities we serve. In 2016, Kinecta staff donated over 7,400 hours of their time to support more than 200 community organizations at 100 charitable events. Overall, Kinecta and its members donated well over \$400,000 to support local nonprofits. Kinecta's goal is nothing short of being the most unexpected, uncommon and enthusiastic partner in the communities we serve. (See more of our Volunteer Corps on page 9.)

As we look for new ways to deliver on the delightfully unexpected in 2017, you can rely on Kinecta's 76 years of strength and stability and our commitment to providing meaningful value to our members, employees and communities. Thank you for your membership and for your continued loyalty.

Sincerely,



Robert A. Young
Chair of the Board



Keith Sultemeier
President & CEO

KINECTA CELEBRATES NEW BRANCH DESIGN

Kinecta is introducing an innovative approach to financial services that offers cutting-edge technology alongside exceptional personal service. No more lines. No more barriers. We sit right next to you, share a computer screen and make sure you understand everything we are doing.

24/7 Access To:

- In Lobby Teller – easy member access any time of day or night. Secured access with Kinecta card after hours.
- Coin Machine – for members and nonmembers. Members' coins are counted and deposited straight in their share account.

Members are assisted face-to-face by expert Personal Financial Consultants seated at member-servicing pods, rather than behind traditional teller stations. Added conveniences include onsite iPad stations for logging into online banking and free WiFi.

Visit our brand new Redondo Beach Member Service Center, or see one of our new branch designs:

Westchester MSC

Santa Monica MSC

Fountain Valley MSC



They may be our leaders, but we also know they're 100% behind us.

BOARD OF DIRECTORS



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Vice Chair



Mary Yasui-Yamabe
Treasurer



Jeffry Y. Yonemura
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Jacqueline Stafsudd
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Darryl F. Johnson
Director

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Chair



Jeffrey W. Wells
Secretary



Mark D.S. Byrne
Member



Keith U. Landenberger
Member

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President and
Chief Executive
Officer



Joseph E. Whitaker
Executive Vice President,
Chief Operating Officer



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Senior Vice President,
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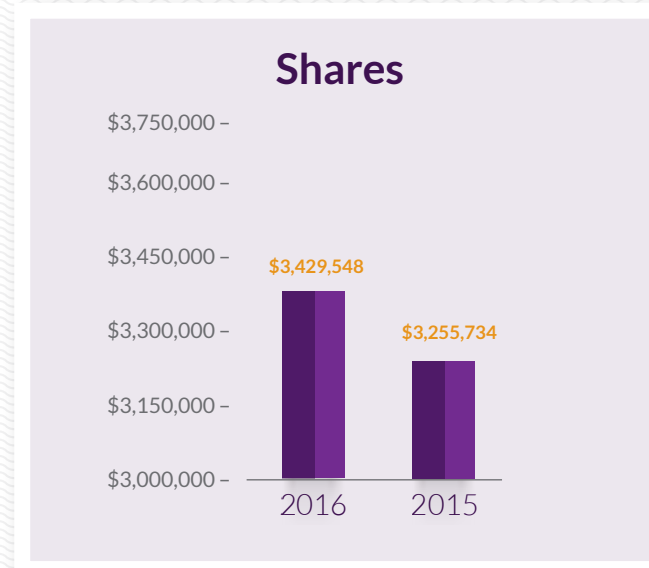


From 2011-2016, we were proud and honored to be named the South Bay's Best Credit Union by readers of the *Daily Breeze* newspaper in Torrance, California.

Financials

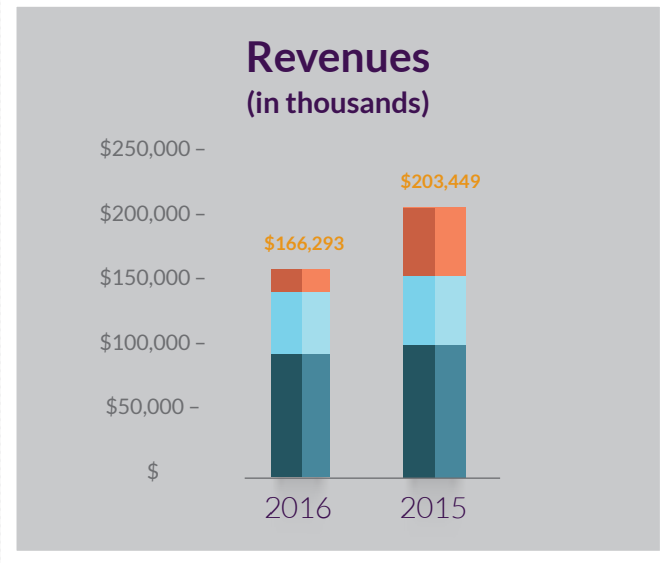
KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2016 and 2015

(in thousands)	2016	2015
Assets		
Cash and investments	\$ 177,289	\$ 176,976
Loans receivable, net	3,562,229	3,431,559
Mortgage servicing rights	36,023	32,535
Premises and equipment	45,245	45,339
Goodwill and other intangibles	38,358	39,473
Other assets	70,279	74,542
Total assets	\$ 3,929,423	\$ 3,800,424
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 3,429,548	\$ 3,255,734
Borrowed funds	125,000	185,000
Accrued expenses and other liabilities	53,645	53,617
Total liabilities	3,608,193	3,494,351
Members' equity	321,230	306,073
Total liabilities and members' equity	\$ 3,929,423	\$ 3,800,424

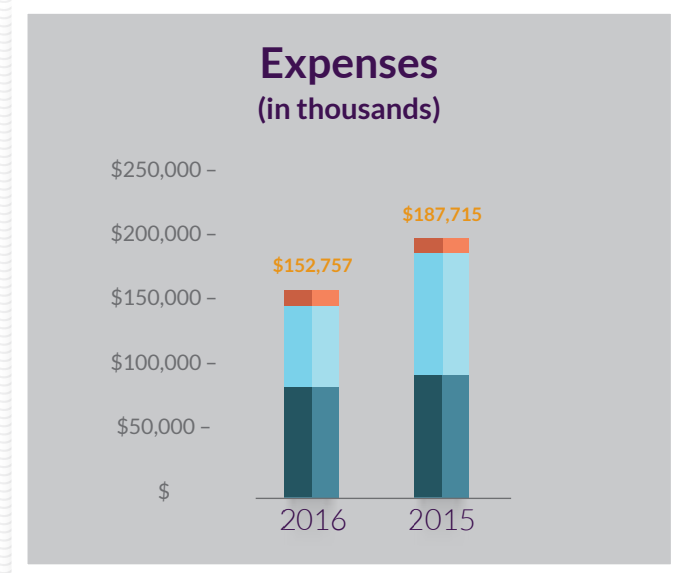


KINECTA FEDERAL CREDIT UNION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 YEARS ENDED DECEMBER 31, 2016 and 2015

(in thousands)	2016	2015
Interest income	\$ 134,092	\$ 131,342
Interest expense	26,440	25,090
Net interest income	<u>107,652</u>	<u>106,252</u>
Provision for loan losses	15,915	11,327
Net interest income after provision for loan losses	<u>91,737</u>	<u>94,925</u>
Noninterest income		
Commissions, fees and other	53,518	58,512
Gain on sale of loans, net	21,038	50,012
Total noninterest income	<u>74,556</u>	<u>108,524</u>
Noninterest expense:		
Compensation and benefits	90,110	96,627
Office occupancy	12,279	12,836
Other operating expense	50,368	78,252
Total noninterest expense	<u>152,757</u>	<u>187,715</u>
Net income	<u>\$ 13,536</u>	<u>\$ 15,734</u>
Other comprehensive income (loss)	1,621	(2,803)
Comprehensive income	<u>\$ 15,157</u>	<u>\$ 12,931</u>



Gain on sale of loans Commissions, fees and other Net interest income after provision for loan losses



Office occupancy Other operating expense Compensation and benefits

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, 2016 and 2015. 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, 2016 and 2015 (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, 2016 and 2015 and Condensed Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2016 and 2015 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. It's why we're all in this together.

What makes Kinecta employees so unexpectedly awesome? It's their unselfish commitment to our communities. Children's Miracle Network Hospitals is our flagship nonprofit partner. Through employee fundraisers and member giving, Kinecta donated \$160,000 to CMN Hospitals in 2016. And our reach extends far beyond that as well.

**GO
TEAM!
2016**

 **7,400
HOURS
VOLUNTEERED**

 **\$400K
DONATED**



**NEARLY 100
COMMUNITY
EVENTS**

**SUPPORTING
200+ NONPROFIT
ORGANIZATIONS**





KINECTASM

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

