



**HAWAII
STATE**

FEDERAL CREDIT UNION

always right by you

right here

Annual Report 2016



Federally insured by NCUA



keeping on the *right* track

For us, that means continuing
to do right by our members
— staying right by their side
through all of life's celebrations
and challenges.

Annual Report 2016

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starting out *right*

Message from Governor David Ige



On behalf of the people of Hawai'i, I send my *aloha* to the Hawai'i State Federal Credit Union (HSFCU) employees, member-owners and guests attending its annual meeting.

As a non-profit financial cooperative, owned and operated by its more than 95,000 members, the Hawai'i State FCU and its 296 employees have provided professional financial services in Honolulu for the past 80 years. With branches located on O'ahu and Maui, the credit union works tirelessly to provide members

with a full range of services including high interest savings and checking accounts, mortgage and consumer loans, and credit and debit cards.

The Hawai'i State FCU also supports its member-owners by staying true to its philosophy of being "always right by you," offering excellent customer service delivered with the spirit of *aloha*.

I am confident that the Hawai'i State FCU will continue to help its member-owners thrive and maximize their opportunities to research and sustain their own fiscal health by providing financial services that are trustworthy, dependable and secure.

Mahalo for your dedication and I wish you continued success in all your future endeavors.

Aloha,

A handwritten signature in black ink that reads "David Ige".

David Ige
Governor, State of Hawai'i



Message from Mayor Kirk Caldwell



It is my pleasure to extend warm greetings of aloha to members and their families of the Hawaii State Federal Credit Union.

Mahalo to the Board of Directors, management, and staff for their excellent leadership and commitment to providing generations of members with services needed to set and achieve their financial goals. Congratulations on publishing this year's annual report that describes the operations and financial performance and chronicles the Credit Union's activities over the past year.

Since its founding in 1936, the Hawaii State Federal Credit Union maintains its standing as one of Hawaii's largest credit unions by expanding and improving its services to members and making banking more convenient and accessible.

On behalf of the people of the City and County of Honolulu, I extend sincere appreciation for its contribution to our local economy and best wishes for continued prosperity and success.

Aloha,

A handwritten signature in black ink that reads "Kirk Caldwell".

Kirk Caldwell
Mayor, City and County of Honolulu



Message from the President



Dear Members,

2016 was another exciting year of growth and innovation for Hawaii State Federal Credit Union! With more than \$725 million in loans to members, we are now the largest credit union lender in the state. In 2016, we added a new branch in Hawaii Kai to serve over 10,000 members who live in East Oahu, and we renovated our busy Pearlridge Branch to offer more convenient services to members.

We grew to nearly 95,000 members and we have expanded the types of loans we offer to include mortgages and solar loans. In 2017, we plan to further expand our lending programs to provide members with even more loan solutions to help them achieve their financial goals.

As we celebrate our 80th anniversary this year, I am not only thankful for our members who have given us their trust and support over the years, but also to our hard-working employees who go above and beyond each day to provide sound financial advice to our members.

It is the credit union's vision to build relationships that empower a lifetime of personal and financial well-being. We carry that out daily through our member-focused approach -- whether it's helping a student member manage her debt and improve her credit score, or helping a mother having difficulty paying bills after her husband's death.

An unfortunate reality is that many in our community are struggling financially. A recent survey showed that nearly half of Hawaii residents are living paycheck to paycheck. Any unexpected crisis, a medical emergency or losing a job could push them over the edge.

We understand the financial issues of our community, and feel it is our responsibility to provide our employees, members and the communities we serve with resources and education to overcome financial challenges.

It is hard to believe that I have been serving as president of Hawaii State FCU for five years. The credit union has achieved much in that short time. Our leadership in innovation offers members the choice to conveniently conduct transactions in a branch or right from their smartphones. And our rebranding has employees truly showing their "Always Right By You" spirit to their fellow colleagues and members alike.

I would like to extend a big mahalo to our Board of Directors for their leadership and support of our Hawaii State FCU family. We look forward to continuing to be a member's financial partner for many years to come!

Aloha,

Andrew Rosen

Hawaii State Federal Credit Union - President & CEO

Message from the Board of Directors



Aloha Fellow Members,

On behalf of the Board of the Directors, I am excited to share that 2016 was a tremendous year for your credit union. We achieved impressive membership, loan and asset growth, as well as introduced innovative technology. This all comes on the heels of Hawaii State FCU celebrating our 80th anniversary this year in 2017.

Hawaii has a strong history of supporting the credit union cooperative model which has roots in the old plantation-days concept of tanomoshi -- the idea of people pooling their money together to help each other fund any financial necessities. The "people helping people" philosophy continues to ring true today and serves as the foundation of our "Always Right By You" members-first values.

Our 2016 highlights include:

- We've grown in asset size to nearly \$1.5 billion and now serve nearly 95,000 members.
- We've maintained our rank as Hawaii's largest credit union mortgage lender, financing more than \$236 million for member homeowners.
- We opened our ninth branch at the Hawaii Kai Towne Center featuring a Technology Center and private offices for member consultations. In addition, we underwent major renovation at our Pearlridge Branch incorporating modern design and technology to enhance the member experience.
- We are proud to support Hawaii's students and teachers. We've provided more than \$540,000 in scholarships to students pursuing higher education through the Lowell Kalapa Scholarship Program over the last 20 years and have awarded \$176,000 to many of Hawaii's public school teachers in our Investing in Education Grant Program.
- We continue our support of the local community through our ongoing partnership with Friends of the Library of Hawaii and to many other Hawaii nonprofits, including the Hawaii Homeownership Center, Kapi'olani Children's Miracle Network, American Heart Association, Boys & Girls Club and more.
- We've maintained our distinction as a Hawaii Business Magazine "Best Places to Work" employer for the third consecutive year.

As a member owned financial cooperative, we owe our success to you our members. Hawaii State FCU remains committed to providing value to members through financial products with affordable interest rates and low fees. On behalf of the Hawaii State FCU Board of Directors, I thank you for your continued support of our credit union.

Aloha,

Grant Tanimoto

Board of Directors - Chairman

Board of Directors



Grant Tanimoto
Chairman



Ryan Morita
Vice Chairman



Terrence Aratani
Treasurer



Rochelle Lee Gregson
Secretary



Marion Higa
Director



William "Bill" Milks
Director



Kaulana Park
Director

Executive Management



Andrew Rosen
President & CEO



Craig Warren
*Exec. Vice President
Sales & Sales Support*



Rachael Sasaki
*Exec. Vice President
Administrative Services*

Victor Brock	<i>SVP - Consumer & Mortgage Lending</i>
Cindy Ching	<i>SVP - Support Services</i>
Patricia Hao	<i>SVP - Human Resources</i>
Elliot Hatico	<i>SVP - Retail Banking</i>
Carol Higa	<i>SVP - Credit Admin. & Business Banking</i>
Joel Kumabe	<i>SVP & CIO</i>
Edmund Pang	<i>SVP & CFO</i>
Mary Beth Wong	<i>SVP & General Counsel</i>
Derrick Arimoto	<i>VP - Commercial Lending</i>
Gina Carvalho	<i>VP - Human Resource Management</i>
Eric Ebesu	<i>VP - Treasury</i>
Tani Fujimori-Dower	<i>VP & Controller</i>
James Haid	<i>VP - Corporate Development</i>

Sheryl Higa	<i>VP - Business Systems</i>
Christine Hirano	<i>VP - IT Infrastructure Systems</i>
David Kimura	<i>VP - Investment Services</i>
Allison Maertens	<i>VP - Marketing</i>
Janice Nakamoto	<i>VP - Information Systems</i>
Jon Nakamoto	<i>VP - Internal Audit</i>
Loren Nakaoka	<i>VP - Main Branch Manager</i>
Roland Ogoshi	<i>VP - Ali'i Branch Manager</i>
Jennifer Sims	<i>VP - Learning & Development</i>
Leilani Sumajit	<i>VP - Pearlridge Branch Manager</i>
Aaron Vallely	<i>VP - Branch Sales</i>
Elizabeth Weatherford	<i>VP - Card Operations</i>

Supervisory Committee Report

The Supervisory Committee is pleased to report that Hawaii State Federal Credit Union continued to operate in accordance with sound financial principles and within applicable laws and regulations in 2016.

Federal regulations require supervisory committees to ensure the board of directors and management of credit unions meet required financial reporting objectives, and establish practices and procedures sufficient to safeguard members' assets.

To fulfill our responsibilities, we contracted with a certified public accounting firm to perform an independent audit of the credit union's financial statements as of December 31, 2016; directed an internal audit program to evaluate and improve the credit union's effectiveness of risk management, controls, and governance processes; monitored the activities of the Board of Directors and management; investigated member complaints; verified closed memberships; worked with the National Credit Union Administration's (NCUA) examiners; and conducted special investigations or studies as we considered necessary.

We would like to express our gratitude to the credit union's Board of Directors and management for their support in helping us to serve you in 2016.

Josh Strickler
Supervisory Committee - Chairman

Supervisory Committee



Josh Strickler
Chairman



Susan Ee
Secretary



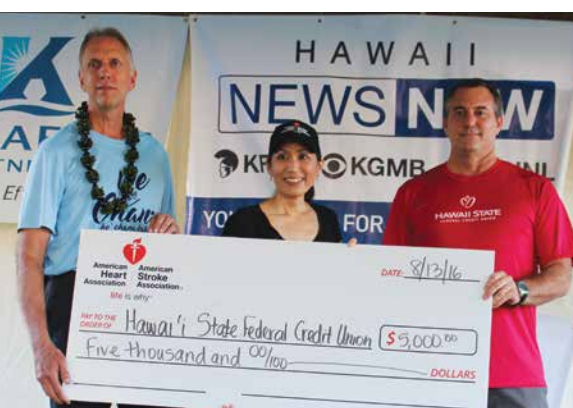
Derrick Inouye
Member



C. Manu Kaiama
Member



Stanley Sawai
Member



Financial Statements

Statement of Financial Condition (Unaudited)

ASSETS	Dec. 31, 2016	Dec. 31, 2015
Loans Held for Sale	\$ 3,395,635	\$ 2,153,705
Loans, Less Allowance for Loan Losses of \$3,152,128 in 2016 and \$3,974,479 in 2015	\$ 725,072,026	\$ 658,996,250
Cash and Cash Equivalents	\$ 198,524,749	\$ 169,844,489
Investments		
Available for Sale	\$ 493,958,055	\$ 526,429,368
Held to Maturity	159,183	383,471
Restricted	1,687,800	1,622,300
Total Investments	\$ 495,805,038	\$ 528,435,139
Other		
Accrued Income Receivable	3,108,239	3,256,450
Property and Equipment, Net Depreciation	22,819,210	17,916,781
National Credit Union Share Insurance Fund (NCUSIF)	12,412,436	11,915,009
Other Assets	16,773,386	13,936,001
Total Other	\$ 55,113,271	\$ 47,024,241
TOTAL ASSETS	\$ 1,477,910,719	\$ 1,406,453,824

LIABILITIES, SHARES AND EQUITY	Dec. 31, 2016	Dec. 31, 2015
Accounts Payable & Other Liabilities	\$ 19,865,133	\$ 14,905,842
Total Shares	\$ 1,293,094,151	\$ 1,235,064,990
Equity		
Regular Reserves	\$ 29,435,000	\$ 29,435,000
Other Reserves	25,500,000	25,500,000
Undivided Earnings	109,929,092	103,332,698
Accumulated Other Comprehensive Income	87,343	(1,784,706)
Total Equity	\$ 164,951,435	\$ 156,482,992
TOTAL LIABILITIES, SHARES & EQUITY	\$ 1,477,910,719	\$ 1,406,453,824

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Statement of Income (Unaudited)

	Dec. 31, 2016	Dec. 31, 2015
Interest Income		
Interest on Loans	\$ 33,237,082	\$ 29,058,984
Income from Investments	8,638,462	8,752,151
Total Interest Income	\$ 41,875,544	\$ 37,811,135
Interest Expense		
Dividends Paid to Members	\$ 2,331,683	\$ 2,613,225
Interest on Borrowed Funds	29	3
Total Interest Expense	\$ 2,331,712	\$ 2,613,228
Net Interest Income	\$ 39,543,832	\$ 35,197,907
Non-Interest Income	\$ 13,625,428	\$ 10,795,253
Non-Interest Expense		
Compensation and Employee Benefits	\$ 22,744,674	\$ 19,931,691
Office Operations	6,469,588	5,849,296
Professional and Outside Services	5,904,098	4,662,409
Office Occupancy	2,737,862	2,541,168
Loan Servicing	2,466,659	2,520,896
Promotions & Advertising	2,380,117	2,059,970
Training	454,312	373,049
NCUA Operating Fee	239,019	229,750
Association Dues	194,070	186,348
Annual Meeting	114,837	181,374
Other Operating Expenses	410,253	380,748
Provision for Loan Losses	2,759,270	547,785
Total Non-Interest Expense	\$ 46,874,759	\$ 39,464,484
Income from Operations	\$ 6,294,501	\$ 6,528,676
Non-Operating Income (Loss)		
Gain (Loss) on Investment	\$ 51,914	\$ 55,337
Gain (Loss) on Sale of OREO	-	46,109
Other	249,979	861,585
Total Non-Operating Income (Loss)	\$ 301,893	\$ 963,031
NET INCOME	\$ 6,596,394	\$ 7,491,707

the *right* moments



**HAWAII
STATE**

FEDERAL CREDIT UNION

always right by you

Main Branch

560 Halekauwila Street

Mon. to Fri.: 7:30am to 5:00pm

State Paydays: 7:00am to 5:00pm

Ali'i Branch

Downtown, Ali'i Place

1099 Alakea Street, Suite 100

Mon. to Fri.: 7:30am to 5:00pm

State Paydays: 7:00am to 5:00pm

Hawaii Kai Branch

Hawaii Kai Towne Center

6700 Kalaniana'ole Highway #110

Mon. to Fri.: 9:00am to 6:00pm

Saturday: 9:00am to 1:00pm

Kaimuki Branch

Kaimuki Shopping Center

3221 Waiialae Avenue, Suite 16-B6

Mon. to Fri.: 8:00am to 5:00pm

Saturday: 9:00am to 1:00pm

Kaneohe Branch

Kaneohe Bay Shopping Center

46-047 Kamehameha Highway, #7

Mon. to Fri.: 9:00am to 6:00pm

Saturday: 9:00am to 1:00pm

Kapolei Branch

Kapolei Shopping Center

91-590 Farrington Highway, Suite 140

Mon. to Fri.: 9:00am to 6:00pm

Saturday: 9:00am to 1:00pm

Mililani Mauka Branch

95-1095 Ainamakua Drive, #9

Mon. to Fri.: 9:30am to 6:30pm

Saturday: 9:00am to 1:00pm

Pearlridge Branch

Westridge Shopping Center

98-150 Kaonohi Street, #C101

Mon. to Fri.: 9:00am to 6:00pm

Saturday: 9:00am to 5:00pm

Kahului Branch

Triangle Square

425 Koloa Street, #101B

Mon. to Fri.: 8:30am to 4:30pm

Saturday: 9:00am to 1:00pm

Member Service Call Center

Oahu: (808) 587-2700

Toll-free: 1 (888) 586-1056

Mon. to Fri.: 7:30am to 7:00pm

Saturday: 9:00am to 5:00pm

www.HawaiiStateFCU.com

/HawaiiStateFCU