

2018



ANNUAL MEETING

FROM THE PRESIDENT



Dan Springer
President/CEO

Commitment – a fitting theme for our annual meeting this year. Here at HCU, we've been working hard on your behalf to create the best credit union around! As part of this, we've done some soul-searching about who we are and how we can best meet your needs; not only today, but for years to come. Through this process, we have developed our Truths, a set of beliefs that are fundamental to how we do business and represent our commitment to our members. I would like to share these, as I feel it's important for you to understand what drives your credit union.

Our purpose is to serve.

Being our members' trusted financial partner starts with providing them the best possible member experience. From making someone feel like they're our number one priority to finding solutions for every member no matter what your situation, outstanding service is integral to who we are and what we do.

We value people.

Caring for others isn't just something we do during work hours, it's part of who we are. From helping members better their lives to helping employees find work-life balance, we believe in taking the time to understand each person and recognize their value. Because we see tremendous potential in our employees and volunteers, we're a learning organization that invests in continual education that empowers our team to grow and flourish.

Community is at our core.

We are better together! Our lives are linked with the communities we serve, so we take pride in helping members of our communities improve their lives. We don't just see numbers and statistics, we see real people with dreams, goals, and needs. We make a difference by living the credit union philosophy of "people helping people" through financial support, fundraising, and volunteer efforts.

We embrace change.

Our members' needs continue to evolve, so we're committed to evolving with them and for them. By continually seeking innovations in technology, delivery systems, and management approaches, we ensure that we serve both the members we have today and future generations of members.

We deliver results.

We move at a fast pace to stay competitive in our market and deliver extraordinary value to our members. That's the reason we're truly the best at what we do. By helping people find the right solutions for their needs, we strengthen both our members and our credit union as a whole.

Ultimately, our Truths make us who we are at our core. In fact, you might even say It's the Heartland Way! As we look to 2018 and beyond, they will guide us and our decisions to ensure that we remain the strong and innovative credit union that we are today. Thank you for being a member of HCU and for being part of something special.

DAN SPRINGER
President/CEO



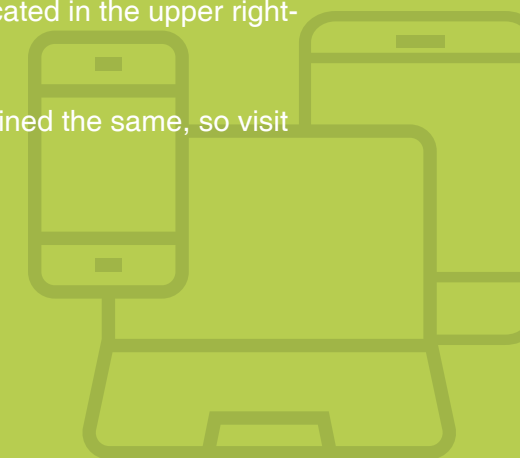
BETTER SOLUTIONS

In 2018, we began designing new website, and after months of hard work, we launched our new site at the beginning of this month.

The new website features easy navigation, no matter the device you are using—computer, tablet, or smartphone. Our responsive website will adapt to your device, eliminating the need to pinch, zoom, and scroll when browsing on your mobile device, making it easier to access the content you need wherever you are.

The new website still has the same great resources—plus some! With the launch of our new site, we added new content to keep you well informed about your finances and how to best manage them. Under the Financial Education tab, you'll find free online financial education that's quick and easy to understand. Online Banking is still on our homepage, just type your user name in the login located in the upper right-hand corner.

No need to update your bookmark. Our web address remained the same, so visit www.hcu.com to check out our new fresh look.



REPORT OF THE CHAIR



Rex Christner
Chairman

Thanks to our qualified staff and Volunteers, 2017 was another positive and productive year at Heartland Credit Union. **More importantly, because of the commitment our members made to the credit union, we ended the year with total assets of \$306.4 million, an increase of 9.54% since 12/31/2016. Heartland Credit Union posted net income of \$1,891,360 for 2017.**

Some important highlights from this past year include:

At year end, HCU was made up of 24,934 members, 22 volunteers, and 126 employees.

During 2017, in our national peer group of 341 credit unions, HCU ranked #21 in terms of “Return to the member” as calculated by Callahan & Associates. For this same “Return to the member” calculation, HCU ranked #223 out of all 5,689 U.S. credit unions.

HCU is #7 in asset size out of 83 credit unions in Kansas. HCU is #785 in asset size out of 5,689 U.S. credit unions.

In April of 2017, HCU opened the new branch at East Kellogg The new 13,500 square foot branch is the flagship of our Wichita branch network and signals a strong commitment to our members in the Wichita area.

The servicing portfolio of Members Mortgage Services topped \$1.4 billion, representing over 14,000 mortgage loans. MMS now employs 36 and serves 39 credit unions in Kansas, Missouri, Nebraska, and Iowa. Other developments included adding Freddie Mac as an investor to give their partner credit unions more options and starting a Government loan broker program.

Our financial cooperative is successful because of the commitment our members make to utilize the services of the credit union. Your participation in the credit union helps HCU grow and provide even better service to the membership. Thank you for your continued support.

REX CHRISTNER

BOARD OF DIRECTORS



Roy Broxterman
Vice Chairman



Kendal Pulliam
Secretary & Treasurer



Caroline Phelps



John McCannon

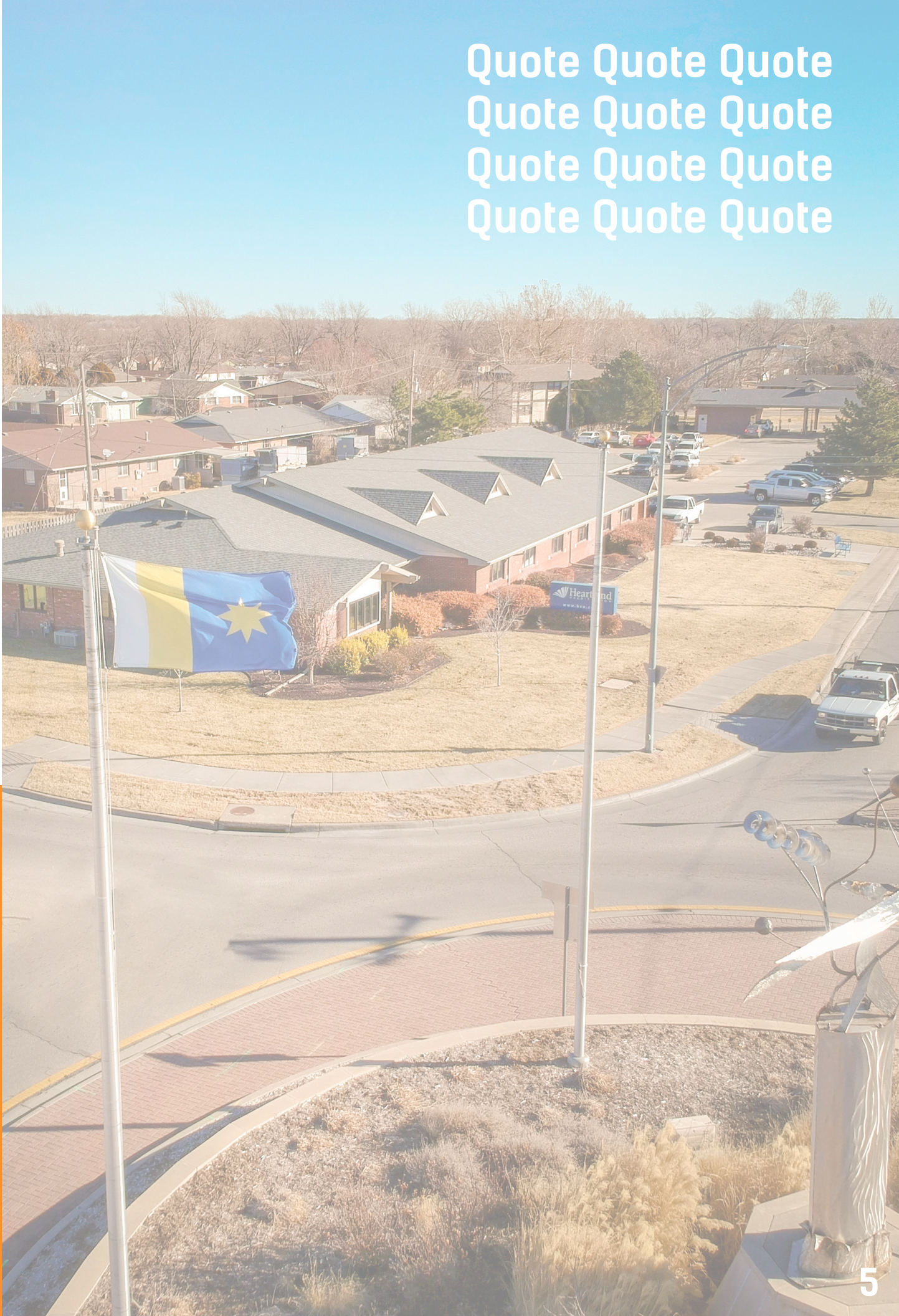


Mark Wolesslagel



Richard Carlisle

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“We don’t just see numbers and statistics, we see real people with dreams, goals, and needs.”

BETTER TOGETHER

Our lives are linked with the communities we serve, so we take pride in serving our members and our communities. We don’t just see numbers and statistics, we see real people with dreams, goals, and needs. We make a difference by living the credit union’s philosophy of “people helping people” through financial support, fundraising, and volunteer efforts.

Here are just few of the fun volunteer opportunities Heartland participated in during 2018.

SW Bricktown Playground build

On Saturday, July 28, twenty-two HCU staff members and volunteers from Heartland joined City of Hutchinson employees, and residents of the SW Bricktown Neighborhood at SW Bricktown Park in Hutchinson for a Community Playground Build. The crew spent about seven hours under sunny skies, putting together equipment and setting the structure in concrete.

The park is an integral part of the neighborhood revitalization that began in 2015. It will not only provide a place for exercise, but a space for residents to engage with one another and build a sense of community. Other plans for the park include a walking trail, a picnic shelter, and green space for kids to play.

The playground was made possible by a \$30,000 donation from HCU and a matching grant from the Kansas Health Foundation.

On Nation Night Out, the SW Bricktown community came together to celebrate with a ribbon cutting ceremony for the new playground equipment. Following the ribbon cutting, families, neighborhood residents, and Hutchinson First Responders enjoyed a free meal, a live DJ, and a bouncy house.

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National Night Out is a great way to get to know and thank the people that keep our community safe, including the Hutchinson Police Department, Fire Department, and EMS.

United Way Workday

HCU staff and family joined a record number of volunteers—657 total! —to complete 32 projects at the annual United Way of Reno County Community Workday. The Heartland team spent the sunny August day sanding and painting the playground equipment and gazebo and doing seasonal yardwork at the Hutchinson Regional Healthcare System Hospice House.

Staff Volunteer Day

One-hundred and ten HCU employees volunteered their day off on Columbus Day to participate in Heartland’s inaugural Community Work Day. The Community Work Day gives HCU staff an opportunity to team up with one another to help with projects throughout our communities and live out our Heartland Truths: “Our purpose is to serve” and “Community is at our core.”

From sorting donations, visiting with nursing home residents to picking up litter at the zoo—HCU volunteers served 16 organizations in our Hutchinson, Newton, Haven and Wichita areas.

**HCU Staff
Volunteered**

**1,074
HOURS**





More than
##
ORGANIZATIONS
SERVED

More than
1.9K NEW MEMBERS



REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is charged with ensuring that members' assets are safeguarded. They accomplish this through the following:

- Oversee of the internal audit program
- Review policies and procedures
- Evaluate and reviewing the credit union's financial condition
- Interact with HCU management
- Cooperate with regulatory agencies
- Review activities of the Board of Directors and other committees

In order to fulfill these responsibilities and provide an objective view of the financial strengths and weaknesses of your Credit Union, the Supervisory Committee relies on and uses a variety of resources, including an Internal Auditor. This allows the Supervisory Committee to proactively monitor the high-risk areas of the credit union on a regular basis.

The Certified Public Accounting Firm of Nearman, Maynard, Vallez, P.A. was employed to conduct the Annual Audit as of 9-30-18. Their report concluded that our records represent fairly and accurately the financial position of your credit union and conform to Generally Accepted Accounting Principles.

Nearman, Maynard, Vallez, P.A. also audits the records of HCU Investment & Insurance Services in conjunction with the HCU audit, and HCU Investment and Insurance Services was found to be in good order. Our other CUSO, Members Mortgage Services, was audited as of 12-31-17 and received a clean audit. Their 2018 audit fieldwork was completed in the first week of March 2019, and the final report is expected to be available by March 30th.

In addition, the committee cooperates fully with regulatory examinations by the Kansas Department of Credit Unions and the National Credit Union Administration. Any records of action are followed up by the Supervisory Committee.

The most recent exam covered transactions up to the close of business on March 30, 2018. There were no material deficiencies cited.

Finally, the Supervisory Committee relies on its own activities and findings:

- The committee met several times during 2018 to conduct reviews of various policies, procedures, accounts and reports.
- Staff members from various areas report to us about their operations in their respective departments.
- Committee members take turns attending Board of Directors meetings.

The Supervisory Committee is glad to report to members that your funds and records are being maintained in a safe, sound and confidential manner.

LORI BLAKESLEY

Chairperson, Supervisory Committee



Lori Blakesley
Chairperson



Randall Gray



Libby Beck



Mike Juby



Ed Howard

REPORT OF THE CREDIT COMMITTEE



Jim Ewert
Chairman

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 periodically to review reports of new loans, delinquencies, charge-offs and randomly review loan files to insure compliance. Types of loans, portfolio changes, and the overall loan pricing structure as well as new products and services are also reviewed.

Notable information and actions in the lending area during the year include the following:

- Loans for the year increased 12.1% to \$27.2 million; total outstanding loans to members is \$252,148,330.
- Home loan activity for 2017 was strong with 413 home loans funded for \$42 million. Purchases activity was up considerably with 67% of the total amount for new purchases and 33% for refinancing activity. Home loans sold to the secondary market during the year with servicing retained by Members Mortgage Services was also strong with 261 loans totaling \$29.6 million.
- At year end, HCU member business loans totaled \$68.8 million, approximately 27% of total loans.
- Delinquency averaged 1.20% for the year, up from 2016 (0.88%). Our credit union peer average for the year was 0.86%.
- Net-charged off loans for 2017 as a percentage of outstanding loans was 0.28%, up slightly from 2016 (0.26%).
- Our credit union peer average for 2017 was 0.53%.
- The Allowance for Loan Loss account remained fully funded for the year and ended at \$2.15 million.
- At year end, 100% of member shares were reinvested in member loans compared to our peer average of 75.05%.

JIM EWERT

Chairman, Credit Committee and Board of Directors



Leila Emack



Brock Wells



Dan Busenbark



Jan Steen



Provided school
supplies for more than

1,770
STUDENTS

REPORT OF THE TREASURER

Thanks to you, 2017 was another great year for HCU. Your continued support allowed us to surpass \$306 million in assets. In addition, we paid over \$1.5 million in dividends and were able to place almost \$1.89 million of net income into our reserves. This enables us to continue offering cutting edge technologies at better than market rates while maintaining our high level of efficient and friendly service.

Included in HCU's 2017 net income is a gain from Members Mortgage Services, LLC (MMS), representing our 43.8% ownership. MMS had a positive operating income of over \$2.2 million, which was reduced by a negative adjustment to mortgage servicing rights of just over \$522,000. As mortgage rates continue to rise, we expect to see this adjustment increase and realize even higher positive income, which will increase MMS's and HCU's bottom lines. These increases are far from certain however and could go negative if rates decline.

HCU's investment in MMS of \$450,000 has grown to \$7.3 million equity over the last 16 years. This substantial income has enabled us to continue offering exceptional value in our loan and share rates, despite the increasing pressure on margins.

HCU Investments and Insurance (HCU I&I), had another successful year, with a positive contribution of \$55,001 to the HCU bottom line. More importantly, we are able to serve your needs in this arena by providing lower cost solutions while offering an alternative to traditional credit union products.

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. Thank you for your support.

KENDAL PULLIAM

Secretary & Treasurer/Chairman, Board of Directors



Kendal Pulliam
Secretary & Treasurer

FINANCIAL STATEMENTS

LOAN REPORT

Category	2018	2017
Total number of loans made	33,530	33,300
Total dollar volume of loans made	\$130,580,904	\$147,045,444
Number of loans since April 1, 1948	544,713	511,183
Total volume of loans since April 1, 1948	2,030,761,241	1,900,180,337
Loans charged-off since April 1, 1948	8,164,042	6,068,735
Recoveries from charged-off loans	742,145	624,801

BALANCE SHEET

Assets	2018	2017
Loans, Net of Allowance for Loan Losses	\$256,631,833	\$252,090,550
Cash & Investments	\$33,051,244	\$34,208,184
Other Assets	\$21,561,733	\$19,859,346
Total Assets	\$311,244,810	\$306,158,080
Liabilities & Equity		
Other Liabilities	\$21,526,693	\$35,483,324
Share Deposits	\$261,036,014	\$242,252,330
Reserves & Undivided Earnings	\$28,682,103	\$28,422,426
Total Liabilities & Equity	\$311,244,810	\$306,158,080

INCOME STATEMENT

Category	2018	2017
Interest Income	\$12,222,615	\$11,274,159
Dividends	(\$1,999,960)	(\$1,571,992)
Interest Expense	(\$329,021)	(\$352,574)
Net Interest Income	\$9,893,643	\$9,349,593
Non-Interest Income	\$5,804,857	\$5,262,506
Non-Interest Expense	(\$15,933,319)	(\$13,507,130)
Income from Operations	(\$234,819)	\$1,104,969
Non-operating Income	\$503,494	\$786,391
Net Income to Reserves	\$268,675	\$1,891,360



Total assets
\$311,244,810

Loan volume since April 1, 1948
\$2,030,761,241



Return of the
Member in KS **3**



BETTER SERVICE

Expanding our footprint

After a light renovation, we opened our newest branch in October on east Kellogg, just in front of Lowe's, 12021 East Kellogg Dr.

"The new branch allows us to better serve our current members in Wichita, while expanding our HCU footprint to serve more of the city," said Dan Springer, President/CEO.

At the East Kellogg location, you can manage your personal and business accounts, meet with home-loan experts, plan ahead with HCU's Investment and Insurance Services, stay connected using our 24-hour ATM, protect what's important to you with a safe deposit box, and more.

Looking forward: partnership with USD 308

Heartland is proud to partner with Hutchinson High School and USD 308 to open a branch at the of Hutchinson High School.

The new HCU location will be more than just a branch: It will be a learning experience for the students of Hutchinson High School. The branch will be staffed by HHS students, helping them learn valuable life and job skills, as well as work ethic.

Along with work experience, students will have the opportunity to learn how to manage their money. HCU and student staff will offer financial education workshops to all Hutchinson High students.

"We are honored to be part of this project that brings us back to our roots in education, stemming from our founding as Hutchinson Teachers Credit Union," says HCU CEO/President Dan Springer. "The financial education and work experience the students receive

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"The financial education and work experience the students receive will help put them on the right path, both financially and professionally."

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will help put them on the right path, both financially and professionally."

"The opening of the Heartland Credit Union branch at Hutchinson High School enhances our financial literacy program for students and offers them real world experiences with personal finance management," says USD 308 Superintendent Gary Price. "This is an example of the kind of partnerships between business and schools that help our students prepare for their future as responsible adults. Thanks to Heartland for helping create this partnership for our students."

In addition to being a training ground for young adults, the location will be a fully functioning HCU branch. An HCU staff member will be on-hand to assist the student staff and help members with more complex transactions. USD 308 staff and students will have the opportunity to become members of Heartland, do transactions, apply for loans, and manage their money, right from Hutchinson High School.

"Hutch High staff and students will experience the same great products and service they expect from HCU," states Jeremy Stauffacher, VP of Sales and Service. "The only differences will be the Hutch High students providing the service and the branch will have a little Salthawk flair, just to make everyone feel at home."

Construction on the new branch will begin in May, in order to be ready for the new school year in August.



HEARTLAND CREDIT UNION BRANCHES



23rd Ave Branch
900 E 23rd Ave
Hutchinson, KS 67504



Ave A Branch
129 W Ave A
Hutchinson, KS 67501



29th & Main Branch
2900 N Main St
Hutchinson, KS 67502



Haven Branch
103 S Kansas Ave
Haven, KS 67543



Newton Branch
2201 S Kansas Ave
Newton, KS 67114



37th & Maize Branch
3777 N Maize Rd
Wichita, KS 67205



East Kellogg Branch
12021 East Kellogg Dr
Wichita, KS 67207



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