



HAWAII STATE

FEDERAL CREDIT UNION

ANNUAL REPORT 2018



Federally insured by NCUA



Annual Report 2018

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Message from Governor David Ige



Hawai'i State Federal Credit Union believes that every story is unique. With this understanding, Hawai'i State FCU is a financial institution that caters to each member as 'ohana and as an individual. And that is the reason for their success. On behalf of the State of Hawai'i, I extend my warmest aloha to the employees and member-owners of Hawai'i State FCU.

As a nonprofit financial cooperative with over 106,000 members, Hawai'i State FCU and their employees have provided professional financial services in Honolulu since 1936. With branches on O'ahu and Maui, the credit union has offered generations of public workers and their families with a full range of banking and loan services. Hawai'i State FCU also supports member-owners through financial educational programs, scholarships, Investing in Education grants, and various community activities. Most recently, with the federal government shutdown, Hawai'i State FCU launched the Government Shutdown Assistance Program to help their 'ohana every step of the way.

I am confident that Hawai'i State FCU, through their *"always right by you"* attitude, will manage its assets in the best interests of their member-owners and continue to help them by providing services that are trustworthy, dependable, and secure.

Aloha,

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

David Y. Ige
Governor, State of Hawai'i



Message from Mayor Kirk Caldwell



It gives me great pleasure to extend my warmest aloha to members of the Hawai'i State Federal Credit Union and their families.

Congratulations to the officers, board of directors and staff on publishing this annual report, describing the operations and performance of another successful year.

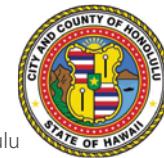
Since its founding, Hawai'i State FCU has focused on creating lifetime relationships with its members by providing the solutions needed for the major financial milestones in their lives. The full range of quality services offered by Hawai'i State FCU has helped reinforce its position as a leader in providing financial services.

On behalf of the people of the City and County of Honolulu, I extend best wishes for continued success.

Aloha,

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

Kirk Caldwell
Mayor, City and County of Honolulu



President's Message to Members

Aloha Fellow Members,

As I get older, the years seem to go by more quickly; 2018 seemed to fly by. But I'm pleased to report that 2018 was another year of extraordinary growth for Hawaii State FCU. In fact, we exceeded our goals and net income hit \$9.8 million. As a not-for-profit cooperative, we look forward to giving back these profits to you, our members. One of the ways we have begun to do this is through higher rates on savings accounts.

I am very proud of the over 350 employees that work hard each day to help our members achieve their financial goals. This is evidenced by the significant accomplishments that together we were able to reach last year.


- Our **Hawaii State FCU Mobile App** brings more convenience to members when managing their money on-the-go. Including adding *Debit Card Controls* which allows you to turn on/off your debit card and restrict purchase transactions to prevent fraud.
- Introduced a new high-yield savings products, such as our **Relationship MAX** savings account which earn 1.50% APY on balances of \$50,000 and higher.
- Expanded our **Business Banking** team to be able to provide more opportunity to Hawaii small business owners with financing and account services.

Looking ahead, 2019 will be an exciting year for Hawaii State FCU. We are relocating our Kahului branch to the Pu'unene Shopping Center. The new branch will be larger, providing more space for our growing Maui membership. On Oahu, we will open two new branches: Salt Lake and Ewa Beach. These branches will provide easy access and even more convenience to our members living in Central and West Oahu.

What has excited me the most is that more people in Hawaii have recognized the value of joining a credit union. My promise to you is that as Hawaii State FCU continues to grow and add members, we will remain committed to maintaining our exceptional member service. We will continue to survey our members for feedback and ask how we're doing to ensure we are living up to our motto of *always right by you*. After all, this is *your* credit union – we will always welcome your comments and suggestions.

Thank you for your loyalty and your membership.



Aloha,

Andrew Rosen
Hawaii State Federal Credit Union - President & CEO

Message from the Board of Directors

Aloha Fellow Members,

My first term as chairman of the Board of Directors has quickly come and gone and I couldn't have done it without the support of my fellow board members. I am truly thankful to them for their leadership and guidance.

While I have served on the Board for four years, my memories of Hawaii State FCU go back decades to when I was a little boy accompanying my family to the credit union to get money and grab lunch at Kewalo Basin Lunch Wagon. Let's just say I was a "husky" kid, and getting a plate lunch were some great times!

Like many of you, over the years, I conducted my financial business at the credit union and experienced first-hand what it's like to be treated just like family, and not just another account number.

That warmth and sense of belonging has always resonated with me. I will never forget the kindness a teller at the Main Branch shared towards my father just a few weeks before he would pass on. That kindness would be the impetus on why I would pursue a position on the Board to serve you, and be part of a credit union that strives to be *Always Right By You*.

Today, the credit union is doing very well and in a position where we can invest back in you. Here are some initiatives that the Board has championed:

- **Scholarship & Investing in Education** programs that directly benefits students and public school teachers. Because of the high need and interest, the Board has increased funding by 50 percent, raising our commitment from \$80,000 to \$120,000 in 2019.
- **Free Financial Seminars** to help build and strengthen our relationship with you, and to provide you with the knowledge that can empower a lifetime of personal and financial well-being.
- **Strong Stewardship Over Your Money.** The Board works extremely hard to support the Hawaii State FCU team and shape the strategic goals and policies to ensure that we are financially solid in both good and bad times.

I also want to recognize the credit union's leadership and more than 300 dedicated employees. The entire team moves with a single mission and provides service to members worthy of an *Always Right By You* experience.

While the Board always has one eye on the big strategic picture, we also know it's the everyday experiences — the happiness you have with our products and services — that will earn your loyalty and trust today and for years to come. And this is what we value most of all.

On behalf of all the Board of Directors, my sincere thanks again for the opportunity to serve you.



Aloha,

Ryan Morita
Board of Directors - Chairman

Board of Directors



Ryan Morita
Chairman



Marion Higa
Vice Chairman



Grant Tanimoto
Treasurer



Terrence Aratani
Secretary



Rick Blangiardi
Director



Kaulana Park
Director



Monica Toguchi Ryan
Director

Executive Management



Andrew Rosen
President & CEO



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



Rachael Sasaki
*Exec. Vice President
Administrative Services*

Carol Higa	Senior Vice President, Business Banking & Credit Administration
Cindy M. Ching	Senior Vice President, Support Services
Edmund Pang	Senior Vice President & Chief Financial Officer
Elliot J. Hatico	Senior Vice President, Retail Banking
Joel K. Kumabe	Senior Vice President & Chief Information Officer
Mary Beth Wong	Senior Vice President & General Counsel
Patricia Hao	Senior Vice President, Human Resources
Victor Brock	Senior Vice President, Consumer & Mortgage Lending
Aaron Vallely	Vice President, Sr. Dpt. Manager Sales & Branch Administration
Allison M.C. Maertens	Vice President, Marketing
David Kimura	Vice President, Investment Services
Derrick Arimoto	Vice President, Commercial Lending
Diane Higa	Vice President, Enterprise Program Management
Elizabeth Weatherford	Vice President, Sr. Dpt. Manager Card Operations
Eric Ebesu	Vice President, Treasury
Gina Carvalho	Vice President, Human Resources
Gail Evers	Vice President, Product Development & Analytics Department
James R. Haid, Jr.	Vice President, Corporate Development
Jennifer L. Sims, CUDE	Vice President, Learning & Development
Jon Nakamoto	Vice President, Internal Audit
Leilani B. Sumajit	Vice President, Senior Branch Manager
Loren Nakaoka	Vice President, Senior Branch Manager
Roland Ogoshi	Vice President, Senior Branch Manager
Sheryl Higa	Vice President, Business Systems
Tani Fujimori-Dower	Vice President & Controller of Finance
Vim Balantac	Vice President, Mortgage Loan Origination Manager

Supervisory Committee Report

The Supervisory Committee is pleased to report that Hawaii State Federal Credit Union (Credit Union) continued to operate in accordance with sound financial principles and applicable laws and regulations in 2018.

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 a certified public accounting firm to perform an independent audit of the Credit Union's financial statements as of December 31, 2018; 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 member accounts; interacted 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 2018.

Stanley Sawai
Supervisory Committee - Chairman

Supervisory Committee



Stanley Sawai
Chairman



Susan Ee
Secretary



Judy Dang
Member



Gordon Fukumoto
Member



Joshua Strickler
Member

Financial Statements

Statement of Financial Condition (Unaudited)

ASSETS	Dec. 31, 2018	Dec. 31, 2017
Loans Held for Sale	\$ 1,386,173	\$ 1,717,109
Loans, Less Allowance for Loan Losses of \$7,433,163 in 2018 and \$5,652,295 in 2017	\$ 970,306,331	\$ 849,850,541
Cash and Cash Equivalents	\$ 182,464,452	\$ 181,601,929
Investments		
Available for Sale	\$ 374,813,758	\$ 444,494,888
Held to Maturity	-	32,425
Restricted	1,844,100	1,773,500
Total Investments	\$ 376,657,858	\$ 446,300,813
Other		
Accrued Income Receivable	4,027,793	3,948,796
Property and Equipment, Net Depreciation	18,677,490	22,896,895
National Credit Union Share Insurance Fund (NCUSIF)	13,551,441	13,125,225
Other Assets	20,792,333	17,300,411
Total Other	\$ 57,049,057	\$ 57,271,327
TOTAL ASSETS	\$ 1,587,863,871	\$ 1,536,741,719

LIABILITIES, SHARES AND EQUITY	Dec. 31, 2018	Dec. 31, 2017
Accounts Payable & Other Liabilities	\$ 25,070,012	\$ 21,792,833
Total Shares	\$ 1,388,178,939	\$ 1,347,852,436
Equity		
Regular Reserves	\$ 29,435,000	\$ 29,435,000
Other Reserves	25,500,000	25,500,000
Undivided Earnings	124,488,214	114,649,950
Accumulated Other Comprehensive Income	(4,808,294)	(2,488,500)
Total Equity	\$ 174,614,920	\$ 167,096,450
TOTAL LIABILITIES, SHARES & EQUITY	\$ 1,587,863,871	\$ 1,536,741,719

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Statement of Income (Unaudited)

	Dec. 31, 2018	Dec. 31, 2017
Interest Income		
Interest on Loans	\$ 45,946,469	\$ 38,287,999
Income from Investments	11,535,006	9,747,264
Total Interest Income	\$ 57,481,475	\$ 48,035,263
Interest Expense		
Dividends Paid to Members	\$ 4,075,433	\$ 2,676,126
Interest on Borrowed Funds	21	8
Total Interest Expense	\$ 4,075,454	\$ 2,676,134
Net Interest Income	\$ 53,406,021	\$ 45,359,129
Non-Interest Income	\$ 16,595,674	\$ 14,193,800
Non-Interest Expense		
Compensation and Employee Benefits	\$ 29,460,164	\$ 26,080,043
Office Operations	7,353,003	6,928,045
Professional and Outside Services	6,323,181	5,686,605
Office Occupancy	3,475,051	3,165,156
Promotions & Advertising	3,197,285	2,909,706
Loan Servicing	3,019,121	2,828,733
Training	598,965	572,468
NCUA Operating Fee	385,156	315,145
Association Dues	237,692	208,468
Annual Meeting	20,610	24,495
Member Insurance	1,283	644
Other Operating Expenses	640,921	493,845
Provision for Loan Losses	6,753,700	5,804,810
Total Non-Interest Expense	\$ 61,466,132	\$ 55,018,163
Income from Operations	\$ 8,535,563	\$ 4,534,766
Non-Operating Income (Loss)		
Gain (Loss) on Investment	\$ (20,728)	\$ 38,716
Other	1,323,429	147,376
Total Non-Operating Income (Loss)	\$ 1,302,701	\$ 186,092
NET INCOME	\$ 9,838,264	\$ 4,720,858

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 Waialae 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 6:00pm

Saturday: 9:00am to 5:00pm

www.HawaiiStateFCU.com

/HawaiiStateFCU