



2016
Annual Report

FROM THE President

Hi, I'm Dan Springer, your new President/CEO. I am truly humbled to have the opportunity and privilege to lead your credit union. My pledge to you is to do my very best to ensure that we continue serving you each and every time to the very best of our abilities.

The world we live in is changing every day. New products and opportunities, improved technology, and the leadership change were all part of the changes Heartland Credit Union experienced in 2016. What's important to our members is your credit union embraced these changes with confidence and remained focused on our mission of delivering solutions, earning trust, and building relationships that will help HCU prosper in the future.

We deliver solutions when we introduce new products and enhance current ones to make our member's lives easier. For some, this is taking advantage of new services like Apple Pay and Person-to-Person Payments. For others, a solution might have been taking advantage of our new FHA, VA and Rural Development mortgage products to purchase a home. Finally we provide solutions for other members by simply being their trusted financial partner in everyday matters and finding a way to say yes.

We continue to earn the trust of our members by providing better security and protection for their financial information. For many of our members, this was introducing EMV Chip card technology to our debit and credit cards, providing them the highest level of security in the industry. For some members, it's the quick response we provide when our newly enhanced fraud monitoring system detects an issue and local HCU staff are there to help. For other members,

earning trust simply means being there every time they call or walk into a branch.

We are building relationships every time we work with a member. We are also building relationships by being involved with organizations and schools in our local communities. Whether it's sponsoring events, donating to local charities, or providing financial education to students, these relationships help make HCU and our communities stronger. With the construction of our new branch at 37th and Maize Road, we will have the opportunity to build even stronger relationships with current and new members in the Wichita market.

As I mentioned in the beginning, HCU saw a leadership change in 2016 with the retirement of former President and CEO, Garth Strand. Over the course of his career he helped grow the credit union from \$22 million in assets and 8,500 members to over \$275 million and 23,000 members. By staying true to our mission for 36 years, his leadership propelled HCU to be one of the top credit unions in the State of Kansas. It is my honor and privilege to follow in Garth's footsteps.

Looking ahead, it is important that we continue to stay true to our mission and values. As a growing credit union, it is necessary to have many different goals and objectives. However, it is important we stay focused on doing things

the right way, the Heartland way. That's why we will work hard to make sure our culture is in line with our mission so we can properly deliver solutions for our members, earn their trust, and continue to build strong relationships.

Thank you for being a member of HCU and making 2016 a truly successful year.



Dan Springer
President & CEO

REPORT OF THE Chairman of the Board



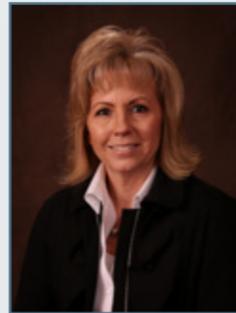
Mark Woleslagel
Chairman



Roy Broxterman
Vice Chairman



Kendal Pulliam
Secretary & Treasurer



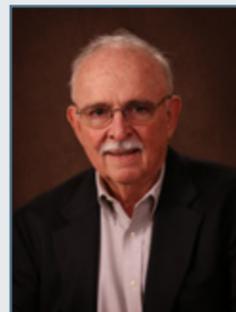
Caroline Phelps



John McCannon



Rex Christner



Richard Carlisle

Thanks to our qualified staff, volunteers, and Heartland Credit Union members, 2016 was another positive and productive year ending with total assets of \$279.7 million, an increase of 5.64% since 12/31/2015. Heartland Credit Union posted net income of \$2,623,732 for 2016. Some important highlights include:

+ At year end, HCU was made up of 23,045 members, 22 volunteers, and 117 employees.

+ During 2016, in our national peer group of 341 credit unions, HCU ranked #8 in terms of "Return to the member" as calculated by Callahan & Associates. For this same "Return to the member" calculation, HCU ranked #81 out of all 5,909 U.S. credit unions.

+ HCU is #8 in asset size out of 87 credit unions in Kansas. HCU is #795 in asset size out of 5,909 U.S. credit unions.

+ Bonus dividends totaling approximately \$220,000 were paid to HCU members in March.

+ HCU broke ground in June of 2016 on the construction of the newest HCU branch at 37th and N. Maize Road. The 13,500 sq. ft. branch will open in April of 2017.

+ The EFT Department completed the conversion to EMV Chip cards for credit and debit cards. This change provides a high level of protection against fraud for all HCU card holders.

+ The servicing portfolio of Members Mortgage Services topped \$1.3 billion, representing over 12,800 mortgage loans. MMS now employs 36 and serves 38 credit unions in Kansas, Missouri, Nebraska, and Iowa. This growth also prompted MMS to purchase, renovate and move into a larger office at 200 East 1st Ave in Hutchinson.

We are fortunate to have one of the best financial institutions in the area and I thank each of you for your continued support

Mark Woleslagel
Chairman, Board of Directors

REPORT OF THE Supervisory Committee



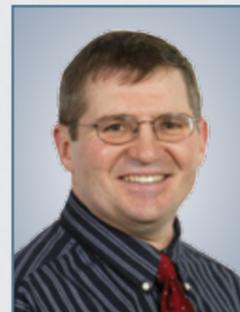
Ed Howard
Chairman



Marvin Schmucker



Lori Blakesley



Mike Juby



Elizabeth Beck

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

- + Oversight of the Internal Audit Program
- + Reviewing Policies and Procedures
- + Evaluating and Reviewing the Credit Union's Financial Condition
- + Interacting with Credit Union Management
- + Cooperating with Regulatory Agencies
- + Reviewing 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 9-30-16. 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

12-31-15 and received a clean audit. Their 2016 audit fieldwork was scheduled for the second week of March 2017.

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, 2016. There were no material deficiencies cited.

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

- + The Committee met several times during 2016 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.

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

Ed Howard
Chairman, Supervisory Committee

REPORT OF THE Credit Committee

Credit Committee



Jim Ewert
Chairman



Leila Emack



DeAngelo Green



Brock Wells

LOAN REPORT		
CATEGORY	2016	2015
Total number of loans made	30,499	28,389
Total dollar volume of loans made	\$140,074,202	\$135,357,246
Number of loans since April 1, 1948	477,190	446,691
Total volume of loans since April 1, 1948	\$1,681,791,293	\$1,541,717,091
Loans charged-off since April 1, 1948	\$5,342,572	\$4,730,713
Recoveries from charged-off loans	\$560,396	\$496,634

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 9.3% to \$19.1 million; total outstanding loans to members is \$224,987,065.

+ The mortgage activity for 2016 was strong for refinance activity with 53% of new mortgages for refinancing, and 47% for new purchases. During 2016, HCU originated 503 mortgage loans for \$54 million. 304 of those loans totaling \$34.8 million were sold to the secondary market via Members Mortgage Services.

+ At year end, HCU member business loans totaled \$53.9 million, approximately 24% of total loans.

+ Delinquency at year-end was at 0.91%, up from the end of 2015 (0.66%). Our credit union peer average at year-end 2016 was 0.92%.

+ Charged off loans for 2016 as a percentage of outstanding loans was 0.255%, down from 2015 (0.292%) and our historical trend. Our credit union peer average at year-end 2015 was 0.48%.

+ The Allowance for Loan Loss account is fully funded at \$2.35 million which is just over 1% of total loans.

+ At year end, over 100% of member shares are currently reinvested in member loans compared to our peer number of 72.5%, a great sign of a healthy credit program especially with our comparable rate of delinquency and low charge-off rate.

Jim Ewert
Chairman, Credit Committee

REPORT OF THE Treasurer

BALANCE SHEET		
ASSETS	2016	2015
Loans, Net of Allowance for Loan Losses	\$225,704,453	\$206,116,060
Cash & Investments	\$40,736,247	\$47,234,984
Other Assets	\$13,300,942	\$11,457,490
Total Assets	\$279,741,641	\$264,808,534
LIABILITIES & EQUITY	2016	2015
Other Liabilities	\$29,612,165	\$28,765,680
Share Deposits	\$223,549,415	\$212,097,743
Reserves & Undivided Earnings	\$26,580,061	\$23,945,111
Total Liabilities & Equity	\$279,741,641	\$264,808,534

INCOME STATEMENT		
CATEGORY	2016	2015
Interest Income	\$10,083,291	\$9,494,763
Dividends	(\$1,580,287)	(\$1,427,762)
Interest Expense	(\$201,292)	(\$75,227)
Net Interest Income	\$8,301,712	\$7,991,775
Non-Interest Income	\$4,898,771	\$4,549,797
Non-Interest Expense	(\$12,167,719)	(\$11,288,320)
Income from Operations	\$1,032,764	\$1,253,252
Non-operating Income	\$1,590,968	\$430,644
Net Income to Reserves	\$2,623,732	\$1,683,896

PEER EVALUATION		
GROWTH	HCU	PEER
Assets	5.64%	5.63%
Loans	9.45%	8.48%
Shares	5.40%	5.61%
Net Worth	11.00%	5.55%

Thanks to you, 2016 was another great year for HCU. Your continued support allowed us to surpass \$279 million in assets. In addition, we paid over \$1.5 million in dividends and were able to place almost \$2.6 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 2016 net income is a gain from Members Mortgage Services, LLC (MMS), representing our 44% ownership. MMS had a positive operating income of over \$2.4 million, which was complimented by a positive adjustment to mortgage servicing rights of just over \$965,000. 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 over \$6.5 million in the last 13 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 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

YEAR IN REVIEW

Executives & Events

Executive Team Changes

After 36 years, Garth Strand retired from HCU. Serving as President since 1989, he helped grow the credit union from \$23 million in assets to \$274 million.

Dan Springer (see page 3) was promoted to President and CEO.

Additionally, Jeremy Stauffacher was promoted to Vice President of Sales and Service, and Joel Andrew was promoted to Chief Financial Officer. They have been with HCU since 2009 and 2010, respectively.



Garth Strand



Jeremy Stauffacher



Joel Andrew



Community Engagement

When we team up with our communities and partners in our communities, great things happen. Throughout 2016, we remained focused on investing time and energy into the thriving communities in which we operate.

When the weather turns warm, residents know it's Treat Trike season. The bright orange Treat Trike can be spotted anywhere from Third Thursday in downtown Hutch to visiting schools and branches to dish out free ice cream.



The chambers of commerce and young professional groups in our area not only

Counter-clockwise: The Treat Trike parades around Downtown Hutch during Third Thursday; The 29th and Main branch hosts a YP Mingle event for Young Professionals of Reno County; HCU sponsored Taste of Newton in downtown Newton; HCU participated in a job fair at Hutchinson Community College; HCU employees participated in the Downtown Hutchinson Chili and Soup Festival.

support community growth, but encourage it. We remain active in these groups and often hold networking events in our branches or Support Center.

Additionally, we participated in, and/or sponsored many events in 2016, including these:

- + Taste of Newton
- + Hutchinson CC job fair
- + Downtown Hutchinson Chili and Soup Festival
- + Hutchinson Chamber of Commerce Annual Event
- + Hutchinson CC football and basketball game sponsors
- + Newton Chamber "Lunch on Us" event
- + Wichita State University Career Connections
- + Hutch Monarchs baseball



YEAR IN REVIEW Education

Student Education

Founded in 1948 as Hutchinson Teacher's Credit Union, our roots in education run deep.

In 2016, two students were the recipient of Heartland Education Scholarships, receiving \$2,500 each to continue their education at their respective colleges.

HCU also facilitated several sessions of Mad City Money, a hands-on financial literacy simulation for high school students, allowing students to obtain real-world information.

HCU continued its CASH Grant program for teachers. In 2016, HCU awarded 14 grants totaling nearly \$5,000, helping facilitate everything from educational field trips to garden beds, reaching more than 1,600 students.

Top to bottom: Zachary Simpson was the recipient of a Heartland Education Scholarship to continue studying at Kansas State; Chiann Aumiller was the recipient of a Heartland Education Scholarship to study at Hutch CC; Students work to balance budgets during Mad City Money; Students discuss how Mad City Money will have an affect on future financial decisions.



Member and Community Education

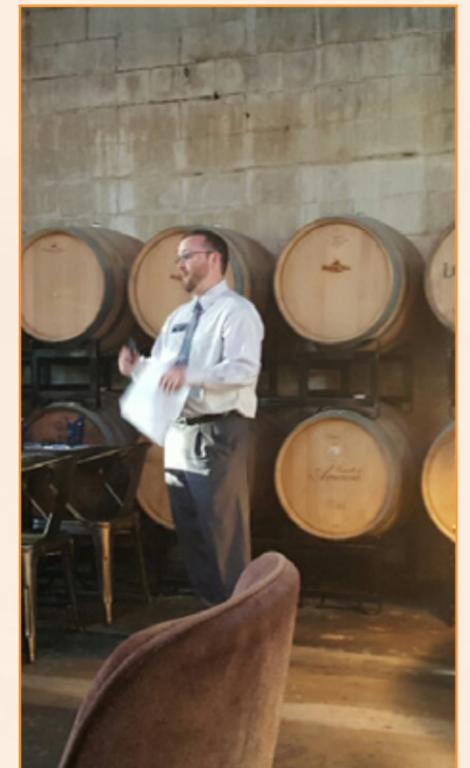
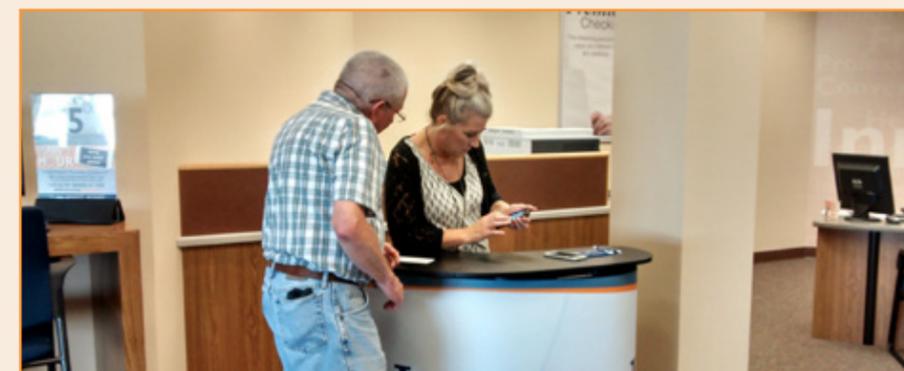
In 2016, a primary focus was engaging, educating and empowering HCU members. This was achieved through Happy Hours and workshops. Happy Hours were generally two-hour sessions targeted at a specific piece of technology and were facilitated by our own digital banking expert and staff from branches.

- + InstaCheck Happy Hours allowed members to visit a branch and receive a \$5 bonus for making a deposit using InstaCheck on their mobile app
- + Our deposit-automation ATMs (named Max) allow members to deposit cash and checks

without envelopes or deposit slips. To make members more comfortable with using the Max ATMs, we held Happy Hours and members received a \$5 bonus for trying a deposit.

+ Our Happy Hour Workshop filled up in record time. Our expert navigated and demonstrated Online Banking and Mobile Banking for members at the Support Center, with the goal of making the platforms easier for the member.

+ We held several Homebuyers Workshops in 2016. The free workshops feature insurance, real estate and inspection experts, along with our top-notch mortgage team, and walk attendees through the home-buying process.



Clockwise: Members attend the Happy Hour Workshop at the Support Center; Michael Lorimor of HCU presents during a Homebuyers Workshop in Wichita; HCU staff helps a member deposit \$5 during an InstaCheck Happy Hour.



23RD & SEVERANCE BRANCH
900 E. 23rd Ave. | Hutchinson, KS 67502



AVE A & ADAMS BRANCH
129 W. Ave. A | Hutchinson, KS 67501



29TH & MAIN BRANCH
2900 N. Main St. | Hutchinson, KS 67502



HAVEN BRANCH
103 S. Kansas | Haven, KS 67543



NEWTON BRANCH
2201 S. Kansas | Newton, KS 675114



CENTRAL WICHITA BRANCH
245 N. Waco | Wichita, KS 67202



37TH & MAIZE BRANCH
3777 N. Maize Rd. | Wichita, KS 67205



SUPPORT CENTER
4000 N. Monroe | Hutchinson, KS 67502



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