

HAWAII  STATE

FEDERAL CREDIT UNION

2011 ANNUAL REPORT



Federally Insured by NCUA





MESSAGE FROM GOVERNOR NEIL ABERCROMBIE



In Recognition of the Hawai'i State Federal Credit Union January 25, 2012

On behalf of the people of Hawai'i, I extend a heartfelt aloha to the Hawai'i State Federal Credit Union, its Board of Directors, employees, and more than 75,000 credit union members statewide

The HSFCU has been open to Hawai'i's State, City and County employees and their families and has provided them with financial services administered by a member-owned, democratically controlled, financial cooperative promoting community development and thrift.

The HSFCU's long history of dedicated service to the people of our State is highly commendable. Since it's founding in 1936 by 15 government workers, the HSFCU has gained \$1.2 billion in assets and has expanded to branches in Aiea, Honolulu, Mililani, Kaneohe, Kapolei, and Kahului, Maui.

I extend my best wishes to the Hawai'i State Federal Credit Union for 2012, and much success and prosperity in the years to come.

Aloha,

Neil Abercrombie

NEIL ABERCROMBIE

Governor, State of Hawai'i



MESSAGE FROM MAYOR PETER B. CARLISLE



It gives me great pleasure to extend warm greetings of aloha to members and their families of the Hawaii State Federal Credit Union as it celebrates its 75th Anniversary.

Mahalo to the Board of Directors, management, and staff for your excellent leadership during a challenging year for state and county employees. I commend your dedication and commitment to providing your membership of more than 75,000 with the best financial services, highest dividend savings, lowest loan rates and \$1.2 billion in assets.

Since its founding in 1936, the Hawaii State Federal Credit Union has continued to grow and improve upon its services, making banking more convenient and accessible, and allowing members to conduct transactions at any time of the day or night.

On behalf of the people of the City and County of Honolulu, I congratulate you on a successful year, and extend best wishes for continued prosperity and growth.

Peter B. Carlisle



The Main Branch on Halekauwila Street opened in 1981. Credit union members, employees, and volunteers attended the groundbreaking ceremony in September 1979.



The five story office building on Halekauwila Street opened on March 20, 1981 and has served as our Main Branch ever since.



In 1995 Hawaii State FCU opened its first branch office at 1100 Alakea Street. In 2006 the branch moved across the street to the Ali'i Place building and became known as the Ali'i Branch. HSFCU now operates branch offices in Pearlridge, Kaneohe, Miiilani, Kaimuki, Kapolei, and Kahului.



In 2005 Hawaii State FCU expanded its field of membership to include employees of the City and County of Honolulu, County of Maui, County of Hawaii, and County of Kauai and their immediate family members.



In December 2008 Hawaii State FCU opened its first neighbor island branch in Kahului, Maui.

HSFCU THROUGH THE YEARS

75TH ANNIVERSARY MESSAGE | HISTORY OF HSFCU

Hawaii State Federal Credit Union's story began 75 years ago in 1936. The Great Depression had crippled much of the nation's economy, driving many banks out of business thus shrinking the amount of credit available to America's citizens. Millions of individuals of humble means requiring relatively small loans found themselves being denied credit by the banks that remained. In response to this growing crisis President Franklin D. Roosevelt signed into law the Federal Credit Union Act enabling common working people to pool their money together, provide loans to each other, and collectively improve their economic condition.

It was in this spirit that 15 employees of the Territory of Hawaii came together to form the Hawaii Territorial Employees Federal Credit Union on October 26, 1936. Included among the original 15 members was the Governor of the Territory of Hawaii – Joseph B. Poindexter, a Franklin Roosevelt appointee. The original members made up a diverse cross-section of government employment including treasurers, auditors, surveyors, and engineers. The names of the original members are printed below:

Howard H. Adams	W.R. Dunham	James Y.T. Leong
Toe Y. Awana	James L. Friel	Alexander May
Herbert Bacon	W.E. Holt	William C. McGonagle
H.N. Browne	M.N. Huckestein	Joseph B. Poindexter
Louis S. Cain	Ernest K. Kai	Francis H. Smith



One of our founding members
Gov. Joseph B. Poindexter

75 years later, Hawaii State Federal Credit Union now serves over 75,000 members with nearly \$1.2 billion in total assets. Though our size and scope has grown, our core philosophy remains the same: “people helping people” to collectively improve the lives of each credit union member and the communities we serve.

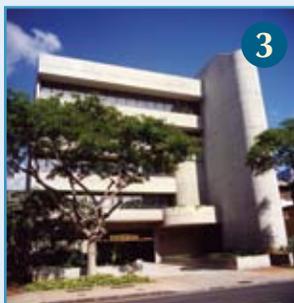
The History of the MAIN BRANCH



1. Hawaii State Federal Credit Union began in 1936 in the Territorial Office Building in downtown Honolulu, first on the mezzanine level and then in a one room office in the basement of the building. The office was so small that if a credit union employee was assisting a member seated in the office and someone else wanted to come in, the member would have to stand up so that the person could get through the door.



2. Needing more space for our growing membership and operational needs, we moved to the third floor of the Charles R. Kendall Building on Mililani Street in 1970.



3. The credit union continued to grow and expand and by the late 1970s it became apparent that we would need our own building. The five story office building on Halekauwila Street opened on March 20, 1981 and has served as our Main Branch ever since.



Mildred "Auntie Millie" Botelho

Member Since 1956

"The Credit Union employees make me feel so comfortable, they know my name. They're always wonderful, cheerful and happy"



Renwick "Uncle Joe" Tassill and Aunty June Toguchi-Tassill

Members Since 1989

"You meet the nicest people at the HSFCU Annual Dinner, people you would love to be friends with the rest of your life. That's where I met my wife."



Amy Akina

Member Since 2007

"I wanted to go back to school, because I wanted to be a role model for my son and the college scholarship money from Hawaii State FCU really helped because we are both in school."



Dominic Madamba & Mae Simon

Members Since 2009

"Thanks to Hawaii State FCU, we were able to purchase our first home!"



Kara Iwasaki

Member Since 2008

"I'm really big on customer service and have had only great experiences at Hawaii State FCU!"



Ronald & Eleanor Diaz

Members Since 1975

"We always left the Bank upset, but at Hawaii State FCU we always leave happy!"

Emily Vergara

Member Since 1982

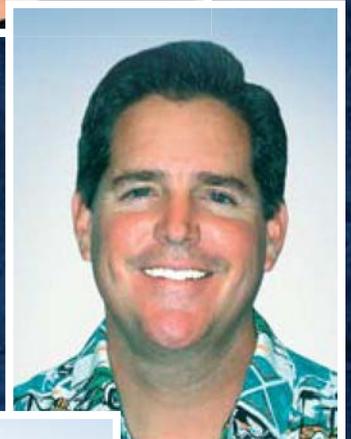
"The Investing in Education Program provided the funds to purchase supplies for my classroom and make memory books for my students."



Blair Thorndike

Member Since 1976

"My mom was a state worker and she helped me join when I was 13 years old, so I could buy a new moped. Over 30 years later, I still enjoy the quick and easy loan process and super friendly staff."



Pamela, Jamie & Paige Makiya

Members Since 1985, 1999 and 2010

"I joined Hawaii State FCU because of the great financial opportunities and wanted my daughter and granddaughter to have the same experience."



Jasen Andrade

Member Since 2009

"As a firefighter, my schedule constantly changes. That is why I enjoy the convenience of banking with Hawaii State FCU. They offer free online services and great member service when I visit the branch"



Charles and Marie Mattson

Members Since 1970

"We enjoy doing business with Hawaii State FCU because their employees treat us like family."



YEAR IN REVIEW

The credit union's financial position remains strong. Our assets increased \$47 million to over \$1.2 billion and our net worth rose 2 percent to over \$139 million. Our net worth to assets ratio, a key indicator of financial strength, was 11.27 percent and earnings were strong at \$2.7 million. Total shares increased to \$1.09 billion, up \$39.8 million from last year.

Our service to the community and our active participation in charitable events continued in 2011. In May and June, we participated in a cell phone recycling drive that collected hundreds of old phones and prevented their toxic materials from damaging the environment. In July and August we participated in the Aloha Pono Lion's Club Recycle for Sight program. Members brought in hundreds of pairs of eyeglasses to be donated to men, women, and children in developing nations. In September, credit union employees, friends, and family members participated in the Alzheimer's Association Memory Walk¹. As the statewide sponsor for the event, we raised over \$15,500 to donate to this worthy cause. In December, we donated thousands of pounds of food and household supplies to homebound seniors in Kakaako, Pearl City, and Kaneohe as part of our annual Cheer on Wheels program².

Our commitment to education continued as well. At the beginning of the year, we launched our 16th annual scholarship program which awarded \$30,000 to members and their dependents seeking higher education. In February, dozens of credit union employees and their family members volunteered their time to help restripe the parking lot at Salt Lake Elementary School as part of the Hawaii 3Rs program³. Also in February, we sponsored LifeSmarts, a statewide competition that teaches high school students essential life skills such as consumer rights and responsibilities and financial literacy⁴.



In August, we donated hundreds of pounds of school supplies to the Kapolei Rotary Club as part of their annual school supply drive⁵. In September and October, we provided over \$23,500 in grant funds to Hawaii Department of Education teachers as part of our Investing in Education program. We also participated for the first time in the Hawaii Jaycees Adopt-A-School Day program. We adopted Heeia Elementary School in Kaneohe and donated hundreds of pounds of much needed school supplies.

The credit union also introduced a number of programs that rewarded members for their years of loyalty, for taking advantage of our services, and for actively helping us grow our institution. We once again offered our new member referral program in which existing members received \$50 for each new member they referred. New members were also awarded up to \$25 for opening a checking account and enrolling in paperless e-statements. In July, our Gimme \$5 promotion rewarded over 1,100 members with \$5 just for switching to e-statements. In August and September, we awarded nine lucky members with three-night stays at the new Disney Aulani Resort in Ko Olina just for opening new checking accounts, while in October, 75 lucky members won cash prizes totaling over \$19,000 as part of our 75 Prizes for 75 years member loyalty drawing.

Hawaii State Federal Credit Union looks forward to another year of success in all avenues of operation and will continue to develop new products and services. We hope you join us for another year of growth and innovation.



HSFCU
COMMUNITY
SERVICE

MESSAGE FROM THE CHAIRWOMAN



This past year the Hawaii State Federal Credit Union celebrated its 75th anniversary. Since 1936, your credit union has been dedicated to serving the needs of you, your family, and the broader community. Our success could not have been achieved without your continued loyalty. Thank you for your support and patronage.

I am pleased to report that because of our members' continued support, 2011 was another year of growth and success for the credit union. Membership remained stable at over 75,000 members while our assets grew \$47 million to over \$1.2 billion.

Our strong financial performance allowed us to reinvest in our members and the communities we serve in numerous ways. In 2011 our 75 Prizes for 75 Years drawing rewarded members for their years of loyalty with over \$19,000 in cash prizes while our new member referral program rewarded members with \$50 for each new member they referred. Our active role in the community continued by raising over \$15,500 for the Alzheimer's Association, delivering thousands of pounds of food to homebound seniors, and awarding \$30,000 in scholarships.

Looking ahead, we promise to continue delivering the finest financial services available. In 2012 we will be unveiling a number of technological upgrades that will make your credit union experience more convenient than ever. However, no matter how sophisticated our new services become, we are still committed to retaining the personal service that has earned us our reputation and your loyalty while remaining a safe and sound financial institution. We look forward to serving the future needs of you and your family for many years to come.

A handwritten signature in black ink that reads "Amy J. Motooka". The signature is written in a cursive style.

Amy Motooka,
Chairwoman

BOARD OF DIRECTORS



William Milks
Vice Chairman



Lowell Kalapa
Treasurer



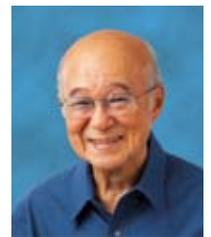
Louise
Akamine
Secretary



Tit Mun Chun
Director



David
Shimabukuro
Director



James Takushi
Director

SENIOR MANAGEMENT



Rachael Sasaki
Interim President



Edmund Pang
*SVP, Finance &
Credit Administration*



Joel Kumabe
*Chief Information
Officer*



Elliot Hatico
*VP Sales and Branch
Operations*



Cindy Ching
*VP Support
Services*



Pat Hao
*VP Human
Resources*



Jon Nakamoto
VP Internal Audit

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is pleased to report that Hawaii State Federal Credit Union continued to be in sound financial condition in 2011. A copy of the audited financial statements is available for viewing at the credit union's administrative office.

A supervisory committee is required by the Federal Credit Union Act. Committee members are appointed by the Board of Directors and are responsible for ensuring the credit union's records are maintained properly, honestly, and accurately; that policies established by law and by the board of directors are carried out faithfully; and that members' assets are safeguarded and used according to the purposes of the credit union.

To fulfill our responsibilities, we contracted the certified public accounting firm of KMH LLP to perform a financial audit of the credit union's accounting records as of December 31, 2011; assigned two full-time internal auditors to conduct audits of the credit union's operations; worked closely with the National Credit Union Administration's (NCUA) examiners; attended Board of Directors meetings; attended Asset/Liability Committee meetings; investigated member complaints; participated in educational programs; verified closed accounts; verified members' accounts; and completed special investigations/studies as we considered necessary. Finally, we monitored policies established by the Board of Directors to ensure they promoted the credit union's mission and were in compliance with NCUA regulations and applicable laws.

We would like to express our gratitude to the credit union's Board of Directors and staff for their support in helping us to serve you in 2011.

SUPERVISORY COMMITTEE

Warren Motosue
Chairman, Supervisory Committee



Warren Motosue
Chairman



Wayne Horie
Member



Derrick Inouye
Member



Manu Kaiama
Member

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

	2011	2010
ASSETS		
Loans, Less Allowance for Loan Losses of \$6,856,739 in 2011 and \$5,743,618 in 2010	\$ 550,667,461	\$ 552,486,358
Cash and Cash Equivalents	\$ 130,007,033	\$ 84,367,227
Investments		
Available for Sale	\$ 455,465,696	\$ 341,314,985
Held to Maturity	2,343,172	10,213,954
Restricted	2,198,300	2,198,300
Total Investments	\$ 460,007,168	\$ 353,727,239
Certificates of Deposit	\$ 60,099,000	\$ 165,099,000
Other		
Accrued Income Receivable	3,839,064	4,307,849
Property and Equipment, Net Depreciation	16,705,123	16,817,475
National Credit Union Share Insurance Fund	10,663,185	9,703,514
Other Assets	3,935,442	1,705,646
Total Other	\$ 35,142,814	\$ 32,534,484
Total Assets	<u>\$ 1,235,923,476</u>	<u>\$ 1,188,214,308</u>
LIABILITIES, SHARES AND EQUITY		
Accounts Payable & Other Liabilities	\$ 6,745,420	\$ 5,765,937
Total Shares	\$ 1,085,669,957	\$ 1,045,850,600
Equity		
Regular Reserves	29,435,000	29,435,000
Other Reserves	25,500,000	25,500,000
Undivided Earnings	84,400,358	81,689,576
Accumulated Other Comprehensive Income	4,172,741	(26,805)
Total Equity	\$ 143,508,099	\$ 136,597,771
Total Liabilities, Shares & Equity	<u>\$ 1,235,923,476</u>	<u>\$ 1,188,214,308</u>

STATEMENT OF INCOME

STATEMENT OF INCOME (UNAUDITED)

	2011	2010
Interest Income		
Interest on Loans	31,658,494	33,232,412
Interest Rebate on Loans	-	(952,806)
Income from Investments	12,465,745	14,310,842
Total Interest Income	\$ 44,124,239	\$ 46,590,448
Interest Expense		
Dividends Paid to Members	8,971,136	11,613,102
Bonus Dividends Paid to Members	-	959,992
Interest on Borrowed Funds	2	6,192
Total Interest Expense	\$ 8,971,138	\$ 12,579,286
Net Interest Income	\$ 35,153,101	\$ 34,011,162
Non-Interest Income	\$ 6,757,898	\$ 7,234,080
Non-Interest Expense		
Compensation and Employee Benefits	\$ 13,210,571	\$ 13,671,026
Provision for Loan Losses	6,637,000	6,331,500
Office Operations	4,966,115	4,592,031
Professional and Outside Services	4,768,324	4,094,043
NCUA Assessments	2,665,796	2,478,448
Office Occupancy	2,014,717	1,925,498
Loan Servicing	1,607,317	1,554,864
Promotions & Advertising	1,210,008	1,213,547
Member Insurance	303,166	281,761
NCUA Operating Fee	240,137	234,501
Training	144,653	328,714
Association Dues	118,660	130,279
Annual Meeting	114,427	84,544
Other Operating Expenses	273,703	272,065
Total Non-Interest Expense	\$ 38,274,594	\$ 37,192,821
Income from Operations	\$ 3,636,405	\$ 4,052,421
Non-Operating Income (Loss)		
Loss on Investment-Impairment	-	(606,660)
Other	(925,623)	248,161
Total Non-Operating Income (Loss)	\$ (925,623)	\$ (358,499)
Net Income	\$ 2,710,782	\$ 3,693,922

STATEMENT OF RESERVES AND UNDIVIDED EARNINGS (UNAUDITED)

	2011	2010
Balance as of January 1	\$ 136,597,771	\$ 135,804,883
Net Income	2,710,782	3,693,922
Other Accumulated Comprehensive Income (Expense)	4,199,546	(2,901,034)
Balance as of December 31	\$ 143,508,099	\$ 136,597,771

OAHU BRANCHES

Main

560 Halekauwila Street
Honolulu, HI 96813
7:30 a.m. – 5:00 p.m. Mon – Fri
7:00 a.m. – 5:00 p.m. on State Paydays

Alii

1099 Alakea Street, Suite 100
Honolulu, HI 96813
7:30 a.m. – 5:00 p.m. Mon – Fri
7:00 a.m. – 5:00 p.m. on State Paydays

Kaimuki

Kaimuki Shopping Center
3221 Waiialae Avenue, Suite 16-B6
Honolulu, HI 96816
8:30 a.m. – 4:30 p.m. Mon – Fri
9:00 a.m. – 1:00 p.m. Sat

Kapolei

Kapolei Shopping Center
91-590 Farrington Highway, Suite #140
Kapolei, HI 96707
9:00 a.m. – 6:00 p.m. Mon – Fri
9:00 a.m. – 1:00 p.m. Sat

Mililani Mauka

95-1095 Ainamakua Drive, #9
Mililani, HI 96789
9:30 a.m. – 6:30 p.m. Mon – Fri
9:00 a.m. – 1:00 p.m. Sat

Pearlridge

Westridge Shopping Center
98-150 Kaonohi Street, #C101
Aiea, HI 96701
9:00 a.m. – 6:00 p.m. Mon – Fri
9:00 a.m. – 5:00 p.m. Sat

Kaneohe

46-028 Kawa Street, Suite B1
Kaneohe, HI 96744
9:00 a.m. – 6:00 p.m. Mon – Fri
9:00 a.m. – 1:00 p.m. Sat

MAUI BRANCH

Kahului

Triangle Square
425 Koloa Street, 101B
Kahului, HI 96732
8:30 a.m. – 4:30 p.m. Mon – Fri
9:00 a.m. – 1:00 p.m. Sat

ATM LOCATIONS

AAFES Building
919 Ala Moana Blvd

State Capitol
Chamber Level
415 S. Beretania St.

Queen Liliuokalani Building
1390 Miller St.
Off Punchbowl, across Queens Hospital

Kalanimoku Building
1151 Punchbowl St.
Between S. King and Beretania St

Leiopapa A Kamehameha Building
235 S. Beretania St.
Corner of Beretania and Bishop St

Keelikolani Building
830 Punchbowl St.
Corner of Punchbowl and Halekauwila St

Kinau Hale (Department of Health)
1250 Punchbowl St.
Corner of Punchbowl and Beretania St

Kakuhihewa (Kapolei State Office Building)
601 Kamokila Blvd, 2nd Floor

Ronald T. Y. Moon Judiciary Complex
4675 Kapolei Pkwy.

UH John A. Burns School of Medicine
651 Ilalo St.

Kaneohe Branch
46-028 Kawa St, Suite B1

Pearlridge Branch
98-150 Kaonohi St #C101

Main Branch
560 Halekauwila St

Alii Branch
1099 Alakea St, Suite 100

Mililani Mauka Branch
95-1095 Ainamakua Dr, #9

Kaimuki Branch
3221 Waiialae Ave, Suite 16-B6

Kahului Branch
425 Koloa St #101B

Kapolei Branch
91-590 Farrington Hwy, Suite 140

CONTACT US

Member Service Call Center
587-2700 (Oahu)
1-888-586-1056 (Neighbor Islands & U.S. Mainland toll-free)

Website
www.HawaiiStateFCU.com

Mailing Address
P.O. Box 3072
Honolulu, HI 96802



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It Pays to Belong