

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of The Ohio Educational Credit Union (the "Credit Union") conform to accounting principles generally accepted in the United States of America and general practice within the credit union industry. The more significant policies are described below.

Nature of Operations: The Credit Union's operations are principally related to holding deposits for, and making loans to, individuals that have been educated or educate in the State of Ohio, as well as other select employee groups. The Credit Union conducts its business through its main office in Cleveland, Ohio and branch offices in Fairview Park, Oberlin and Zanesville, Ohio. Primary deposit products are share, share draft, money market, certificates and Individual Retirement Accounts, and primary lending products are residential mortgage and consumer loans. Collateral for loans consists of consumer assets and real estate. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand, demand deposits in other institutions and federal funds sold, as well as investments with original maturities less than 90 days. Cash flows are reported net for member loan and share account transactions and certificates of deposit with other financial institutions.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes the amortization of purchase premiums and discounts. Gains and losses on sales are based on the amortized cost of the security sold as of the trade date.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Credit Union's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Net loan origination costs are deferred and recognized in interest income using the level-yield method.

Accrual of interest is discontinued when full loan repayment is in doubt, typically when payments are contractually delinquent 60 days or more, unless the credit is well secured and in the process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Uncollectible interest previously accrued is charged-off, or an allowance is established by means of a charge to interest income. Interest received is recognized on the cash basis or cost recovery method until qualifying for return to accrual status. Accrual is resumed when all contractually due payments are current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific

borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line method based on the estimated useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are expensed, and major improvements are capitalized.

Capital Participation Certificates: As a member of Corporate One Federal Credit Union, the Credit Union is required to maintain an investment in capital participation certificates for the lesser of 1% of the Credit Union's assets or \$900,000. The investment is interest bearing with an annual renewal. As a member of WesCorp, the Credit Union is required to maintain an investment in capital participation certificates for the greater of 5% of the average daily balances maintained by the Credit Union at WesCorp or .125% of the Credit Union's assets. The investment is interest bearing.

Member Share Insurance Deposit: The Credit Union maintains a deposit with American Share Insurance (ASI), which requires the maintenance of a deposit in an amount equal to 1.3% percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, or if it converts to insurance from another source.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the Credit Union. Members' shares are insured by ASI up to \$250,000. Dividend rates on members' share accounts are set by the Board of Directors based on an evaluation of current and future market conditions.

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 dividends.

Income Taxes: The Credit Union is exempt from federal and state income taxes; accordingly, no income tax expense is reflected in the statements of income for the Credit Union.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of members' equity.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and lines of credit, issued to meet member-financing needs. The face amount for these items represents the exposure to loss, before considering collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

NOTE 2 – SECURITIES AVAILABLE FOR SALE

The fair values of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows.

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2004			
U.S. government and federal agency	\$ 3,234,799	\$ -	\$ (25,111)
Mortgage-backed	3,064,564	-	(32,718)
Mutual funds	3,168,824	109,117	(110,996)
Total	\$ 9,468,187	\$ 109,117	\$ (168,825)
2003			
U.S. government and federal agency	\$ 2,254,403	\$ 2,335	\$ -
Mortgage-backed	2,033,120	520	-
Mutual funds	3,034,607	82,899	(188,463)
Total	\$ 7,322,130	\$ 85,754	\$ (188,463)

Sales of available-for-sale securities were as follows.

	2004
Proceeds	\$ 3,497,714
Gross gains	5,000
Gross losses	(7,681)

The Credit Union sold two interest-bearing time deposits with financial institutions prior to maturity for a realized gain of \$2,173, which is combined with the net loss above to total the net loss for the year of \$508 presented in the statement of income. The Credit Union had no security sales in 2003.

The fair value of securities at year-end 2004 by contractual maturity were as follows. Securities not due at a single maturity date are shown separately.

	Fair Value
Due in one year or less	\$ -
Due from one to five years	3,234,799
Mortgage-backed	3,064,564
Mutual funds	3,168,824
Total	\$ 9,468,187

At year end 2004 and 2003, there were no holdings of securities of any one issuer, other than federal agencies, in an amount greater than 10% of members' equity.

Securities with unrealized losses at year-end 2004 and 2003, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows.

Description of Securities	Less than 12 Months	Less than 12 Months	12 Months or More	12 Months or More	Total	Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2004						
U.S. government and federal agency	\$ 3,234,799	\$ (25,111)	\$ -	\$ -	\$ 3,234,799	\$ (25,111)
Mortgage-backed	3,064,564	(32,718)	-	-	3,064,564	(32,718)
Mutual funds	-	-	208,705	(110,996)	208,705	(110,996)
Total temporarily impaired	\$ 6,299,363	\$ (57,829)	\$ 208,705	\$ (110,996)	\$ 6,508,068	\$ (168,825)
2003						
Mutual funds	\$ -	\$ -	\$ 768,801	\$ (188,463)	\$ 768,801	\$ (188,463)

At December 31, 2004, the Credit Union recognized an impairment loss of \$49,900 on a mutual fund that management determined to be other than temporarily impaired. The unrealized loss had not varied over recent changes in interest rates, and as a result, it did not appear that it would recover to the Credit Union's cost basis in a reasonable period of time.

At December 31, 2004, one mutual fund has an unrealized loss with aggregate depreciation of 35% from the Credit Union's cost basis. The mutual fund has investments in the technology industry which has been depressed, but has shown steady improvement in market value since 2002. No credit issues have been identified that cause management to believe the decline in market value is other than temporary.

Unrealized losses on U.S. government and federal agency and mortgage-backed securities have not been recognized into income because management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the bonds approach their maturity dates.

NOTE 3 – LOANS

Loans at year-end were as follows.

	2004	2003
Mortgage	\$ 20,216,568	\$ 15,257,615
Vehicle	17,457,792	11,680,510
Home equity	31,350,739	32,456,456
Unsecured	3,055,260	3,686,610
Credit card	2,707,649	3,137,531
Student	545,268	831,167
Share and other secured	632,720	628,111
Subtotal	75,965,996	67,678,000
Net deferred loan costs	212,698	106,284
Allowance for loan losses	(867,599)	(815,604)
Loans, net	\$ 75,311,095	\$ 66,968,680

Loans to certain employees, directors and committee members totaled approximately \$600,212 and \$952,299 at year-end 2004 and 2003.

Activity in the allowance for loan losses for the year was as follows.

	2004	2003
Beginning balance	\$ 815,604	\$ 831,555
Provision for loan losses	327,817	275,219
Loans charged-off	(427,579)	(489,270)
Recoveries	151,757	198,100
Ending balance	\$ 867,599	\$ 815,604

Due to the nature of the loan portfolio, no loans were required to be evaluated individually for impairment. Loans on which the accrual of interest has been discontinued or reduced amounted to \$593,376 and \$494,073 at December 31, 2004 and 2003.

NOTE 4 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	2004	2003
Land	\$ 294,508	\$ 294,508
Building	3,666,398	3,628,582
Furniture and fixtures	2,877,252	2,700,283
Construction in process	15,823	-
Total	6,853,981	6,623,373
Less accumulated depreciation	(3,298,308)	(3,110,932)
	\$ 3,555,673	\$ 3,512,441

The Credit Union leases certain branch facilities. Rent expense was \$67,959 and \$67,397 for 2004 and 2003. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2005	\$ 94,872
2006	95,808
2007	54,990
2008	31,200
2009	26,780
Total	\$ 303,650

NOTE 5 – MEMBERS' SHARE ACCOUNTS

Year-end members' share accounts were as follows.

	2004	2003
Share drafts	\$ 15,745,493	\$ 13,923,389
Money markets	10,474,656	10,653,392
Regular shares	46,919,251	45,998,228
Certificates (regular and IRA)	19,202,349	20,161,338
Individual retirement accounts	1,401,365	1,676,924
	\$ 93,743,114	\$ 92,413,271

Scheduled maturities of members' share certificate accounts mature as follows.

2005	\$ 11,733,685
2006	2,555,810
2007	3,251,105
2008	1,031,521
2009	630,228
Total	\$ 19,202,349

Members' share certificate accounts in denominations of \$100,000 or more were \$2,669,520 and \$2,647,731 at year-end 2004 and 2003.

NOTE 6 – EMPLOYEE BENEFITS

The Credit Union offers a defined contribution plan for all eligible employees. Eligible employees may contribute 5% of their compensation which is matched 100% by the Credit Union. Employees become 100% vested in employer contributions after five years of service. They are fully vested in their own contributions at all times. Total contribution expense was \$53,981 and \$97,023, for 2004 and 2003.

NOTE 7 – LOAN COMMITMENTS AND RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and overdraft protection, are issued to meet member financing needs. These are agreements to provide credit or support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtained collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year-end.

	2004	2003
Credit card	\$ 5,762,240	\$ 6,592,412
Home equity	25,262,866	24,227,714
Quick cash	1,314,456	1,356,008
Total	\$ 32,339,562	\$ 32,176,134

At year-end 2004, fixed rate commitments were \$7,169,105, with rates ranging from 6% to 25%. At year-end 2003, fixed rate commitments were \$8,070,953, with rates ranging from 6% to 25%.

At December 31, 2004, the Credit Union has a \$10,000,000 line of credit available at Corporate One Federal Credit Union and \$3,000,000 with National City Bank. At December 31, 2003, the Credit Union had a \$6,500,000 line of credit available at Corporate One Federal Credit Union and \$3,000,000 with National City Bank. At December 31, 2004 and 2003, the Credit Union has no borrowings under these agreements.

NOTE 8 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amounts and estimated fair values of financial instruments were as follows at year-end.

	2004 Carrying Value	2004 Fair Value	2003 Carrying Value	2003 Fair Value
Financial assets				
Cash and cash equivalents	\$ 4,903,045	\$ 4,903,000	\$ 13,107,414	\$ 13,107,000
Interest-bearing time deposits	8,009,405	7,981,000	17,143,000	17,146,000
Securities available for sale	9,468,187	9,468,000	7,322,130	7,322,000
Loans, net	75,311,095	75,982,000	66,968,860	67,487,000
Corporate One and WesCorp capital participation certificates	1,134,898	1,135,000	1,458,622	1,459,000
Member share insurance deposit	1,016,546	1,017,000	998,409	998,000
Accrued interest receivable	314,698	315,000	336,146	336,000
Financial liabilities				
Members' share accounts	\$ (93,743,114)	\$ (93,344,000)	\$ (92,413,271)	\$ (92,591,000)

The following methods and assumptions were used to estimate fair values for financial instruments. The estimated fair value approximates carrying amount for all items except those described below. Estimated fair value of interest-bearing time deposits with other financial institutions is based upon rates paid at year-end for new time deposits with similar maturities, applied until maturity. Estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. Estimated fair value for loans is based on the rates charged at year-end for new loans with similar maturities, applied until the loan is assumed to reprice or be paid. Estimated fair value for fixed-maturity share certificates is based on the rates paid at year-end, applied until maturity. Estimated fair value for other financial instruments and off-balance-sheet loan commitments are considered nominal.

NOTE 9 – CAPITAL REQUIREMENTS

Credit unions are subject to regulatory capital requirements prescribed by a federal regulatory agency. There are five classifications based on the combined result of quarterly net worth and risk-based net worth requirements; well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. The net worth requirement is based on net worth to total assets. The risk-based net worth requirement requires net worth to exceed the sum of various asset categories times risk factors for each category, and must be met (if this requirement exceeds 6%) to be classified as well or adequately capitalized. If classified as adequately capitalized, net worth and the regular reserve account must increase quarterly by .1% of assets. If undercapitalized, a net worth restoration plan must also be filed, and asset growth and business lending are restricted. Additional regulatory actions may be taken at lower capital classifications such as restriction on interest, required merger or liquidation. The current capital classification is well capitalized.

Actual and required capital amounts and ratios are presented below at year-end.

	Actual Amount	Actual Ratio	Minimum Required to be Well Capitalized Amount	Minimum Required to be Well Capitalized Ratio	Risk-Based Requirement Amount	Risk-Based Requirement Ratio
			(Dollars in thousands)	(Dollars in thousands)		
2004						
Net worth to total assets	\$ 9,751	9.30%	\$ 7,343	7.00%		
Risk-based net worth	9,751	9.30			\$ 5,643	5.38%
2003						
Net worth to total assets	\$ 9,405	9.09%	\$ 7,242	7.00%		
Risk-based net worth	9,405	9.09			\$ 4,915	4.75%

NOTE 10 – OTHER COMPREHENSIVE INCOME

Other comprehensive income components were as follows.

	2004	2003
Unrealized holding gains and (losses) on available-for-sale securities	\$ (9,581)	\$ 241,789
Less reclassification adjustments for (gains) and losses later recognized in income	52,581	-
Other comprehensive income	\$ 43,000	\$ 241,789