



2020 ANNUAL REPORT

kinecta [®]
banking done different

LEADERSHIP MESSAGE

When crisis calls, we answer.

I think we would all agree that 2020 was a year like no other. The COVID-19 pandemic forced us to make changes and sacrifices, and these often came with difficult consequences. Many members experienced the heartbreak of losing a loved one without getting to say goodbye in person. We spent months separated from one another social distancing and many more wearing masks. Who could have ever imagined that we would welcome individuals into our branches wearing masks and asking for money?

Despite the risks, all Kinecta branches have remained open throughout this crisis with staff providing in-person banking services. We are extremely grateful for the dedication of our frontline employees. This type of commitment to serving you, our members, is one of the defining differences between member-owned, financial cooperatives like Kinecta and for-profit banks.

In 2020, Kinecta provided financial assistance to nearly 20,000 members offering over a half billion dollars in loan deferments. Fortunately, nearly all those members are back on their feet making regular loan payments again. As you would expect, Kinecta stepped up to keep local business operating during the shutdowns. Thus far, we have supported nearly 2,000 business with \$100 million of Payroll Protection Program loans.

Kinecta's strong financial position allowed us to provide this much needed member assistance, and the Credit Union remains financially strong as the pandemic hopefully draws to a close. Financial results in 2020 were solid with balance sheet growth, good earnings, and a strong capital position. Our financial performance and internal controls are reviewed annually with federal regulatory exams, internal audits and external financial statement audits. In 2020, these confirmed that Kinecta remains well capitalized with properly stated financials and effective systems of internal control. Please see the summary of 2020 financial results on pages 6-7 of this report.

Meeting members' credit needs remained a top priority and in 2020 Kinecta originated 7,300 auto loans for \$216 million, and 2,750 first mortgages for approximately \$1.3 billion – ranking us #30 in U.S. credit unions. We also helped 80 members build their dream homes with \$170 million of financing through our new single-close residential construction loans.

As more people relied on digital banking, cyberhackers became more active and sophisticated in 2020 ... and so did we. We replaced Online Banking authentication with an artificial intelligence (AI) tool that learns individual member behavior and challenges unusual activity. Your valuable data remains highly secure, and Kinecta has never been breached.

Kinecta redesigned its website to make it easier for members to find the information they need, like the locations of our 30,000+ surcharge-free ATMs and 5,600+ shared branches locations nationwide. In September, we launched an online branch appointment scheduling feature – a great convenience during the pandemic – with over 5,000 members using this service. Also, we launched an online automated digital assistant, Kaci, to answer members' general questions 24/7/365.

Although our ability to offer in-person support for our favorite community causes was severely curtailed, the Kinecta Volunteer Corps still found creative ways to give back. Learn more about the tremendous efforts of our employee volunteers on pages 2-3 of this report, as well as accolades recognizing Kinecta as a top credit union and workplace on page 5.

Finally, we are very excited about the completion of our merger with Xceed Financial Credit Union on April 1, 2021. With the addition of Xceed's member-owners, Kinecta is now over \$6 billion in assets, with 275,000 members and 30 branch locations. New locations include El Segundo, northern California, New Jersey, and Rochester, NY. Additionally, we have added another 80,000 surcharge-free ATMs to our network and reduced fees on many high frequency items like cashier's checks, international wires, NSF and Courtesy Pay. We are definitely stronger together.

The extraordinary events of 2020 have certainly tested the creativity, resilience and resolve of each of us. As we have since 1940, we pledge to be there for you and your family no matter the circumstances. Now more than ever before, thank you for trusting Kinecta to serve as your partner on every step of your financial journey.

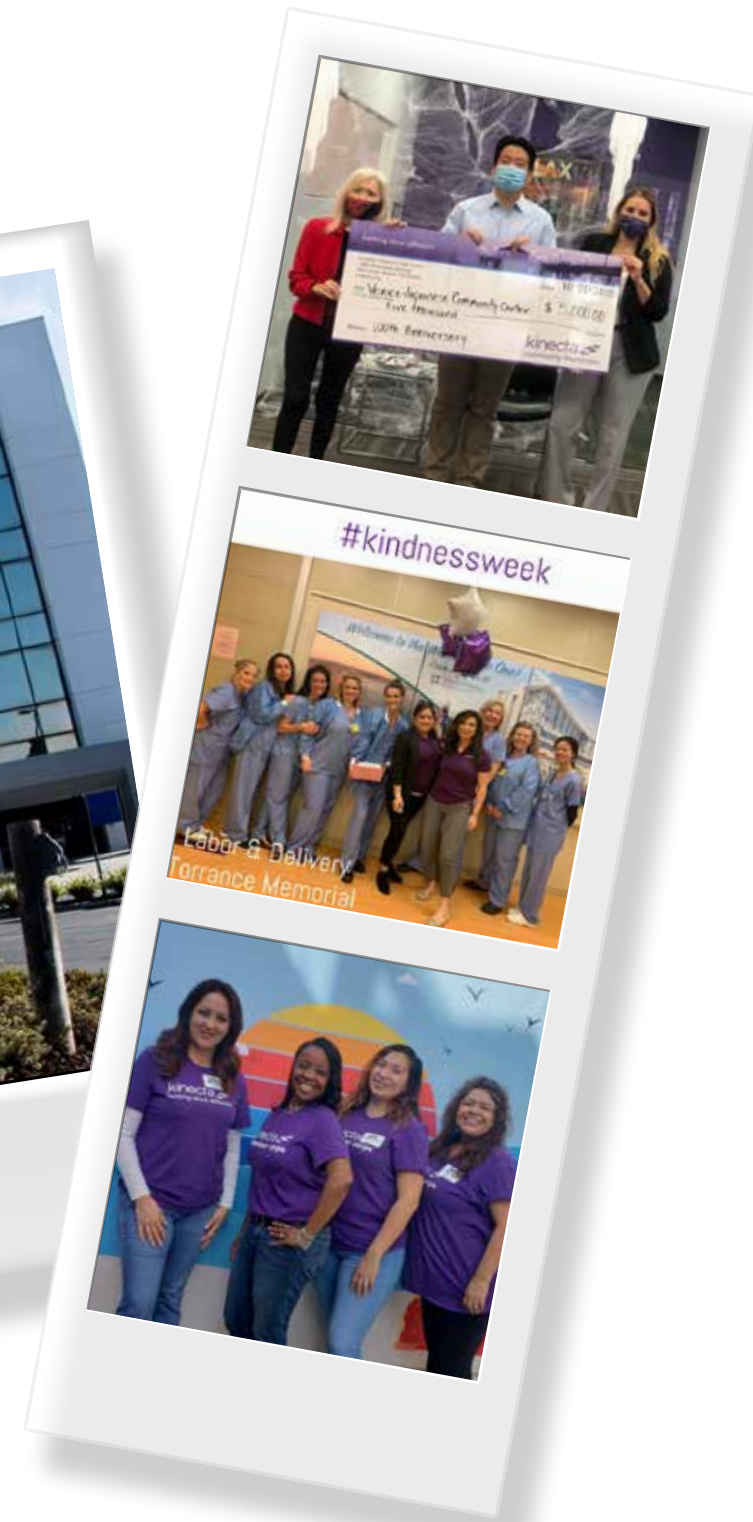
Sincerely,



Mary Yasui-Yamabe
Chair of the Board



Keith Sultemeier
President & CEO



COMMUNITY ENGAGEMENT

Providing support and opportunity

With the need for support greater than ever, Kinecta's Volunteer Corps reinforced our commitment to community during the COVID-19 crisis. Our employees rose to meet the challenges of prohibitions on public gatherings, volunteering 4,560 hours at 145 events benefitting more than 100 nonprofits. We donated \$634,000 to charitable causes, including \$113,500 to support regional Children's Miracle Network Hospitals. The Kinecta BBQ rig and Ice Cream Truck deployed to serve hundreds of first responders and their families. We closed the year by hosting drive-thru events for our 47th Annual Holiday Food Drive and annual Backpack Giveaway to support local under-served communities.



Annual food drive

Kinecta Community Foundation's 47th Annual Holiday Food Drive became a "drive-thru" in 2020 benefitting over 1,000 local families selected in partnership with 40 local organizations. Recipients queued up in the parking lot at Dignity Health Sports Park to receive traditional Thanksgiving food items and \$75 grocery gift certificates. A special thanks to our vendors, members, and employees who raised \$94,000 for the event.



Scholarship & Teaching Grant Program

Kinecta's Scholarship and Teaching Grant Program helps students reach their financial and academic goals. In 2020, Kinecta awarded \$2,000 scholarships to 8 students in the community. Kinecta also provided 6 teaching grants (\$11,000 total) to help instructors enhance their regular curriculum with special activities.



First Responder Appreciation

Kinecta held events throughout 2020 providing food, PPE, and support to the amazing first responders in our community!



Financial Empowerment

We love to help our members reach their goals and believe that starts with a solid understanding of personal finance. We provided weekly financial empowerment emails to 270 community and school partners. Our members took advantage of over 8,800 free, mobile-friendly, self-paced/interactive online modules. Additionally, we facilitated 22 virtual financial empowerment sessions attended by nearly 750 participants.



Defying the Odds

Kinecta Community partnered with Mira Costa High School, Centinela Valley Union High School District and Compton Unified School District to host the 3rd Annual Defying the Odds. The event aims to empower African-American male students with life skills needed to properly handle the unique challenges they face in today's society. Students listened to roundtable hosts including African-American professionals who've faced similar challenges and the strategies they used to achieve professional success.



Kinecta Kindness

Know a caring friend, neighbor or someone in your community committing acts of kindness? Nominating them for a Kinecta Kindness award is a great way to recognize their good deeds with a \$250 donation to the nonprofit they support. In 2020 we celebrated 25 Kinecta Kindness winners.



Mychal's Learning Place's "Santa Stroll reimagined"

Kinecta sponsored the "Santa Stroll Reimagined" benefitting Mychal's Learning Place, which provides support, training and opportunities for youth and young adults with developmental disabilities. Nearly 125 participants walked in the 5K stroll, including 73 who received a discounted registration fee for joining Team Kinecta.

LEADERSHIP

Offering guidance and support

board of directors



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Chair



Jeffrey Y. Yonemura
Vice Chair



Robert A. Young
Treasurer



Jacqueline Stafsudd
Associate Treasurer



Suzanne M. Curtin
Secretary



Jeffrey S. Conrad
Assistant Secretary



Paul A. James
Director

kinecta financial management company, llc board of directors:

Robert A. Young, Chair; Paul James, Vice Chair; Jeffrey Conrad, Treasurer; Suzanne Curtin, Secretary; Keith Sultemeier, Director; Kristen Stewart, Liaison; Donna McNeely, Staff Liaison

supervisory committee



Jeffrey W. Wells
Chair



Keith Landenberger
Secretary



Mark Byrne
Member



Kristen Stewart
Member



Mark Holbrook
Staff Liaison

directors emeriti



Andrew L. Savoy



Janet Sparrow



John N. Tessier

executive staff



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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

Kinecta won accolades in 2020 as a top South Bay credit union for the 10th year in a row from Daily Breeze readers, and a "Best of the Westside" repeat win in the Argonaut News. Kinecta also earned recertification as a Great Place to Work.



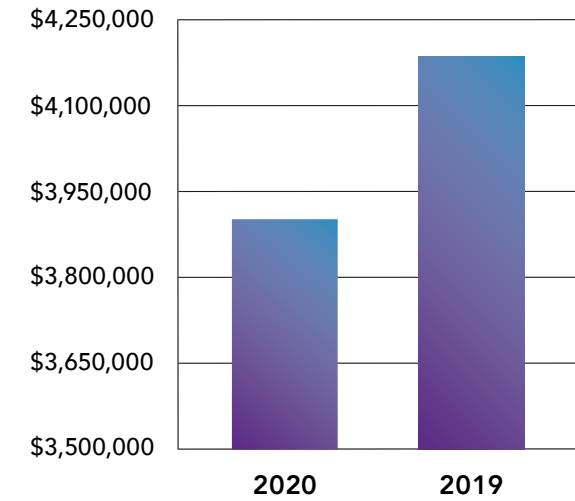
FINANCIALS

Kinecta Federal Credit Union and Subsidiaries condensed consolidated statements of financial condition

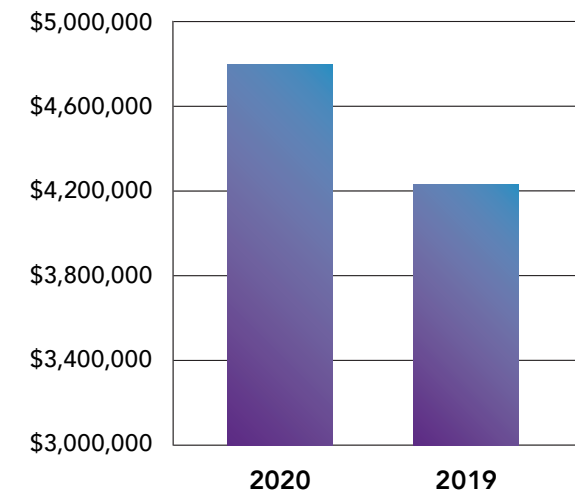
Years ended December 31, 2020 and 2019

(in thousands)	2020	2019
Assets		
Cash and investments	\$ 1,065,977	\$ 295,722
Loans receivable, net	3,902,341	4,186,945
Mortgage servicing rights	9,501	23,161
Premises and equipment	53,155	47,899
Goodwill and other intangibles	26,841	26,841
Other assets	203,370	122,533
Total assets	<u>\$5,261,185</u>	<u>\$ 4,703,101</u>
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 4,789,087	\$ 4,222,396
Borrowed funds	-	50,000
Accrued expenses and other liabilities	53,898	40,217
Total liabilities	<u>4,842,985</u>	<u>4,312,613</u>
Members' equity	418,200	390,488
Total liabilities and members' equity	<u>\$5,261,185</u>	<u>\$ 4,703,101</u>

loans



shares

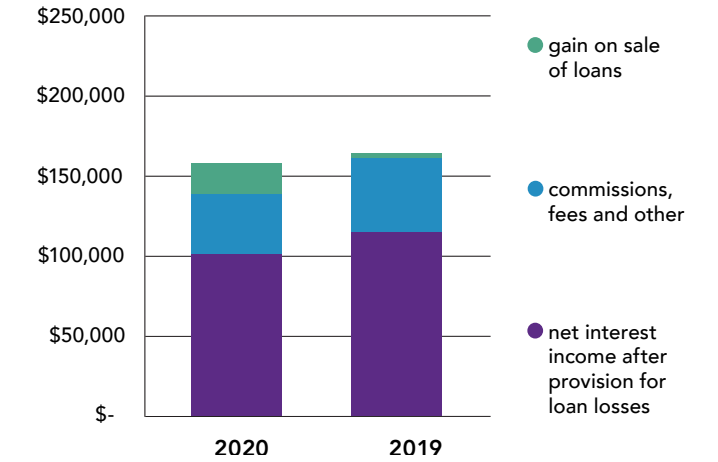


Kinecta Federal Credit Union and Subsidiaries condensed consolidated statements of income and comprehensive income

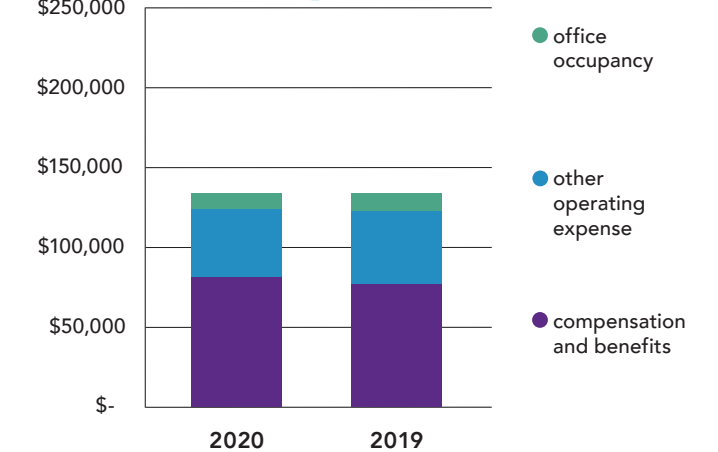
Years ended December 31, 2020 and 2019

(in thousands)	2020	2019
Interest income	\$ 167,614	\$ 176,374
Interest expense	43,398	47,525
Net interest income	124,216	128,849
Provision for loan losses	23,063	14,314
Net interest income after provision for loan losses	<u>101,153</u>	<u>114,535</u>
Noninterest income:		
Commissions, fees and other	37,479	46,391
Gain on sale of loans	19,335	3,160
Total noninterest income	<u>56,814</u>	<u>49,551</u>
Noninterest expense:		
Compensation and benefits	81,105	77,070
Office occupancy	10,364	10,782
Other operating expense	42,540	45,751
Total noninterest expense	<u>134,009</u>	<u>133,603</u>
Net income	<u>\$ 23,958</u>	<u>\$ 30,483</u>
Other comprehensive income	3,754	195
Comprehensive income	<u>\$ 27,712</u>	<u>\$ 30,678</u>

income



expense



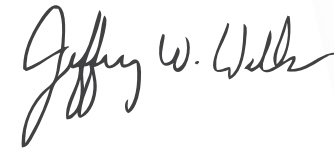
REPORT

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, 2020 and 2019. 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, 2020 and 2019 (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, 2020 and 2019 and Condensed Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2020 and 2019 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

SUPPORTING DIVERSITY



kinecta
diversity council

In 2020 we proudly renewed our commitment to diversity, equity and inclusion with the formation of the Kinecta Diversity Council, comprised of a cross-section of 12 employees.

The Diversity Council implemented programs enriching all areas of the organization, including:

- Diversity and Unconscious Bias training, ensuring diverse application pools for open positions
- Emerging Leadership Academy, which focuses on staff-level employee development for leadership positions
- African American Credit Union Coalition partnership to offer mentorship opportunities for employees at all levels
- Year of Inclusion Celebration monthly newsletter

The Diversity Council has also partnered with multiple community organizations that support diversity and equity such as Covenant House and Operation Progress.



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