The background of the cover is a collage of US currency bills, including a \$100 bill on the left and several \$100 bills on the right, all set against a yellow background. The bills are slightly blurred and overlapping.

2000 ANNUAL REPORT

**TRADITION AND
TRANSITION**

The logo consists of a stylized blue and black winged shape above the text.

**NORTHROP GRUMMAN
FEDERAL CREDIT UNION**



Board Members Emeritus

Betty Burtis
Dick Lindsey

Supervisory Committee

Dick Daley
Chairman

Al Eldridge
Member

Ted Hruska
Member

Credit Committee

Jim Barnfather
Chairman

Pat Phillips
Member

Dick Winters
Member

Locations Serving the Membership

Gardena - Main Office
879 W. 190th Street
Gardena, California 90248
Free ATM Location: On site

Antelope Valley
1154 Commerce Center Drive
Lancaster, California 93534
Free ATM Locations: On site and
3520 E. Avenue M
Lancaster, California

Hawthorne - Plant One
One Northrop Ave. - Gate #5
Hawthorne, California 90250
Free ATM Location:
One Northrop Ave., Gate 5

Hawthorne - Plant 3 Cafeteria
Crenshaw Blvd. South of 120th Street
South of Hawthorne Municipal
Airport
Hawthorne, California 90250
Free ATM Location: On site

El Segundo - West Complex
One Hornet Way
El Segundo, California 90245
Free ATM Location: On site

Rancho Bernardo
17066 Golden Top Road
San Diego, California 92117
Free ATM Location: On site

Airport Park
898 Airport Park Road, Suite 101
Glen Burnie, Maryland 21061
Free ATM Location: On site

WestQuest Building
1580B West Nursery Road
Linthicum Heights, Maryland 21090
Free ATM Location: On site

Central Building
7323 Aviation Boulevard
Linthicum, Maryland 21090
Free ATM Location: On site

Hunt Valley
222 Schilling Circle, Suite 110
Hunt Valley, Maryland 21031

Rolling Meadows
600 Hicks Road
Rolling Meadows, Illinois 60008
Free ATM Location: On site

Lake Charles
4400 Sen. J. Bennett Johnston Ave.
Lake Charles, Louisiana 70615
Free ATM Location: On site

Perry
One Northrop Place
Perry, Georgia 31069

Milledgeville
90 Highway 22 West
Milledgeville, Georgia 31061
Free ATM Location: On site

St. Augustine
5000 U.S. 1 North
St. Augustine, Florida 32085
Free ATM Location: On site





Board of Directors



Phil Harrott
Chairman

Tradition And Transition

As Northrop Grumman Corporation continues its acquisition of work units across the Continental United States, the Credit Union has been striving to keep abreast of exciting new service opportunities. The Credit Union quickly realized that it would be required to provide service to scattered pockets of members across the land and as a result needed to expand the organization to capitalize on business opportunities outside our traditional boundaries.

A Warm Welcome To All Our New Members

The first manifestation of this new approach to expansion was the invitation from Logicon, a large and growing sector of Northrop Grumman Corporation, to provide our services to its geographically diverse employee base. The next step was the successful mergers and integration of members from two credit unions (Friendship FCU, 12/31/99 and Chesapeake Family FCU, 4/30/00) in the Baltimore, Maryland area. These credit unions were serving Northrop Grumman Corporation's Electronic Sensors and Systems Sector; formerly Westinghouse Electric Corporation, Electronics Systems Group; employees and families, but had also expanded into the larger community by providing credit union services to several area employers, known as select employee groups (SEGs). When we merged with these two credit unions, we accepted the responsibility of serving the financial needs of members not directly associated with Northrop Grumman Corporation.

Growing With A New Direction

Recognizing the challenges that lay ahead of us - to provide appropriate service to our members wherever they live - it became clear that growing through mergers and SEG acquisition would best develop the economies of scale needed to

reach out to all Northrop Grumman employees worldwide. By sharing our products and services with sponsors in geographic proximity to Northrop Grumman Corporation locations, it will enable us to give more to our members everywhere.

Everything You Need And More

This new opportunity for expansion has led to improvements on our website to include a full service virtual branch known as *the _Max!*; the availability of Credit Union Service Centers to give branch access to more of our members in cooperation with other credit unions, the continuation of our low fee structure; convenient account access through our Telephone Service Representatives, Call 24, the Visa ATM/Check Card, MasterCard and our Share Draft (Checking) Account; expanded insurance programs to our retired members and discounted investment counseling through our subsidiary, Flight Plan Financial Services, Inc.; and a proliferation of ATMs to provide access to cash in areas where a full service branch office is unsupportable; and the ability to support our tradition of offering high dividend savings and low interest rate loans.

Giving You More...

While carrying out the transition required to serve the needs of a professionally diverse and geographically dispersed field of membership, Northrop Grumman Federal Credit Union sustains its tradition of providing convenient, secure and economical financial services.

Our mission statement reflects our dedication to all members...

“Northrop Grumman Federal Credit Union, as a member owned, financial cooperative, exists to provide efficient, attractively priced financial products and services to satisfy the requirements of it’s membership.”



Georgetta Wolff
1st Vice-Chairman



Mitch Mroz
2nd Vice-Chairman



Savings and Investments

Regular Shares (Savings)

A minimum deposit of \$5 in a basic share account entitles members to the full use of the Credit Union's products and services. Dividends are paid monthly on an average daily balance of \$100 or greater.

Money Market Accounts

Money Market Accounts offer an outstanding dividend rate with instant funds availability. With a minimum required balance of \$2,500, dividends are calculated on the average daily balance and are credited monthly.

Term and IRA Accounts

The Credit Union offers several term accounts at competitive rates for terms of 6 and 30 months, and 1, 2, 3, 4, and 5 years with a minimum deposit of \$5,000. A .25% bonus dividend is paid to all term accounts of \$40,000 and over.

In addition to the Traditional IRA, the Credit Union also offers the Roth IRA and the Education IRA with their potential for tax-free earnings. For details on these tax-advantaged investments, call the Credit Union at (800) 633-2848.



Stan Swenson
Secretary/Treasurer

Safety and Security

All member accounts are federally insured to \$100,000 by the NCUSIF (National Credit Union Share Insurance Fund), the strongest government backed fund available. IRAs are separately insured up to an additional \$100,000.

Consumer Loans

New and Used Vehicle Loans

New and used cars may be financed at the same low rates with terms up to 72 months. Rates may be discounted up to 1% by using other valuable Credit Union services.



George Bardizbanian
Director

MasterCard

Both our B-2 Image and Gold MasterCards provide worldwide acceptance for purchases or ATM access. With a credit limit up to \$25,000 (subject to credit approval), both cards are offered with no annual fee and low variable or fixed interest rates. Our Gold MasterCard provides the added benefit of the MasterAssist Program, that includes many travel and entertainment features at no added cost.

MoneyMaster Line of Credit

Whether it's for major purchases, home improvements, bill consolidation, cash for that dream vacation or an unexpected emergency, this low-rate unsecured credit line, once established, provides immediate and on-going access to cash. It can also be used as a no-fee overdraft source for your Credit Union checking account.

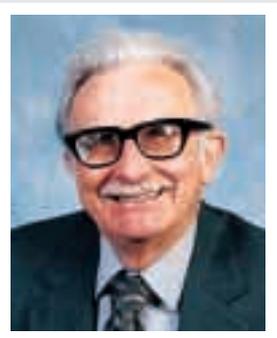
Additional Loans

Our Stock, Share and Certificate Secured Loans provide quick approval and competitive rates because you're actually borrowing from yourself. For a larger unsecured loan for bill consolidation and extended financing, try our \$25,000 Closed-End Unsecured Loan.

Real Estate Loans

First Trust Deeds

Whether it's financing the home of your dreams, a vacation or rental home, or refinancing an existing home, the Credit Union has a first trust deed loan program to fit your needs. Call Northrop Grumman Federal Credit Union before you call a real estate agent. With our Real Estate Rebate Program, you can earn a 15% rebate on your agent's share of the commission when you buy or sell a home.



Ted Hruska
Director



Nils Johnson
Director



Home Equity Line of Credit

Lines of credit are available up to 90% of the loan-to-value of your residence located in California, Illinois or Maryland. The Credit Union Home Equity Line has a low variable rate, a \$650 fee allowance, and a term of up to 15 years with a maximum credit line of \$100,000 that may provide tax benefits (consult your tax advisor).

Convenience Services

Share Draft (Checking) Accounts

Even in today's high-tech world, a checking account is still one of the basic financial tools. A Northrop Grumman FCU checking account is easy to use and easy on the pocketbook, with no minimum balance requirement, no per-check transaction fee and no monthly service charge. Money in accounts with an average daily balance of \$500 earn dividends and are paid monthly.

CALL 24

CALL 24 allows you to conduct Credit Union business 24 hours a day, seven days a week...even on holidays! All you need is a touchtone telephone and a CALL 24 Personal Identification Number (PIN) that you select. With this free service, you can confirm account balances, transfer funds between savings and checking, make loan payments, update your check register and make withdrawals or advances by calling (310) 327-0682 or (800) 676-3328.

the_Max!

Turn your PC into your personal branch. Access *the_Max!*, our on-line home branching solution, at www.norgrumfcu.org and click on the logo for *the_Max!*. The functions of CALL 24 are at your fingertips and much, much more. Apply for a loan, order checks, open accounts and pay bills free of charge without leaving your PC.



Hugh Jones
Director



Bernie Slotnick
Director

Visa ATM/Check Card

The perfect traveling companion, the Visa ATM/Check Card provides all the peace of mind of an ATM Card along with the worldwide acceptance of a Visa Credit Card. This versatile card allows you to access directly the funds in your share draft account. To use your check card at an ATM, simply key in your PIN or when making purchases, simply offer the check card for payment.

The CO-OP ATM Network

This network provides members with another convenience by making available account access 24 hours a day, 7 days a week. Many ATM locations will accept deposits to your Northrop Grumman Federal Credit Union accounts. For locations call (888)SITE COOP or visit their site at www.co-opnetwork.org.

CU Service Centers

CU Service Centers are a cooperative venture of credit unions. Deposits, withdrawals, loan payments, balance inquiries, travelers cheques, applying for a loan are transactions available at your closest CU Service Center branch. For the location near you, call (888) CUSWIRL or visit www.cuservicecenters.org.

Flight Plan Financial Services, Inc.

A wholly-owned subsidiary of Northrop Grumman FCU, Flight Plan Financial Services has a wide range of annuity programs, mutual funds, bond funds and insurance products. Flight Plan also provides financial, retirement, estate and tax planning. For more details, contact a Flight Plan Representative at (800) 200-1121.

Mutual funds, annuities and other investments available through Flight Plan Financial Services and Linsco/Private Ledger are not deposits in Northrop Grumman FCU, are not insured by the NCUSIF, nor are they obligations of, or guaranteed by Northrop Grumman FCU. Such investments may fluctuate in value and are subject to investment risks, including loss of some or all of the principal.



Steve Considine
Director



Dick Underhill
Director

Consolidated Statement of Financial Condition

DECEMBER 31, 2000

ASSETS

Cash and cash equivalents	\$ 21,863,174
Investments	
Available-for-sale	115,970,529
Other	3,762,208
Loans to members, net of the allowance for loan losses	165,105,348
Accrued interest receivable	1,844,363
Property and equipment	3,622,849
National Credit Union Share Insurance Fund deposit	2,631,090
Other assets	2,115,993
	<u>\$ 316,915,554</u>

LIABILITIES AND EQUITY

LIABILITIES

Members' shares	\$ 271,451,876
Accrued expenses and other liabilities	1,877,889
Total liabilities	273,329,765
Commitments and contingent liabilities	

EQUITY

Retained earnings	44,115,064
Accumulated other comprehensive income	(529,275)
Total equity	43,585,789
	<u>\$ 316,915,554</u>

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 2000

INTEREST INCOME

Interest on loans to members	\$ 14,857,566
Interest on investments and cash equivalents	8,710,771
	23,568,337

INTEREST EXPENSE

Dividends on members' shares	\$ 11,405,735
NET INTEREST INCOME	12,162,602

PROVISION FOR LOAN LOSSES

	807,917
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,354,685

NON-INTEREST INCOME

	2,533,211
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GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits	5,535,024
Operations	5,757,350
Occupancy	1,071,347
	12,363,721

NET INCOME	<u>\$ 1,524,175</u>
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Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2000

NET INCOME	\$ 1,524,175
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OTHER COMPREHENSIVE INCOME

Unrealized holding gains on investments classified as available-for-sale	2,342,076
COMPREHENSIVE INCOME/LOSS	<u>\$ 3,866,251</u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED DECEMBER 31, 2000

OPERATING ACTIVITIES

Net income	\$ 1,524,175
Adjustments to reconciled net income to net cash provided by operating activities:	
Amortization of net premium on investments	119,710
Provision for loan losses	807,917
Depreciation and amortization	1,184,000
Increase in accrued interest receivable	(165,953)
Increase in other assets	(180,856)
Increase in accrued expenses and other liabilities	145,915
Net cash provided by operating activities	3,434,908

INVESTING ACTIVITIES

Purchases of available-for-sale investments	(18,069,424)
Proceeds from available-for-sale investments	18,680,048
Net decrease in other investments	164,966
Net increase in loans to members	(3,857,577)
Proceeds from the sale of loans	858,531
Increase in the National Credit Union Share Insurance Fund deposit	(87,322)
Net purchases of property and equipment	(870,669)
Net cash used in investing activities	(3,181,447)

FINANCING ACTIVITIES

Net increase in members' shares	5,207,501
INCREASE IN CASH AND CASH EQUIVALENTS	5,460,962
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,402,212
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 21,863,174</u>

Consolidated Statement of Equity

FOR THE YEAR ENDED DECEMBER 31, 2000

	Retained Earnings		Accum. Other Comprehensive Income	Total
	Appropriated Regulatory	Unappropriated	Net Unrealized Gains (Losses) on Available-for-Sale Investments	
Balance,				
December 31, 1999	\$ 6,849,579	\$ 35,741,310	(2,871,351)	\$ 39,719,538
Net Income		1,524,175		1,524,175
Net Change in Unrealized Gains (Losses) on Available-for-Sale Investments			2,342,076	2,342,076
Appropriations	657,529	(657,529)	0	0
Balance,				
December 31, 2000	<u>\$ 7,507,108</u>	<u>\$ 36,607,956</u>	<u>\$ (529,275)</u>	<u>\$ 43,585,789</u>

The accompanying notes are an integral part of these statements.

Notes To Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, Flight Plan Financial Services, Inc., a credit union service organization, which provides investment and insurance products. Intercompany balances and transactions have been eliminated in consolidation.

Merger with Other Credit Unions: Effective December 31, 1999, Northrop Grumman Federal Credit Union merged with Friendship Federal Credit Union. Also, effective April 30, 2000, Northrop Grumman Federal Credit Union merged with Chesapeake Family Federal Credit Union. These financial statements have been prepared using the pooling of interests method. All material intercompany balances and transactions have been eliminated in consolidation. Refer to Note 8 in the Notes to the Financial Statements.

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

Members' Shares: Members' shares are 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 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.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, 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. Other investments are classified separately and are stated at cost.

Loans to Members and Allowance for Loan Losses: Loans are stated at the amount of unpaid principle, reduced by an allowance for loan losses and deferred net loan origination fees. 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 allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). 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. 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: Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The facilities for the credit union's corporate offices were provided rent-free by Northrop Grumman Corporation through October 1999. The credit union continues to receive support for its branch locations. The fair value of this contribution to the credit union is not recorded.

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 the total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2000 insurance premium.

Retained Earnings: The credit union is required to appropriate a portion of retained earnings. This appropriation represents a regulatory restriction of retained earnings.

Income Taxes: The credit union is exempt, by statute, from federal and state income taxes. The credit union's wholly owned subsidiary, Flight Plan Financial Services, is subject to federal and state income taxes.

Reclassifications: Certain account reclassifications have been made to the financial statements of the prior year in order to conform to classifications used in the current year.

Supervisory Committee: The credit union has an audit committee that is appointed by the Board of Directors. The committee meets with management, officials, and their independent accountants to review the financial affairs of the credit union. The committee reports to the membership at the annual meeting.

Notes To Consolidated Financial Statements

2. LOANS TO MEMBERS

Loans to members consist of the following:

Mortgage loans:	
Fixed rate	\$ 34,771,516
Variable rate	10,539,667
Home equity line of credit, variable rate	<u>31,742,579</u>
	77,053,762
Vehicle loans	53,356,962
Credit card loans, unsecured	16,173,208
Consumer loans, primarily unsecured	<u>21,566,994</u>
	168,150,926
Deferred net loan origination fees	(180,587)
Allowance for loan losses	<u>(2,864,991)</u>
	<u>\$ 165,105,348</u>
Weighted average yield	<u>8.9%</u>

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 December 31, 2000 total \$1,283,422.

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

Balance, beginning of year	\$ 3,198,337
Provision for loan losses	807,917
Recoveries	207,501
Loans charged off	<u>(1,348,764)</u>
Balance, end of year	<u>\$ 2,864,991</u>

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

Home equity	\$ 22,438,000
Credit card	45,480,000
Other consumer	<u>51,064,000</u>
	<u>\$ 118,982,000</u>

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.

Mortgage loans serviced for Fannie Mae are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2000 are \$1,092,000.

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Data processing equipment	\$ 5,846,189
Facility improvement	2,557,109
Furniture and equipment	<u>3,739,229</u>
	12,142,527

Accumulated depreciation and amortization	<u>(8,519,678)</u>
	<u>\$ 3,622,849</u>

The credit union leases four offices. 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 December 31, 2000, are as follows:

2001	\$ 654,000
2002	688,000
2003	631,000
2004	659,000
2005	673,000
Subsequent years	<u>2,383,000</u>
	<u>\$ 5,688,000</u>

Rental expense for the year ended December 31, 2000 for all facilities leased under operating leases totaled \$633,000.

4. MEMBERS' SHARES

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

Regular shares	3.2%	\$ 77,650,944
Share draft accounts	1.3%	39,060,197
Money market accounts	5.5%	68,035,557
Non-Term Individual retirement accounts	4.5%	5,044,781
Certificates (including IRA Certificates)	6.2%	<u>80,629,685</u>
		270,421,164
Dividends payable		<u>1,030,712</u>
	4.4%	<u>\$ 271,451,876</u>

Shares by maturity are summarized as follows:

No contractual maturity	\$ 189,791,479
0 - 1 year maturity	71,710,243
1 - 2 year maturity	6,550,259
2 - 3 year maturity	983,353
3 - 4 years maturity	790,952
Over 4 years maturity	<u>594,878</u>
	<u>\$ 270,421,164</u>

Dividends paid on members' shares for the year ended December 31, 2000 total \$11,214,000.

Regular shares, share draft accounts, money market accounts, and non-term individual retirement account shares have no contractual maturity. Certificate accounts have maturities as noted above.

The credit union provides up to \$100,000 insurance through the National Credit Union Share Insurance Fund.

The aggregate amount of shares that exceed insured limits as of December 31, 2000 is approximately \$9,720,000.

Notes To Consolidated Financial Statements

5. 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 large percentage of the credit union's members are employees or former employees of Northrop Grumman Corporation. Further, a significant concentration of members resides in Southern California. Although the credit union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the aerospace industry or the overall geographic region in which borrowers reside.

6. COMMITMENTS AND CONTINGENT LIABILITIES

The credit union is involved in ongoing litigation regarding certain adjustments to its franchise tax returns for the years 1979 through 1987. In 1989, the credit union paid, under protest, \$1,956,007 of additional franchise tax assessed by the Franchise Tax Board (FTB).

In January 1995, a ruling was issued at the Superior Court level in favor of the FTB. As a result of this ruling, the credit union in February 1995 paid, under protest, interest of \$2,590,639 on the additional tax. However, management and counsel for the credit union believe its position has merit and have appealed the ruling. It is not possible to determine what the outcome of this matter will be.

In 1987, the credit union changed from a state charter to a federal charter. Thus, beginning in 1988, the credit union is no longer subject to franchise taxes.

The credit union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of the credit union.

The credit union has no outstanding commitments to sell loans or investments at December 31, 2000.

The credit union utilizes a demand loan agreement with several corporate credit unions. The terms of these agreements call for the pledging of all assets as security for any and all obligations taken by the credit union under these agreements. The agreements provide for a credit limit of \$6,000,000 with interest charged at a rate determined by the lenders on a periodic basis. Currently, there is no outstanding balance under these agreements. The agreements are reviewed for continuation by the lenders and the credit union annually.

The credit union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2000, the credit union had not borrowed from this Facility.

7. EMPLOYEE BENEFITS

The credit union staff are participants in the pension plan of Northrop Grumman Corporation. Since the credit union staff are only fractional participants in the plan, it is not practicable to disclose actuarial benefit data. The credit union funds the plan through Northrop Grumman Corporation.

8. MERGER WITH OTHER CREDIT UNIONS

On December 31, 1999, the credit union merged with Friendship Federal Credit Union. Also, as of April 30, 2000 the credit union merged with Chesapeake Family Federal Credit Union. The merg-

ers were accounted for as a pooling of interest. The following account balances were reflected on the unaudited financial statements of Friendship Federal Credit Union and Chesapeake Family Federal Credit Union at December 31, 1999 and 1998.

Friendship Federal Credit Union	1999	1998
Total Assets	\$ 15,056,000	\$ 15,386,000
Allowance for loan losses	(246,000)	(188,000)
Retained Earnings	309,000	323,000
Net (loss) income	(14,000)	16,000

Chesapeake Family Federal Credit Union	1999	1998
Total Assets	\$ 8,477,528	\$ 9,076,614
Allowance for loan losses	(94,000)	(122,000)
Retained Earnings	725,262	704,473
Net (loss) income	21,966	80,065

9. 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 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, accrued interest receivable, National Credit Union Share Insurance Fund deposits, and accrued expenses and other liabilities. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Notes To Consolidated Financial Statements

Off-Balance-Sheet Financial Instruments: Estimated fair value for the credit union's loan commitments is the carrying amount.

Financial instruments where the estimated fair value is different from the carrying value and is not disclosed elsewhere in the Notes to Consolidated Financial Statements are summarized as follows:

	Carrying Value	Estimated Fair Value
December 31, 2000		
Loans to Members	\$ 165,105,348	\$ 164,631,000
Members' shares	\$ 271,451,876	\$ 271,614,000

10. INVESTMENTS

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

December 31, 2000	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 43,409,690	\$ 81,251	\$ (119,365)	\$ 43,371,576
NIFCUS	244,520	0	0	244,520
Mortgage-backed securities	72,845,594	281,176	(772,337)	72,354,433
	<u>\$ 116,499,804</u>	<u>\$ 362,427</u>	<u>\$ (891,702)</u>	<u>\$ 115,970,529</u>

Other investments consist of the following:

NCUA Central Liquidity Fund	\$ 1,062,885
Certificates of deposit in banks and savings and loans	949,923
Member capital account in a corporate credit union	749,400
Permanent capital account in a corporate credit union	<u>1,000,000</u>
	<u>\$ 3,762,208</u>

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. 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 December 31, 2000 there was approximately \$20,642,000 in cash and cash equivalents in credit union and bank deposits with individual balances in excess of the insured limit and with no contractual maturity.

Investments by maturity are summarized as follows:

December 31, 2000	Available for-Sale	Other	Total
No contractual maturity	\$ 244,520	\$ 2,812,285	\$ 3,056,805
Less than 1 year maturity	99,608	290,952	390,560
1-5 years maturity	20,206,285	658,971	20,865,256
Over 5 years maturity	23,065,683	0	23,065,683
Mortgage-backed securities	<u>72,354,433</u>	<u>0</u>	<u>72,354,433</u>
	<u>\$ 115,970,529</u>	<u>\$ 3,762,208</u>	<u>\$ 119,732,737</u>
Weighted average yield	<u>6.5%</u>	<u>6.4%</u>	<u>6.5%</u>

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. Member and permanent capital accounts have been classified with no contractual maturity.

Independent Auditor's Report

February 9, 2001

Supervisory Committee
Northrop Grumman Federal Credit Union
Gardena, California

Committee Members:

We have audited the accompanying consolidated statements of financial condition of Northrop Grumman Federal Credit Union (a federally chartered credit union) and subsidiary as of December 31, 2000 and the related 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 generally accepted auditing standards. 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 our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2000 and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

A handwritten signature in blue ink that reads "O'Rourke Sacher & Moulton". The signature is written in a cursive style and is positioned above a light blue horizontal line.

O'Rourke Sacher & Moulton
Professional Corporation
Certified Public Accountants



Box Number 5011
Hawthorne, CA 90251-5011

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