

*Going
The
Extra
Mile*

BRANCH LOCATIONS

1919 Torrance Blvd.
P.O. Box 2290
Torrance, CA 90509-2290
(310) 972-7000
FAX: (310) 972-7013

Anna, OH
FAX: (937) 498-5618

East Liberty, OH
FAX: (937) 644-6768

Lincoln, AL
FAX: (205) 355-6820

Marysville, OH
FAX: (937) 642-5184

Torrance, CA
FAX: (310) 972-7002



1-800-63-Honda
www.hondafcu.org

ATM LOCATIONS

Alabama
Lincoln HMA – Welcome Center

California
Torrance AHM – Torrance Building 100
Torrance AHM – Torrance Building 300

Ohio
Anna HAM – Anna South Cafeteria
Anna HAM – Anna West Cafeteria
Bellefontaine Gillespie Oil – Madriver Shell
Bellefontaine Gillespie Oil – Shell Food Mart
Columbus Concourse Hotel
East Liberty HAM – East Liberty Cafeteria Entrance
East Liberty HAM – East Liberty Second Floor Entrance
Kenton Gillespie Oil – Shell Food Mart
Marysville Community Market
Marysville HAM – Marysville North Cafeteria
Marysville HAM – Marysville Lobby
Marysville HAM – Marysville Drive-Up
Marysville HAM – Marysville Main Auto Entrance
Marysville HAM – Marysville South Cafeteria
Marysville HAM – Marysville Motorcycle South Entrance
Marysville Gillespie Oil – Downtown Marysville
Marysville Gillespie Oil – Shell Burger King
Raymond HRA – Ohio Employee Entrance
Russell's Point HTM – Employee Entrance
Russell's Point Gillespie Oil Shell – Indian Lake Plaza
Westerville Wine and Cheese Emporium

North Carolina
Sweptonville HPE – North Carolina Plant

South Carolina
Timmons ville HSC



MISSION
STATEMENT

Honda Federal Credit Union

provides quality financial

services to members of the

Honda Family.

FISCAL YEAR 2001

ANNUAL REPORT

BOARD OF DIRECTORS

Carl R. Coe, Chairman
Jeff Replogle, Vice-Chairman
Sheri Bullock, Treasurer
Sandy Morris, Secretary
Dave Curry
Natalie Enoki
Colleen Escobar
Rick Schostek
Michael Sierawski

SUPERVISORY COMMITTEE

John Weisickel, Chairman
Tim Degitz
Steve Goldstein
Paul Honda
Laura Thomas

EXECUTIVE MANAGEMENT

Jim Updike, Chief Executive Officer
Steve Brandon, Chief Operating Officer

MANAGEMENT TEAM

Jim Aley, Chief Financial Officer
Bill D'Camp, Information Technologies Manager
Elizabeth Lipke, VP of Marketing
Bea Walker, Torrance Manager
Joe Mattera, Marysville Manager
Michelle Freisthler, Anna/East Liberty Manager
Scott Shields, Lincoln Manager
Steve Snyder, Operations Support Manager
Holly Reynolds, Compliance Officer

*It seems hard to imagine that another year has come and gone.
What is even more incredible is that Honda Federal Credit Union
has experienced so many outstanding successes over the course of the year;
especially, considering the challenging economic environment we have faced.*

CHAIRMAN'S REPORT

Total assets now exceed \$226,000,000, loans are approaching \$207,000,000, and we are now serving 35,000 credit union members nationwide.

These are dramatic increases when compared to figures from just a year ago. Assets grew by a robust 10.6%, or \$21,800,000 while the economy as a whole grew by a mere 1.9% over the same period. Loans grew by a phenomenal \$41,131,000; a 25% increase in just one year and in one month alone, we recorded over \$7,000,000 in loans.

Other numbers are equally impressive. We now have 26 ATMs deployed for member use. And use them you have. There were 2,200,000 member ATM transactions during the fiscal year. Incredibly \$126,000,000 was withdrawn via ATM transactions. This figure is greater than the total assets of the credit union just a few short years ago.

During the same period, our members wrote 2,742,000 personal checks. Over \$420,000,000 was cleared via this convenient Honda FCU product.

It does not end there. Our members used their Honda FCU VISA cards 1,041,000 times during the course of the year. And they processed \$156,729,000 through their VISA cards.

There were 403,348 calls to Audrey during the fiscal year. Honda FCU members now hold 23,010 checking accounts, 21,089 check cards, and 15,409 credit card accounts.

Even in the light of these outstanding successes, we are still not satisfied. In January, we introduced a new Equity Reserve product, accessible through a VISA Gold card. On February 1, we implemented shared branching so members can utilize credit union facilities nationwide. The annual fee on our VISA Gold card was eliminated. In May, we purchased land in the city of Marysville, OH to begin construction on our sixth branch office. In the 4th Quarter of 2001 we will be opening our fifth branch office, located at the new Honda manufacturing facility in Lincoln, AL. And the list goes on and on.

Look for some existing and new products and services to be introduced in the coming year. We have just concluded negotiations to begin a rewards program for our VISA Gold card. We continue to expand our unique Honda Cash card which will be used extensively in the new Alabama facility. We are aggressively evaluating the addition of other financial services such as Estate Planning, Insurance products and Brokerage services. And if you haven't logged onto our web site at www.hondafcu.org, do so at your earliest possible convenience.

Once again, it has been an honor and a privilege serving you this past year. On behalf of the Board of Directors and the entire management team, thank you for your continued confidence and for making this such a wonderful organization to be a part of.



Carl R. Coe
Chairman

Going The Extra Mile

T R E A S U R E R ' S
R E P O R T

As in previous years, your Credit Union achieved the results noted in the financial statements by playing close attention to the fundamentals: managing risk effectively, managing operating leverage by matching core expense growth to core revenue growth, and managing capital in a disciplined way.

However, financial return is not the only goal of your Credit Union. The governing objective of maximizing shareholder value has been firmly established at your Credit Union. Consequently, rather than just providing favorable loan and deposit rates, your Credit Union is striving to meet the broad range of member needs seamlessly.

Your Credit Union is meeting this challenge by leveraging its financial performance, in conjunction with marketing profiles, to determine exactly what its members want, and to develop a dynamic, multi-channel distribution system.

In summary, your credit union recognizes that the diversity of its members will be reflected in the diversity of their choices, and is determined to structure an open and user-friendly system to allow for those choices.



Sheri Bullock
Treasurer

In a federally chartered Credit Union, the Supervisory Committee acts as the audit body. It is the responsibility of the committee to ensure that financial results are being presented fairly and accurately. The committee must also assure the membership, Board and other interested parties that the credit union is operating with the highest ethical standards and is in compliance with all laws and regulation. These are not responsibilities we take lightly.

S U P E R V I S O R Y
C O M M I T T E E R E P O R T

To assist with our efforts to effectively carry out our duties, we have retained the public accounting firm of Richards & Associates to perform detailed audits of our financial records and internal controls. Their opinion is included with this report.

It is our pleasure to recognize the efforts of the members of our Committee: Tim Degitz, Steve Goldstein, Paul Honda, Laura Thomas and Paul Brumfield.

The Supervisory Committee

I N D E P E N D E N T
A U D I T O R ' S R E P O R T

August 10, 2001

Board of Directors and Supervisory Committee
Honda Federal Credit Union
Torrance, California

We have audited the accompanying statements of financial condition of Honda Federal Credit Union as of June 30, 2001 and 2000, and the related statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Honda Federal Credit Union has presented members' shares and savings accounts as equity in the accompanying statements of financial condition that, in our opinion, should be presented as liabilities in order to conform with generally accepted accounting principles. If members' shares and savings accounts had been presented as liabilities, total liabilities would have increased by \$201,535,166 and \$181,434,720 as of June 30, 2001 and

2000, respectively, and total equity would have decreased by the same amount. Presentation of members' shares and savings accounts as equity has no effect on the total amount or classification of assets, cash flows or the determination of income, expenses, or net income.

In our opinion, except for the effects of not presenting members' shares and savings accounts as liabilities as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial condition of the Honda Federal Credit Union as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

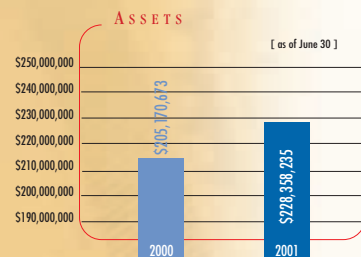
Respectfully,

Michael E. Richards, CPA

RICHARDS & ASSOCIATES
Certified Public Accountants

S T A T E M E N T S O F
F I N A N C I A L C O N D I T I O N

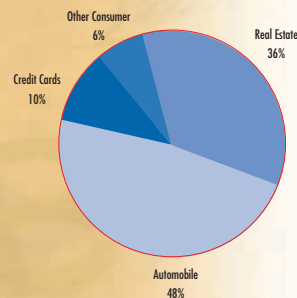
June 30, 2001 and 2000



| | 2001 | 2000 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 2) | \$6,302,238 | \$5,011,919 |
| Investments (Note 3) | 8,042,710 | 28,853,504 |
| Loans to members, net of allowance for loan losses (Note 4) | 206,434,190 | 165,437,739 |
| Property & equipment (Note 5) | 2,490,640 | 2,332,323 |
| Accrued interest receivable | 600,661 | 950,521 |
| Share insurance deposit | 1,877,199 | 1,771,937 |
| Other assets | 2,610,597 | 812,730 |
| TOTAL ASSETS | <u>\$228,358,235</u> | <u>\$205,170,673</u> |
| LIABILITIES AND EQUITY | | |
| Accrued and other liabilities | \$7,890,696 | 7,559,606 |
| TOTAL LIABILITIES | 7,890,696 | 7,559,606 |
| Commitments and contingent liabilities (Note 8) | -- | -- |
| Members' share and savings accounts (Note 6) | 201,535,166 | 181,434,720 |
| Members' equity, substantially restricted | 18,855,905 | 16,228,515 |
| Accumulated other comprehensive income | 76,468 | (52,168) |
| TOTAL LIABILITIES AND EQUITY | <u>\$228,358,235</u> | <u>\$205,170,673</u> |

See notes to financial statements

C O M P O S I T I O N O F L O A N S
T O M E M B E R S

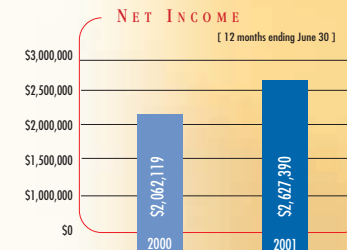


S T A T E M E N T S O F I N C O M E

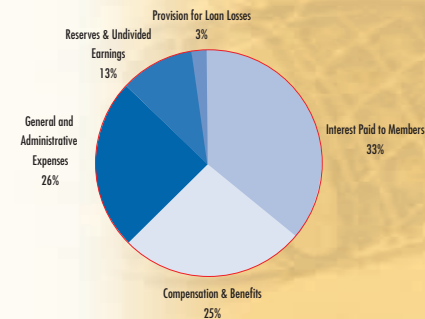
For the years ended June 30, 2001 and 2000

| | 2001 | 2000 |
|--|--------------------|--------------------|
| INTEREST INCOME | | |
| Loans to members | \$14,679,257 | \$11,838,778 |
| Investments | 1,700,736 | 2,340,208 |
| TOTAL INTEREST INCOME | 16,379,993 | 14,178,986 |
| INTEREST EXPENSE | | |
| Members' share and savings accounts | 6,737,546 | 5,926,784 |
| Borrowed funds | 138,326 | 37,025 |
| TOTAL INTEREST EXPENSE | 6,875,872 | 5,963,809 |
| NET INTEREST INCOME | 9,504,121 | 8,215,177 |
| PROVISION FOR LOAN LOSSES | 554,054 | 380,091 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 8,950,067 | 7,835,086 |
| OTHER OPERATING INCOME | | |
| Service charges and other income | 4,156,955 | 3,439,093 |
| OTHER OPERATING EXPENSES | | |
| Compensation and benefits | 5,098,144 | 4,517,661 |
| General and administrative expenses | 5,381,488 | 4,694,624 |
| TOTAL OTHER OPERATING EXPENSES | 10,479,632 | 9,212,285 |
| OPERATING INCOME BEFORE NON-OPERATING ITEMS | 2,627,390 | 2,061,894 |
| NON-OPERATING GAIN | -- | 225 |
| NET INCOME | <u>\$2,627,390</u> | <u>\$2,062,119</u> |

See notes to financial statements



D I S T R I B U T I O N O F R E V E N U E



S T A T E M E N T S

O F C A S H F L O W S

For the years ended June 30, 2001 and 2000

| | 2001 | 2000 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Net income | \$2,627,390 | \$2,062,119 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 554,054 | 380,091 |
| Depreciation and amortization | 443,312 | 412,137 |
| Gain on disposal of property and equipment | -- | (225) |
| (Increase) decrease in accrued interest receivable | 349,860 | (455,342) |
| (Increase) decrease in prepaid and deferred expenses | 16,995 | (167,349) |
| Increase in accrued expenses | 289,160 | 100,301 |
| Decrease in dividends payable | -- | (454,819) |
| Total adjustments | 1,653,381 | (185,206) |
| Net cash provided by operating activities | 4,280,771 | 1,876,913 |
| Cash flows from investing activities: | | |
| Loans to members, net of principal collections | (41,550,505) | (37,891,400) |
| Purchase of negotiable securities | (1,000,000) | (11,009,219) |
| Maturity and principal reduction of negotiable securities | 8,999,730 | 15,113,390 |
| (Increase) decrease in investments in financial institutions | 12,939,700 | (7,088,700) |
| Purchase of property and equipment | (601,629) | (360,052) |
| Increase in share insurance deposit | (105,262) | (176,308) |
| Net cash used by investing activities | (21,317,966) | (41,412,289) |
| Cash flows from financing activities: | | |
| Increase in share deposits | 20,100,446 | 17,323,543 |
| Decrease (increase) in accounts receivable | (1,814,862) | 2,750,449 |
| Increase in accounts payable | 41,930 | 1,145,037 |
| Net cash provided by financing activities | 18,327,514 | 21,219,029 |
| Net (decrease) increase in cash and cash equivalents | 1,290,319 | (18,316,347) |
| Cash and cash equivalents at beginning of year | 5,011,919 | 23,328,266 |
| Cash and cash equivalents at end of year | \$6,302,238 | \$5,011,919 |

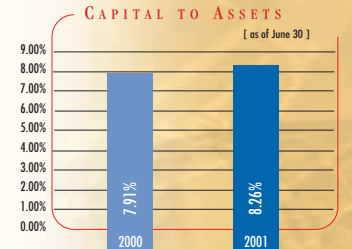
| | 2001 | 2000 |
|--|--------------|--------------|
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash received during the year from interest on loans and investments | \$16,729,853 | \$13,723,644 |
| Cash paid during the year for dividends | \$6,737,546 | \$6,381,603 |
| Cash paid during the year for operating expenses | \$9,730,165 | \$8,867,196 |

S T A T E M E N T S O F M E M B E R S ' E Q U I T Y A N D

A C C U M U L A T E D O T H E R C O M P R E H E N S I V E I N C O M E

For the years ended June 30, 2001 and 2000

| | 2001 | 2000 |
|--|--------------|--------------|
| UNAPPROPRIATED - RETAINED EARNINGS | | |
| Beginning balance | \$9,665,252 | \$8,984,849 |
| Net income | 2,627,390 | 2,062,119 |
| Statutory transfer | (265,732) | (1,381,716) |
| Voluntary transfer | (1,193,936) | -- |
| Ending balance | \$10,832,974 | \$9,665,252 |
| APPROPRIATED - REGULAR RESERVE | | |
| Beginning balance | \$6,563,263 | \$5,181,547 |
| Statutory transfer | 265,732 | 1,381,716 |
| Voluntary transfer | 1,193,936 | -- |
| Ending Balance | \$8,022,931 | \$6,563,263 |
| MEMBERS' EQUITY | \$18,855,905 | \$16,228,515 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | |
| Beginning balance | \$(52,168) | \$0 |
| Unrealized gains (losses) on investment securities arising during the period | 128,636 | (52,168) |
| Ending balance | \$76,468 | \$(52,168) |



NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Honda Federal Credit Union (Credco) is organized under the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws.

Cash equivalents: For purposes of the statements of financial condition and cash flows, the Credit Union considers investments with original maturity of three months or less to be cash equivalents.

Investments: Certificate of deposits are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Included in certificate of deposits are member capital accounts in a corporate credit union. These accounts are uninsured equity capital that may be redeemed with a three-year notice.

Negotiable securities are classified in accordance with the Credit Union's asset/liability management and investment policies. The following is a description of the accounting procedures used for investments:

Available for sale: Investments that are not purchased principally to be sold in the near term nor with the positive intent and ability to hold until maturity and those without a defined maturity are marked to market, with unrealized gains or losses not affecting earnings but shown as a separate component of the equity portion of the balance sheet.

Held to maturity: Investments that are purchased with the positive intent and ability to hold until maturity are reported at amortized cost with no market adjustments.

Loans to members and allowance for loan losses: Loans to members are stated at unpaid principal balance, less an allowance for loan losses and net deferred loan origination fees. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loan fees and certain direct loan-origination costs are deferred, and the net fee is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible.

Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, and current economic conditions.

Accrual of interest on a loan is discontinued when management believes, after considering economics, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged off directly to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Property and Equipment: Land is carried at cost. Other fixed assets are carried at cost, less accumulated depreciation and amortization. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the terms of the related leases or their useful lives.

Share insurance deposit: Each member's share and savings account is insured up to \$100,000 by the National Credit Union Share Insurance Fund (NCUSIF). The deposit in the NCUSIF is in accordance with regulations set forth by the National Credit Union Administration (NCUA), which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares.

The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the premium is waived or reduced by the NCUA Board.

Individual deposits in excess of \$100,000, subject to a maximum of \$250,000, are insured by a private insurance company, American Share Insurance Corporation.

Members' share and savings accounts: Members' shares are subordinated to all other liabilities of the Credit Union in the event of liquidation. Interest on share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Restricted members' equity: The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest. During the year, the Board of Directors authorized additional transfers to the regular reserve in excess of the statutory requirement.

Income taxes: The Credit Union is exempt, by statute, from federal and state income taxes.

Comprehensive income: Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, provides accounting standards pertaining to the reporting and display of comprehensive income in a financial statement. Comprehensive income consists of net income and other comprehensive income. Accumulated other comprehensive income presented in the accompanying Statements of Members' equity consists of the accumulated net unrealized gain (loss) on available-for-sale investments. The adoption of SFAS No. 130 had no impact on net income or members' equity.

Presentation of comparative financial statements: To more clearly illustrate the financial condition of the Credit Union and the results of its operations, the current year financial information is presented along with the previous year. Financial information presented for the previous year may be classified differently than originally disclosed. These reclassifications, which do not affect the auditor's report on those financial statements, were made for purposes of comparison.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents, investments with original maturity of three months or less are as follows:

| | June 30, | |
|--|--------------------|--------------------|
| | 2001 | 2000 |
| Cash on hand and in banks | \$5,901,905 | \$4,972,419 |
| Deposits in federally insured financial institutions | 400,333 | 39,500 |
| | <u>\$6,302,238</u> | <u>\$5,011,919</u> |

NOTE 3: INVESTMENTS

| | June 30, | |
|-------------------------|-------------|-------------|
| | 2001 | 2000 |
| CERTIFICATE OF DEPOSITS | \$1,921,600 | \$1,861,300 |

NEGOTIABLE SECURITIES

The carrying and estimated fair values are as follows:

| | June 30, 2001 | | | |
|--|--------------------|------------------------|-------------------------|--------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale: | | | | |
| Federal agency securities | \$4,999,642 | \$76,468 | \$0 | \$5,076,110 |
| Held to maturity: | | | | |
| Capital stock, credit union service corporations | 45,000 | 0 | 0 | 45,000 |
| | <u>\$5,044,642</u> | <u>\$76,468</u> | <u>\$0</u> | <u>\$5,121,110</u> |
| Federal agency securities | \$1,000,000 | \$0 | \$0 | \$1,000,000 |

| | June 30, 2000 | | | |
|--|--------------------|------------------------|-------------------------|--------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale: | | | | |
| Federal agency securities | \$7,999,372 | \$0 | \$(52,168) | \$7,947,204 |
| Capital stock, credit union service corporations | 45,000 | 0 | 0 | 45,000 |
| | <u>\$8,044,372</u> | <u>\$0</u> | <u>\$(52,168)</u> | <u>\$7,992,204</u> |

| | June 30, | | | |
|---------------------------|--------------------|------------|-------------------|--------------------|
| | 2001 | 2000 | | |
| Held to maturity: | | | | |
| Federal agency securities | \$6,000,000 | \$0 | \$(35,030) | \$5,964,970 |
| | <u>\$6,000,000</u> | <u>\$0</u> | <u>\$(35,030)</u> | <u>\$5,964,970</u> |

A summary of investments by contractual maturity is shown below. Expected maturity will differ from contractual maturity because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | June 30, | |
|--|--------------------|---------------------|
| | 2001 | 2000 |
| Within one year | \$1,999,953 | \$12,000,000 |
| One to five years | 3,999,689 | 14,999,372 |
| Subtotal | 5,999,642 | 26,999,372 |
| Investments without a defined maturity | 1,966,600 | 1,906,300 |
| | <u>\$7,966,242</u> | <u>\$28,905,672</u> |

Accrued interest receivable on investments amounted to \$133,744 and \$625,023 at June 30, 2001 and 2000, respectively.

NOTE 4: LOANS TO MEMBERS

The composition of loans to members is as follows:

| | June 30, | |
|-----------------------------------|----------------------|----------------------|
| | 2001 | 2000 |
| Real estate | \$68,633,219 | \$34,440,155 |
| Home equity line of credit | 4,131,548 | 8,240,966 |
| Automobile | 95,596,902 | 89,050,355 |
| Credit cards | 20,471,429 | 17,144,482 |
| Business credit cards | 6,365,772 | 5,749,930 |
| Consumer type | 11,785,548 | 11,229,630 |
| Unamortized loan origination fees | -- | (2,217) |
| | 206,984,418 | 165,853,301 |
| Less: Allowance for loan losses | 550,228 | 415,562 |
| | <u>\$206,434,190</u> | <u>\$165,437,739</u> |

The Credit Union estimates the amount of losses that will be sustained on loans to members. The allowance for loan losses represents management's estimate of losses not yet sustained on loans currently outstanding. A summary of the activity in the allowance for loan losses is as follows:

| | June 30, | |
|-----------------------------------|------------------|------------------|
| | 2001 | 2000 |
| Beginning balance | \$415,562 | \$350,032 |
| Provision for loan losses | 554,054 | 380,091 |
| Loans charged off | (477,256) | (357,424) |
| Recoveries from charged off loans | 57,868 | 42,863 |
| Ending balance | <u>\$550,228</u> | <u>\$415,562</u> |

Accrued interest receivable on loans amounted to \$466,917 and \$325,498 at June 30, 2001 and 2000, respectively. The credit union had non-accrual loans of approximately \$1,225,519 and \$700,676 at June 30, 2001 and 2000, respectively. If interest on these loans had been recognized at the original interest rates, interest income would have increased approximately \$43,524 and \$22,048 in 2001 and 2000, respectively.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

| | June 30, | |
|---|--------------------|--------------------|
| | 2001 | 2000 |
| Land | \$146,682 | \$0 |
| Building and improvements | 1,840,567 | 1,832,022 |
| Data processing equipment and software | 1,910,029 | 1,507,899 |
| Furniture, fixtures and equipment | 554,326 | 484,005 |
| Automated teller machines | 446,578 | 390,808 |
| Leasedhold improvements | 113,573 | 105,393 |
| | 5,011,755 | 4,410,127 |
| Less: Accumulated depreciation and amortization | 2,521,115 | 2,077,804 |
| | <u>\$2,490,640</u> | <u>\$2,332,323</u> |

Depreciation and amortization expenses amounted to \$443,312 and \$412,137 for the years ending June 30, 2001 and 2000, respectively.

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Share and savings accounts are summarized as follows:

| | June 30, | |
|----------------|----------------------|----------------------|
| | 2001 | 2000 |
| Share drafts | \$34,904,665 | \$37,939,214 |
| Share savings | 65,877,325 | 64,836,660 |
| Other deposits | 100,753,176 | 78,658,846 |
| | <u>\$201,535,166</u> | <u>\$181,434,720</u> |

A summary by maturity of members' share and savings accounts is as follows:

| | June 30, | |
|-------------------------|----------------------|----------------------|
| | 2001 | 2000 |
| No contractual maturity | \$146,298,703 | \$136,298,042 |
| Within one year | 42,099,942 | 36,751,826 |
| One to five years | 13,136,521 | 8,384,852 |
| | <u>\$201,535,166</u> | <u>\$181,434,720</u> |

Interest rates are set by the board of directors, based on an evaluation of current and future market conditions.

NOTE 7: BORROWED FUNDS

The Credit Union has a line of credit agreement with WestCorp Federal Credit Union, a corporate credit union, which permits the Credit Union to borrow up to \$50 million at an interest rate determined by the lender's board of directors.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition or results of operations of the Credit Union.

The principal commitments of the Credit Union are as follows:

Lease agreement: A corporate facility including a branch office was constructed on a land leased from the sponsor in Marysville, Ohio. The lease agreement which calls for a nominal annual rent payment and property tax, expires on August 31, 2024.

Loan Commitments: At June 30, 2001, the Credit Union had outstanding commitments for unused lines of credit totaling \$79 million that are not reflected in the accompanying financial statements.

Financial Instruments With Off-Balance-Sheet Risk: The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates.

These financial instruments include commitments for home equity and unsecured lines of credit. The contractual amount of commitments to extend credit is \$79 million. Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates.

Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. To minimize credit risk, the Credit Union evaluates each member's credit worthiness and uses the same policies in making commitments as it does for on-balance-sheet instruments. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Interest rate risk associated with loan commitments is addressed in the Credit Union's asset/liability management policies.

Financial Instruments With Concentration of Credit Risk: The Credit Union's lending activity is with its members, many of whom are employees or former employees of American Honda Motor Company, Inc. and Honda of America Manufacturing, Inc., residing in Ohio and California.

A portion of the investment portfolio is comprised of deposits in WestCorp Federal Credit Union. Deposits in WestCorp Federal Credit Union are insured up to \$100,000 by an agency of the federal government. Currently, the deposit exceeds the insured amount by \$2.2 million.

NOTE 9: RELATED PARTY TRANSACTIONS

Loans to Credit Union officials were made with interest rates, terms and collateral requirements comparable to those required of other members. The aggregate amount of these loans is not significant to the financial statements. Officials of the Credit Union provide management and consulting services on a voluntary basis.

American Honda Motor Company, Inc. and Honda of America Manufacturing, Inc. provided financial support and services, including office space at reduced rates, to offset the cost of the Credit Union operation.

Employees of the Credit Union are compensated by American Honda Motor Company, Inc. and Honda of America Manufacturing, Inc. Benefits including retirement and medical insurance offered to employees of the sponsor are also provided to the Credit Union staff. The Credit Union reimburses the sponsor for these costs. Any unpaid amounts are accrued as of June 30, 2001.

NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the credit union.

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statement of financial condition for cash and cash equivalents approximate the fair value of those instruments.

Certificates of deposits: Fair values for certificates of deposit are estimated using a discounted cash flow analysis that applies to the portfolio interest rates currently being offered on new certificates of similar amounts and remaining maturity. The carrying amount of accrued interest receivable on certificates of deposit approximates fair value.

Negotiable securities: Fair values for negotiable securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amount of accrued interest receivable on negotiable securities approximates fair value.

Loans to members, net of allowance for loan losses: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. Fair values of fixed-rate real estate loans are estimated using quoted market prices where available, or quoted market prices of comparable instruments.

The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates fair value.

Members' share and savings accounts: The fair values disclosed for demand deposits, including regular shares, share drafts, and money market accounts, are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for share certificates are estimated using a discounted cash flow analysis that applies to the portfolio interest rates currently being offered on new share certificates of similar amounts and remaining maturity. The carrying amount of accrued dividends payable approximates fair value.

Other balance sheet financial instruments: The carrying amount of other balance sheet financial instruments such as the share insurance deposit, accounts receivable and accounts payable is reasonable estimation of fair value.

Off-balance sheet financial instruments: The fair value of unused lines of credit with members is the contractual amount of these commitments. Fair values of corporate lines of credit with other financial institutions used by the credit union for short term liquidity purposes is the maximum credit limit.

The estimated fair values of the Credit Union's financial instruments are as follows:

| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|---|-----------------|---------------|-----------------|---------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| Balance Sheet Financial Instruments: | | | | |
| Financial Assets | | | | |
| Cash and cash equivalent | \$6,302,238 | \$6,302,238 | \$5,011,919 | \$5,011,919 |
| Certificate of deposits | 1,921,600 | 1,921,600 | 14,861,300 | 14,910,619 |
| Negotiable securities | 6,044,642 | 6,121,110 | 14,044,372 | 13,957,174 |
| Loans to members | 206,434,190 | 206,186,749 | 165,437,739 | 164,372,017 |
| Other financial instruments | 4,704,294 | 4,704,294 | 3,148,678 | 3,148,678 |
| Financial Liabilities | | | | |
| Members' share and savings accounts | 201,535,166 | 202,143,614 | 181,434,720 | 181,277,228 |
| Other financial instruments | 6,266,086 | 6,266,086 | 6,224,156 | 6,224,156 |
| Off-Balance Sheet Financial Instruments: | | | | |
| Unused lines of credits | 79,245,796 | 79,245,796 | 73,058,624 | 73,058,624 |