

President's Message

2008 was a challenging year at Kauai Community Federal Credit Union. It started out as a good year – member dividend rates were higher than local savings rates and our loan interest rates stayed constant. Your credit union's growth rates in Assets and Savings were at near 10% levels. Then our national economy changed. The national recession finally started to affect our island of Kauai.

While our financial performance at year's end was not as great as we have been accustomed to in years past, we still performed admirably as compared to credit unions statewide. Controlled growth is important to any financial institution. Our Loan portfolio decreased by .24% in 2008, causing us to decrease member dividend rates for member savings accounts. Membership savings increased by a mere \$5.3 million or 1.97% and your credit union's Assets grew by \$6.7 million, a 2.20% annualized growth rate in 2008.

In 2008, we introduced our KCFCU Business Services in a pilot program. KCFCU's Business Services program offers Savings, two types of checking accounts to choose from depending on account activity, and VISA Check Cards and Credit Cards to small and mid-size businesses on Kauai. Your credit union also applied for and received certification to offer SBA guaranteed loans to the membership.

We continued to promote our Your Choice Account program whereby our young members can get a head start on a better financial future. Your Choice combines the basic savings and checking services, as well as special added perks to different age levels. In 2008, checking accounts with free ATM and VISA check cards were offered to youth members aged 17 to 24 years old.

As banks and mortgage lenders made headlines for their mis-steps and failures, our credit union regulators initiated proactive steps to raise credit unions' deposit insurance up to \$250,000 to maintain consumer confidence in credit unions. As a result, KCFCU members' savings are insured up to \$250,000 by the National Credit Union Administration, an agency of the federal government.

Signs of the economic recession became evident on Kauai in the latter half of 2008. Businesses closing, reduced work hours and income, employment layoffs

and other results of an economic recession became evident and is expected to continue in 2009. We encourage all members facing economic challenges to turn to us if you need assistance with loans or other financial services.

In 2009, our newest membership benefit will be our partnership with BALANCE Financial Fitness Program. BALANCE provides financial education and counseling programs to partnering credit unions nationwide. We want to help you achieve your financial goals, whether that means getting out of debt, sending the kids to college, buying your first home, or retiring. Credentialed BALANCE counselors will also be available to discuss topics such as credit report reviews, housing counseling, identity theft solutions, and more. We sincerely believe this program will benefit our entire membership.

I extend my deepest appreciation to our volunteer Board of Directors who donate their time to ensure the success of your credit union. I especially thank our Management and Staff for all of their hard work and dedication. Ultimately however, the success of this credit union is due to the contributions and feedback from you, the members. Your goals and expectations keep us striving to satisfy your financial needs through these challenging times. I look forward to another successful and rewarding year.

Respectfully submitted,



Melvin I. Chiba
President/CEO

At KCFCU, we offer a complete package of financial services just for you!

Ask us about our...

LOANS

- Mortgage Loans
- Home Equity Line of Credit
- New & Used Auto Loans
- Visa Classic and Platinum Credit Cards

SAVINGS

- Savings Accounts
- Sharedraft Checking Accounts
- Share Certificates
- Money Market Accounts

BUSINESS SERVICES

- Checking Accounts
- Money Market Accounts and Certificates
- Platinum Visa Credit Card
- SBA Loans

24-HOUR ACCOUNT ACCESS

- Online Banking
- Bill Payer Services
- ATM/Visa Check Cards
- Audio Access

OTHER SERVICES offered through Community Financial Services Group, LLC, wholly owned by KCFCU:

- Accidental Death & Dismemberment Insurance
- Auto & Homeowners Insurance
- Cancer Insurance
- Life Insurance
- Pet Insurance
- Prepaid Legal Services
- Vehicle Extended Warranty Services
- Hospital Accident Protection Plans
- Retiree Health Care Program

LOCATIONS AND INFORMATION

LIHUE BRANCH OFFICE
4434 Hardy Street
P.O. Box 1447 • Lihue HI 96766
Phone 808.245.6791 • Fax 808.245.7180

KUKUI GROVE BRANCH OFFICE
4405 Kukui Grove Street, Suite 101
Lihue HI 96766
Fax 808.246.0246

WAIMEA BRANCH OFFICE
9936 Kaunualii Highway
Waimea HI 96796
Fax 808.338.0901

ELEELE BRANCH OFFICE
Eleele Shopping Center
Eleele HI 96705
Fax 808.335.0234

KAPAA BRANCH OFFICE
985 Kipuni Way
Kapaa HI 96746
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CALL CENTER
808.245.6791

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2008 Annual Report



Chairman's Message

Your credit union did well in 2008, thanks to our dedicated Management, Staff, and Volunteers. It is also a testament to you the members, who have continued to provide your loyalty and support. As a member of KCFCU, in addition to sharing the pride of ownership, you can rest assured that one of your credit union's highest priorities is meeting your financial needs while providing the entire membership with a safe, sound and convenient place to save and borrow at fair and competitive rates designed for your benefit.

While we did well in 2008, we have started to see the effects of our national recession reach our little island on Kauai. While our financial performance is positive, we have noted some areas of concerns which affect our credit union. As we have experienced during the economic recessions of the '80s and '90s, the membership normally cuts back on spending and tend to save more. As hotel and retail businesses slow down, people within our membership get laid off which results in increased loan delinquencies.

Fortunately, your credit union chose to stay conservative during the real estate boom and did not offer or get involved in the so called "subprime" mortgage loans. Therefore, we were not affected by the real estate bust.

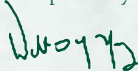
However, in late 2008, we began to feel the effects of rising loan delinquency in our auto and consumer loan portfolio.

The Management and Staff of your credit union have been working closely with your Board of Directors in keeping vigilant watch over the various factors and financial ratios as we guide your credit union through these turbulent times.

We were hopeful of having a groundbreaking on the new credit union building this past year, but because of permitting delays and other reasons beyond our control, this did not happen. While we are still waiting for the permit to proceed, the building plans have been completed and an agreeable price has been negotiated for the construction cost of the building. Due to uncertainty of the future of our economy and potential regulatory changes, the Board is currently contemplating a delay in the construction of the new building. We will keep you apprised. In the mean time, please be assured that safety and soundness of KCFCU is always a top priority.

I thank my fellow elected Officials, the Supervisory Committee, Credit Committee, Management, and the Employees for their hard work and dedication in making this credit union one of the best performing credit unions in the State of Hawaii. And I thank all of you, the member-owners, for your support of the Kauai Community Federal Credit Union.

Respectfully submitted,



Walton D.Y. Hong
Chairman of the Board

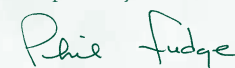
Supervisory Committee Report

The Supervisory Committee is appointed by the Board of Directors to examine and evaluate the adequacy and effectiveness of internal controls at the Credit Union. To assist the Supervisory Committee, the professional services of McGladrey & Pullen, L.L.P. were retained to perform an annual independent audit of the consolidated financial statements of Kauai Community Federal Credit Union and Subsidiary for the fiscal year ending June 30, 2008.

On behalf of the Committee, I am happy to report that KCFCU is financially sound and operating in compliance with all federal and state regulations. Furthermore, the financial condition of the Credit Union's financial statements, and management practices and procedures are sufficient to safeguard member assets.

We thank the Board of Directors, Management and Staff, whose hard work and diligence helped maintain the financial safety and soundness of your Credit Union. Our sincerest appreciation goes out to you, the members, for your support and confidence. It has been a pleasure to serve you.

Respectfully submitted,



Phil Fudge
Chairman

Committee Members:

Gwynne Duarte
Kei Inazu
Joseph Kobayashi
Lon Shimanuki

Credit Committee Report

Kauai Community Federal Credit Union's Credit Committee works in conjunction with the credit union's Board and Management to create and monitor credit services and policies. Our goal is to offer loan and credit programs that are affordable to the membership and result in growth and security for KCFCU.

KCFCU's loan portfolio did not experience much growth in 2008. The Credit Committee approved 4,499 loans totaling \$73,255,657. The little loan growth that we did receive was primarily for purposes of VISA Loans and Home Equity loans. As we look forward to the coming year, KCFCU will continue to offer programs that benefit the membership, and result in growth and security for the credit union.

Loans at KCFCU are for its members only and the benefits derived are shared only among the membership. We are proud of the fact that Kauai Community FCU's loan program continues to offer one of the lowest interest rates available plus the best Loan Protection Insurance program on the island of Kauai. The unique credit union Loan Protection Insurance, which pays up to \$15,000 in the event of death or permanent disability at no direct cost to the borrower, is not available at any other type of lending institution.

On behalf of the Credit Committee, I would like to express my thanks to the Board of Directors, Management and Staff for their continued support. The members however, are the ones who make it all happen. Thank you for the privilege of servicing your financial needs. We look forward to continuing to effectively serve you for many years to come.

Respectfully submitted,



Mitchell Ikeda, Chairman

Committee Members:

Stephen Fujii
Brent Mizutani

Financial Statement

Comparative Balance Sheet as of December 31, 2008

Assets	2008	2007
Loans to Members	\$200,880,042	\$ 201,366,701
Less Allowance for Losses ...	(2,802,068)	(2,164,135)
Cash & Equivalents.....	40,720,976	15,684,488
Investments	59,433,720	77,005,702
Land and Buildings	6,361,780	6,558,896
Other Fixed Assets	555,906	545,574
Other.....	6,490,755	5,932,586
Total Assets	\$311,641,111	\$304,929,812
Liabilities		
Accounts Payable.....	\$ 371,308	\$ 571,439
Dividends Payable	890,902	1,000,047
Other Liabilities.....	3,082,324	854,490
Member Savings	274,538,560	269,230,376
Total Liabilities.....	\$278,883,094	\$ 271,656,352
Equity		
Reserves.....	\$ 2,652,060	\$ 2,652,060
Undivided Earnings.....	30,943,684	30,115,109
Appropriated		
Undivided Earnings.....	531,491	589,282
Unrealized Loss-Mutual		
Fund	(1,369,218)	(82,991)
Total Equity	\$ 32,758,017	\$ 33,273,460
Total Liabilities & Equity.....	\$311,641,111	\$ 304,929,812

Comparative Statement of Income

Income	2008	2007
Interest on Loans	\$ 13,948,761	\$ 13,007,188
Loan Interest Rebate	— 0	— 0
Investment Income	3,459,845	3,972,632
Other Income	1,871,767	1,822,657
Total Income	\$19,280,373	\$18,802,477
Operating Expenses		
Employee Compensation	\$ 3,146,436	\$ 3,083,555
Employee Benefits	1,639,733	1,348,001
Travel and Conference	240,912	170,662.
Association Dues	51,979	51,348
Office Occupancy	651,260	619,790
Office Operations	916,418	903,944
Educational & Promotional	320,095	380,550
Loan Servicing	554,429	467,457
Prof. & Outside Services	336,824	416,721
Provision for Loan Losses	2,203,487	1,877,981
Member Insurance	316,002	323,023
Operating Fees	65,756	58,122
Annual Meeting	30,571	29,773
Direct Cost of Services		
to Members	933,554	673,141
Misc. Operating Expenses	42,650	113,430
Total Operating Expenses	\$11,450,106	\$10,517,498
Income from Operations	\$ 7,830,267	\$ 8,284,979
Non-Operating Gain (Loss)	\$ (185,997)	\$ 385
Dividends to Members	\$ 6,873,487	\$ 7,421,590
To Undivided Earnings & Reserves	\$ 770,783	\$ 863,774