

BRANCH LOCATIONS

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

**BRANCH
OFFICE LOCATIONS**

Anna, OH
1-800-634-6632
FAX: (937) 498-5618

East Liberty, OH
1-800-634-6632
FAX: (937) 644-6768

Lincoln, AL
1-800-634-6632
FAX: (205) 355-5820

Marysville, OH
1-800-634-6632
FAX: (937) 642-5184

Marysville Community
Marysville, OH
Opening December 2003!

Russells Point, OH
1-800-634-6632
FAX: (937) 843-4624

Timmonsville, SC
1-800-634-6632
FAX: (843) 346-6100

Torrance, CA
1-800-634-6632
FAX: (310) 972-7002

ATM LOCATIONS

Alabama
Lincoln HMA – Northwest side of the office

California
Torrance AHM – Torrance Building 100 Vending Core
Torrance AHM – Torrance Branch Office
Torrance AHM – Torrance Building 300 Cafeteria

Ohio
Anna HAM – Anna South Cafeteria
Anna HAM – Anna West Cafeteria
Bellefontaine Gillespie Oil – Madriver Shell
Bellefontaine Gillespie Oil – Shell Food Mart
Dublin BMI – CU Main Entrance
East Liberty HAM – East Liberty Cafeteria Entrance
East Liberty HAM – East Liberty Second Floor Entrance
Kenton Shell Arby's
Marysville Community Market
Marysville HAM – Marysville North Cafeteria
Marysville HAM – HFCU Lobby
Marysville HAM – HFCU 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 – Associate Entrance
Russells Point HTM – Associate Entrance
Russells Point Gillespie Oil – Indian Lake Plaza

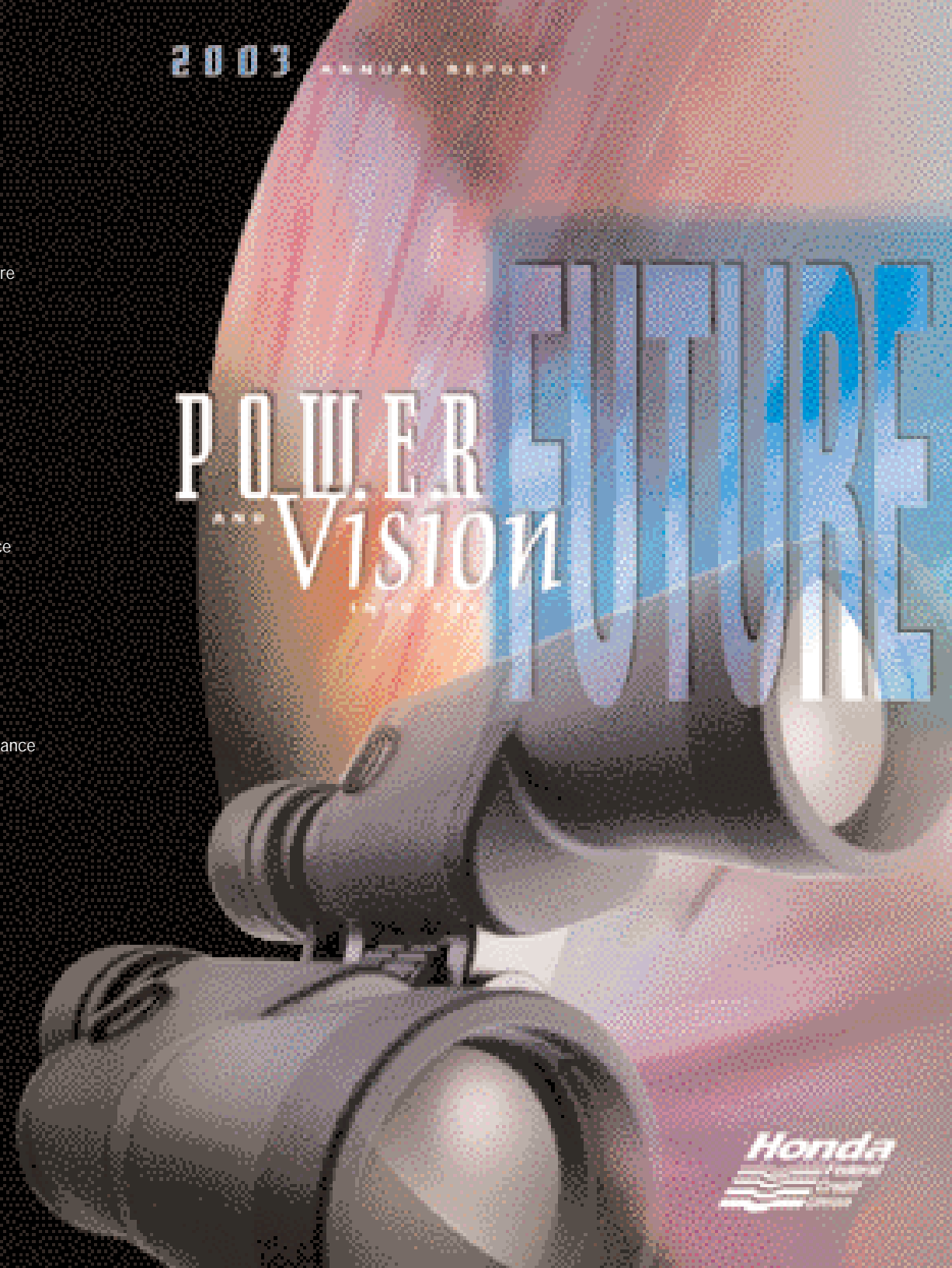
North Carolina
Swepsonville HPE – Associate Entrance

South Carolina
Timmonsville HSC - Cafeteria



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

POWER AND VISION
FUTURE



Honda Federal
Credit Union
provides quality
financial services
to members of the
Honda Family.

Board of Directors

- Carl R. Coe, *Chairman*
- Jeff Replogle, *Vice-Chairman*
- Sheri Bullock, *Treasurer*
- Sandy Morris, *Secretary*
- Tim Degitz
- Allison Dunlap
- Colleen Lineweber
- John Petas
- Michael Sierawski

Supervisory Committee

- John Weisickel, *Chairman*
- Paul Brumfield
- Steve Goldstein
- Laura Sclesky
- Sean Theus

Executive Management

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

Management Team

- Jim Aley, *Chief Financial Officer*
- Mary Anawalt, *Vice President Sales and Marketing*
- Bill D'Camp, *Information Technologies Manager*
- Melissa Danner, *Marysville Call Center Manager*
- Sonia Donald, *Compliance Officer*
- Michelle Freisthler, *Operations Support Manager*
- Kennae Jeffries, *Torrance Call Center Manager*
- Denise Kudo, *Torrance Branch Manager*
- Cheryl Lightle, *Russells Point Branch Manager*
- Jeanne Lowe, *East Liberty Branch Manager*
- Joe Mattera, *Member Service Manager*
- Larry McElroy, *Timmonsville Branch Manager*
- Tammy Richardson, *Marysville Branch Manager*
- Scott Shields, *Lincoln Branch Manager*
- Laura Sims, *Anna Branch Manager*
- Steve Snyder, *Facilities Manager*

A VISION TO FINANCIAL POWER

Vision is not only the ability to clearly see what is in front of you. It is the power to see what is beyond, a foresight into the future. Honda Federal Credit Union had a vision when it began some thirty-seven years ago. That vision was to provide financial services specifically geared to Honda Associates and their family members. Over the years, the vision of the credit union has evolved, thus creating a significant level of growth.

They say that there's strength in numbers. That adage holds true when it comes to Honda Federal Credit Union. Our phenomenal growth, both in membership and assets, is the power behind Honda Federal Credit Union. Our membership base has grown to over 42,000 individuals and our assets now stand at nearly \$350 million. With this power of the Credit Union behind you, you can plan your financial future — your financial power.

As we look to expand, our visions become reality. The Marysville Community Branch will open in December 2003, offering financial services at the first non-Honda location. To continue our "partnership" with the Honda Companies, we will open a new satellite branch in the expanded production facility at Honda Manufacturing of Alabama. As the marketplace evolves, we also look for new and innovative ways to help you manage your finances. With convenience services such as internet banking and automatic bill pay, we bring Honda Federal Credit Union into your home and to your fingertips, twenty-four hours a day, seven days a week.

Our future is in your hands, the members and owners of the Credit Union. The power in our size affords us the opportunity to offer a wide array of financial products and services to our members, making Honda Federal Credit Union highly competitive among industry leaders. Working together, not only can we envision our goals, we can achieve even greater financial power!

CHAIRMAN'S REPORT

As we work together and plan for the future, we must examine the past and learn from the experiences that we've shared. Since Honda Federal Credit Union's inauspicious beginnings in 1966, we have enjoyed unprecedented sustained growth.

We recently concluded another outstanding year, both from a standpoint of financial performance and member service. We now service over 42,000 members worldwide. Over the course of this past year, our assets increased by nearly \$50M. Total HFCU assets now stand at \$344,848,421.

Our members took advantage of the impressive list of products and services offered by Honda Federal Credit Union, such as VISA Gold Cards, VISA Classic Cards, VISA Check Cards, interest earning checking, competitive savings accounts, real estate and home equity loans, IRA, saving certificates, Honda Cash and much, much more. Members now have the convenience of accessing their accounts through Audrey, through any of the 27 Honda FCU-owner, surcharge-free ATMs, through shared branching and through internet banking.

Our members made 2,801,339 ATM transactions. They wrote 2,970,248 personal checks, clearing \$6.3M funds. They made nearly 1,500,000 VISA card transactions, totaling \$121,633,068. More than 2,000,000 VISA Check Card transactions were processed, for a total of \$73,659,714. Audrey received 451,033 calls to assist members with their banking needs. As you can see, the fundamental success of the Credit Union lies in the commitment of its members.

On behalf of the Board of Directors, thank you for your continued confidence and for allowing Honda Federal Credit Union to be part of your financial family.



Carl R. Coe
Chairman

TREASURER'S REPORT

As in previous years, Honda Federal Credit Union achieved the results noted in the financial statements by paying close attention to fundamentals: managing risk effectively, managing operating expenses, and managing capital in a disciplined manner.

However, financial return is not the only goal of Honda Federal Credit Union. The governing objective of maximizing Member 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 a broad range of member needs.

Your Credit Union is meeting this challenge because of the unique structure of a credit union. Rather than a 'banking' model with customers and shareholders, members of a credit union are customers as well as shareholders.

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 choices.



Shari Bullock
Treasurer

SUPERVISORY COMMITTEE REPORT

In a federally chartered Credit Union, the Supervisory Committee acts as the audit body. The committee ensures that financial results are 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 regulations. To assist with these efforts, we have retained the independent accounting firm of McGladrey and Pullen.

It is our pleasure to recognize the efforts of the members of our Committee: Paul Brumfield, Steve Goldstein, Laura Sclesky and Sean Theus.

John Weisickle
Chairman

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial condition of Honda Federal Credit Union (a federally chartered Credit Union) as of June 30, 2003 and the related statements of income, comprehensive income, members' equity, and cash flows for the year 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 auditing standards generally accepted in the United States of America. 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 our audit provides a reasonable basis for our opinion.

The Credit Union has reported shares as members' equity in the accompanying statement of financial condition that, in our opinion, should be reported as liabilities in order to conform to accounting principles generally accepted in the United States of America. If these shares were properly reported, liabilities would increase and members' equity would decrease by \$310,132,613 as of June 30, 2003.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Honda Federal Credit Union as of June 30, 2003 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Los Angeles, California
August 1, 2003

HONDA FEDERAL CREDIT UNION
STATEMENT OF FINANCIAL CONDITION

June 30, 2003

ASSETS	
Cash and cash equivalents	\$ 7,761,393
Investments	3,399,857
Loans to members, net	322,917,679
Accrued interest receivable	807,826
Property and equipment	4,694,513
Share insurance deposits	2,720,023
Other assets	2,547,130
	\$ 344,848,421
	\$ 344,848,421
 LIABILITIES AND MEMBERS' EQUITY	
Liabilities	
Accrued expenses and other liabilities	\$ 4,915,433
Borrowed funds	3,528,695
	8,444,128
Commitments and contingent liabilities	
 Members' Equity	
Members' shares	310,132,613
Retained earnings	26,271,680
	336,404,293
	\$ 344,848,421

HONDA FEDERAL CREDIT UNION
STATEMENT OF INCOME

For The Year Ended June 30, 2003

INTEREST INCOME	
Interest on loans to members	\$ 19,959,566
Interest on investments and cash equivalents	277,451
	20,237,017
 INTEREST EXPENSE	
Dividends on members' shares	5,429,849
Interest on borrowed funds	52,498
	5,482,347
 NET INTEREST INCOME	 14,754,670
PROVISION FOR LOAN LOSSES	920,946
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	 13,833,724
 NON-INTEREST INCOME	
Fees and charges	2,264,953
Interchange income	3,293,293
Other non-interest income	133,411
	5,691,657
	19,525,381
 GENERAL AND ADMINISTRATIVE EXPENSES	
Salaries and benefits	7,113,095
Operations	7,492,294
Occupancy	341,551
	14,946,940
 NET INCOME	 \$ 4,578,441
	\$ 4,578,441

STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended June 30, 2003

NET INCOME	\$ 4,578,441
 OTHER COMPREHENSIVE INCOME	
Unrealized holding losses on investments classified as available-for-sale	(20,039)
 COMPREHENSIVE INCOME	 \$ 4,558,402
	\$ 4,558,402

HONDA FEDERAL CREDIT UNION
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2003

OPERATING ACTIVITIES

Net income	\$ 4,578,441
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	920,946
Depreciation and amortization	801,258
Proceeds from sales of loans	46,508,116
Increase in accrued interest receivable	(157,812)
Decrease in other assets	1,105,629
Increase in accrued expenses and other liabilities	1,398,157
Net cash provided by operating activities	<u>55,154,735</u>

INVESTING ACTIVITIES

Proceeds from maturities of available-for-sale investments	2,000,000
Net increase in other investments	(302,925)
Net increase in loans to members	(126,469,868)
Increase in share insurance deposits	(505,400)
Purchases of property and equipment	(2,694,814)
Net cash used in investing activities	<u>(127,973,007)</u>

FINANCING ACTIVITIES

Net increase in borrowed funds	3,528,695
Net increase in members' shares	52,877,970
Net cash provided by financing activities	<u>56,406,665</u>

DECREASE IN CASH AND CASH EQUIVALENTS	(16,411,607)
CASH AND CASH EQUIVALENTS, JULY 1, 2002	<u>24,173,000</u>

CASH AND CASH EQUIVALENTS, JUNE 30, 2003	<u>\$ 7,761,393</u>
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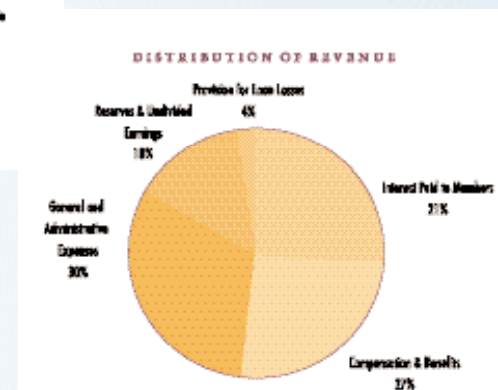
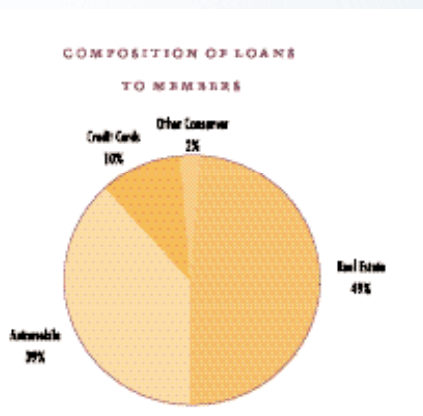
SUPPLEMENTAL CASH FLOW INFORMATION:

Dividends paid on members' shares and interest paid on borrowed funds	\$ 5,482,347
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HONDA FEDERAL CREDIT UNION
STATEMENT OF MEMBERS' EQUITY

For The Year Ended June 30, 2003

	Retained Earnings			Accumulated Other Comprehensive Income
	Regular Reserve	Unappropriated	Total	
Balance,				
July 1, 2002	\$ 8,322,208	\$ 13,371,031	\$ 21,693,239	\$ 20,039
Net Income		4,578,441	4,578,441	
Net Change in Unrealized Gains (Losses) on Available-for-Sale Investments				<u>(20,039)</u>
Balance,				
June 30, 2003	<u>\$ 8,322,208</u>	<u>\$ 17,949,472</u>	<u>\$ 26,271,680</u>	<u>\$ 0</u>



JUNE 30, 2003

1. SIGNIFICANT ACCOUNTING POLICIES

Organization: Honda Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Members' shares are classified as members' equity in the statement of financial condition. It is the Credit Union's position that members' shares represent an ownership interest and are properly classified as equity. Such classification is not in accordance with generally accepted accounting principles. Generally accepted accounting principles require members' shares be classified as liabilities. This change has no effect on the statement of income.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and non-term share deposits in a corporate credit union. For purposes of reporting, cash flows, loans to members, other investments and members' shares are reported net.

Investments: Investments are stated at cost.

Federal Home Loan Bank Stock: The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value.

Loans to Members and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans to members is recognized over the terms of the loans 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 or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by non-payment of a monthly installment by the due date.

Large groups of smaller-balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. 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 borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Transfers and Servicing of Financial Assets: The Credit Union accounts for transfers and servicing of financial assets in accordance with SFAS No. 140, Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities. SFAS No. 140 requires application of a financial component's approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

Accrued Interest on Loans: Accrual of interest on loans 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. The Credit Union's policy is to stop accruing interest when the loan becomes 60 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

Property and Equipment: Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment 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 terms of the related leases.

National Credit Union Share Insurance Fund Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its

insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board.

NCUSIF Insurance Premium: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2003 and 2002 insurance premiums.

Share Insurance Deposit: The deposit with American Share Insurance (ASI) is in accordance with California regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated or if it converts its insurance coverage to another source.

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

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statement(s) of financial condition. For the year ending June 30, 2003, other comprehensive income includes no reclassification adjustments.

2. INVESTMENTS

Investments consist of the following at June 30, 2003:

Federal home loan bank stock	\$ 1,260,014
Member capital account in a corporate credit union	1,031,943
Permanent capital account in a corporate credit union	1,107,900
	<u>\$ 3,399,857</u>

Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

At June 30, 2003, there was approximately \$6,592,000 in Credit Union deposits with individual balances in excess of the insured limit and no contractual maturity.

All investments, including member and permanent capital accounts, have no contractual maturity as of June 30, 2003.

3. LOANS TO MEMBERS

Loans to members consist of the following at June 30, 2003:

Mortgage loans:	
Fixed rate	\$ 210,417,712
Participation loans sold	(77,928,023)
Home equity line of credit, variable rate	<u>26,886,175</u>
	159,375,864
Vehicle loans	124,641,726
Credit card loans, unsecured	31,551,686
Other consumer loans, primarily unsecured	<u>7,748,481</u>
	323,317,757
Deferred net loan origination costs	608,922
Allowance for loan losses	<u>(1,009,000)</u>
	<u>\$ 322,917,679</u>

Participation loans sold consist of residential real estate loan participations sold to Western Corporate Federal Credit Union. Of these loan participations, \$66,617,651 were sold with recourse and \$11,310,372 were sold without recourse. The credit union performs all servicing functions on these loans.

In the ordinary course of business, the Credit Union makes loans to its directors and officers at the same terms as those prevailing at the time of origination for comparable transactions with other members. Loans to directors and officers at June 30, 2003 total \$285,183.

The following is an analysis of the allowance for loan losses for the year ended June 30, 2003:

Balance, July 1, 2002	\$ 871,639
Provision for loan losses	920,946
Recoveries	78,587
Loans charged off	<u>(862,172)</u>
Balance, June 30, 2003	<u>\$ 1,009,000</u>

Outstanding mortgage loan commitments at June 30, 2003 total approximately \$22,678,000.

Available credit on home equity and unsecured lines of credit is summarized as follows at June 30, 2003:

Home equity	\$ 6,798,000
Credit card	<u>93,711,000</u>
	<u>\$100,509,000</u>

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the financial statements.

4. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2003:

Land	\$ 147,707
Building	1,893,785
Leasehold improvements	278,697
Furniture and equipment	4,804,425
Construction in progress	1,285,304
	<u>8,409,918</u>
Accumulated depreciation and amortization	<u>(3,715,405)</u>
	<u>\$ 4,694,513</u>

5. BORROWED FUNDS

The Credit Union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of \$50,000,000 with interest charged at a rate determined by the lender on a periodic basis. At June 30, 2003, borrowings outstanding under this agreement totaled \$3,528,695 at an interest rate of 1.75%. The borrowings have no contractual maturity. The agreement is reviewed for continuation by the lender and the Credit Union annually.

6. MEMBERS' SHARES

Members' shares are summarized as follows at June 30, 2003:

Regular shares	\$ 122,683,177
Share draft accounts	62,573,896
Money market accounts	38,767,672
Individual retirement accounts	9,068,976
Certificates	77,038,892
	<u>\$ 310,132,613</u>

Shares by maturity as of June 30, 2003 are summarized as follows:

No contractual maturity	\$ 233,093,721
0 - 1 year maturity	52,559,312
1 - 2 years maturity	8,777,009
2 - 3 years maturity	5,122,895
3 - 4 years maturity	2,964,410
4 - 5 years maturity	7,615,266
	<u>\$ 310,132,613</u>

Regular shares, share draft accounts, money market accounts, and individual retirement accounts have no contractual maturity. Certificate accounts have maturities of 5 years or less.

Members' shares are insured up to \$100,000 through the National Credit Union Share Insurance Fund.

The Credit Union also provides insurance through American Share Insurance (ASI), a private corporation, on accounts that exceed \$100,000, up to \$250,000, and that meet certain requirements specified in the insurance contract.

The aggregate amount of time deposits in denominations of \$100,000 or more at June 30, 2003 is approximately \$34,964,000.

7. CONCENTRATIONS OF CREDIT RISK

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. A large percentage of the Credit Union's members are employed by Honda Corporation. Further, a significant concentration of members resides in Ohio and Southern California. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the automobile industry or the overall geographic region in which borrowers reside.

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union has no outstanding commitments to sell loans or investments at June 30, 2003.

9. EMPLOYEE BENEFITS

The credit union staff are participants in the employee benefit plans of Honda of America and American Honda Corporations. Since the credit union staff are only fractional participants in the plans, it is not practicable to disclose actuarial benefit data. The credit union funds the plan through the corporations.

10. MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of June 30, 2003 was 7.71%. The minimum ratio to be considered "complex" under the regulatory framework is 6%. As of June 30, 2003, the credit union is considered undercapitalized. The credit union has filed a capital restoration plan with the NCUA and has applied for a credit in consideration of the requirement. Additional regulatory actions may be taken at lower capital classifications such as restriction on interest, required merger, or liquidation.

The Credit Union's actual capital amounts and ratios at June 30, 2003 are presented in the following table:

RBNW Requirements:	Amount	Ratio/Requirement
➤RBNW requirement	\$26,587,813	7.7%
➤Actual net worth	\$26,271,680	7.6%

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

Investments

Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans to Members

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the Credit Union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

Members' Shares

The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents, accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Off-Balance-Sheet Financial Instruments

The fair values for the Credit Union's off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The estimated fair value of the Credit Union's financial instruments are summarized as follows at June 30, 2003:

	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 7,761,000	\$ 7,761,000
Other investments	3,400,000	3,400,000
Loans to members, net	322,918,000	320,975,000
Accrued interest receivable	808,000	808,000
Financial Liabilities:		
Members' shares	310,133,000	310,478,000
Borrowed funds	3,529,000	3,529,000