Nineteen Ninety-Eight

Annual Report

HUTCHINSON
CREDIT UNION

"Under The Same Ownership Since 1948... Our Members"

23rd & Severance in Hutchinson, Kansas 67502

Agenda

Annual Meeting / April 28th, 1999

- Call to Order
    - Determination of a Quorum .... Loretta Fletchall
    - Approval of Minutes and Agenda .... Loretta Fletchall
    - Report of Chair .... Loretta Fletchall
    - Report of Supervisory Committee .... Marvin Schmucker
    - Report of Treasurer .... Ed Switzer
    - Report of Credit Committee .... Richard Carlisle
    - Report of the President .... Garth Strand
    - Report of Election .... Loretta Fletchall
    - Unfinished Business
- New Business
- Adjournment

HUTCHINSON CREDIT UNION MISSION STATEMENT

- To insure the future viability of Hutchinson Credit Union.
- To offer optimum financial service equitably while maintaining safe and sound operational practices and financial conditions.
- To nurture an environment of democratic control and member orientation as a cooperative financial institution.
- To encourage sound money management through education and counseling.

Board of Directors


Loretta Fletchall
Chair
Hutchinson Hospital


LeRoy Broxterman
Vice Chairman
Hutchinson Comm. College


Ed Switzer
Secretary-Treas.
Retired-USD 308


James E. Woods
Retired-USD 308


Kendal Pulliam
Farm Credit Services


Mark Woleslagel
Woleslagel Ins.


John McCannon
Kansas Corp. Commission

Credit Committee


Casey Garten
CoBank/ Farm Credit System


Kendall Griggs
Hutchinson Comm. College


Richard Carlisle
Farm Credit Services


George Sanders


Pat Falter
Novus

Supervisory Committee


Ann Wagner
Farm Credit Services


Lee Spence
Underground Vaults


Vicki Caywood
Hutchinson Hospital


Carol Richerson
Medical Center


Marvin Schmucker
Schmucker Training & Consulting

Minutes of the Annual Meeting

The 50th Annual Meeting of the Hutchinson Credit Union was held March 25, 1998 at the Hutchinson Credit Union office.

Chair Loretta Fletchall called the meeting to order. Twenty-four members attended.

Jim Woods moved to accept the minutes of the 1997 Annual Meeting as presented. Seconded by Mark Woleslagel. Motion carried.

Chair Fletchall highlighted the events made by Hutchinson Credit Union in 1997; Haven branch, 2 new ATM's (one as a joint project with another credit union), MemberSource, Inc. was formed, work began on joint project with the City of Hutchinson to issue a "City Visa Card", 1997 was the 5th consecutive year with no increase in fees. Plus account annual fee was eliminated and ATM usage fees were reduced. Hutchinson Credit Union successfully completed it's 50th year of operations due to the Power of Partnership with members, volunteers & staff all working together.

Pat Falter, Supervisory Committee, reported on both the State Department audit & the independent supervisory audit done by the Certified Public Accounting firm of Pierce-Faris & Company. The committee continues to review policies, procedures, interact with management & staff, review activities of the Board of Directors & other committees. Jim Woods made the motion to accept. Seconded by Casey Garten. Motion carried.

Ed Switzer, Treasurer, stated the net income for 1997 was $398,355 and a total of $1,670,327 was returned back to the members. The Credit Union had good growth in assets, savings, loans & capital and is financially sound. Roy Broxterman made the motion to accept the report. Seconded by Jim Woods. Motion carried.

Casey Garten, Credit Committee, stated there was an increase in outstanding loans by almost 15%, and less than 1% were delinquent. Charge offs are less than other credit unions. The Credit Committee ensures the lending policies are followed. John McCannon made the motion to accept the report. Seconded by Ed Switzer. Motion carried.

Garth Strand stated that on March 3, Hutchinson Credit Union reached $50,000,000. in assets and was also celebrating it's 50th year in serving it's members. There are several activities planned to celebrate the 50th Anniversary. Strand reviewed the challenges facing credit unions. Past success is no guarantee for the future. Strand thanked volunteers & staff for their help to make it a successful year.

Garth Strand reported on the election process. A total of 1017 ballots were returned. Roy Broxterman and John McCannon were re-elected to the board & Ann Wagner was elected to the Supervisory Committee.

There was no unfinished business.

Casey Garten made the motion to adjourn. Seconded by Jim Woods. Motion carried.

Report of the Chair

I am pleased to report that your credit union has successfully completed it's 51st year of operation and continues to be an active participant in the ever-changing financial services arena. Following are highlights and changes embraced during 1998:

- HCU reached $50 million in assets in March. The very month we were celebrating 50 years of service to members!
- We again experienced healthy, balanced growth with both assets and capital increasing over 11%.
- The Haven branch continues to grow as people in that area discover the credit union difference. The Haven branch reached it's operational break even point this year.
- MemberSource, Inc. continues to grow and develop as members discover high quality financial services and products available in an environment where sales are preceded by education, and where honesty and integrity are unquestionable. MemberSource will be a critical path to opening doors in the future, allowing access to products and services that might not otherwise be available via HCU.

"...your credit union has successfully completed it's 51st year of operation and continues to be an active participant in the ever-changing financial services arena."

- The Hutch Card VISA was rolled out as a joint project with the City of Hutchinson. A portion of the income generated—income that is now leaving our community—will go towards funding designated projects around our city. This project is a perfect example of the credit union philosophy of people working together for the common good!
- Several new share deposit products were introduced. The Roth IRA, education IRA and the add-on certificate all provide additional savings opportunities for our members.

Members, volunteers & staff all working together continue to generate positive synergies for all and for our credit union. The future will continue to offer new challenges in competition, regulation, technology and economic conditions. The challenges will change but the solutions will always be found in this powerful partnership of people working together.

• Loretta Fletchall
Chair

Report of the Supervisory Committee

The Supervisory Committee's responsibilities can be summarized into the following categories:

- Review Policies and Procedures
- Safeguard the Members' Assets
- Evaluate and Review the Credit Union's Financial Condition
- Interact with Credit Union Management
- Cooperate with Regulatory Agencies
- Review the activities of the Board of Directors and other committees
- Determine Compliance with Consumer Credit Regulations

To fulfill the above responsibilities and provide an objective view of the financial strengths and weaknesses of the Credit Union, the Supervisory Committee relies on and uses a variety of resources.

First, the Certified Public Accounting Firm of Pierce, Faris & Co., Chartered, was employed to conduct the Annual Audit as of 8-31-98. Their report concluded that our financial statements represent fairly and accurately the financial position of the Credit Union and conform with generally accepted accounting principles.

Secondly, the committee cooperates fully with regulatory examinations by the Kansas State Department of Credit Unions and the National Credit Union Administration. Any records of actions made by these agencies are followed up by the Supervisory Committee to see that the necessary changes to policies and procedures are made. The most recent exam covered the period from 11-30-97 to 2-28-99. The final report has not yet been received.

A risk management survey by CUNA Mutual Insurance was employed as a third audit source during 1998. This audit focuses more on the physical aspects of safety and soundness. A number of changes were suggested and implemented to enhance the safety of credit union operations.

Through out the year the Supervisory Committee received updates from staff concerning preparation for the year 2000 date change. Both critical and non-critical systems have been identified, renovated and tested. Contingency and member communication plans have also been reviewed. Our expectation is to have no disruption of service to members.

Lastly, the Supervisory Committee relies on it's own activities and findings. The Committee met 6 times during 1998 to conduct reviews of various policies, procedures, accounts and reports. A committee member also attended most Board of Directors meetings. The committee also conducted a confidential staff survey to provide an open line of communication.

In summary, the Supervisory Committee is glad to report to members that their funds and records are being maintained in a safe, sound and confidential manner.

- Marvin Schmucker
  Chair

Report of the Treasurer

Asset Growth	11.08%	Loan Growth	2.83%
Savings Growth	11.51%	Capital Growth	11.69%

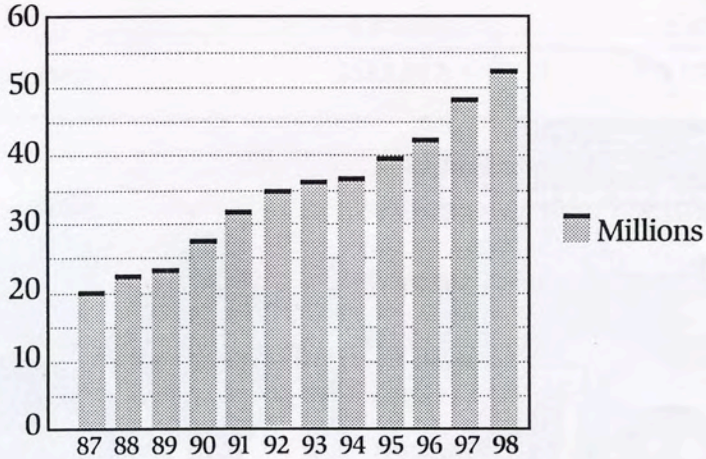
A direct return to the members of $1,770,436 was made in the form of share and certificate dividends. Our net income of $513,912 was placed in reserves and undivided earnings. This is necessary to meet state and federal regulations and to meet long term capital goals established by the Board of Directors. Reserves and undivided earnings are the "savings account" of the credit union and help to insure its future viability.

The Board of Directors believes your credit union is financially sound, well-managed and capable of continuing to fulfill its mission of offering financial services in a safe and sound manner.

As member-owners, your continued support is vital to the sustained success of your credit union.

• Ed Switzer
Secretary-Treasurer

Assets

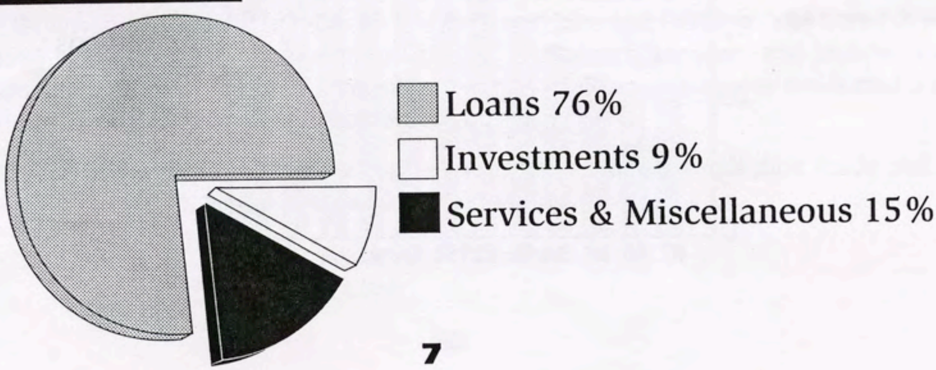


Statement of Conditions

Year End Closings

Assets	12-31-98	12-31-97
Cash Accounts	$1,007,068	$1,007,395
Real Estate Loans	20,496,576	18,644,191
Business/ Agricultural Loans	2,782,510	2,224,733
Consumer Loans	18,044,993	19,076,273
Loan Loss Allowance	(581,171)	(513,623)
Investments	9,402,552	5,399,680
Building and Land (Net)	1,305,029	1,361,190
Furniture and Fixtures (Net)	281,459	304,368
Prepaid Expenses	145,417	95,824
Accrued Income	211,462	263,543
NCUSIF Deposit	424,156	379,760
Other Assets	71,701	2,218
Total Assets	**$53,591,752**	**$48,245,552**
Liabilities		
Miscellaneous	$249,442	$406,404
Share Deposits	48,338,370	43,349,120
Reserves	5,003,940	4,490,028
Total Liabilities and Equity	**$53,591,752**	**$48,245,552**

Income Sources

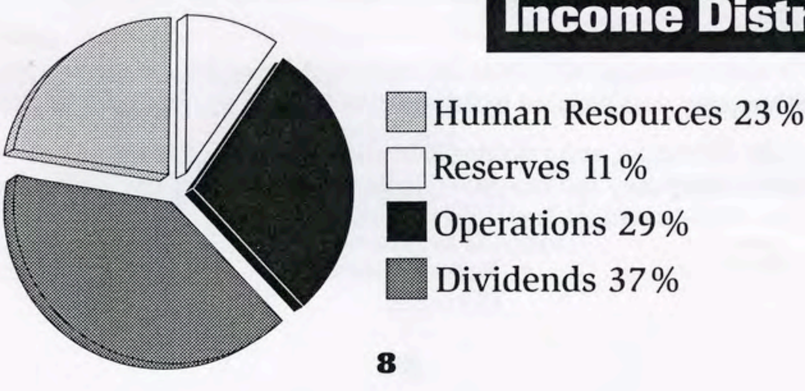


Financial Report

Income	1998	1997
Income on Loans	$3,623,541	$3,344,874
Income on Investments	415,505	347,211
Other Income	739,415	638,532
Total Operating Income	**$4,778,461**	**$4,330,617**

Operating Expenses		
Compensation	911,944	$815,733
Employee Benefits	182,316	163,574
Travel and Conference Expense	23,272	20,910
Association Dues	21,555	21,045
Office Occupancy and Operations	643,155	594,427
Education and Promotion	142,194	101,416
Loan Servicing	60,957	73,867
Professional Expense	260,982	241,662
Provision for Loan Losses	155,087	110,030
Member Insurance	30,870	38,300
Regulatory Expense	17,135	15,731
Interest on Borrowed Money	304	133
Member Relations	1,412	2,165
Miscellaneous Expense	16,831	24,108
Total Expenses	**$2,468,014**	**$2,223,101**
Operating Income	$4,778,461	$4,330,617
Less Operating Expenses	(2,468,014)	(2,223,101)
Non-Operating Income/Expense	(26,099)	(38,835)
Net Income Before Dividends	**$2,284,348**	**$2,068,681**
Less Dividends	1,770,436	(1,670,327)
Balance to Reserves	**$513,912**	**$398,354**

Income Distribution



Report of the Credit Committee

	1998	1997
Total Number of Loans Made	10,121	10,161
Total Dollar Volume of Loans Made	$34,204,819	$27,052,233
Number of Loans Made Since April 1, 1948	145,168	135,047
Total Dollar Volume of Loans Since April 1, 1948	$280,162,136	$245,957,316
Loans Charged-off Since April 1, 1948	$1,225,974	$1,135,087
Recoveries From Charged-off Loans	$59,381	$54,211

CREDIT COMMITTEE PURPOSE: To represent the membership by maintaining a safe, sound, fair and responsive credit system.

The credit committee is responsible for insuring lending policies of the credit union, as established by the Board of Directors, are carried out by the loan officers. The committee meets to review the reports of new loans and delinquencies and randomly review loan files to insure compliance. Types of loans, portfolio changes and the overall loan pricing structure are also reviewed.

During 1998, the credit committee made several recommendations to the Board to enhance the overall lending program. First, a formal reporting requirement was adopted concerning loans to senior management and volunteers. Next, the maximum unsecured loan limit to any member was increased to $15,000. Lastly, The loan-to-value ratio for mortgages the credit union can keep was increased from 80% to 95% if Private Mortgage Insurance is provided. Other projects by the committee included a review of the popular Overdraft Protection loan program and consideration of the use of automated credit scoring to improve operational efficiencies and member service.

Mortgage lending of various types continues to grow as a part of the overall loan portfolio. The 5-year adjustable rate mortgage which the committee piloted in 1996 and implemented in 1997 is proving to be an important option for members. This new product, along with the continued popularity of our home equity loan, is responsible for the increase in real estate loans you see on page 7. In addition to the mortgage loans kept on the credit union books, $10.3 million dollars in long term, fixed rate mortgages were sold to the secondary market.

The credit union made a strategic addition to the credit card program by adding the Hutch Card VISA in 1998. Over 300 new members were attracted by this new product and the value of access to a local provider.

A burst of mortgage refinancing and a slowing local economy held outstanding loans to an increase of less than 3%. However, delinquency and charged-off loans remained at very low levels. At year-end, over 85% of members share deposits were on loan to other members.

- Richard Carlisle
  Chairman

From the President

Just how did our credit union get from 1948 to 1998? I wonder what those HCU charter members in 1948 thought their fledgling credit union would be like 50 years down the road? I wonder if they really cared? I'm not suggesting they didn't care as in a non-caring attitude. But instead, I wonder if they were more concerned about how to meet the immediate needs of their new members in 1948 and 1949. I'm sure they did think about the future but it appears they did a commendable job of giving full attention to doing the best possible job in the present. Somehow I think that combination has been a key to success for this credit union. Doing the best we can, right now, at each opportunity. Building solidly, day by day. While at the same time, looking both backward and forward for guidance and course corrections.

Garth Strand
President

I believe another key to the continuing HCU success is the ability to find the balance between credit union philosophy and a successful financial institution in a fast moving, aggressive market place. It is easy to rest on your history, let your philosophies get dusty and quietly disappear as over 10,000 credit unions have done in the past 30 years. On the other hand, it's just as easy to get caught up in the latest and greatest winds of competition, trampling your mission and core values. I believe HCU has maintained the balance, remaining focused on members and making appropriate responses to the market place.

Keeping the focus on that mission of providing service to members has made HCU what it is today. I believe HCU delivers above average value to our members—in terms of tangible dollars and intangible personal service. This value is made possible by committed volunteers and staff, a progressive spirit, a wealth of organizational knowledge and a solid balance sheet. All will serve us well as we continue our journey.

• Garth Strand
President

Management Team

Wanda Hatcher
Senior V.P.

Todd Brunner
V.P. Lending

Garth Strand
President

Janelle G. Hanson
Human Resources Director

Casey A. Swarts
V.P. Marketing/Technology

Our Catalog of Services

HUTCHINSON
CREDIT UNION

• SHARE SAVINGS, PLUS... •

Certificates
Money Market Account
Investment Shares Account
Christmas Club Account
IRA Accounts
Scottie Savers Youth Club
Gateway Account
Special Use Savings Accounts
Market Index Certificates

• SELF-DIRECTED IRA's •

• FAVORABLE LOANS •

Loans by Mail
Pre-approved Loans
First Mortgage Loans
Second Mortgage Loans
Home Equity Line of Credit
Car Loans
Personal Loans
EXPRESS Personal Line of Credit
Student Loans

• CHECKING •

Dividend Paying Accounts
Overdraft Protection
Visa Check & ATM Card
Gateway Account
Plus Account

• VISA •

• HUTCH•LINE TELEPHONE TELLER •

• INTERNET ACCESS •

• US SAVINGS BONDS •

Issue & Redeem

• CONVENIENCE SERVICES •

Direct Deposit
Payroll Deduction
Automatic Transfers
Travelers Checks
Money Orders
Western Union Transfers
Wire Transfers
Free Notary Service
Signature Guarantee

• MEMBERlease •

An Auto Leasing Program

• MemberSource, Inc.

A Financial Planning Service

• MEMBER INFORMATION CENTER •

• AT HUTCHINSON ONLY •

Safe Deposit Boxes
Drive-up Facilities

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WEB BRANCH: www.hutchinsoncreditunion.com