



Aloha Pacific
FEDERAL CREDIT UNION

2017 Annual Report

Management Message

We had a great 2017. We made progress in all areas – loans, membership, shares and services. We completed a major branch renovation and the first co-branded credit union merger in Hawaii. These accomplishments and our plans for 2018 are summarized below.

2017 Accomplishments:

Financial Strength – Net income was \$5.2 million, which included the gain in equity from the Hawaii National Guard FCU (HNGFCU) merger. This one-time gain helped support the resulting growth in assets when their membership was added.

Membership & Asset Growth – Our total membership grew to 48,610 with 28,105 checking accounts. Loans increased \$66.1 million (+16.2%) to \$473.3 million. Member shares increased \$34.2 million (+5.0%) to \$716.6 million. Total assets reached \$820.4 million, an increase of \$41.0 million (+5.26%).

New Member Benefits – We focused on improving convenience and loan options. Our HELOC program was re-vamped to add several fixed introductory rates and expanded consumer loan eligibility. Our new mobile services enable you to deposit checks using your smartphone or device; access all APFCU accounts you are joint on; transfer money to any APFCU member’s account; and pay retailers using your phone (Apple, Samsung & Android Pay). Best of all, we opened our larger Waimalu branch featuring face-to-face tellers, interactive video tellers and paperless transactions.



Education & Community – We continue to build our community involvement and promote financial education. This year we raised \$22,812 for Kapiolani Children’s Miracle Network and participated in The Salvation Army’s Angel Tree program. We shared our Aloha spirit at the Honolulu City Lights and Kaimuki Christmas parades. Our “Get REAL Financial Reality Fair” continues to grow with presentations at Farrington and McKinley High Schools.

2018 & Beyond:

Upgraded Facilities – With the success of the newly renovated Waimalu branch and the modernized teller-pod concept, we plan to remove the remote teller systems and focus on face-to-face member services at the Kaimuki and Fort Street branches.

New Products & Services – Our big initiative will be online account opening, which will enable faster member opening. In addition, we will be looking at offering new checking products that will fit specific member lifestyles.

Brand & Service Enhancement – We are targeting staff training to increase their professional knowledge which will

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Management Message *(Continued)*

help us improve the consultative nature of our front-line service and the technical proficiency of our back-office support staff.

As we approach the end of the second decade of this new century, we see a period of unprecedented technological and social change. To adapt, we are expanding our mobile self-service channels and re-directing member service to provide face-to-face, problem-solving interactions. This means higher investments in staff training, electronic systems and cyber security. We are looking to provide you products at an affordable cost with the highest level of personal service possible.

Thank you for all your support over the years and we look forward to many more exciting, prosperous years ahead.

Mahalo & Aloha,


Gary Iwai
Board Chair


Vince J. Otsuka
President and CEO



WHO WE ARE

Aloha Pacific Federal Credit Union (APFCU) is the third largest credit union in Hawaii, with over \$820 million in assets. Chartered in 1936 as the Honolulu City & County Employees Federal Credit Union, the credit union changed its name on July 1, 2007. It continues to serve its original charter of employees, retirees and families of the City & County of Honolulu but has expanded to include Select Employee Groups. NMLS #377314.

CUSO of Hawaii Services LLC is a wholly owned company of APFCU and was established in 2000. It offers residential and commercial mortgage loan servicing to 28 credit unions. NMLS #325608.

Aloha Pacific Premier Realty, a division of CUSO of Hawaii Properties LLC, was established in 2006. It is a full-service real estate company providing personalized realty services to both residential and commercial clients. RB-19315.

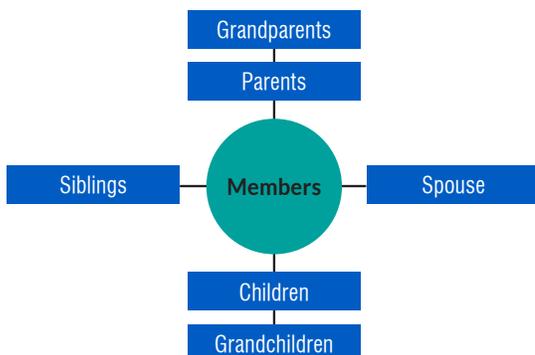
Aloha Pacific Financial Group, a division of APFCU, offers financial planning, investment and insurance advice to credit union members. Established in 2003, it is located at 832 South Hotel Street (Main branch) and formerly was known as Kalabash Financial.



WHO WE SERVE

There are no fees to join. Once a member, always a member. Even if you change jobs or retire, you can continue to enjoy our benefits.

To join, you must belong to one of the groups (or common bonds) listed below and maintain \$5 in your savings account.



- ❖ Employees of the City & County of Honolulu, State of Hawaii;
- ❖ City & County employees who are retired or on leave of absence;
- ❖ Immediate family members of a City & County employee or existing credit union member;
- ❖ Aloha Pacific FCU and Hawaii National Guard CU employees;
- ❖ SEGs (Select Employee Groups) as approved by the Board of Directors (over 2,000 groups including HGEA, Hawaii Pacific Health, Waipahu Community Association, all Oahu COSTCO stores, AOA Harbor Court and many others);
- ❖ And members of their immediate families or household; and organizations of such persons.

2017 Annual Meeting Minutes

The 79th Annual Meeting of the members of Aloha Pacific Federal Credit Union was held on Wednesday, March 15, 2017, at McCoy Pavilion, Honolulu, Hawaii.

Master of Ceremonies and 1st Vice Chair of the Board of Directors Stanley Inamasu welcomed the members and reminded everyone to register to receive their meal, door prize ticket and meeting gift. He encouraged the members to visit the informational booths set up by Aloha Pacific Financial Group, Aloha Pacific Premier Realty and APFCU's Consumer Lending and Mortgage Lending departments.

Board of Directors Chair Gary Iwai called the meeting to order at 5:08 p.m. and requested the Board Secretary to declare a quorum. Darwin Hamamoto declared a quorum with 395 members registered.

Chair Iwai then welcomed guest speaker City Council Chair Ron Menor. Menor stated that he appreciates the role APFCU plays in the community by being a major sponsor of the Honolulu City Lights celebration, enjoyed by thousands of citizens each year. He further mentioned how APFCU takes good care of our members by offering higher interest rates and favorable loan products.

Menor noted that rail continues to be a challenge with rising construction costs and urged the members to get involved at committee hearings. He distributed City Council calendars with the meeting dates and reminded everyone to call their Council member to voice their opinions. Chair Iwai thanked Council Chair Menor for his comments.

Chair Iwai stated that the Board of Directors is responsible for the interests of all members by establishing the strategic direction for Management. He recognized the following volunteers for their dedicated service throughout the year: Board of Directors 1st Vice Chair Stanley Inamasu; 2nd Vice Chair Allan Fujimoto (unable to attend); Secretary Darwin Hamamoto; and Directors Robert Morita, Samuel Moku and Geminiano "Toy" Arre, Jr.

He also introduced Supervisory Committee members Diane Murata, Howard Okamoto and Ben Dimond, who are tasked with ensuring that the credit union's financial condition is accurately represented in our financial statements and is in compliance with NCUA regulations. Committee Chair Ann Sakurao and Vice Chair Ted Takahashi were unable to attend.

The CUSO Board members – Vice Chair Daniel Tully, Directors Stanley Inamasu and Samuel Moku – were also introduced. Board members Stanley Wachi, Ann Gima and David Takiguchi were unable to attend.

Chair Iwai expressed his appreciation for the many volunteers who serve but receive no special benefits or compensation and stated that as Chair of the Board of Directors, he is proud to serve with these dedicated members. He then thanked the staff, led by the Marketing Department, who generously gave their time and expertise to plan this meeting.

He then announced that the minutes of the 2016 Annual Meeting were included in our current Annual Report, which was mailed to each household, posted on our website and available at the registration tables, and asked for a motion to approve. Howard

Okamoto made the motion, seconded by Ben Dimond. The 2016 Annual Meeting minutes were approved as presented by the membership.

Chair Iwai shared a few of his thoughts on the accomplishments of 2016:

- APFCU continues to introduce new products and services for members while being involved in the community and providing financial education for both young and old.
- The Las Vegas branch was relocated to Henderson and is now closer to the Vegas Strip. It incorporates a new teller-pod design and interactive video system, enabling our Hawaii staff to perform face-to-face transactions.
- We continued to focus on lending to help our members save money.
- While low-interest rates may help our members save money on loans, it also makes it difficult to increase member dividends.
- And we successfully held the line on fees. There were no fee increases.

Chair Iwai stated that looking forward:

- Management is working on member and deposit growth. While we still have the long-term goal of 12% capital, growing deposits will help us keep pace with rising expenses.
- In addition to organic growth, we also asked Management to pursue credit union mergers. Smaller credit unions are suffering and if we can offer "win-win" solutions, it would help the credit union movement.
- We continue to invest in our online and mobile channels. Considering the rapid adoption of smart devices, this is essential to our future.
- Lastly, we will finish the construction of our Waimalu branch this year as the current location is too small and uncomfortable for our members.
- As we celebrate our 80th year of business, your Board of Directors remains committed to the mission to "build lasting relationships through excellence" and our vision as your "primary source for financial advice and solutions."

Chair Iwai then introduced Vince Otsuka, President/CEO, who extended a warm "Aloha" to the members and guests. Otsuka introduced his executive team:

- Norman Goo, Vice President, Lending and Collections
- Kristopher Kono, Vice President, Risk Management
- Randy Shinagawa, Vice President/Controller
- Scott Nishimura, Vice President, Commercial Lending
- Michael Camat, Vice President, Information Technology

Otsuka noted that Thomas Santos, Vice President, Sales and Marketing, was unable to attend.

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Message from Mayor Kirk Caldwell

I am pleased to send my warmest aloha to the officers, directors, staff, and members of the Aloha Pacific Federal Credit Union. Congratulations on publishing this annual report on the operations and performance of the credit union over the past year.

Initially founded for City and County of Honolulu employees, the credit union has expanded to help generations of residents achieve their financial goals through a full range of services and membership benefits.

Honolulu deeply appreciates the credit union's support of many worthy programs that benefit our community, including the Kapi'olani Children's Miracle Network, Salvation Army's Angel Tree program, and Honolulu City Lights.

On behalf of the people of the City and County of Honolulu, I thank Aloha Pacific for its contributions to our local economy and extend best wishes for continued success.

Kirk Caldwell
Mayor, City and County of Honolulu

Kirk Caldwell
Mayor,
City & County of
Honolulu

Treasurer's Report

The financial position and operating results of Aloha Pacific Federal Credit Union (APFCU) and its subsidiaries were consolidated for the year ended December 31, 2017, and are presented in this annual report. Be assured that APFCU officials and management place the highest priority on the safety of our members' funds and the soundness of our operations.

In 2017, assets increased \$41.0 million or 5.3%, to \$820.4 million. Member and business shares increased \$34.2 million or 5.0%, to \$716.7 million. Loans outstanding increased \$66.1 million or 16.2%, to \$473.3 million, thanks to increased marketing, competitive pricing and loan participation. The credit union's equity of \$88.5 million, or 10.79% of total assets, continues to be deemed well-capitalized by our federal regulator, the National Credit Union Administration (NCUA).

Total net income in 2017 was \$5.18 million, \$2.27 million higher than last year. This was due to increased loan and asset growth. While loan losses increased, they remain relatively low. This is due to the integrity and creditworthiness of our member borrowers and continued sound lending practices.

APFCU paid out \$1.33 million in share dividends, which was competitive with Hawaii's largest credit unions and banks. With over 48,000 member-owners, APFCU continues to attract new accountholders and select employee groups. We continue to keep member fees low while adding more services at no cost or at competitive rates.

We thank all our loyal employees who worked extremely hard to service our members' needs and our volunteer officials for their tireless dedication and leadership.

ALOHA and MAHALO to all our valued member-owners for their patronage and support of Aloha Pacific Federal Credit Union over the past 80 years and beyond. Together, we make the credit union possible.

Darwin Hamamoto
Secretary/Treasurer

2017 Annual Meeting Minutes *(Continued)*

Otsuka reported that we have grown to eight branches on Oahu and in Las Vegas since being chartered 80 years ago in 1936.

He stated that 2016 was another good year as we continue to accelerate our membership, share and loan growth. Loans were up an impressive 28 percent, which resulted in income of \$2.9 million.

We launched our EMV cards, which makes it harder for criminals to duplicate your card and reduces fraud.

We expanded our surcharge-free ATM network to include American Savings Bank, Hawaii National Bank and Bank of Nevada. Along with First Hawaiian Bank, CO-OP and APFCU's ATMs, you now have the largest surcharge-free ATM network in Hawaii.

Otsuka further stated that three new credit card options were introduced: Rewards, Cash Back and Preferred Rate. In addition, there is a special affinity card in partnership with Kapiolani Children's Medical Center, which receives a portion of the proceeds.

We also introduced Overdraft Privilege, which will cover you if you accidentally overdraw your checking account, avoiding costly return items and late fee penalties.

Looking forward, Otsuka reported that we want to increase our growth to improve our economies of scale, which will put us in a better position to offer additional member rebates.

He announced that Hawaii National Guard FCU recently agreed to become our merger partner and when the merger is completed in May, we will increase our assets by \$18 million and add 1,937 new members. Because Hawaii National Guard FCU has an extremely loyal member following, we are doing the first co-branded merger in Hawaii whereby Hawaii National Guard FCU will keep its name but operate as a division of Aloha Pacific FCU.

Otsuka continued that for our online and mobile banking services, we recently added the ability to transfer money to any APFCU member account without calling or having to visit the branch and that by June, we plan to launch Apple, Samsung and Google Pay for our debit and credit cards. This will enable you to use your phone to make payments.

He further announced that we plan to launch our new HELOC product, which will offer fixed rate options of 1 to 5 years and a lower index rate, replacing our current 0.35% one-year special.

Otsuka stated that we continue to move forward with our mission and vision and in the next few years, we will achieve financial goals and give our members more products and services. He encouraged the members to be part of these exciting changes and to please ask us about becoming volunteers.

Lastly, Otsuka announced that we will be celebrating our 80th anniversary at the 2018 Annual Meeting and plan to have special promotions throughout the year.

Otsuka then announced a special presentation to recognize the dedication of member volunteers who have served on the Board of Directors or the Supervisory Committee. The award is named in honor of Moses "Moke" Lum Hoy, who faithfully served our membership as a Director for over 45 years, from 1961 to 2006.

He contributed greatly to our growth and advanced the credit union movement in Hawaii. Like Moke, volunteers on the credit union's Board and Supervisory Committee spend significant hours working to ensure that our credit union remains safe and sound while serving our members' best interests.

The following volunteers were recognized with the Moses "Moke" Lum Hoy Volunteer Service Award:

- Stanley Inamasu 10 years on the Board of Directors
- Allan Fujimoto 15 years on the Board of Directors (unable to attend)
- Gary Iwai 20 years on the Board of Directors
- Howard Okamoto 20 years on the Supervisory Committee
- Diane Murata 20 years on the Supervisory Committee
- Ted Takahashi 30 years on the Supervisory Committee (unable to attend)

Chair Iwai resumed the floor and asked the membership if there was any Unfinished Business. There was no unfinished business.

Chair Iwai then asked if there was any New Business. There was no New Business.

Chair Iwai then advised the membership that because there were three qualified candidates to fill the three open Board seats, there was no election by ballot and declared the candidates elected by general consent. He introduced the elected Board Members serving two-year terms:

- Geminiano "Toy" Arre, Jr.
- Darwin Hamamoto
- Samuel Moku

There being no further business, Chair Iwai declared the Annual Meeting adjourned at 5:36 p.m.

Respectfully Submitted,



Gary Iwai
Board Chair



Susan Hiyoto
Recording Secretary

Financial Statements

Financial Condition (Unaudited)	Dec 31, 2017	Dec 31, 2016
ASSETS		
Cash & Equivalents	\$ 43,613,148	\$ 59,129,407
Investments	259,898,822	272,451,882
Loans	473,323,958	407,225,282
Allowance for Loan Losses	(3,602,609)	(3,178,440)
Net Loans	469,721,349	404,046,842
Property & Equipment	32,078,354	32,268,393
Other Assets	15,102,934	11,527,787
TOTAL ASSETS	\$ 820,414,607	\$ 779,424,311
LIABILITIES & EQUITY		
Accounts Payable & Other Liabilities	\$ 15,219,777	\$ 13,003,225
Member Shares	\$ 716,662,255	\$ 682,502,279
Equity		
Regular Reserves	22,528,698	22,528,698
Undivided Earnings	62,153,877	56,040,109
Appropriated Undiv. Earn	3,850,000	5,350,000
Total Equity	\$ 88,532,575	\$ 83,918,807
TOTAL LIABILITIES, SHARES & EQUITY	\$ 820,414,607	\$ 779,424,311
Income (Unaudited)		
	Dec 31, 2017	Dec 31, 2016
Interest Income		
Interest on Loans	\$ 16,943,488	\$ 14,949,843
Income on Investments	5,758,886	6,019,148
Total Interest Income	\$ 22,702,374	\$ 20,968,991
Interest Expense		
Dividends to Members	\$ 1,330,114	\$ 1,345,255
Other Cost of Funds	-	-
Total Interest Expense	\$ 1,330,114	\$ 1,345,255
Net Interest Income	\$ 21,372,260	\$ 19,623,736
Provision for Loan Losses	1,429,055	577,864
Net Int Inc After Provision for Loan Losses	\$ 19,943,205	\$ 19,045,872
Non-Interest Income	\$ 8,273,073	\$ 8,223,334
Non-Interest Expense		
Salaries & Benefits	\$ 11,447,226	\$ 11,542,591
*Office Occupancy	3,422,384	3,360,430
**Office Operations	5,235,805	4,858,693
Education & Promotion	1,497,597	1,662,546
Professional Services	1,138,741	1,547,425
Insurance Fund & NCUA Operating Fees	177,950	137,180
Loan Servicing	1,017,418	1,039,348
Other (Annual Meeting, Travel, Dues, etc.)	555,989	677,216
Total Non-Interest Expense	\$ 24,493,110	\$ 24,825,429
Total Income from Operations	\$ 3,723,168	\$ 2,443,777
Non-Operating Gain / (Loss)	1,454,193	468,464
NET INCOME	\$ 5,177,361	\$ 2,912,241

*Rent, maintenance, building depreciation, utilities & taxes

**Software, hardware, furniture & equipment depreciation, card expenses, insurance & other miscellaneous

Committees:

SUPERVISORY COMMITTEE:

Ann Sakurao - Chair
Howard Okamoto - Vice Chair
Diane Murata - Secretary
Ben Dimond
Jonathan Tamanaha

ALCO STRATEGIC:

Geminiano 'Toy' Arre Jr. - Chair
Stanley Inamasu - Vice Chair
Allan Fujimoto
Robert S. Morita
Samuel Moku
Vince J. Otsuka
Kristopher C. Kono
Randy Shinagawa

OPERATIONAL ALCO:

Vince J. Otsuka - Chair
Geminiano 'Toy' Arre Jr.
Norman Goo
Kristopher C. Kono
Thomas W. Santos
Randy Shinagawa
Scott Nishimura

HUMAN RESOURCES

Robert S. Morita - Chair
Darwin Hamamoto - Vice Chair
Allan Fujimoto
Stanley Inamasu
Howard Okamoto

NOMINATIONS / ELECTIONS

Stan Miyata - Chair
Geminiano 'Toy' Arre Jr. - Vice Chair
Lorene Fujimoto

Contact Us:

BY PHONE

APFCU
Oahu: 531-3711
Toll free: 1-877-531-3711

HNGCU

Oahu: 737-5714
Toll free: 1-877-218-6906

BY MAIL

Aloha Pacific Federal Credit Union
832 South Hotel Street
Honolulu, HI 96813

BY INTERNET

Websites: alohapacific.com, hngcu.com
E-mail: support@alohapacific.com

DIRECTORS

To contact our board members and committee members, please mail correspondence to:
Aloha Pacific Federal Credit Union
Attn: <Board Member's Name>
832 South Hotel Street
Honolulu, HI 96813

Aloha Pacific Federal Credit Union - Board of Directors



Gary Iwai
Chair
Director Since 1997



Stanley Inamasu
1st Vice Chair
Director Since 2007



Allan Fujimoto
2nd Vice Chair
Director Since 2002



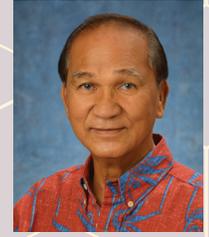
Darwin Hamamoto
Secretary
Director Since 1982



Robert S. Morita
Director
Director Since 2013



Samuel Moku
Director
Director Since 2013



Geminiano 'Toy' Arre Jr.
Director
Director Since 2015

Aloha Pacific Federal Credit Union - Executive Management



Vince J. Otsuka
President and CEO



Kristopher C. Kono
Vice President
Risk Management



Thomas W. Santos
Vice President
Sales



Norman Goo
Vice President
Lending &
Collections



Barbara J.L. Carvalho
Vice President
Operations &
E-Channel



Randy Shinagawa
Vice President
Controller



Scott Nishimura
Vice President
Commercial Lending

CUSO of Hawaii - Board of Directors



Stanley Wachi
Chair
Director Since 2000



Daniel Tully
Vice Chair
Director Since 2001



Ann Gima
Secretary
Director Since 2010



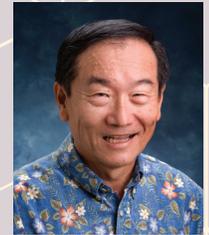
David Takiguchi
Treasurer
Director Since 2005



Geminiano 'Toy' Arre Jr.
Director
Director Since 2015



Stanley Inamasu
Director
Director Since 2016



Allan Fujimoto
Director
Director Since 2017

Supervisory Committee

According to the National Credit Union Administration's (NCUA) Rules and Regulations, the Supervisory Committee is responsible for ensuring that an annual financial audit is conducted, verification of member accounts is performed at least once every two years, and an annual report is prepared and presented to the members at the annual meeting.

Other Supervisory Committee responsibilities include attending Board of Directors and committee meetings, investigating member complaints, verifying closed accounts, and monitoring the overview and findings of the Federal Examiner, external financial audit and internal control program.

The Board of Directors and management have met required financial reporting objectives and established procedures to safeguard our members' assets. Their dedicated efforts to serve our members ensure that our Credit Union will maintain its sound financial condition and continue to perform in a diligent and creditable manner.

Ann Sakurao

Ann Sakurao
Supervisory Committee Chair



832 South Hotel Street • Honolulu Hawaii 96813
www.alohapacific.com

80th Annual Meeting Notice

When: Wednesday, March 14, 2018 at 5:00 pm
Member registration begins at 4:00 pm

Where: McCoy Pavilion, Ala Moana Park,
1201 Ala Moana Blvd., Honolulu, HI 96814

No RSVP necessary. Gift, bento, refreshments and door prizes for attending primary members (while supplies last).

Go to alohapacific.com or hngcu.com; or call us at 531-3711 or 877-531-3711 toll free for more information.



Branch Locations:

ALOHA PACIFIC FEDERAL CREDIT UNION

MAIN BRANCH

832 South Hotel Street
Honolulu, Hawaii 96813
Mon - Fri: 7:30 am - 5:00 pm

FORT STREET BRANCH

988 Fort Street Mall
Honolulu, Hawaii 96813
Mon - Fri: 7:30 am - 5:00 pm

KAILUA BRANCH

200 Hamakua Drive, Suite B6
Kailua, Hawaii 96734
Mon - Fri: 9:00 am - 6:00 pm
Sat: 9:00 am - 2:00 pm

KAIMUKI BRANCH

3625 Harding Avenue
Honolulu, Hawaii 96816
Mon - Fri: 9:00 am - 6:00 pm
Sat: 9:00 am - 2:00 pm

KAPOLEI BRANCH

1001 Kamokila Boulevard,
Suite 104
Kapolei, Hawaii 96707
Mon - Fri: 9:00 am - 6:00 pm
Sat: 9:00 am - 2:00 pm

WAIKELE BRANCH

94-799 Lumiaina Street, Unit 2-A2
Waipahu, Hawaii 96797
Mon - Fri: 9:00 am - 6:00 pm
Sat: 9:00 am - 2:00 pm

WAIMALU BRANCH

98-1277 Kaahumanu Street,
Suite 143
Aiea, Hawaii 96701
Mon - Fri: 9:00 am - 6:00 pm
Sat: 9:00 am - 2:00 pm

HENDERSON BRANCH

9555 S. Eastern Avenue,
Suite 150
Las Vegas, NV 89123
Mon - Fri: 9:30 am - 5:30 pm
Sat: 9:30 am - 2:00 pm

HAWAII NATIONAL GUARD CREDIT UNION

DIAMOND HEAD BRANCH

3949 Diamond Head Road
Honolulu, Hawaii 96816
Mon - Fri: 8:30 am - 3:30 pm

KALAELOA BRANCH

91-1179 Enterprise Avenue, A104
Kapolei, Hawaii 96707
Tue - Thu: 9:00 am - 2:00 pm