

MAIN BRANCH
560 Halekauwila Street

ALI'I BRANCH
1099 Alakea Street, Suite 100

KAIMUKI BRANCH
3221 Waiālae Avenue, Suite 16-B6

KANEOHE BRANCH
46-047 Kamehameha Highway, #7

KAPOLEI BRANCH
91-590 Farrington Highway, Suite 140

MILILANI MAUKA BRANCH
95-1095 Ainamakua Drive, #9

PEARLRIDGE BRANCH
98-150 Kaonohi Street, #C101

KAHULUI BRANCH
425 Koloa Street, #101B

MEMBER SERVICE CALL CENTER
587-2700 (Oahu)
Toll Free: 1-888-586-1056

MAILING ADDRESS
P.O. Box 3072
Honolulu, Hawaii 96802

www.HawaiiStateFCU.com
f/HawaiiStateFCU

HAWAII STATE

FEDERAL CREDIT UNION

ANNUAL REPORT 2013
island traditions



Federally insured by NCUA



ANNUAL REPORT 2013

Features

- 3 GOVERNOR'S MESSAGE
- 4 MAYOR'S MESSAGE
- 6 CHAIRMAN'S MESSAGE
- 7 BOARD OF DIRECTORS
& SENIOR MANAGEMENT
- 8 SUPERVISORY COMMITTEE
REPORT
- 9 YEAR IN REVIEW
- 12 STATEMENT OF FINANCIAL
CONDITION
- 13 STATEMENT OF INCOME



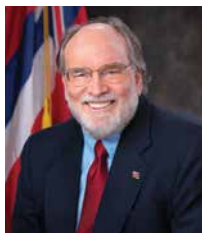
FACEBOOK SUMMER PHOTO CONTEST



Winning photo by Darcie Inagaki



Message from Governor Neil Abercrombie



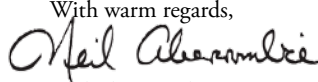
Aloha and best wishes to Hawai'i State Federal Credit Union employees, member-owners and guests attending its annual meeting.

As a non-profit financial cooperative owned and operated by its more than 77,000 credit union members, Hawai'i State FCU and its employees have provided professional financial services in Honolulu since its inception in 1936. Now on O'ahu and Maui, the credit union works tirelessly to strengthen its member-owners' communities by promoting community development and also encouraging thrift as well as financial and social responsibility.

The Hawai'i State FCU also supports its member-owners by staying true to its philosophy of "providing financial solutions to improve their lives," offering excellent customer service delivered with the spirit of *Aloha*.

According to the Chinese lunar calendar, 2014 represents the "Year of the Horse" and a good year to make the most of opportunities that arise. As our state government has achieved fiscal stability and even a record positive fund balance for fiscal year 2013, I'm confident Hawai'i State FCU will continue to help its member-owners maximize opportunities to reach and sustain their own fiscal health and thrive, by providing financial services that are trustworthy, dependable and secure.

Again, *aloha* to the Hawai'i State Federal Credit Union. I wish you all continued success.

With warm regards,

Neil Abercrombie
Governor, State of Hawai'i



Message from Mayor Kirk Caldwell




On behalf of the people of the City & County of Honolulu, congratulations and mahalo to the members, officers, and Board of Directors of the Hawaii State Federal Credit Union on another year of helping to meet the banking needs of our state government employees and their families.

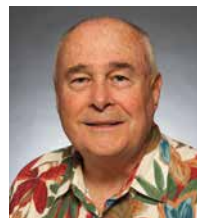
Founded in 1936, the Hawaii State Federal Credit Union has become one of the largest and most trusted credit unions in the state. Your wide range of financial services, including: IRAs; mortgage loans; home equity lines of credit; credit and debit cards; a dividend-earning checking account; high-dividend savings; and low auto and personal loan rates provide members with a comprehensive toolkit to build and manage wealth.

Now in your 78th year of business, the Hawaii State Federal Credit Union has kept up with technological advances to provide members with cutting-edge banking convenience. Services such as your Private Line and free Online Banking system allow members to access their accounts and conduct transactions 24-hours a day, 7-days a week, 365-days a year.

The marriage of traditional local values and customer service with modern technology and resources has seen the Hawaii State Federal Credit Union prosper and thrive. May the next year bring continued success to you and your member-owners.

Aloha,

Kirk Caldwell
Mayor, City and County of Honolulu





Chairman's Message to Members

Aloha Fellow Members,

On behalf of the Board of Directors, I am pleased to report to our member owners that 2013 resulted in a bigger, better and stronger credit union.

Despite a challenging economic environment and increasing regulatory pressures, Hawaii State Federal Credit Union (HSFCU) continues to grow, offering more convenient services and greater value to our members.

Here are some of the highlights of the year:

- HSFCU grew to more than \$1.3 Billion in assets, making it one of Hawaii's largest financial institutions. HSFCU has the strongest net worth (capital position) of all 76 credit unions in Hawaii. Despite maintaining some of the lowest fees and best rates in Hawaii, we generated \$2.8 million in income in 2013.
- While continuing to serve State and County employees, we expanded the credit union's charter to allow non-profits, associations and select small businesses to become members. This allows even more members of the Hawaii community to take advantage of the value Hawaii State offers and helps support services for existing members.
- HSFCU added three advisors to its Financial Advisors team. HSFCU is back in the mortgage lending business and has added impound services for taxes and insurance. Also, HSFCU resumed its small business banking services and launched a mobile banking app.
- We were awarded the Best Credit Union by the Honolulu Star Advertiser; most "liked" Hawaii Credit Union; and named one of the "Best Places to Work" by Hawaii Business Magazine.
- We continued to help our members and support the community we serve. We awarded \$30,000 toward the 18th Annual Hawaii State FCU Scholarship Program, gave \$25,000 in grants to public school teachers, and became a major sponsor of the Friends of the Library of Hawaii, supporting their book sales and setting up pop-up book stores in two branches.
- At the end of 2013, we lost Lowell Kalapa our Vice Chairman. In his three years as a Director at HSFCU, Lowell made enormous contributions to the credit union in strengthening our governance, improving management, and always reminding us to focus on our members and our community. He will be missed by the credit union and by all of Hawaii.

The Board thanks you for your loyal support in 2013 and looks forward to a successful 2014 offering great products at competitive prices, to help and support all our members.

William Milks
Chairman

Board of Directors



William Milks
Chairman



Lowell Kalapa
Vice Chairman



Russel Yamashita
Treasurer



David Akaka
Secretary



Connie Chang
Director



David Shimabukuro
Director



Grant Tanimoto
Director

Executive Management



Andrew Rosen
President & CEO



Rachael Sasaki
*Exec. Vice President
- Administrative
Services*



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



Edmund Pang
*Sr. Vice President
- Chief Financial
Officer*



Joel Kumabe
*Sr. Vice President
- Chief Information
Officer*



Elliot Hatico
*Sr. Vice President
- Sales & Branch
Operations*



Victor Brock
*Vice President
- Consumer &
Mortgage Lending*



Nathan Chang
*Vice President
- Credit Admin. &
Business Lending*



Cindy Ching
*Vice President
- Support Services*



Patricia Hao
*Vice President
- Human Resources*



Janice Nakamoto
*Vice President
- Information
Systems*



Jon Nakamoto
*Vice President
- Internal Audit*

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 2013.

A supervisory committee is required by Federal regulations to ensure the credit union's records are properly maintained; that policies established by law and by the board of directors are followed; and that members' assets are safeguarded.

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, 2013; contracted with information systems specialists to review the credit union's management of technology services; assigned two full-time internal auditors to conduct audits of the credit union's operations; worked with the National Credit Union Administration's (NCUA) examiners; monitored the activities of the Board of Directors and the Asset/Liability Committee; investigated member complaints; participated in educational programs; verified closed memberships; and completed special investigations or studies as we considered necessary.

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 2013.

Derrick Inouye
Chairman, Supervisory Committee

Supervisory Committee



Derrick Inouye
Chairman



Manu Kaiama
Secretary



Joshua Strickler
Member



Michael Miranda
Member



Susan Lee
Member

Year in Review

2013 was an exciting and innovative year for Hawaii State Federal Credit Union. The most significant change was the expansion of our field of membership to include not only State, City, and County employees but select businesses, associations, and community groups as well. Some of these new groups include the Hawaii Government Employees Association, the United Public Workers, the Hawaii State Bar Association, the Friends of the Library of Hawaii, and the Honolulu Zoological Society. This expansion dramatically increases the growth potential of our credit union thus allowing us to continue adding new products and services to meet the needs of our growing membership. We pledge to provide these new groups with the same level of outstanding service that we provide to Hawaii's government employees and family members.

We continued our commitment to education and community development throughout the year. In January, we launched our 18th Annual Scholarship Program that awarded \$30,000 to 15 Hawaii State FCU members and dependents seeking higher education. Since its inception, this program has contributed over half a million dollars toward the education of some of Hawaii's best and brightest students. With college costs across the country continuing to escalate, these funds are more crucial than ever. In February, we once again sponsored LifeSmarts, a high school skills competition that promotes financial literacy and consumer awareness. In September and October our Investing in Education Program provided 43 Department of Education teachers with nearly \$20,000 in grant funds to help them purchase classroom supplies and fund programs that enhance student achievement.

We once again made charitable giving a priority. In June we donated \$25,000 to the Friends of the Library of Hawaii to sponsor their annual book sale at McKinley High School. The Friends of the Library supports Hawaii's public library system by raising money to fund programs that exceed the ordinary library budget and by awarding grants and scholarships to aspiring librarians. Their efforts are crucial to the promotion of public literacy and the dissemination of knowledge throughout our community. Our Main and Alii branches also feature pop-up bookstores. The next time you visit one of these branches we encourage you to take a look at our selection and support a worthy cause. In September we also served as the statewide sponsor for the Walk to End Alzheimer's. We donated \$10,000 to this important cause and dozens of Hawaii State FCU employees, volunteers, friends, and family members participated in the charity walk.

We also continued to add new products and services. New services this year include our mobile app – a downloadable application that allows you to bank from your smartphone. We also began offering photovoltaic loans. If you're considering PV panels for your home, you can now receive a loan from Hawaii State FCU with no payments required for two years. New members to the credit union were also rewarded with \$50 bonuses for opening savings and checking accounts with either direct deposit or a debit card while existing members received entries into a drawing to win a trip for two on Alaska Airlines. Three lucky members won vacations to the destination of their choice.

Our credit union also enjoyed another financially successful year. Our assets increased \$28.5 million to over \$1.3 billion and our net worth rose 2.0 percent to \$146 million. Our net worth to assets ratio, a key indicator of financial strength, was 11.16 percent and earnings were strong at \$2.8 million. Membership grew to over 79,000 members.

We owe our success in 2013 to the loyal support of our members. With your continued support, we promise to make 2014 another year of growth and prosperity.



Photo Credit: Rylen Yamamoto



Financial Statements

Statement of Financial Condition (Unaudited)

ASSETS	Dec. 31, 2013	Dec. 31, 2012
Loans, Less Allowance for Loan Losses of \$7,293,637 in 2013 and \$8,317,297 in 2012	\$ 467,777,228	\$ 479,567,710
Cash and Cash Equivalents	\$ 182,469,185	\$ 151,858,064
Investments		
Available for Sale	\$ 612,497,283	\$ 609,040,079
Held to Maturity	1,108,465	1,637,591
Restricted	2,081,300	2,159,300
Total Investments	\$ 615,687,048	\$ 612,836,970
Other		
Accrued Income Receivable	2,911,745	3,083,653
Property and Equipment, Net Depreciation	15,986,010	16,892,788
National Credit Union Share Insurance Fund (NCUSIF)	11,271,604	10,923,966
Other Assets	12,032,857	4,409,982
Total Other	\$ 42,202,216	\$ 35,310,389
TOTAL ASSETS	\$ 1,308,135,677	\$ 1,279,573,133

LIABILITIES, SHARES AND EQUITY	Dec. 31, 2013	Dec. 31, 2012
Accounts Payable & Other Liabilities	\$ 10,778,124	\$ 11,836,603
Total Shares	\$ 1,153,933,972	\$ 1,117,868,333
Equity		
Regular Reserves	\$ 29,435,000	\$ 29,435,000
Other Reserves	25,500,000	25,500,000
Undivided Earnings	91,112,729	88,301,520
Accumulated Other Comprehensive Income	(2,624,148)	6,631,677
Total Equity	\$ 143,423,581	\$ 149,868,197
TOTAL LIABILITIES, SHARES & EQUITY	\$ 1,308,135,677	\$ 1,279,573,133

Federally insured by NCUA

Financial Statements

Statement of Income (Unaudited)

	Dec. 31, 2013	Dec. 31, 2012
Interest Income		
Interest on Loans	\$ 24,875,581	\$ 29,110,158
Income from Investments	7,971,607	9,246,753
Total Interest Income	\$ 32,847,188	\$ 38,356,911
Interest Expense		
Dividends Paid to Members	\$ 3,706,656	\$ 5,047,014
Interest on Borrowed Funds	1	1
Total Interest Expense	\$ 3,706,657	\$ 5,047,015
Net Interest Income	\$ 29,140,531	\$ 33,309,896
Non-Interest Income	\$ 7,466,422	\$ 6,946,029
Non-Interest Expense		
Compensation and Employee Benefits	\$ 15,503,738	\$ 13,635,869
Office Operations	5,695,800	5,705,343
Professional and Outside Services	3,985,265	5,174,330
Office Occupancy	2,475,939	2,370,956
Loan Servicing	1,648,556	1,708,190
Promotions & Advertising	1,602,850	1,471,303
Provision for Loan Losses	1,566,500	3,975,299
NCUA Assessments	901,728	1,037,777
Other Operating Expenses	294,485	446,615
Training	269,365	148,389
NCUA Operating Fee	263,087	248,704
Annual Meeting	179,573	159,640
Association Dues	154,575	143,033
Member Insurance	56,618	343,612
Total Non-Interest Expense	\$ 34,598,079	\$ 36,569,060
Income from Operations	\$ 2,008,874	\$ 3,686,865
Non-Operating Income (Loss)		
Loss on Investment	\$ (754)	\$ –
Gain on Sale of OREO	578,542	–
Other	224,547	214,297
Total Non-Operating Income (Loss)	\$ 802,335	\$ 214,297
NET INCOME	\$ 2,811,209	\$ 3,901,162

Statement of Reserves and Undivided Earnings (Unaudited)

	2013	2012
Balance as of January 1	\$ 149,868,197	\$ 143,508,099
Net Income	\$ 2,811,209	\$ 3,901,162
Other Accumulated Comprehensive Income (Expense)	(9,255,825)	2,458,936
BALANCE AS OF DECEMBER 31	\$ 143,423,581	\$ 149,868,197

providing each
member with
extraordinary service

HAWAII STATE
FEDERAL CREDIT UNION