

THE OHIO EDUCATIONAL CREDIT UNION

FINANCIAL STATEMENTS

December 31, 2006 and 2005

THE OHIO EDUCATIONAL CREDIT UNION
Cleveland, Ohio

FINANCIAL STATEMENTS
December 31, 2006 and 2005

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Ohio Educational Credit Union
Cleveland, Ohio

We have audited the accompanying balance sheets of The Ohio Educational Credit Union as of December 31, 2006 and 2005, and the related statements of income, changes in 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 audits.

We conducted our audits 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ohio Educational Credit Union as of December 31, 2006 and 2005, 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.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Cleveland, Ohio
March 28, 2007

THE OHIO EDUCATIONAL CREDIT UNION
BALANCE SHEETS
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and due from financial institutions	\$ 1,175,631	\$ 1,128,747
Federal funds sold	<u>5,729,598</u>	<u>5,193,473</u>
Total cash and cash equivalents	6,905,229	6,322,220
Interest-bearing time deposits with financial institutions	19,676,526	9,591,676
Securities available for sale	2,861,008	6,488,738
Loans, net of allowance of \$771,940 and \$856,178	71,180,898	78,629,748
Repossessed assets	38,104	-
Premises and equipment, net	3,699,443	3,782,845
Corporate One and WesCorp capital participation certificates	1,054,944	1,096,495
Accrued interest receivable	540,280	379,261
Member share insurance deposit	1,062,603	1,057,839
Member payroll deductions receivable	58,141	11,036
Prepaid expenses and other assets	<u>482,657</u>	<u>592,612</u>
 Total assets	 <u>\$ 107,559,833</u>	 <u>\$ 107,952,470</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$ 95,776,645	\$ 96,600,287
Accounts payable and accrued liabilities	<u>1,123,325</u>	<u>1,087,819</u>
Total liabilities	96,899,970	97,688,106
Members' equity		
Appropriated statutory reserve	3,450,160	3,339,398
Retained earnings	7,276,354	7,044,360
Accumulated other comprehensive income (loss)	<u>(66,651)</u>	<u>(119,394)</u>
Total members' equity	<u>10,659,863</u>	<u>10,264,364</u>
 Total liabilities and members' equity	 <u>\$ 107,559,833</u>	 <u>\$ 107,952,470</u>

See accompanying notes to financial statements.

THE OHIO EDUCATIONAL CREDIT UNION
STATEMENTS OF INCOME
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Interest and dividend income		
Loans	\$ 5,045,410	\$ 4,761,735
Securities	176,642	245,092
Federal funds sold	292,865	163,499
Interest bearing time deposits and other	<u>754,642</u>	<u>390,060</u>
Total interest and dividend income	6,269,559	5,560,386
 Interest and dividend expense		
Share accounts	1,745,814	1,323,825
Borrowings	<u>405</u>	<u>3,576</u>
Total interest and dividend expense	1,746,219	1,327,401
 Net interest income	4,523,340	4,232,985
 Provision for loan losses	<u>259,773</u>	<u>141,430</u>
 Net interest income after provision for loan losses	4,263,567	4,091,555
 Noninterest income		
Fees and charges	2,181,150	2,167,456
Interchange fees	289,188	261,428
Loss on sale of securities and other investments	-	(18,581)
Other	<u>70,979</u>	<u>163,276</u>
Total noninterest income	2,541,317	2,573,579
 Noninterest expense		
Compensation and benefits	2,866,697	2,644,777
Office operations	1,116,876	1,204,413
Service processing charges	993,144	985,983
Depreciation and amortization	337,532	301,181
Occupancy	421,497	426,092
Member education and promotion	234,533	220,851
Professional fees	103,430	120,701
Director and dues expenses	126,927	136,934
Insurance	33,134	43,016
Other	<u>228,358</u>	<u>259,501</u>
Total noninterest expense	6,462,128	6,343,449
 Net income	<u>\$ 342,756</u>	<u>\$ 321,685</u>

See accompanying notes to financial statements.

THE OHIO EDUCATIONAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2006 and 2005

	Appropriated Statutory <u>Reserve</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Total Members' <u>Equity</u>
Balance, January 1, 2005	\$ 3,259,357	\$ 6,491,278	\$ (59,708)	\$ 9,690,927
Merger of Zanesville Armco Employees Credit Union	80,041	231,397	-	311,438
Comprehensive income				
Net income	-	321,685	-	321,685
Other comprehensive income	-	-	(59,686)	<u>(59,686)</u>
Total comprehensive income	<u> </u>	<u> </u>	<u> </u>	<u>261,999</u>
Balance, December 31, 2005	3,339,398	7,044,360	(119,394)	10,264,364
Appropriation of retained earnings	110,762	(110,762)	-	-
Comprehensive income				
Net income	-	342,756	-	342,756
Other comprehensive income	-	-	52,743	<u>52,743</u>
Total comprehensive income	<u> </u>	<u> </u>	<u> </u>	<u>395,499</u>
Balance, December 31, 2006	<u>\$ 3,450,160</u>	<u>\$ 7,276,354</u>	<u>\$ (66,651)</u>	<u>\$ 10,659,863</u>

See accompanying notes to financial statements.

THE OHIO EDUCATIONAL CREDIT UNION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	\$ 342,756	\$ 321,685
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	337,532	301,181
Provision for loan losses	259,773	141,430
Net amortization of securities	3,330	7,401
Loss on sale of securities	-	18,581
Mutual funds dividends	-	(38,293)
Net change in:		
Deferred loan costs	83,743	(139,069)
Other assets	62,850	(38,535)
Accrued interest receivable	(161,019)	(61,948)
Accounts payable and other liabilities	35,506	200,083
Net cash from operating activities	<u>964,471</u>	<u>712,516</u>
Cash flows from investing activities		
Net cash received in merger	-	898,312
Net change in interest-bearing time deposits	(10,084,850)	(884,271)
Securities available for sale		
Purchases	-	(1,000,000)
Maturities, calls and principal repayments	3,677,143	741,659
Proceeds from sale of available for sale securities	-	3,190,415
Net change in loans	7,067,230	(2,271,431)
Net change in share insurance deposits	(4,764)	(14,628)
Net change in capital participation certificates	41,551	62,887
Property and equipment expenditures, net	(254,130)	(526,149)
Net cash from investing activities	<u>442,180</u>	<u>196,794</u>
Cash flows from financing activities		
Net increase in members' shares	(823,642)	509,865
Net cash from financing activities	<u>(823,642)</u>	<u>509,865</u>
Net change in cash and cash equivalents	583,009	1,419,175
Cash and cash equivalents at beginning of year	<u>6,322,220</u>	<u>4,903,045</u>
Cash and cash equivalents at end of year	<u>\$ 6,905,229</u>	<u>\$ 6,322,220</u>
Supplemental cash flow information:		
Cash paid for interest and dividends	\$ 1,746,219	\$ 1,327,401
Transfers from loans to repossessed assets	38,104	-

See accompanying notes to financial statements.

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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, Richmond Heights, 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, certificates of deposit with other financial institutions, share insurance deposits, and capital participation certificates.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at cost.

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. 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.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and 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 without anticipating prepayments.

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.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Repossessed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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 require 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.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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 2005 financial statements have been reclassified to conform to the 2006 presentation.

NOTE 2 - ACQUISITION

On May 5, 2005 the Zanesville Armco Employees Credit Union, Inc. was merged into the Credit Union. The transaction was accounted for as a pooling-of-interest. The results of operations of Zanesville Armco Employees Credit Union have been included in the Credit Union's statements since the date of the merger.

Below is a summary of the net assets and liabilities at the date of the merger.

Cash and cash equivalents	\$ 898,312
Interest bearing time deposits with financial institutions	698,000
Capital participation certificates	24,484
Loans	1,046,189
Other assets, including premises and equipment	31,484
Shares	(2,347,308)
Other liabilities	<u>(39,723)</u>
Net assets received in merger	<u>\$ 311,438</u>

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2006 and 2005

NOTE 3 - 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.

	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
<u>2006</u>			
U.S. government sponsored enterprises	\$ 999,347	\$ -	\$ (653)
Mortgage-backed	<u>1,861,661</u>	<u>-</u>	<u>(65,998)</u>
Total	<u>\$ 2,861,008</u>	<u>\$ -</u>	<u>\$ (66,651)</u>
<u>2005</u>			
U.S. government sponsored enterprises	\$ 4,229,286	\$ -	\$ (36,666)
Mortgage-backed	<u>2,259,452</u>	<u>-</u>	<u>(82,728)</u>
Total	<u>\$ 6,488,738</u>	<u>\$ -</u>	<u>\$ (119,394)</u>

Sales of available for sale securities were as follows.

	<u>2006</u>	<u>2005</u>
Proceeds	\$ -	\$ 3,190,415
Gross gains	-	93,302
Gross losses	-	(111,883)

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 3 - SECURITIES AVAILABLE FOR SALE (Continued)

The fair value of securities at year-end 2006 by contractual maturity were as follows. Securities not due at a single maturity date are shown separately.

	<u>Fair Value</u>
Due in one year or less	\$ 999,347
Mortgage-backed	<u>1,861,661</u>
Total	<u>\$ 2,861,008</u>

At year end 2006 and 2005, there were no holdings of securities of any one issuer, other than debentures issued by government sponsored enterprises and mortgage-backed securities issued by U.S. government sponsored enterprises, in an amount greater than 10% of members' equity.

Securities with unrealized losses at year-end 2006 and 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows.

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2006</u>						
U.S. government sponsored enterprises	\$ -	\$ -	\$ 999,347	\$ (653)	\$ 999,347	\$ (653)
Mortgage-backed	<u>-</u>	<u>-</u>	<u>1,861,661</u>	<u>(65,998)</u>	<u>1,861,661</u>	<u>(65,998)</u>
Total temporarily impaired	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,861,008</u>	<u>\$ (66,651)</u>	<u>\$ 2,861,008</u>	<u>\$ (66,651)</u>
<u>2005</u>						
U.S. government sponsored enterprises	\$ 997,011	\$ (2,989)	\$3,232,275	\$ (33,677)	\$ 4,229,286	\$ (36,666)
Mortgage-backed	<u>-</u>	<u>-</u>	<u>2,259,452</u>	<u>(82,728)</u>	<u>2,259,452</u>	<u>(82,728)</u>
Total temporarily impaired	<u>\$ 997,011</u>	<u>\$ (2,989)</u>	<u>\$5,491,727</u>	<u>\$ (116,405)</u>	<u>\$ 6,488,738</u>	<u>\$ (119,394)</u>

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 3 - SECURITIES AVAILABLE FOR SALE (Continued)

Unrealized losses on debentures issued by U.S. government sponsored enterprises 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 debentures approach their maturity dates and the mortgage-backed securities are repaid.

NOTE 4 - LOANS

Loans at year-end were as follows.

	<u>2006</u>	<u>2005</u>
Mortgage	\$ 26,361,605	\$ 25,120,937
Vehicle	21,539,979	24,225,229
Home equity	17,080,803	22,787,679
Unsecured	2,732,507	2,835,974
Credit card	3,122,144	3,113,681
Student	324,832	424,301
Share and other secured	<u>522,944</u>	<u>626,358</u>
Subtotal	71,684,814	79,134,159
Net deferred loan costs	268,024	351,767
Allowance for loan losses	<u>(771,940)</u>	<u>(856,178)</u>
Loans, net	<u>\$ 71,180,898</u>	<u>\$ 78,629,748</u>

Loans to certain employees, directors and committee members totaled approximately \$791,856 and \$542,789 at year-end 2006 and 2005.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 4 - LOANS (Continued)

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

	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 856,178	\$ 867,599
Provision for loan losses	259,773	141,430
Loans charged-off	(540,274)	(396,466)
Adjustment due to merger	-	8,434
Recoveries	<u>196,263</u>	<u>235,181</u>
Ending balance	<u>\$ 771,940</u>	<u>\$ 856,178</u>

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 \$574,949 and \$852,618 at December 31, 2006 and 2005.

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	<u>2006</u>	<u>2005</u>
Land	\$ 294,508	\$ 294,508
Building	3,816,803	3,816,803
Furniture and fixtures	<u>3,465,156</u>	<u>3,274,819</u>
Total	7,576,467	7,386,130
Less accumulated depreciation	<u>(3,877,024)</u>	<u>(3,603,285)</u>
	<u>\$ 3,699,443</u>	<u>\$ 3,782,845</u>

The Credit Union leases certain branch facilities. Rent expense was \$99,187 and \$85,464 for 2006 and 2005. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2007	\$ 72,300
2008	46,550
2009	<u>25,500</u>
Total	<u>\$ 144,350</u>

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 6 - MEMBERS' SHARE ACCOUNTS

Year-end members' share accounts were as follows.

	<u>2006</u>	<u>2005</u>
Share drafts (checking)	\$ 14,140,120	\$ 14,941,626
Money markets	8,831,379	9,686,660
Regular shares	40,935,883	43,921,191
Certificates (regular and IRA)	30,763,480	26,823,507
Individual retirement accounts	<u>1,105,783</u>	<u>1,227,303</u>
	<u>\$ 95,776,645</u>	<u>\$ 96,600,287</u>

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

2007	\$ 25,351,758
2008	2,779,557
2009	902,895
2010	1,421,715
2011	<u>307,555</u>
Total	<u>\$ 30,763,480</u>

Members' share certificate accounts in denominations of \$100,000 or more were \$5,918,157 and \$5,716,645 at year-end 2006 and 2005.

NOTE 7 - BORROWINGS

At December 31, 2006 and 2005, 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, 2006 and 2005, the Credit Union had no borrowings under these lines.

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THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 8 - EMPLOYEE BENEFITS

The Credit Union offers a 401(k) defined contribution plan for all eligible employees. Eligible employees may contribute a portion of their compensation to the 401(k), up to the allowable limit under the Internal Revenue Code. The Credit Union contributes 5% of each eligible employee's compensation into the defined contribution plan. 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 \$105,695 and \$88,339, for 2006 and 2005.

NOTE 9 - 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, 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 obtaining collateral at exercise of the commitment.

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

	<u>2006</u>	<u>2005</u>
Credit card	\$ 8,000,887	\$ 8,544,661
Home equity	21,845,404	25,869,709
Quick cash	<u>1,478,110</u>	<u>1,475,753</u>
Total	<u>\$ 31,324,401</u>	<u>\$ 35,890,123</u>

At year-end 2006, fixed rate commitments were \$9,294,156 with rates ranging from 6% to 25%. At year-end 2005, fixed rate commitments were \$9,881,758 with rates ranging from 6% to 25%.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 10 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	<u>2006</u>		<u>2005</u>	
	Carrying <u>Value</u>	Fair <u>Value</u>	Carrying <u>Value</u>	Fair <u>Value</u>
Financial assets				
Cash and cash equivalents	\$ 6,905,229	\$ 6,905,000	\$ 6,322,220	\$ 6,322,000
Interest-bearing time deposits	19,676,526	19,619,000	9,591,676	9,509,000
Securities available for sale	2,861,008	2,861,000	6,488,738	6,489,000
Loans, net	71,180,898	70,705,000	78,629,748	77,332,000
Corporate One and WesCorp capital participation certificates	1,054,944	1,055,000	1,096,495	1,096,000
Member share insurance deposit	1,062,603	1,063,000	1,057,839	1,058,000
Accrued interest receivable	540,280	540,000	379,261	379,000
Financial liabilities				
Members' share accounts	\$ (95,776,645)	\$ (95,755,000)	\$ (96,600,292)	\$ (96,282,000)

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.

(Continued)

THE OHIO EDUCATIONAL CREDIT UNION
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NOTE 11 - CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by a federal regulatory agency. 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 regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Credit Union's capital amounts and net worth 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 (as defined) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratios as of December 31, 2006 and 2005 were 5.00% and 5.19%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. As such, the Credit Union is not considered to be complex under the framework. Management believes, as of December 31, 2006 and 2005, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent reporting period, and December 31, 2005, the Credit Union was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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NOTE 11 - CAPITAL REQUIREMENTS (Continued)

The Credit Union's actual capital amounts and ratios were as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollars in thousands)						
<u>2006</u>						
Net worth	\$ 10,727	9.9%	\$ 6,506	6.0%	\$ 7,591	7.0%
Risk-based net worth requirement	10,727	5.0%	N/A	N/A	N/A	N/A
<u>2005</u>						
Net worth	\$ 10,384	9.5%	\$ 6,542	6.0%	\$ 7,632	7.0%
Risk-based net worth requirement	10,384	5.2%	N/A	N/A	N/A	N/A

Because the Credit Union is not considered to be complex, it retains its well-capitalized status under the framework.

NOTE 12 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components were as follows.

	<u>2006</u>	<u>2005</u>
Unrealized holding gains and (losses) on available-for-sale securities	\$ 52,743	\$ (78,267)
Less reclassification adjustments for (gains) and losses later recognized in income	<u>-</u>	<u>18,581</u>
Other comprehensive income (loss)	<u>\$ 52,743</u>	<u>\$ (59,686)</u>