

# ONE TEAM HONDA...

- Our theme for this year is “One Team Honda.” We are adopting this theme to emphasize our new, updated brand that is more closely aligned with Honda. It speaks well to the fact that HFCU is a member of the Honda Family, working together with the Honda Companies to better serve Honda Associates and their families.
- Just as Honda is using “One Team Honda” to bring new energy and ideas that will make Honda stronger, HFCU will use this theme to build a stronger culture and lifestyle throughout our organization.
- By working together as One Team Honda, our associates will be energized to bond with our members and work with them to assist them in realizing their dreams.
- As a member of the Honda Family, we share the same Core Values as the rest of the organization:

Dreams / Joy / Challenging Spirit / Passion / Respect

- At HFCU, we live our brand every day by continuously creating an organization that is Rationally Easy and Emotionally Easy to use and by treating our Members like Family.
- Together, we are One Team Honda. The essence of Honda that guides our business for today and tomorrow. Building stronger relationships with our members and the Honda Family...

# HONDA

Honda of America Mfg., Inc.  
East Liberty Auto Plant



## MISSION AND BRAND STATEMENTS

### MISSION STATEMENT

*We are a financial cooperative proudly serving the Honda Family through all life stages.*

### BRAND STATEMENT

*We aim to make every Member experience a positive one, to make access easy, solutions simple, and to instill in each Member a sense of belonging, of family.*



# POSITIONING STORY

We will always take great pride in our unique relationship with the Honda Family.

While we are an independent company, our Membership is made up of skilled, dedicated Honda Associates from plants around the country and their family members.

The name Honda has become a synonym for quality, reliability and innovation. For more than 50 years, we've worked to live up to the name we are privileged to share.

It is our goal to create not only the highest quality financial products and services, but the most practical and productive. We want everything we offer to be something Members value and need. We want to be that single source Members know they can always count on. In an era of change for change's sake, we strive to shake up the status quo with advances that aren't simply what's new, but what's next.

We are committed to being the finest financial institution Honda Associates and their families can partner with. We want every person eligible to join our credit union to come to one simple conclusion.

**TOGETHER, WE'RE BETTER.**





# CHAIRMAN'S REPORT

Our theme this year is "One Team Honda." As an important member of the Honda Family, we work together with the Honda Companies to better serve Honda Associates' and their families' financial needs. Our vision statement is to "be the trusted partner and preferred financial institution for the Honda Family worldwide."

This vision includes providing members of the Honda Family with the best quality service humanly possible. Hopefully, as you access and use our financial products, you experience the fulfillment of that dream.

The business year that just ended has been successful for HFCU. Assets stood at \$775.6 million. Loans stood at \$561.8 million, and cash stood at \$66 million. Our loan to share ratio is now at 85%, compared to an industry average of 79%.

Our plan is to take the loan to share ratio even higher. Our lending group is developing innovative approaches to make additional loans to members. Money sitting on the books is not helpful. We want to loan everything we can back to our valued members.

Lending continues to be at the heart of what we do. At the close of the business year, we had \$270.6 million in mortgage loans, \$205 million in vehicle loans, \$55 million in Visa loans and \$31 million in other lending products.

While we strive to increase loans to our valued members, our default ratio is extremely low. At year end, our loan loss ratio was at a mere 0.17%. This is compared to a loss ratio for the banking industry of about 2.4%.

We are fortunate that members trust us with their savings as well. At the end of the business year, members had \$657.3 million on deposit with us, \$245.6 million of which was invested in regular shares.

Our Visa credit cards are appreciated. Members made 8,785,290 transactions with HFCU cards during the business year; \$417,680,724 was transferred via HFCU credit and debit cards during the year.

One of our major projects this year was the introduction of the new Visa chip card. As of June 30, 32,718 new chip cards had been issued to HFCU members. Beginning in March/April 2018, we will begin issuing debit chip cards. We should see a significant drop in card fraud with these new products. This will benefit members with fewer cards needing to be cancelled and replaced.

This has been, and is, a big, complicated project for Card Services, IT, Operations, Marketing, Accounting and Member Services. The management team is handling the coordination, information gathering and work efforts of five vendors, along with Honda Staff's time and knowledge, to implement the cards without fanfare. This project touched every facet of HFCU in one way or another.

We now offer "Instant Issue" at our branch offices. If your credit card is lost or stolen, stop by one of our convenient HFCU offices and our friendly staff will instantly issue you a new card.

During the year, HFCU's Corporate Business Group initiated a hydrogen fuel cell card program to provide Honda Clarity lessees with funds to purchase hydrogen fuel. Honda is giving lessees up to \$15,000 to use towards fuel purchases during the three-year lease. To date, we have served over 400 Honda customers.

Online banking has become an important part of our business. Over 28,000 members, or 44% of our membership, are engaged with online banking. Nearly 10,000 members have chosen to pay their bills using our Bill Pay System. Twenty-one thousand members, or 75% of all online users, receive their statements and notices via email. Over 17,000 members are currently using our mobile app. If you are not one of them, please go to your app store and look for Honda FCU.

Each spring, the Board and management team get together for a strategic dialogue and set direction for the coming year. We then meet each month to review activity and ensure that those goals are being met.

Another important function of the Board of Directors is to appoint a supervisory committee. The committee serves as the company watchdog and fields concerns from members.

*Together, we are One Team Honda. The essence of Honda guides every aspect of our business for today, tomorrow and into the future.*

As we move forward as a team, let me say it has been an honor and a privilege serving you. On behalf of the Board of Directors and the HFCU management team, thank you for your continued confidence and support.



A handwritten signature in black ink, appearing to read "CARL R. COE". The signature is stylized and written in a cursive-like font.

CARL R. COE, CHAIRMAN,  
BOARD OF DIRECTORS



# TREASURER'S REPORT

*Honda Federal Credit Union's Board of Directors and the management team continue to focus on meeting our members' financial needs and supporting them by providing excellent products and outstanding customer service while ensuring the credit union is maintaining a strong financial position.*

The management team and your Board continue to work to provide the best possible services while concentrating on the fundamentals: controlling operating expenses, managing risk effectively and managing capital in a disciplined manner, all while continuing to deal with changes in the regulatory environment, security issues and the economy. This requires a unique balance within the management of the credit union, which has served the team well to enable the credit union to continuously achieve our service levels and financial goals.

Honda Federal Credit Union will continue to strive to meet the ever-changing range of member needs for our field of membership across the country as we move ahead, as well as ensure all transactions are safe and secure. Security of your financial transactions is paramount. At the same time, we will continue to support the Honda Companies with services to assist them with their business needs. We realize that maintaining a high level of member service and adding new services when possible is crucial to our continued success. Finally, and most importantly, we understand the importance of financial soundness as a means to ensure that continued success.

The management team, supported by the Board of Directors, continues to work diligently to ensure the organization is among the best in the industry. Honda Federal Credit Union continues to post positive financial earnings and contribute to our capital base to ensure financial soundness as indicated by the results included in this report.

A handwritten signature in black ink that reads "Sheri Bullock".

SHERI BULLOCK, TREASURER,  
BOARD OF DIRECTORS



# SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is an essential part of the credit union's management. A supervisory committee is required by the Federal Credit Union Act and most state credit union laws. The Supervisory Committee's major responsibilities are to ensure that internal and annual audits are performed, any findings are resolved and appropriate changes are implemented in a timely manner. It is also responsible for overseeing periodic member account verifications at least once every two years, reviewing the performance of the officials and employees and making recommendations to the Board of Directors for improvement in the safety and soundness of the credit union.

In short, the Supervisory Committee is responsible for ensuring that practices and procedures are in place, which safeguard and protect the interest of the members and the assets and financial soundness of the credit union.

In order to carry out its responsibilities, the Supervisory Committee employs certified public accountants and other qualified persons to perform audits and account verifications.

*The Supervisory Committee is pleased to report that the results of audits performed and reviews of Honda Federal Credit Union's practices and procedures during the 2017 fiscal year would support that the credit union is being managed and operated in a financially safe and sound manner.*



A handwritten signature in black ink that reads "John L. Kaufman".

JOHN KAUFMAN, CHAIRMAN,  
SUPERVISORY COMMITTEE







# INDEPENDENT AUDITOR'S REPORT

## Board of Directors and Supervisory Committee

Honda Federal Credit Union

Torrance, California

## Report on Financial Statements

We have audited the accompanying financial statements of Honda Federal Credit Union, which comprise the statements of financial condition as of June 30, 2017 and 2016, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## Auditor's Responsibility – continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Honda Federal Credit Union as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*MICHAEL E. RICHARDS, CPA*

*RICHARDS & ASSOCIATES*

Certified Public Accountants

Yorba Linda, California

September 27, 2017

# A CLOSER LOOK AT YOUR CREDIT UNION

## STATEMENTS OF FINANCIAL CONDITION

June 30, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$67,010,097	\$72,828,983
Investments	123,357,287	127,943,442
Loans receivable, net of allowance for loan losses	561,848,234	497,139,930
Property and equipment	9,802,320	10,139,685
Accrued interest receivable	1,424,379	1,412,785
Share insurance deposit	6,379,915	6,042,568
Foreclosed and repossessed assets	193,777	142,943
Prepaid expenses and other assets	6,229,741	6,499,990
<b>TOTAL ASSETS</b>	<b>\$776,245,750</b>	<b>\$722,150,326</b>
<b>LIABILITIES AND EQUITY</b>		
Members' share and savings accounts	\$661,939,147	\$622,699,791
Accounts payable and other liabilities	42,947,351	28,559,200
<b>TOTAL LIABILITIES</b>	<b>704,886,498</b>	<b>651,258,991</b>
Commitments and contingent liabilities	-	-
Members' equity, substantially restricted		
Appropriated (regular reserve)	8,322,208	8,322,208
Unappropriated (undivided earnings)	65,349,874	62,569,127
	73,672,082	70,891,335
Accumulated other comprehensive income	(2,312,830)	-
<b>TOTAL MEMBERS' EQUITY</b>	<b>71,359,252</b>	<b>70,891,335</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$776,245,750</b>	<b>\$722,150,326</b>

## STATEMENTS OF INCOME

For the years ended June 30, 2017 and 2016

	2017	2016
<b>INTEREST INCOME</b>		
Loans	\$24,098,474	\$23,005,592
Investments	2,537,790	2,348,797
<b>TOTAL INTEREST INCOME</b>	<b>26,636,264</b>	<b>25,354,389</b>
<b>INTEREST EXPENSE</b>		
Members' share and savings accounts	3,035,023	2,815,587
<b>TOTAL INTEREST EXPENSE</b>	<b>3,035,023</b>	<b>2,815,587</b>
<b>NET INTEREST INCOME</b>	<b>23,601,241</b>	<b>22,538,802</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>739,000</b>	<b>256,000</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>22,862,241</b>	<b>22,282,802</b>
<b>NON-INTEREST INCOME</b>		
Service charges and other income	11,053,940	10,413,055
Gain on sale of investments	568,648	-
<b>TOTAL NON-INTEREST INCOME</b>	<b>11,622,588</b>	<b>10,413,055</b>
<b>NON-INTEREST EXPENSE</b>		
General and administrative expenses		
Compensation and benefits	15,365,096	12,752,480
Office operations	9,682,350	9,315,603
Other expenses	6,656,636	6,532,768
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>31,704,082</b>	<b>28,600,851</b>
<b>NET INCOME</b>	<b>\$2,780,747</b>	<b>\$4,095,006</b>

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

### CASH FLOWS FROM OPERATING ACTIVITIES:

	2017	2016
Net income	\$2,780,747	\$4,095,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	739,000	256,000
Depreciation and amortization	2,823,162	2,042,285
Premium amortization, net of discount accretion	2,799,582	1,274,373
Gain on sale of investments	(568,648)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(11,594)	38,709
Decrease in prepaid expenses and other assets	270,249	1,667,513
Increase in share insurance deposit	(337,347)	(278,135)
Increase (decrease) in accounts payable and other liabilities	14,388,151	(18,764,930)
Total adjustments	20,102,555	(13,764,185)
Net cash provided by (used in) operating activities	22,883,302	(9,669,179)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Loans granted, net of principal collection	(65,447,304)	(21,982,330)
Net (increase) decrease in foreclosed and repossessed assets	(50,834)	31,718
Sale or maturing of securities	85,064,694	28,367,325
Acquisition of securities	(85,022,303)	(22,570,507)
Purchase of property and equipment, net of disposals	(2,485,797)	(3,206,624)
Net cash used in investing activities	(67,941,544)	(19,360,418)

### CASH FLOWS FROM FINANCING ACTIVITIES:

	2017	2016
Net increase in members' share and savings accounts	\$39,239,356	\$49,949,968
Net cash provided by financing activities	39,239,356	49,949,968
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,818,886)	20,920,371
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	72,828,983	51,908,612
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$67,010,097	\$72,828,983

### SUPPLEMENTAL DISCLOSURES:

Cash received during the year from interest on loans and investments	\$29,424,252	\$26,667,471
Cash paid during the year for dividends	\$3,035,023	\$2,815,587
Net change in unrealized loss on available-for-sale securities	\$(2,312,830)	\$ -

## STATEMENTS OF MEMBERS' EQUITY

For the years ended June 30, 2017 and 2016

	2017	2016
<b>APPROPRIATED - REGULAR RESERVE</b>		
Beginning/Ending Balance	\$8,322,208	\$8,322,208
<b>UNAPPROPRIATED - UNDIVIDED EARNINGS</b>		
Beginning balance	62,569,127	58,474,121
Net income	2,780,747	4,095,006
Ending balance	65,349,874	62,569,127
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>		
Beginning balance	-	-
Net change in unrealized loss on available-for-sale securities	(2,312,830)	-
Ending balance	(2,312,830)	-
TOTAL MEMBERS' EQUITY	\$71,359,252	\$70,891,335





## BOARD OF DIRECTORS

**Carl R. Coe**, Chairman  
**Allison Neumann**, Vice Chairman  
**Sheri Bullock**, Treasurer  
**John Petas**, Secretary  
**Paul Brumfield**  
**Charles Harmon**  
**Steve Nicholson**  
**Fred Payne**  
**Robert Taylor**

## SUPERVISORY COMMITTEE

**John Kaufman**, Chairman  
**Wendy Bartos**  
**Jill Carlton**  
**James Janik**  
**Fred Lucci**

## EXECUTIVE MANAGEMENT

**Steve Brandon**, Chief Executive Officer

## MANAGEMENT TEAM

**Jim Aley**, Chief Financial Officer  
**Mary Anawalt**, Vice President of Corporate Services  
**Melissa Danner**, Ohio Regional Branch Manager  
**Jack Imes**, Chief Lending Officer  
**Brock Kasnick**, Chief Experience Officer  
**Joe Mattera**, Member Services Manager  
**Mary Morikawa**, Compliance Officer  
**Jeanne Ozenne**, Chief Technology Officer  
**Tracy Rud**, Operations Manager  
**Scott Shields**, Regional Manager