

*Charting your
financial future*

CHARTWAY[®]

FEDERAL CREDIT UNION



2002 Annual Report

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In September of 1959, seven men at Norfolk Naval Air Station met to discuss the feasibility of starting a federal credit union. They started very small, with only one teller operating out of a small service window in the employee cafeteria of the Naval Air Station - but they had big dreams. Of course, I don't think any of our founders would have imagined we would be as successful as we are now, and we continue to build upon the strong foundation they provided us, upholding the



John L. McGrath
CHAIRMAN OF THE BOARD

Chairman's message

“People Helping People” philosophy by giving each member the best financial experience possible.

The level of service we provide sets the standard for the industry, and it is one of our greatest accomplishments. From the folks who got us off on the right foot, like Eleanor, Carl and Sharon, to the folks who help us every step of the way today, like Mae, JoAnn and Ron . . . it is our employees who have really helped us make the difference time and time again. Their dedication to quality service is what makes Chartway the best financial institution in the country, hands down.

Through the vision of the very first elected Board of Directors to the current Board, our guiding principles are dictated by providing friendly, knowledgeable service and competitive products and services. We are always looking out for your best interests, and we back up our commitment to quality service by ensuring that your financial assets are protected through safe and ethical business prac-

tices. This kind of integrity is deeply rooted throughout our organization, and it has provided us the stability and structure to grow to 25 branches in six states – not a bad start for an organization that began operating out of a cigar box.

From low-tech to cutting-edge, we have successfully integrated advances in technology to enhance our “down home” way of doing business, and we use these tools to make every financial transaction faster, more accurate and more convenient. As we continue to identify expansion opportunities within our communities, we readily offer you more choices and venues to conduct your financial business - around the corner and around the globe.

Each year our membership grows – we are a select group, but we must not be selective. Growth is a critical factor to our continued success, and without it, the idea of “People Helping People” would not have lived past 1959. As we expand throughout our communities, I encourage every member to tell your friends, family, neighbors and fellow employees about Chartway. There is strength in numbers, and with each new member, we help sustain our success and stability.

Our experience as a credit union has been one of cooperation and learning. We uphold the philosophy that people are worth more than money, and our members are our greatest asset. We are more than a credit union; we are a family bound by a legacy to help each member achieve their financial goals. It is a legacy that together we will hand down for generations to come, and it is a legacy that we can all be proud of.

John L. McGrath

I know we can all agree that this past year was one of concern and uncertainty for most Americans. The tremendous fluctuations in the economy and the unstable capital market have taken their toll on our nation – and on our way of life. Since Chartway opened its first account, we have been steadfast in our resolve to provide financial stability and safety for our members. It is during turbulent times like these when that way of doing business really sets us apart from the rest.



Ronald L. Burniske
PRESIDENT AND CEO

president's message

When investors were putting their money in the stock market with the high hopes of big returns and fast profits, we were cautious . . . some thought perhaps too cautious. Many people lost their life savings and lost their way of life because of the decline in equity markets - but for our members who invested their future with us, not only did they see a return on their investment, they saw a return in their relationship with us.

Chartway continues to grow and prosper because we are focused on one thing: doing business with the same principles and values we established when we first started this credit union.

What does that mean for you? It means that you can always look to Chartway to provide competitive products, the best service and to deliver on our promises. It means that what you see is what you get, and we will never use false advertising or “bait and switch” tactics to attract business. And most importantly, it means that we will treat each member like our only member, earning your trust by being there for you in good times and in bad.

For more than four decades, that has been our commitment to you . . . a commitment that will never change.

That commitment translates into every aspect of how we serve you; from our hard-working tellers who greet each person with a welcoming smile to our network support staff who work tirelessly day-in and day-out ensuring that our systems are working properly - each and every employee stands behind our ideology that we can make a difference, one day at a time, one member at a time. That is the foundation of our heritage, and it will continue to guide how we do business in the future.

With so many great opportunities on our horizon, we will remain true to the course that we began in 1959. Back then, our founders wanted to build a credit union that was special – one that was firmly rooted in the community and one that would go the extra mile for each member, and we remain true to those beliefs today. Our founders also upheld the belief that every person should have the right to join a credit union, and we carry on that commitment through our expansion campaigns. But above all else, our founders were dedicated to building lifelong relationships with each new member, a tradition that I am proud to say continues to this day.

Chartway is your credit union, member-owned and member-driven. To many, we have become a trusted friend – a friend that can be counted on to help make the right decisions at the right time, providing guidance when the path is sometimes not very clear. It has been a road we have traveled for 44 years. It has defined who we are today and will define what we become in the future. Chartway will continue on this road that has served us so well, because we want to become that same trusted friend to ALL our members. The journey is just beginning . . .

A handwritten signature in blue ink, appearing to read "Ronald L. Burniske". The signature is fluid and cursive, with a large, stylized initial "R".

2002 board of directors



FRONT ROW, FROM LEFT TO RIGHT

John L. McGrath
Chairman of the Board

Melvin S. Mizelle
2nd Vice Chairman

E. L. "Lou" Gull, Jr.
1st Vice Chairman

MIDDLE ROW, FROM LEFT TO RIGHT

Carl M. Atkinson
Treasurer

Bettye P. Machen
Director

James J. Sibley
Director

David L. Carmichael
Director

BACK ROW, FROM LEFT TO RIGHT

Edward A. Foshay
Secretary

Albert C. Merritt
Director

Despite challenging financial markets and a slowing national economy, Chartway Federal Credit Union enjoyed an excellent year in 2002. Chartway performed well in terms of growth and financial performance. Asset growth for the year reached a record high, and we significantly increased the size and value of our membership. To ensure unparalleled convenience, we expanded our branch and electronic network to service these new markets.



Carl M. Atkinson
Treasurer

Treasurer's report

While achieving our financial performance objectives is important, we never lost sight of the defining measures of our success: our attention to service, the value we offer our members and the safety and soundness of the Credit Union. We clearly understand that our members are the foundation of our Credit Union and the reason we come to work every day.

Today, I am pleased to report that the financial health of Chartway Federal Credit Union remains strong. We attained steady growth in all facets of operations during 2002, and the safety and soundness of your funds are evident through our successful financial performance.

Our assets as of September 30, 2002 were \$852,308,170. This represents a growth of \$137,167,223 or 19.2%. Share deposits grew a total of \$129,710,763 for a growth of 20.0% during the year.

We had a net increase in loans of \$21,443,870 or a 5.7% increase for the year. In keeping with our strong commitment to financial stability and security, gross income for our 12-month period, as reported by the independent firm of McGladrey & Pullen, LLP, Certified Public Accountants, totaled \$55,980,646 distributed as follows: \$22,012,538 or 39.3% of gross income in dividends to our members; \$7,886,029 or 14.1% of gross income in reserves and undivided earnings (retained earnings); and \$26,082,079 or 46.6% to offset credit union operating expenses.

Reserves and undivided earnings are the foundation of financial stability and ensure the future success of Chartway. At year-end, these retained earnings totaled \$71,230,057 representing a 11.7% increase over the previous year.

Chartway is poised to meet the challenges of the future. Your continued participation, support and trust will ensure stability and future financial success for you and your fellow members.

A handwritten signature in dark ink that reads "Carl M. Atkinson". The signature is written in a cursive style with a large, sweeping flourish at the end.

There are no set directions for achieving your investing or saving goals. It's your choice. Do you prefer the safe route or is a little bit of risk more up your alley? The course for financial success depends on your personality, your situation and your lifestyle. Chartway is ready with the advice, the programs and the instruments to fit the choices that you've made or will make in the future.



supervisory committee's report

The Federal Credit Union Act requires the Supervisory Committee to conduct an annual appraisal of all the policies and procedures of Chartway Federal Credit Union.

Because our primary goal is always to protect the interests of our members, we contracted an independent certified public auditing firm to examine the year ending September 30, 2002. Following the examination and audit, we received an opinion

letter confirming that Chartway's financial statements conform to generally accepted accounting principles.

The members of the Committee and I would like to extend our appreciation to the credit union staff, management, Board of Directors and especially our members for their cooperation during the past year. Because of your support, we are able to perform our tasks more efficiently and effectively.



independent auditor's report

We have audited the accompanying consolidated statement of financial condition of Chartway Federal Credit Union (a federally chartered credit union) and Subsidiaries as of September 30, 2002 and the related consolidated statements of income and comprehensive income, equity and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The credit union has reported shares as equity in the accompanying financial statements that, in our opinion, should be reported as liabilities in order to conform with accounting principles generally accepted in the United States of America. If these shares were properly reported, liabilities would increase and equity would decrease by \$777,479,350, respectively, as of September 30, 2002.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chartway Federal Credit Union and Subsidiaries as of September 30, 2002 and the consolidated 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.

McGladrey & Pullen
Certified Public Accountants

consolidated statement of financial condition • september 30, 2002

ASSETS

Cash and cash equivalents	\$ 208,623,002
Investments	
Available-for-sale	18,681,878
Held-to-maturity	197,314,284
Other	3,326,486
Loans to members, net	400,201,029
Loans held for sale	2,755,580
Accrued interest receivable	4,616,786
Property and equipment	7,209,253
National Credit Union Insurance Fund deposit	6,236,851
Other assets	3,343,021

\$ 852,308,170

LIABILITIES

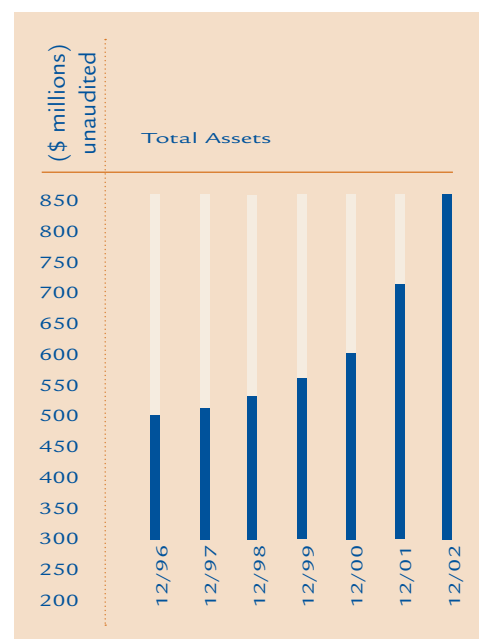
Accrued expenses and other liabilities	\$ 3,460,504
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EQUITY

Members' shares	777,479,350
Retained earnings, substantially restricted	71,230,057
Accumulated other comprehensive income	138,259

848,847,666

\$ 852,308,170



consolidated statement of income and comprehensive income • september 30, 2002

INTEREST INCOME

Interest on loans to members	\$ 32,904,798
Interest on investments and cash equivalents	11,605,914

44,510,712

INTEREST EXPENSE

Dividends on members' shares	22,012,538
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NET INTEREST INCOME

22,498,174

PROVISION FOR LOAN LOSSES

1,348,333

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

21,149,841

NON-INTEREST INCOME

11,469,934

GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits	12,336,420
Operations	11,616,906
Occupancy	2,128,753

26,082,079

NET INCOME

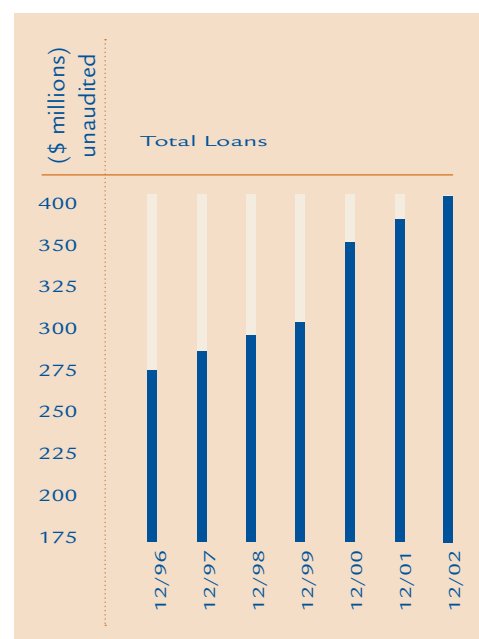
\$ 6,537,696

OTHER COMPREHENSIVE INCOME

Unrealized losses on investments classified as available-for-sale	(169,742)
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COMPREHENSIVE INCOME

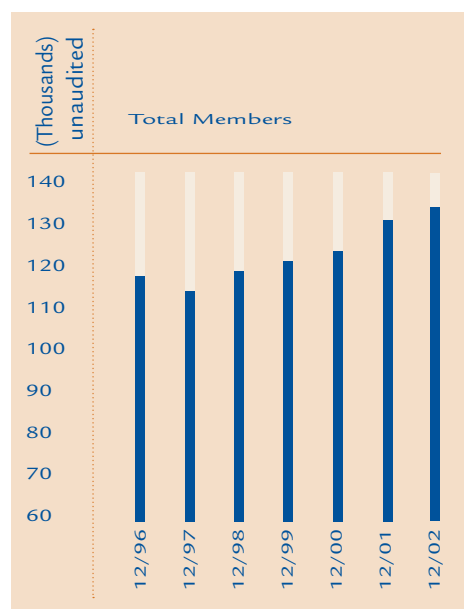
\$ 6,367,954



The accompanying notes are an integral part of these statements.

consolidated statement of equity • september 30, 2002

	Retained Earnings		Accumulated Other Comprehensive Income	Total
	Appropriated regulatory	Unappropriated	Net Unrealized Gains (Losses) on available-for-sale investments	
Balance, September 30, 2001 as previously reported	\$ 8,964,617	\$ 54,790,598	\$ 308,001	\$ 64,063,216
Restatement - Note 2		937,146		937,146
Balance, September 30, 2001 as restated	8,964,617	55,727,744	308,001	65,000,362
Net Income		6,537,696		6,537,696
Net Change in Unrealized Gains on Available-for-Sale Investments			(169,742)	(169,742)
Balance, September 30, 2002	\$ 8,964,617	\$ 62,265,440	\$ 138,259	\$ 71,368,316



consolidated statement of cash flows • september 30, 2002

OPERATING ACTIVITIES

Net income	\$ 6,537,696
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of net premium on investments	1,375,936
Provision for loan losses	1,348,333
Depreciation and amortization	1,699,896
Proceeds from sale of mortgages	34,907,218
Gains on sale of mortgages	(601,211)
Decrease in accrued interest receivable	344,824
Increase in other assets	(811,196)
Decrease in accrued expenses and other liabilities	(768,881)

Net cash provided by operating activities 44,032,615

INVESTING ACTIVITIES

Purchases of available-for-sale investments	(10,015,641)
Proceeds from available-for-sale investments	10,145,816
Purchases of held-to-maturity investments	(153,568,106)
Proceeds from held-to-maturity investments	114,428,825
Net increase in other investments	(291,096)
Net increase in loans to members	(59,853,790)
Increase in the National Credit Union Insurance Fund deposit	(429,995)
Purchases of property and equipment	(1,994,407)

Net cash used in investing activities (101,578,394)

FINANCING ACTIVITIES

Net increase in members' shares 130,246,229

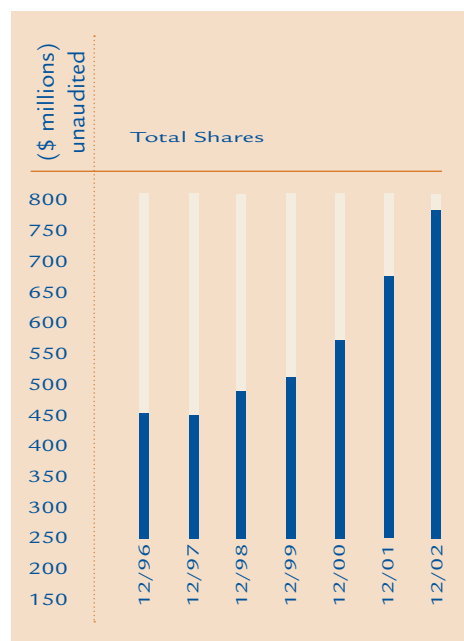
INCREASE IN CASH AND CASH EQUIVALENTS 72,700,450

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 135,922,552

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 208,623,002

SUPPLEMENTAL CASH FLOW INFORMATION:

Dividends paid on deposits \$ 22,030,414



The accompanying notes are an integral part of these statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statement includes the accounts of Chartway Federal Credit Union (the credit union) and its wholly owned subsidiaries, CFS, Inc. and Newtown Associates, Inc. These subsidiaries are engaged in related financial service activities, including selling insurance and investment products. All material intercompany balances and transactions have been eliminated in consolidation.

Organization: The credit union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, overnight fed funds, and non-term share deposits in a corporate credit union.

Investments: Investments that the credit union has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as a separate component of equity. Amortization of premiums and

notes of consolidated financial statements • september 30, 2002

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose the contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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

Members' shares are classified as equity in the consolidated statements of financial condition. It is the credit union's position that members' shares represent an ownership interest and are properly classified as equity. Such classification is not in accordance with generally accepted accounting principles. Accounting principles generally accepted in the United States of America require members' shares be classified as liabilities. This change has no effect on the consolidated statements of income.

discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair value. Other investments are classified separately and are stated at cost.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse.

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

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

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

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the credit union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions.

Accrued Interest on Loans: Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. All interest accrued, but not collected for loans that are placed on non-accrual status or subsequently charged off, is reversed against interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Property and Equipment: Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Building and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

National Credit Union Share Insurance Fund Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to 1% of its insured members shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, if it converts its insurance coverage to another source or if management of the fund is transferred from the NCUA Board.

NCUSIF Insurance Premium: The credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2002 and 2001 insurance premiums.

Capital Requirements: The credit union is subject to various regulatory capital requirements administered by the National Credit Union Administration (NCUA). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by the NCUA that, if undertaken, could have a direct material effect on the credit union and the financial statements. Management believes, as of September 30, 2002, that the credit union meets all capital adequacy requirements to which it is subject.

Income Taxes: The credit union is exempt, by statute, from federal and state income taxes. The credit union's wholly-owned subsidiaries, however, are subject to federal and state income taxes.

2. RESTATEMENT

As discussed in Note 10, the credit union has deferred compensation arrangements with a number of employees. The credit union also has designated certain investments to fund the obligations to the employees when they retire. In prior years, the credit union expensed the purchase of any investments related to this arrangement and did not record a liability for the obligation to the employees. Generally accepted accounting principles require the assets be reflected in the financial statements and the liability be recorded through accruals as an expense each year so that when the employee retires, the estimated present value of their deferred compensation liability is properly recognized. The financial statements have been corrected to reflect the cumulative effect of this change through September 30, 2001. The effect was to understate assets by \$1,321,921, liabilities by \$920,241 and retained earnings by \$937,146. Income for the year ended September 30, 2001 was understated approximately \$66,000.

notes of consolidated financial statements • september 30, 2002

3. INVESTMENTS

Investments classified as available-for-sale consist of the following:

September 30, 2002	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Guaranteed loans made to the U.S. Agency for International Development	\$ 1,062,640	\$ 79,594	\$ 0	\$ 1,142,234
Mutual funds of U.S. government obligations and federal agency securities	15,938,256	33,762	0	15,972,018
U.S. government obligations and federal agencies securities	1,412,359	24,903	0	1,437,262
Mortgage-backed securities	130,364	0	0	130,364
	\$ 18,543,619	\$ 138,259	\$ 0	\$ 18,681,878

Investments classified as held-to-maturity consist of the following:

September 30, 2002	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 197,314,284	\$ 844,795	\$ (44,400)	\$198,114,679

Other investments consist of the following:

Certificates of deposit	\$ 201,574
Credit Union Service Corporation of Virginia	327,958
CU24 Stock	10,230
Member capital account in a corporate credit union	2,786,724
	\$ 3,326,486

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value. At September 30, 2002, there was approximately \$215,653,000 in credit union and bank deposits with individual balances in excess of the insured limit.

Investments by maturity are summarized as follows:

September 30, 2002	Available-for-Sale	Held-to-Maturity	Other	Total
No contractual maturity	\$ 15,972,018	\$ 0	\$ 3,124,912	\$ 19,096,930
Less than 1 year maturity	195,690	126,466,733	101,574	126,763,997
1 – 5 years maturity	1,200,784	70,847,551	100,000	72,148,335
Over 5 years maturity	1,183,022	0	0	1,183,022
Mortgage-backed securities	130,364	0	0	130,364
	\$ 18,681,878	\$ 197,314,284	\$ 3,326,486	\$219,322,648
Weighted average yield	1.85%	3.61%	1.50%	3.44%

Expected maturities of debt securities, including mortgage-backed securities, may differ from contractual maturities, because borrowers may have the right to call or prepay the obligations. Mutual funds of U.S. government obligations, member capital account, Credit Union Service Corp of VA and CU 24 Stock have been classified with no contractual maturity.

notes of consolidated financial statements • september 30, 2002

4. LOANS TO MEMBERS

Loans to members consist of the following:

Mortgage loans:		
Fixed rate	\$	47,388,051
Variable rate		1,216,498
Home equity and home equity lines of credit		88,319,752
		136,924,301
Vehicle loans		179,820,601
Government guaranteed student loans		4,352,914
Credit card loans, unsecured		53,888,913
Consumer loans, primarily unsecured		31,856,998
		406,843,727
Deferred net loan origination fees		1,268,986
Allowance for loan losses		(5,156,104)
	\$	402,956,609
Weighted average yield		8.13%

Included in mortgage loans are loans held for sale at September 30, 2002 totaling \$2,755,580. The carrying value of loans held for sale approximates market value at September 30, 2002.

In the ordinary course of business, the credit union makes loans to its directors and officers at the same terms as those prevailing at the time of origination for comparable transactions with other members. Loans to directors and officers at September 30, 2002 total \$957,843.

Loans on which accrual of interest has been discontinued or reduced amounted to \$1,548,366 at September 30, 2002. The credit union's policy is to stop accruing interest when the loan becomes 90 days delinquent.

The following is an analysis of the allowance for loan losses:

Balance, beginning of year	\$	6,140,366
Provision for loan losses		1,348,333
Recoveries		722,403
Loans charged off		(3,054,998)
Balance, end of year	\$	5,156,104

Outstanding mortgage loan commitments at September 30, 2002 total approximately \$6,591,205.

Available credit on home equity and unsecured lines of credit is summarized as follows:

Home equity	\$	17,180,000
Credit card		129,500,000
Other consumer		5,938,000
	\$	152,618,000

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

notes of consolidated financial statements • september 30, 2002

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Land	\$	584,261
Building		4,820,762
Leasehold improvements		8,304,787
Furniture and equipment		18,390,457
		32,100,267
Accumulated depreciation and amortization		(24,891,014)
	\$	7,209,253

The credit union leases 16 offices and two land properties. The operating leases contain renewal options and provisions requiring the credit union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at September 30, 2002 are as follows:

2003	\$	561,572
2004		489,592
2005		473,090
2006		436,587
2007		328,710
Subsequent years		1,498,136
	\$	3,787,687

Rental expense for the years ended September 30, 2002 for all facilities leased under operating leases totaled \$779,120.

6. MEMBERS' SHARES

Members' shares and weighted average costs are summarized as follows:

Regular shares	2.42%	\$	254,201,283
Checking accounts	0.53%		114,549,037
Money Market accounts	2.58%		104,137,969
Individual Retirement Account shares	3.31%		34,060,146
Share Certificates	3.70%		270,530,915
	2.65%	\$	777,479,350

Shares by maturity are summarized as follows:

No contractual maturity	\$	506,948,435
0 - 1 year maturity		230,678,127
1 - 2 years maturity		20,462,764
2 - 3 years maturity		10,214,012
3 - 4 years maturity		4,796,560
4 - 5 years maturity		4,379,452
	\$	777,479,350

Regular shares, checking accounts, money market accounts and individual retirement account shares have no contractual maturity. Share Certificate accounts have maturities of five years or less.

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

The aggregate amount of member share accounts with balances in excess of \$100,000 as of September 30, 2002 is approximately \$199,083,000.

7. CONCENTRATIONS OF CREDIT RISK

Participation in the credit union is limited to those individuals who qualify for membership. The field of membership is defined in the credit union's bylaws. A significant concentration of members resides in Virginia. Although the credit union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the defense industry or the overall geographic region in which borrowers reside.

8. COMMITMENTS & CONTINGENT LIABILITIES

The credit union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging

10. EMPLOYEE BENEFITS

The credit union has a 401(k) pension plan that allows employees to defer a portion of their salary into the 401(k) plan. The credit union matches a portion of employees' wage reductions. Pension costs are accrued and funded on a current basis. The credit union contributed \$632,398 to the plan for the year ended September 30, 2002.

The credit union has deferred compensation agreements with members of the executive management team that provides benefits payable to these employees based on years of service with the credit union as defined in the agreement. The estimated

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of all assets as security for any and all obligations taken by the credit union under this agreement. The agreement provides for a credit limit of \$15,500,000 with interest charged at a rate determined by the lender on a periodic basis. Currently, there is no outstanding balance under this agreement. The agreement is reviewed for continuation by the lender and the credit union annually.

The credit union maintains a "Lending Agreement" with the Federal Reserve Bank of Richmond (Federal Reserve). Under the terms of this agreement, the credit union may make applications to the Federal Reserve for advances of funds. Interest rate is determined by the lender. Advances under the agreement are collateralized by a pledge of credit union assets. There were no outstanding borrowings at September 30, 2002.

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

The credit union has no outstanding commitments to sell investments at September 30, 2002.

9. NON-INTEREST INCOME

Included in non-interest income are the net gains on sales of loans to members totaling \$601,211, for the year ended September 30, 2002.

liability under the agreements is being accrued on a straight-line basis over the remaining years until the eligible employees attain retirement status as defined in the agreement. The credit union has accrued approximately \$279,500 under these agreements for the year ended September 30, 2002.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the credit union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the credit union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

Investments

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

Loans to Members

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

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

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

Members' Shares

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

Other On-Balance-Sheet Financial Instruments

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

Off-Balance-Sheet Financial Instruments

Estimated fair value for the credit union's loan commitments is the carrying amount.

The estimated fair value of the credit union's financial instruments are summarized as follows:

	2002	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 208,623,002	\$ 208,623,002
Investments available-for-sale	18,681,878	18,681,878
Investments held-to-maturity	197,314,284	198,114,679
Other investments	3,326,486	3,326,486
Loans to members	400,201,029	410,218,000
Loans to held-for-sale	2,755,580	2,755,580
Accrued interest receivable	4,616,786	4,616,786
Financial Liabilities:		
Members' shares	777,479,350	768,725,000
Unrecognized Financial Instruments:		
Commitments to extend credit	0	0

managers & committees

EXECUTIVE MANAGEMENT

Ronald L. Burniske
President/Chief Executive Officer

Paul V. Annunziata
Chief Operating Officer

Jeffrey L. Garrenton
Executive Vice President of Sales & Marketing

SENIOR MANAGEMENT

John W. Blum
Vice President of Operations

René G. Bollinger
Vice President of Human Resources

Spencer A. Jones
Vice President of E-Business

Kimberly J. Oates
Vice President of Retail

Nancy B. Porter
Vice President of Marketing

Phillip A. Richards
Vice President of Strategy

G. Lewis Smith, IV
Vice President of Finance

Robert E. Smith
Vice President of Lending

Glenn B. Thomas
Vice President of Technology

SUPPORT MANAGEMENT

Paul J. D'Ambrosio
Director of Facilities

Matthew A. Foss
Account Executive Business Development

Bobbie O. Ivan
Director of Office Operations

Kenneth L. Maddrey
Director of Retail

Denise A. McRoberts
Director of Information Technology

M. Wendy Phelps
Director of Retail

Melissa D. Stocker
Director of Call Center

Celia C. Woodham
Director of Operations

SALES MANAGEMENT

Donna K. Bunton
*General Booth, Great Neck, Holland Windsor Crossing & Lynnhaven
Sales Manager*

Clarence A. Doughty, III
*Pembroke, Southern & U-20
Sales Manager*

M. Suzanne Dull
*Great Bridge, Greenbrier & Western Branch
Sales Manager*

Lori A. Ruzzano
*Wakefield & Warwick
Sales Manager*

Robin D. Talhelm
Mortgage Lending Manager

Cynthia R. Taylor
*21st Street, City Centre, Ferrell Parkway & Corporate Center
Sales Manager*

Matthew D. Thompson
Consumer Lending Manager

Daniel R. Winders
*Cullen Center, Hobby, JFK, North Houston & Richmond Avenue
Sales Manager*

BACK OFFICE MANAGEMENT

Deirdre P. Cox
Internal Auditor

Jill A. Haag
Executive Office Manager

Pamela M. Kline
System Operations Manager

Wendy E. Matthews
Collections Manager

Robert L. Miller
Accounting Manager

Christine C. Olson
Human Resource/Training Manager

Elizabeth K. O'Toole
Quality Assurance Manager

Susan C. Richardson
Desktop Technologies Manager

Pernell Taylor
Network Manager

Brian A. York
Marketing Manager

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