Telhio Credit Union Annual Report - 2005

C. Patrick Zollars, Chairperson of the Board

Telhio management and staff have continued to take the appropriate steps to secure the financial standings of the credit union. Telhio is the largest credit union ranked by membership and second by asset size in central Ohio according to The List published by Business First. In 2006, Telhio will request state approval to expand our field of membership to include all zip codes in Delaware County.

Management and staff worked hard in 2005 finalizing plans so that Telhio would have 2 new branches to open in 2006. A Grand Opening event for the branch at 3580 Fishinger Boulevard in Hillard is scheduled for the week of May 8, 2006. The second branch at Northland Park will be a drive-thru facility only. It is scheduled to open in the Summer of 2006.

As always, it is an honor to be part of an organization that focuses on the individual as it continues to grow, expand, and develop new and improved products and services. Member owners may take comfort in knowing that since 1934 Telhio has become the premier credit union in central Ohio and proudly announces to the marketplace that we are “The Financial Institution for Everyone”.

Leslie Bumgarner, President/CEO

Telhio continued to be the credit union of choice for Franklin County and surrounding communities. Making your credit union “The Financial Institution for Everyone” who lives, works, worships or attends school in these areas is our objective. With two new branches scheduled to open in 2006, Telhio makes it even easier to be the preferred choice for Financial Services.

New members who joined the credit union opened more new accounts this year than in previous years and our existing members added new products, which indicates that the management and staff are providing the types of financial services our members want and need.

Telhio members faced the same economic challenges here locally as consumer across the nation. Columbus, know historically to be recession proof, can longer claim that after the record setting number of bankruptcies and unemployment claims recorded in Franklin County from 2003 through 2005. Despite the incredibly challenging economic times during 2005, your credit union was able to maintain a capital base over 11.5%. Telhio is one of the safest and sound operating financial institutions in the nation.

Your credit union management team held expenses below budget expectations; however, loan fee income (the credit union’s primary source of revenue) was down due to the continued squeeze felt by diminishing interest rate margins. Additionally, the credit union shouldered a moderate level of dividend rate expense by maintaining interest rates on core Share Savings and Checking accounts above what several competitors were paying in the local market for these same types of deposits. Member givebacks in the form of member loyalty bonuses and incentives for Share CDs continued, Free Checking is and always has been free of monthly statement fees and balance requirements, the credit union’s on-line banking program including Bill Payer are still free, and the number of no-surcharge ATMs and the number of free ATM transactions increased as well.

Initiatives such as on-line statements are growing with acceptance as this service is a great alternative to fight the rising concerns of Identity Theft and it provides the credit union an added bonus of reducing the costs associated with producing and mailing paper statements. The Telhio Loans-on-Line program for Mortgage, Home Equity and other consumer-based loans provided the ease and convenience of
gaining loan approvals 24 hours a day, 7 days a week, which sped loan decisions, reduced paperwork, and improved efficiencies by integrating loan processes directly with our host processing system.

Additionally, Telhio introduced more ways to help members with retirement, 401(k) investment choices, long-term care, college planning, and insurance programs under the branding of Telhio Investment Services. These products and services are available through CUSO Financial Services, L.P. (CFS), our broker dealer.

It is our vision to be the preferred choice for Financial Services for everyone who lives, works, worships, or attends school in our greater Columbus service area. Telhio is the empowering financial institution that improves lives by helping people reach their goals. Because of our …

- commitment to educating both members and non-members about options so they are able to make well informed decisions and take control of their own finances;
- proactive customization of financial services to better suit members’ needs;
- convenient access through shared branching and technology;
- attentiveness to members’ needs;
- comprehensive array of competitively priced financial services; and
- involvement of members in the ongoing operations and direction of the institution

… Telhio is a caring organization operating with intention and purpose to maintain the highest possible levels of commitment and integrity.

Products and services offered through CUSO Financial Services, L.P. (CFS), an independent broker/dealer, are not NCUA/NCUSIF Insured, not credit union guaranteed, and may lose value. Financial Representatives are employees of Telhio Credit Union and registered through CFS (member NASD/SIPC). For specific tax advice, consult a qualified tax professional.

Roy L. Bieber, Treasurer

Telhio’s goal is to grow and sustain a level of profitability, which allows us to continually increase the value of membership. Telhio realized a positive shift to the bottom line of $1.89 million dollars from 2004 to 2005. The NCUA identifies a well-capitalized credit union with a PCA ratio of 7%. Telhio had a PCA ratio at 9.48% for 2004 and it increased to 10.52% for 2005. Telhio Senior Management is focused on maintaining a safe and sound financial operation that reflects a strong CAMEL code rating as defined by NCUA standards.

In 2004, the board enacted new policies, with the advice and consent of management, to minimize the impact of delinquencies, bankruptcies and charge-offs upon the current and future financial standing of your credit union. We need to remember that any loss from a member reduces the ability of your credit union to provide the rest of the membership with the best possible rates and services. The board-instigated changes are already beginning to show results. The board will continue to monitor the economy and state of the credit union by acting and planning in the best interests of all the members.

As a result of these new policies, Telhio had a decrease in total net loans and total shares. Members continued to experience financial difficulties (personal bankruptcies, lay-offs, under employment, etc.), their inability to repay their financial obligations affected the credit union with net charge-offs of $6.9M in 2005 which is down from $8.1M in 2004.

Again, I would like to remind you that your credit union is regulated and monitored by state and federal agencies in addition to the formal audit by our outside auditing firm, Crowe-Chizek and Company, LLC. The State of Ohio’s Division of Financial Institutions and the federal National Credit Union Administration are active partners that assist staff with advice and guidance. It means that your credit union remains in regulatory compliance and maintains its high standards of financial stability and service to you.
I encourage each of you to understand the financials of your credit union. The staff has copies of Telhio’s audited financials available to any member at all offices and via Telhio’s web site, www.telhio.org/about.html. If you have any questions, please feel free to contact the staff or any board member of Telhio.

Roland Snow, Chairperson of the Nominating Committee

This year’s nominating committee recommended three incumbents to fill the open positions for the 2006 Board of Directors. An election and request for proxy is conducted annually prior to the Telhio Annual Meeting. Balloting and Annual Meeting information was provided to all qualified voting members in the December paper and eStatements. Only members in good standing may cast a vote or provide a proxy to conduct the affairs of the Annual Meeting.

Each member in good standing ages 16 or older has one vote, regardless of the number of shares. All members are equal owners of the credit union, regardless of deposit amount, and each vote is important to the choice members make. Members who have business or trust account relationships and are in good standing were eligible to vote or provide a proxy.

In this year’s election, members were encouraged to vote and provide a proxy statement on-line, or by phone. Paper ballots were available upon request. With 687 members voting, it provided a response of 506 electronic votes, and 181 members requesting a paper ballot. Results were announced at the Telhio Annual Meeting held at 6:00 pm, March 27, 2006 at 96 N. Fourth Street, Columbus, Ohio. The Board of Directors is comprised of volunteers and will consist of 10 members for the calendar year of 2006.

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<th>2005 Board of Directors</th>
<th>Supervisory Committee</th>
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<tr>
<td>C. Patrick Zollars</td>
<td>Chair</td>
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<td>Irene Smith</td>
<td>Vice-Chair</td>
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<td>Roy Bieber</td>
<td>Treasurer</td>
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<td>Larry Jackson</td>
<td>Secretary</td>
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<td>Ken Crockett</td>
<td>Director</td>
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<td>Kathy Foor</td>
<td>Director</td>
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<td>Linda Kennedy</td>
<td>Director</td>
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<td>Reg Martin</td>
<td>Director</td>
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<td>Roland Snow</td>
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<td>Karey Walker</td>
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