

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of The Ohio Educational Credit Union (the "Credit Union") conform with 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.

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. Premiums and discounts on securities are amortized on a basis which approximates the level-yield method. 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 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.

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 1.1% 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' share accounts 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 2004 financial statements have been reclassified to conform to the 2005 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-interests. Because the assets and liabilities acquired were not material to the Credit Union, the prior year financial statements have not been restated to include the effect of the Zanesville Armco Employees Credit Union, Inc. merger. 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	(39,723)
Net assets received in merger	\$ 311,438

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.

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2005			
U.S. government sponsored enterprises	\$ 4,229,286	\$ —	\$ (36,666)
Mortgage-backed	2,259,452	—	(82,728)
Total	\$ 6,488,738	\$ —	\$ (119,394)
2004			
U.S. government sponsored enterprises	\$ 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)

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

	2005	2004
Proceeds	\$ 3,190,415	\$ 3,497,714
Gross gains	93,302	5,000
Gross losses	(111,883)	(7,681)

In 2004, 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 fair value of securities at year-end 2005 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	\$ 3,232,275
Due from one to five years	997,011
Mortgage-backed	2,259,452
Total	\$ 6,488,738

At year end 2005 and 2004, there were no holdings of securities of any one issuer, other than U.S. government sponsored enterprises, in an amount greater than 10% of members' equity.

Securities with unrealized losses at year-end 2005 and 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, were 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
2005						
U.S. government sponsored enterprises	\$ 997,011	\$ (2,989)	\$ 3,232,275	\$ (33,677)	\$ 4,229,286	\$ (36,666)
Mortgage-backed	—	—	2,259,452	(82,728)	2,259,452	(82,728)
Total temporarily impaired	\$ 997,011	\$ (2,989)	\$ 5,491,727	\$ (116,405)	\$ 6,488,738	\$ (119,394)
2004						
U.S. government sponsored enterprises	\$ 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)

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.

Unrealized losses on 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 U.S. government sponsored enterprise securities approach their maturity dates and as the mortgage-backed securities are repaid.

NOTE 4 – LOANS

Loans at year-end were as follows.

	2005	2004
Mortgage	\$ 25,117,543	\$ 20,216,568
Vehicle	24,225,229	17,457,792
Home equity	22,787,679	31,350,739
Unsecured	2,835,974	3,055,260
Credit card	3,113,681	2,707,649
Student	424,301	545,268
Share and other secured	626,358	632,720
Subtotal	79,130,765	75,965,996
Net deferred loan costs	351,767	212,698
Allowance for loan losses	(856,178)	(867,599)
Loans, net	\$ 78,626,354	\$ 75,311,095

Loans to certain employees, directors and committee members totaled approximately \$542,789 and \$600,212 at year-end 2005 and 2004.

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

	2005	2004
Beginning balance	\$ 867,599	\$ 815,604
Provision for loan losses	141,430	327,817
Adjustment due to merger	8,434	—
Loans charged-off	(396,466)	(427,579)
Recoveries	235,181	151,757
Ending balance	\$ 856,178	\$ 867,599

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 \$852,618 and \$593,376 at December 31, 2005 and 2004.

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	2005	2004
Land	\$ 294,508	\$ 294,508
Building	3,816,803	3,666,398
Furniture and fixtures	3,274,819	2,877,252
Construction in process	—	15,823
Total	7,386,130	6,853,981
Less accumulated depreciation	(3,603,285)	(3,298,308)
	\$ 3,782,845	\$ 3,555,673

The Credit Union leases certain branch facilities. Rent expense was \$85,464 and \$67,959 for 2005 and 2004. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2006	\$ 95,016
2007	54,150
2008	29,850
2009	30,600
Total	\$ 209,616

NOTE 6 – MEMBERS' SHARE ACCOUNTS

Year-end members' share accounts were as follows.

	2005	2004
Share drafts (checking)	\$ 14,941,626	\$ 15,745,493
Money markets	9,686,660	10,474,656
Regular shares	43,921,191	46,919,251
Term Certificates (regular and IRA)	26,823,507	19,202,349
Individual retirement accounts	1,227,303	1,401,365
	\$ 96,600,287	\$ 93,743,114

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

2006	\$ 18,335,692
2007	5,185,223
2008	1,377,535
2009	750,086
2010	1,174,971
Total	\$ 26,823,507

Members' share certificate accounts in denominations of \$100,000 or more were \$5,716,645 and \$2,669,520 at year-end 2005 and 2004.

NOTE 7 – EMPLOYEE BENEFITS

The Credit Union offers a 401(k) and 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 \$88,339 and \$72,096 for 2005 and 2004.

NOTE 8 – 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.

	2005	2004
Credit card	\$ 8,544,661	\$ 8,108,622
Home equity	25,869,709	25,820,408
Quick cash	1,475,753	1,407,070
Total	\$ 35,890,123	\$ 35,336,100

At year-end 2005, fixed rate commitments were \$9,881,758 with rates ranging from 6% to 25%. At year-end 2004, fixed rate commitments were \$7,169,105 with rates ranging from 6% to 25%.

At December 31, 2005 and 2004, the Credit Union had lines of credit of \$10,000,000 at Corporate One Federal Credit Union and \$3,000,000 at National City Bank. At December 31, 2005 and 2004, the Credit Union has no borrowings under these agreements.

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2005 Carrying Value	2005 Fair Value	2004 Carrying Value	2004 Fair Value
Financial assets				
Cash and cash equivalents	\$ 6,322,220	\$ 6,322,000	\$ 4,903,045	\$ 4,903,000
Interest-bearing time deposits	9,591,676	9,509,000	8,009,405	7,981,000
Securities available for sale	6,488,738	6,489,000	9,468,187	9,468,000
Loans, net	78,626,354	77,332,000	75,311,095	75,982,000
Corporate One and WesCorp capital participation certificates	1,096,495	1,096,000	1,134,898	1,135,000
Member share insurance deposit	1,057,839	1,058,000	1,016,546	1,017,000
Accrued interest receivable	379,261	379,000	314,698	315,000
Financial liabilities				
Members' share accounts	\$ (96,600,292)	\$ (96,282,000)	\$ (93,743,114)	\$ (93,344,000)

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 10 – 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. At year end 2005 and 2004, the most recent regulatory notifications categorized the Credit Union as well capitalized under the regulatory framework. There were no conditions or events since that notification that management believes have changed the Credit Union’s category.

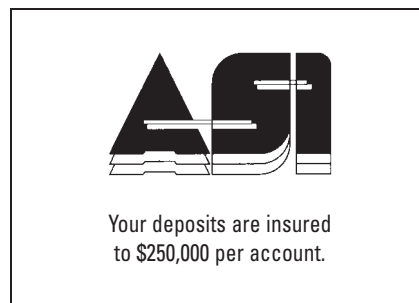
Actual and required capital amounts and ratios at year-end are presented below.

	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)		
2005						
Net worth to total assets	\$ 10,384	9.52%	\$ 7,632	7.00%		
Risk-based net worth	10,384	9.52			\$ 5,659	5.19%
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%

NOTE 11 – OTHER COMPREHENSIVE INCOME

Other comprehensive income components were as follows.

	2005	2004
Unrealized holding gains and (losses) on available-for-sale securities arising during the period	\$ (78,267)	\$ (9,581)
Less reclassification adjustments for (gains) and losses later recognized in income	18,581	52,581
Other comprehensive income (loss)	\$ (59,686)	\$ 43,000



This institution is not federally insured.

Members’ accounts are not insured or guaranteed by any government or government-sponsored agency.

Ohio Residents: The Ohio Laws against discrimination require that all creditors make credit equally available to all credit worthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio Civil Rights Commission administers compliance with this law.