

Annual Report 2019

A ***better*** place
to bank, might
not be a bank.



HAWAII STATE
FEDERAL CREDIT UNION

always right by you



Federally insured by NCUA

A **better** place to bank, might not be a bank.

You deserve a **better** place to bank.

A place that invests in lasting relationships. Where “trust” is the most valuable currency. And helping you meet the financial challenges of living in Hawaii, begins with understanding.

A place where “win-win” happens every day, profits are shared, and “doing what is right” isn’t just a motto, but a mission. You deserve a place where they’re happy to see you, not because you have a big balance, but because you have a big smile. At Hawaii State FCU, we’re not a bank but a credit union who believes in **“always right by you.”**

Because, you deserve **better**.



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Member Stories

“Her care, it wasn’t just a business transaction to her.”



THE THOMPSON FAMILY

There’s no place quite like Hawaii – the people, the culture, the aloha spirit. So when Sione and Dawn Thompson started having kids, they wanted their children to grow up in Hawaii, just like they did. Over the years, they were blessed with four beautiful daughters, Shawna, Shalae, Sevati and Sanaia.

It wasn’t long before the young family outgrew their cramped apartment. “The place was just too small,” said Sione, “the children just needed more space.” Dawn began looking for a larger home, but with rising home prices, it was heartbreak after heartbreak, being outbid or watching prices move out of reach. For four years Dawn searched, until one day, an opportunity appeared.

A foreclosed home in Makakilo had just gone on the market. Dawn fell in love with it immediately. Sione quickly shopped around for a good mortgage rate. After looking at the offerings from several big local banks, they chose Hawaii State FCU.

At the credit union, Angela was assigned to assist Sione and Dawn. There was the foreclosure to deal with involving a mainland bank, legal proceedings, mortgage papers to process, and the clock was ticking.

The mainland bank wanted to close the sale in 30 days.

Angela didn’t miss a beat. Every day she would give Sione and Dawn updates regarding the complex transaction and moving things along day by day. Says Sione, “Angela went way beyond what we expected. Her care, it wasn’t just a business transaction to her.”

30 days later, on schedule, Sione and Dawn received the keys to their new home. As they stood in the driveway, they imagined their daughters happily riding their bikes in the neighborhood, and they said to themselves, “we’re home.”



“Nice to have good advice from people you trust.”

DR. JOHN KAYA, HAWAII KAI VETERINARY CLINIC

About 5 years ago, Dr. John Kaya was approached with the opportunity of a lifetime – the chance to have his own veterinary clinic. The doctor at Hawaii Kai Veterinary Clinic was retiring and he knew he could trust John to provide excellent care for his long list of furry clients.

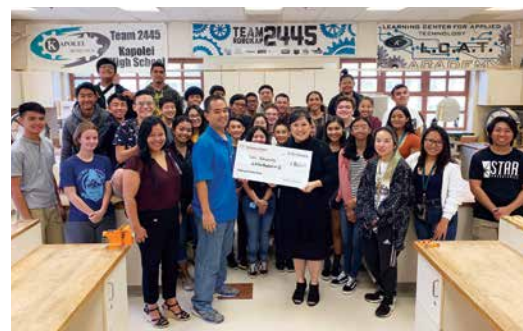
“I had never run a business before,” thought John, “how am I going to pay for this?” With 15 years of experience as a vet, but zero years of experience as a business owner, John set out to find a bank who could provide the smart financing and sound business advice that he needed.

“I visited with 4 financial institutions,” says John, “but one of them really stood out. They offered me a great loan rate, they made me feel like family and I didn’t get lost in the shuffle.” Dr Kaya chose Hawaii State FCU.

Derrick, at Hawaii State FCU was assigned to help John out. “As a new business owner, what I needed was good advice from someone I could trust. Derrick is always checking to see if I need anything,” says John, “he answers all my questions and he gets things done.”

Today, John’s Hawaii Kai Veterinary Clinic is growing steadily with 6 vets, a remodeled clinic, extra exam rooms and more furry patients than ever. Vivian, John’s friendly 2-year-old Pomeranian, serves as the clinic’s animal ambassador.

“We like to provide heart-to-heart vet care,” says John, “and what makes Hawaii State FCU different from other places is that they really do care – their people are the difference.”



Message from Governor David Ige



Since 1936, the Hawai'i State Federal Credit Union (HSFCU) has grown to a solid, reputable banking institution with over 113,000 members today. The reasons for its success are outstanding service, integrity, dependability and a focus on lifelong relationships. HSFCU is where banking counts, where your money grows, and where you are part of the 'ohana.

With eleven branches and 70 shared-branch locations statewide, HSFCU has offered generations of public service employees and their families a full range of banking and loan services. In today's fast-paced, high tech society, HSFCU also offers convenient mobile banking and 24/7 account access.

"Always right by you," HSFCU has your best interest at heart. Always a part of the family, members can place their trust, their earnings and their lifelong dreams in the hands of the credit union that they own. HSFCU is where members come first.

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 warm greetings of aloha to the members and their families of the Hawai'i State Federal Credit Union.

The Hawai'i State Federal Credit Union has maintained its position as Hawai'i's largest and most trusted credit union with more than 113,000 members. The credit union maintains its standing by expanding and improving services and making banking more convenient and accessible.

Congratulations on publishing this annual report. It provides members with essential information on credit union operations, financial performance and activities over the past year. Mahalo to the board of directors, management, and staff for their excellent leadership and commitment to providing members with services needed to set and achieve their financial goals.

On behalf of the people of the City and County of Honolulu, I thank the Hawai'i State Federal Credit Union for its contributions to our local economy and 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

If I could describe the past year in one word, it would be: *growth*. I know that it's a word that we've used often over the years, but the growth that Hawaii State FCU experienced in 2019 was truly extraordinary. I am proud to say that at the end of the year, we became Hawaii's largest credit union. It reaffirmed for us that we are taking the credit union in the right direction – by investing and expanding wisely, implementing new technologies, and of course, carefully considering our members in all that we do.

This is an incredible accomplishment that would not have been possible without all of you. Thank you for putting your trust in us and helping Hawaii State FCU reach this amazing milestone.


As a not-for-profit cooperative, I'm also pleased to share that this growth allowed us to give back to our members like never before. Last year alone, we paid out \$9.7 million in interest dividends to our members – more than double compared to 2018. Paying fair deposit rates is just one of the many ways that we continue to be *always right by you*.

Our achievements would not be possible without the hard work of our team of nearly 400 employees, who are committed to providing outstanding service and guidance to our members throughout their financial journeys. As a result, I'm proud to share just a few of the many milestones we achieved this past year as a credit union:

- Became **Hawaii's first billion-dollar credit union lender**, with \$1.09 billion in loan balances at the end of 2019.
- Celebrated the **opening of three branches**, including new locations in Salt Lake and Ewa Beach to better serve our Central and West Oahu members, and the relocation of our Kahului Branch to a larger space that can accommodate our growing Maui membership.
- Enhanced our member service experience, becoming the **first financial institution in the state to feature Interactive Teller Machines (ITMs)** in our newest branches. We also became the first in the nation to equip our ITMs with palm vein-based biometric authentication.

Despite the great success we've seen over the past year, I'm truly excited for what lies ahead. For 2020, we are developing a number of strategic initiatives that will allow the credit union to enjoy continued long-term growth. We are constantly seeking and working to retain talented, hard-working employees to provide members with outstanding service and experiences. And as always, we continue to invest in our members, through low rates, state-of-the-art technology, fair payments, and looking out for your best interest in all we do. That's our promise and commitment to you.



Aloha,

Andrew Rosen
Hawaii State Federal Credit Union - President & CEO

Chairman's Message to Members

As we close the door on 2019, I wanted to take the opportunity to reflect on my past five years of involvement on the Hawaii State FCU Board of Directors. I've had the distinct privilege to serve for the last two years as Board Chair – a responsibility that I did not take lightly.

I'm incredibly grateful for the opportunity to represent our members in this capacity, and to serve alongside my fellow Board Members, Supervisory and Nominating Committee members.

I can recall far too many fond memories from the past five years to list them all here, but there are several things we've accomplished as a credit union that I'm particularly proud of:

- The opening of four new branches to better serve our growing membership,
- Celebrating Hawaii State FCU's 80th anniversary,
- The creation and expansion of our financial education program,
- Named the only financial institution designated as a Hawaii Green Business (Ali'i Branch),
- And last but not least, our growth to becoming the largest credit union in the state.

This year, I was also very pleased with the amount of investment we were able to put into initiatives that not only benefit our members, but also make meaningful impacts in our community, particularly in the areas of education and small business:

- **Lowell Kalapa Scholarship Program:** We remain committed to supporting our members in their pursuit of higher education. As a result, we increased our scholarship amount for the second consecutive year to \$100,000 for 2020, allowing us to provide \$5,000 scholarships to twenty deserving students.
- **Investing in Education:** We awarded grants totaling \$40,000 to 89 Department of Education teachers, the highest number of grants awarded since 2009, for purchases of classroom materials to enhance curriculums and hands-on learning.
- **Small Business Grant:** We established our first Small Business Grant, which awarded \$5,000 grants to two small business owner-members to support the growth and expansion of their small businesses.

Looking back on some of the highlights of last year, I can't help but look forward to 2020 with excitement for everything that's to come.

I wanted to also thank my fellow Board Members, Supervisory and Nominating Committee members for their support and dedication in providing stewardship of Hawaii State FCU.

I'd also like to thank our team of incredible employees, without whom these accomplishments are not possible, and thank our members for their continued loyalty and trust in us. The Board of Directors remains committed to addressing the ever-changing needs of our members and looking out for your best interests. Thank you again for the opportunity to serve you.



Aloha,

Ryan Morita
Board of Directors - Chairman

Board of Directors



Ryan Morita
Chairman



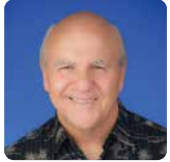
Marion Higa
Vice Chairman



Grant Tanimoto
Treasurer



Terrence Aratani
Secretary



Rick Blangiardi
Director



Kaulana Park
Director



Monica Toguchi Ryan
Director

Executive Management



Andrew Rosen
President & CEO



Carol Higa
*Exec. Vice President
Lending*



Rachael Sasaki
*Exec. Vice President
Operations*



Craig Warren
*Exec. Vice President
Retail*



Diane Higa
*Sr. Vice President
Enterprise Strategy*

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 2019.

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, 2019; 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 2019.

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, 2019	Dec. 31, 2018
Loans Held for Sale	\$ 1,137,713	\$ 1,386,173
Loans, Less Allowance for Loan Losses of \$9,237,004 in 2019 and \$7,433,163 in 2018	\$ 1,080,119,671	\$ 970,306,331
Cash and Cash Equivalents	\$ 220,096,863	\$ 182,464,452
Investments		
Available for Sale	\$ 349,676,986	\$ 355,010,653
Equity Securities	45,036,073	39,803,105
Restricted	1,905,500	1,844,100
Total Investments	\$ 396,618,559	\$ 376,657,858
Other		
Accrued Income Receivable	4,657,317	4,027,793
Property and Equipment, Net Depreciation	21,699,522	18,677,490
National Credit Union Share Insurance Fund	14,502,061	13,551,441
Mortgage Servicing Rights	3,493,328	2,789,579
Company Owned Life Insurance	11,961,708	11,626,432
Other Assets	9,122,695	6,376,322
Total Other	\$ 65,436,631	\$ 57,049,057
TOTAL ASSETS	\$ 1,763,409,437	\$ 1,587,863,871

LIABILITIES, SHARES AND EQUITY	Dec. 31, 2019	Dec. 31, 2018
Accounts Payable & Other Liabilities	\$ 30,172,389	\$ 25,070,012
Total Shares	\$ 1,548,248,307	\$ 1,388,178,939
Equity		
Regular Reserves	\$ 29,435,000	\$ 29,435,000
Other Reserves	25,500,000	25,500,000
Undivided Earnings	128,987,592	124,488,214
Accumulated Other Comprehensive Income	1,066,149	(4,808,294)
Total Equity	\$ 184,988,741	\$ 174,614,920
TOTAL LIABILITIES, SHARES & EQUITY	\$ 1,763,409,437	\$ 1,587,863,871

Federally insured by NCUA

Statement of Income (Unaudited)

	Dec. 31, 2019	Dec. 31, 2018
Interest Income		
Interest on Loans	\$ 52,822,366	\$ 45,946,469
Income from Investments	13,174,185	11,535,006
Total Interest Income	\$ 65,996,551	\$ 57,481,475
Interest Expense		
Dividends Paid to Members	\$ 9,705,242	\$ 4,075,433
Interest on Borrowed Funds	14	21
Total Interest Expense	\$ 9,705,256	\$ 4,075,454
Net Interest Income	\$ 56,291,295	\$ 53,406,021
Non-Interest Income	\$ 20,914,681	\$ 16,595,674
Non-Interest Expense		
Compensation and Employee Benefits	\$ 32,279,054	\$ 29,460,164
Office Operations	8,687,532	7,353,003
Professional and Outside Services	7,182,418	6,323,181
Office Occupancy	4,081,184	3,475,051
Promotions & Advertising	3,637,704	3,197,285
Loan Servicing	3,247,873	3,019,121
Training	635,881	598,965
NCUA Operating Fee	413,745	385,156
Association Dues	250,681	237,692
Annual Meeting	18,678	20,610
Member Insurance	2,179	1,283
Other Operating Expenses	685,156	640,921
Provision for Loan Losses	10,296,510	6,753,700
Total Non-Interest Expense	\$ 71,418,595	\$ 61,466,132
Income from Operations	\$ 5,787,381	\$ 8,535,563
Non-Operating Income (Loss)		
Gain (Loss) on Investment	\$ (9,983)	\$ (20,728)
Other	333,366	1,323,429
Total Non-Operating Income (Loss)	\$ 323,383	\$ 1,302,701
NET INCOME	\$ 6,110,764	\$ 9,838,264

For a list of branches, visit
www.HawaiiStateFCU.com/locations

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

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