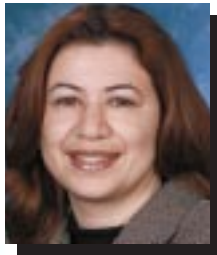


2001 ANNUAL REPORT *To Serve You*



**NORTHROP GRUMMAN
FEDERAL CREDIT UNION**

To Serve You

Northrop Grumman Federal Credit Union is growing and offering more and better services to increasing numbers of members. But even with all the membership growth, our goal is to provide you with convenient and friendly access to your Credit Union wherever you work and live.

In addition to our well-known services like our Share Draft Account, Call 24, Norteller ATM card, MasterCard and the CU Service Centers, we have added even more flexibility through the Internet and the Visa network. With *the_Max!*, our Internet account management tool, you can take advantage of many convenient features like transfer capabilities and free bill payer service from any Internet connection. Our Check Card, in addition to offering access to ATMs, can be used at any point-of-purchase location that accepts Visa.

Our fee structure, product offerings, loan rates, dividends and personal service indicate clearly our desire to be useful and available to all our members. They reflect our continuing effort to free your time and provide the funds that make your life more enjoyable.

Your membership is important to us. By expanding your use of our products and services, you will affirm our success at providing the accessibility, value, and security you look for in a full-service financial institution.

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 its membership.”

Board of Directors

Phil Harrott
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

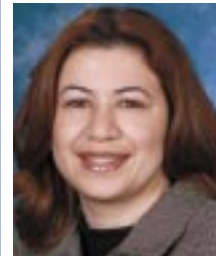
The Credit Union offers several term accounts at competitive rates for terms of 6 and 30 months, and 1, 2, 3, 4, and 5 years with a minimum deposit of \$5,000. A .25% bonus dividend is paid to all term accounts of \$40,000 and over.

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

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.

"I've been serving our membership for over a decade now. I'm glad I can share my knowledge and experience to build new relationships. It's exciting to see the look of appreciation on our member's faces when we can help them solve a problem or make a dream come true."



**Jossie
Banuelos**



Georgetta Wolff
1st Vice-Chairman



Mitch Mroz
2nd Vice-Chairman

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.

"It's been over a year since Northrop Grumman Federal Credit Union came to the Baltimore area. The Credit Union sets up branches, ATMs and other services our members need where they can



be of greatest value to them. The changes have been amazing!"

Josephina Gyimah

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 Closed-End Unsecured Loan for up to \$25,000.



**Analee
Palazzo**

“The Credit Union is all about family - my co-workers, management, the board, and especially my members. Building relationships with the people I grew to know so well in the Antelope Valley wasn't just about loans and deposits. It was about our lives and how we can help each other make them more enjoyable.”



Home Equity Line of Credit

Lines of credit are available for up to 90% of your home's value, minus the balance of your first mortgage loan. 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

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.

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 monthly dividends.



George Bardizbanian
Director



Steve Considine
Director



Ted Hruska
Director

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 request withdrawals or advances by calling (310) 327-0682 or (800) 676-3328.

"I feel fortunate to have so many friends at our branch office here at the Rolling Meadows site. The technology that gave us ATMs, Call 24, and Internet account access can take us a long way to better serve our members, but it's still nice to talk



to a real human being when you have a special need. That's why we're here."

**Lyndsey
Gibson**

**Anita
Floyd**



"We're here at the branch in Lake Charles because the employees wanted the services of the Credit Union.

Everyday Terri, Theresa and I do all we can to show them that they made the right choice. I think it's working."

the_Max!

Turn your PC into your personal branch. Access *the_Max!*, our on-line home branching solution, at www.norgrumfcu.org by clicking 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.

Visa ATM/Check Card

The perfect traveling companion, the Visa ATM/Check Card provides all the peace of mind of an ATM card along



Nils Johnson
Director



Hugh Jones
Director

with the worldwide acceptance of the Visa network. This versatile card allows you to directly access 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 providing 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 nearest you, call (888) CUSWIRL or visit www.cuservicecenters.org.



Silas Mathews

“As a teller, I am reminded everyday how important it is for members to have convenient access to their funds. That’s why I think the CU

Service Center network is such a great option. It’s the cooperative nature of credit unions that produced a system that allows Northrop Grumman FCU members to go into another network credit union’s branch to do business. Imagine banks doing that!”

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 NCUA 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.

Bernie Slotnick
Director



Dick Underhill
Director

Consolidated Statement of Financial Condition

DECEMBER 31, 2001

ASSETS

Cash and cash equivalents	\$ 30,994,850
Investments	
Available-for-sale	120,290,869
Other	3,684,352
Loans to members, net of the allowance for loan losses	197,529,373
Accrued interest receivable	1,927,868
Property and equipment	3,121,340
National Credit Union Share Insurance Fund deposit	2,961,069
Other assets	2,394,543
	<u>\$ 362,904,264</u>

LIABILITIES AND EQUITY

LIABILITIES

Members' shares	\$ 309,602,678
Accrued expenses and other liabilities	5,557,009
Total liabilities	315,159,687

Commitments and contingent liabilities

EQUITY

Retained earnings	46,635,680
Accumulated other comprehensive income	1,108,897
Total equity	47,744,577
	<u>\$ 362,904,264</u>

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 2001

INTEREST INCOME

Interest on loans to members	\$ 15,408,392
Interest on investments and cash equivalents	8,332,962
	23,741,354

INTEREST EXPENSE

Dividends on members' shares	\$ 10,201,241
NET INTEREST INCOME	13,540,113

PROVISION FOR LOAN LOSSES 610,000

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES 12,930,113

NON-INTEREST INCOME 2,651,603
15,581,716

GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits	6,300,269
Operations	6,182,263
Occupancy	1,184,619
	13,667,151

NET INCOME \$ 1,914,565

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2001

NET INCOME \$ 1,914,565

OTHER COMPREHENSIVE INCOME

Unrealized holding gains on investments classified as available-for-sale 1,638,172

COMPREHENSIVE INCOME \$ 3,552,737

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED DECEMBER 31, 2001

OPERATING ACTIVITIES

Net income	\$ 1,914,565
Adjustments to reconciled net income to net cash provided by operating activities:	
Amortization of net premium on investments	275,056
Provision for loan losses	610,000
Depreciation and amortization	1,167,598
Increase in accrued interest receivable	(46,551)
Increase in other assets	(209,113)
Increase in accrued expenses and other liabilities	3,541,016
Net cash provided by operating activities	7,252,571

INVESTING ACTIVITIES

Purchases of available-for-sale investments	(82,878,419)
Proceeds from available-for-sale investments	79,921,195
Net decrease in other investments	1,099,456
Net increase in loans to members	(28,017,522)
Proceeds from the sale of loans	0
Increase in the National Credit Union Share Insurance Fund deposit	(260,411)
Net purchases of property and equipment	(626,596)
Net cash used in investing activities	(30,762,297)

FINANCING ACTIVITIES

Net increase in members' shares	30,636,038
INCREASE IN CASH AND CASH EQUIVALENTS	7,126,312
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,868,538
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,994,850</u>

Consolidated Statement of Equity

FOR THE YEAR ENDED DECEMBER 31, 2001

	Retained Earnings		Accum. Other Comprehensive Income	Total
	Appropriated Regulatory	Unappropriated	Net Unrealized Gains (Losses) on Available-for-Sale Investments	
Balance,				
December 31, 2000	\$ 7,582,141	\$ 37,138,974	(529,275)	\$ 44,191,840
Net Income		1,914,565		1,914,565
Net Change in Unrealized Gains (Losses) on Available-for-Sale Investments			1,638,172	1,638,172
Appropriations	700,081	(700,081)	0	0
Balance,				
December 31, 2001	<u>\$ 8,282,222</u>	<u>\$ 38,353,458</u>	<u>\$ 1,108,897</u>	<u>\$ 47,744,577</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. Material intercompany balances and transactions have been eliminated in consolidation.

Merger with Other Credit Unions: Effective October 31, 2001 the credit union merged with Metro Transportation Employees 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 Consolidated 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. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off is reversed against interest income.

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.

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 2001 insurance premium.

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 December 31, 2001, 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 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.

Notes To Consolidated Financial Statements

2. LOANS TO MEMBERS

Loans to members consist of the following:

Mortgage loans:	
Fixed rate	\$ 43,428,007
Variable rate	8,404,784
Home equity line of credit, variable rate	<u>33,081,753</u>
	84,914,544
Vehicle loans	79,797,105
Credit card loans, unsecured	14,992,119
Consumer loans, primarily unsecured	<u>20,326,398</u>
	200,030,166
Deferred net loan origination fees	(975)
Allowance for loan losses	<u>(2,499,818)</u>
	\$ 197,529,373
Weighted average yield	<u>8.2%</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, 2001 total \$1,976,568.

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

Balance, beginning of year	\$ 3,108,812
Provision for loan losses	610,000
Recoveries	152,906
Loans charged off	<u>(1,371,900)</u>
Balance, end of year	\$ <u>2,499,818</u>

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

Home equity	\$ 23,672,000
Credit card	41,088,000
Other consumer	<u>49,790,000</u>
	\$ <u>114,550,000</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, 2001 are \$635,000.

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Data processing equipment	\$ 6,200,582
Facility improvement	2,630,987
Furniture and equipment	<u>4,021,863</u>
	12,853,432

Accumulated depreciation and amortization

(9,732,092)
\$ 3,121,340

The credit union leases six 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, 2001, are as follows:

2002	\$ 786,000
2003	763,000
2004	745,000
2005	757,000
2006	687,000
Subsequent years	<u>1,668,000</u>
	\$ <u>5,406,000</u>

Rental expense for the year ended December 31, 2001 for all facilities leased under operating leases totaled \$781,000.

4. MEMBERS' SHARES

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

Regular shares	2.0%	\$ 91,807,080
Share draft accounts	1.0%	41,984,841
Money market accounts	2.1%	90,334,500
Non-Term Individual retirement accounts	2.1%	5,366,651
Certificates (including IRA Certificates)	4.1%	<u>79,421,655</u>
		308,914,727
Dividends payable		<u>687,951</u>
	<u>2.5%</u>	\$ <u>309,602,678</u>

Shares by maturity are summarized as follows:

No contractual maturity	\$ 229,493,072
0 - 1 year maturity	63,342,831
1 - 2 years maturity	13,177,764
2 - 3 years maturity	1,718,239
3 - 4 years maturity	704,150
Over 4 years maturity	<u>478,671</u>
	\$ <u>308,914,727</u>

Dividends paid on members' shares for the year ended December 31, 2001 total \$10,412,000.

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.

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

The aggregate amount of shares that exceed insured limits as of December 31, 2001 is approximately \$14,443,000.

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, 2001.

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 \$10,300,000 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 October 31, 2001 the credit union merged with Metro Transportation Employees Federal Credit Union. The merger was accounted for as a pooling of interest. The following account balances were reflected on the unaudited financial statements of Metro Transportation Employees Federal Credit Union at December 31, 2000.

Metro Transportation Employees Federal Credit Union	2000
Total Assets	\$ 8,258,919
Allowance for loan losses	(243,821)
Retained Earnings	606,051
Net loss	(182,513)

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, 2001		
Loans to Members	\$ 197,529,373	\$ 197,943,000
Members' shares	\$ 309,602,678	\$ 310,194,000

10. INVESTMENTS

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

December 31, 2001	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 37,241,666	\$ 343,288	\$ (264,746)	\$ 37,320,208
Mortgage-backed securities	<u>81,940,306</u>	<u>1,138,521</u>	<u>(108,166)</u>	<u>82,970,661</u>
	<u>\$ 119,181,972</u>	<u>\$ 1,481,809</u>	<u>\$ (372,912)</u>	<u>\$ 120,290,869</u>

Other investments consist of the following:

NCUA Central Liquidity Fund	\$ 1,102,326
Certificates of deposit in banks and savings and loans	758,726
Member capital account in a corporate credit union	823,300
Permanent capital account in a corporate credit union	<u>1,000,000</u>
	<u>\$ 3,684,352</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, 2001 there was approximately \$29,770,000 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, 2001	Available for-Sale	Other	Total
No contractual maturity	\$ 0	\$ 2,925,626	\$ 2,925,626
Less than 1 year maturity	0	578,559	578,559
1-5 years maturity	14,289,707	180,167	14,469,874
Over 5 years maturity	23,030,501	0	23,030,501
Mortgage-backed securities	<u>82,970,661</u>	<u>0</u>	<u>82,970,661</u>
	<u>\$ 120,290,869</u>	<u>\$ 3,684,352</u>	<u>\$ 123,975,221</u>
Weighted average yield	<u>6.2%</u>	<u>4.6%</u>	<u>6.2%</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

Supervisory Committee
Northrop Grumman Federal Credit Union
Gardena, California

We have audited the accompanying consolidated statement of financial condition of Northrop Grumman Federal Credit Union (a federally chartered credit union) and Subsidiary as of December 31, 2001 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 generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northrop Grumman Federal Credit Union and Subsidiary as of December 31, 2001 and the consolidated results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California
February 20, 2002