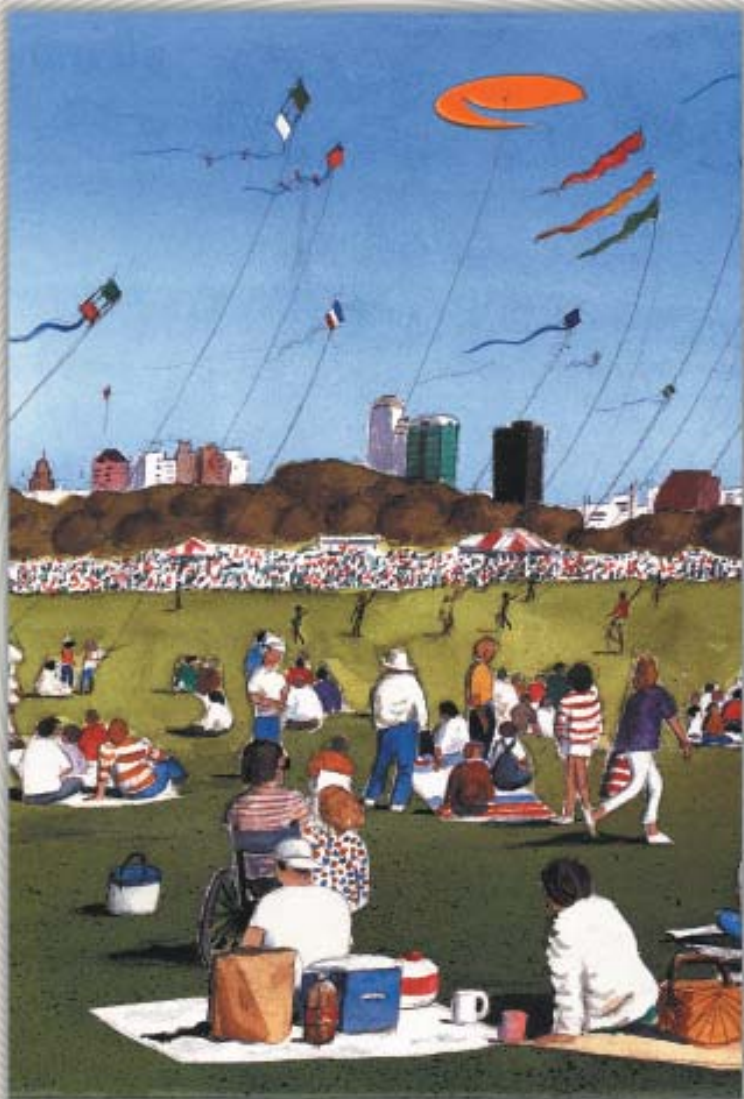


2001 ANNUAL REPORT



UNIVERSITY FEDERAL CREDIT UNION

Who Else?



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**Frank
J. Peters
Chairman**

During a highly unusual year, both for its extraordinary events and for its economic climate, University Federal performed exceptionally well. Financial results were strong. More importantly, as a result of many initiatives, University Federal is better positioned to successfully compete in today's complex and challenging financial services environment more than ever before. Your Board of Directors, consisting of nine volunteers, men and women elected by and from the membership to staggered three-year terms, oversaw a wide variety of critical initiatives intended to more comprehensively meet the financial needs of our growing membership. They include:

- Expansion of feature-rich and competitively priced financial products and services available to members through UFCU Financial Services, LLC., a subsidiary of University Federal; these include financial planning, investment and brokerage services, property and casualty insurance, and a host of other attractive financial solutions;
- Deployment of an entirely new credit card program, including exceptional rate, bonus points, and cash-back features;
- Addition of Home Economics 101 to our suite of consumer education programs, Wheels 101 and College Education 101, through which members can avail themselves of considerable information and advice intended to facilitate mortgage and home equity loans, saving considerable money in the process;
- Considerable enhancement of University Federal's website and home banking capabilities;
- The awarding of a contract by the University of Texas to install ATMs on the Austin campus, resulting in a campus-area network of almost 30 ATMs. University Federal now operates almost 50 machines in Austin, Round Rock, and Galveston;
- Conversion of University Federal's ATM/Cash & Check Card/point of sale processing from an outsourced to an in-house solution, thereby greatly enhancing the reliability of the Credit Union's card programs;
- Several facilities initiatives, including expansion and renovation of our South MoPac Branch to include a larger lobby and more drive-thru facilities, planning for 2002 renovations of our North Guadalupe and Galveston Branches, and negotiations for new 2002 branch locations at Highways 183/620 in Northwest Austin and along the Slaughter Lane corridor in far South Austin;
- The addition of several high-profile employers to our field of membership, increasing total employer groups served to well over 100.

Our organizational tempo matches that of the financial services industry in general—the pace is fast and change constant as our competitive environment grows evermore complex. Our volunteers and executive staff are fully up to the challenge. The vision, teamwork, and common focus demonstrated by both have resulted in an extremely dynamic organizational culture which well positions University Federal for continued success in years to come.

On behalf of your Board of Directors, thank you for your membership and for the trust you place in your Credit Union by allowing us to help manage your financial affairs. Now, after 66 years of service, with almost one-half billion dollars in assets, and as Austin's largest locally-owned financial institution, we continue to do business as we always have, one member at a time.

Frank J. Peters



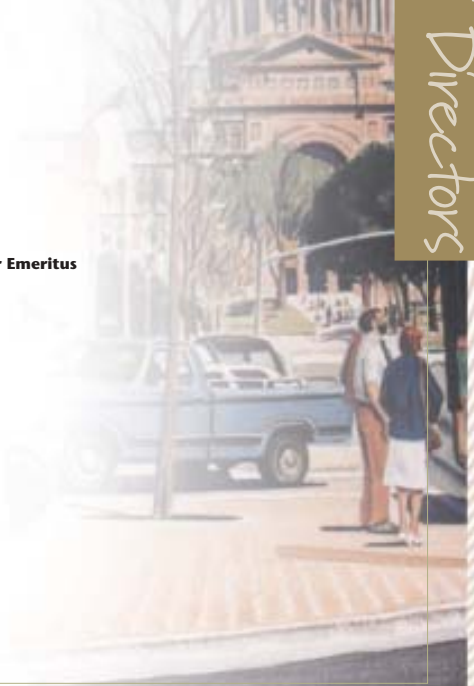
Board Of Directors

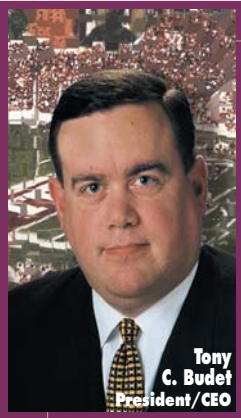
From Left To Right Seated:

Marilla D. Svinicki, Ph.D.
Cynthia A. Leach, Secretary
Mary A. Seng, Vice Chairman

From Left To Right Standing:

Gilbert O. Gallegos
Carl E. Hansen, Ph.D.
Thomas J. Ardis
William T. Guy, Jr., Ph.D.
George K. Herbert, Ph.D., Director Emeritus
Arthur B. Martinez, Treasurer
Frank J. Peters, Chairman





**Tony
C. Budet
President/CEO**

After our November 2001 Wheels 101 educational seminar, I had the opportunity to meet many members as they were exiting, all of whom expressed their appreciation for this valuable program. One member, however, said something I will never forget. He told me University Federal makes him feel "well cared for." That gentleman made my day, week, and year! Caring for you, our members, is the sole reason we exist.

In a year filled with uncertainty resulting from terrorist attacks and economic recession, many of us have paused to reassess our core values. We have never more appreciated our families, our friends, and those things in life which can be trusted to stand firm in unusual times. Success in unusual times requires unique solutions. Credit unions are truly unique organizations and represent the "best

thing going" in the financial services sector of our economy. Like other credit unions, University Federal is a nonprofit organization cooperatively owned by you, our members, and is totally focused on meeting your needs. We deliver consumer education, financial planning, insured and noninsured investment products and services, brokerage services, every type of consumer loan imaginable, checking accounts to meet every need, credit, debit, and ATM cards, and many more products and services, all delivered to you as you prefer – in person, online, or by phone. Our staff is excited about yet more new and enhanced products and services that will be offered to members in 2002. For over 66 years, our name, ownership (you!), and focus (you again!) have not changed.

In spite of the unfortunate events of 2001, University Federal's financial performance was exceptional. Please refer to our Treasurer's Report for details. Assets ended the year just shy of one-half billion dollars, positioning University Federal as the largest locally-owned financial institution in Austin. We have no Wall Street-types to impress, so that number communicates very little. What is impressive, however, is the exceptional beyond-the-call-of-duty service our staff extends members. I receive countless calls, emails, and letters of appreciation from members who have been counseled by our staff, reporting extremely positive results – improved credit ratings, helpful pricing information and negotiating advice when purchasing and financing a vehicle, or assistance with complicated real estate loan transactions. Moreover, these members wanted to be sure I was well aware of the manner in which their calls were handled – with care and respect for the individual. It's an honor and a privilege to lead a team of such exceptional men and women.

Are you looking for an organization on which you can rely? In which you can trust, especially in uncertain times? Unique in its structure, unique in its focus, unique in how it measures success, University Federal can make you feel "well cared for" too.

President's Report



**Arthur
B. Martinez**
Treasurer

I think you will agree 2001 was an unforgettable year. Besides the horror of the September 11 attacks, 2001 also will be remembered as a time of economic recession that resulted in more than one million job losses nationwide and plummeting interest rates. I am pleased to report that, despite challenging economic conditions and turbulent financial markets, University Federal posted exceptionally strong financial results. Our total assets grew 14% during 2001 and ended the year at \$492 million, just shy of the one-half billion dollar mark. Total deposits increased by an astounding 20% (or \$74 million) to \$444 million. Loans grew 13% (or \$37 million) to \$320 million. These remarkable results reflect the trust and confidence members place in us to meet their

financial needs, especially in times of uncertainty. With total revenue of \$42 million, University Federal generated more than \$4 million in net income, a return of .96% on average assets, boosting Members' Equity to \$36 million, an increase of 18%.

The Asset Liability Management Committee (chaired by the Treasurer and comprised of several other Board members and members of executive management), met monthly throughout the year to review financial performance, economic trends, the interest rate environment, and the overall performance of University Federal's array of products and services. This Committee also reviewed quarterly substantial data generated by a proven asset-liability management model to ensure fluctuations of market interest rates do not significantly impact the capital position and future earnings of the Credit Union.

Philosophically, it is University Federal's goal to meet members' financial needs by offering comprehensive financial solutions. To fulfill this mission, University Federal in 2001 formed a wholly-owned financial subsidiary, UFCU Financial Services, LLC., which began offering financial planning, nontraditional, noninsured investment services, and insurance products. We are confident UFCU Financial Services will better help members build and manage their wealth.

While we are aware of continuing economic uncertainties, we are confident University Federal is well positioned to remain competitive, financially sound, and well positioned to meet members' financial needs.

Arthur B. Martinez

Treasurer's Report



**Ned
H. Burns, Ph.D.
Chairman**

The Supervisory Committee is a group of volunteer members appointed by the Board of Directors. Our responsibilities are to ensure that the financial condition of University Federal is accurately presented in financial statements, and that the Credit Union's management practices and procedures protect members' assets.

To fulfill our first obligation, the Committee retained the accounting firm of Orth, Chakler, Murnane & Co. to perform an independent audit of University Federal Credit Union's financial statements for 2001. We are pleased to present the Independent Auditors' Report reflecting an unqualified opinion to the related audited financial statements in this Annual Report.

The events of the past year have revealed to all of us areas of risk of which we must be ever mindful. In our role of monitoring safety and soundness, we faced new considerations in our risk assessments and areas of concern.

We met on a regular basis throughout the year and directed the activities of the Internal Audit function to monitor internal controls and compliance with statutes and regulations. In addition, the Committee received and reviewed written reports from outside consultants that addressed issues of safety and soundness. We solicit and review all written responses by management to audit issues and recommendations, ensuring that follow-up commitments by management are fully met. We commend and encourage management's continued commitment to sound internal controls.

As part of our reporting responsibilities, at least one member of the Committee is present at meetings of the Board of Directors. All Committee members review monthly Board packets in order to remain fully informed of all strategic initiatives. Throughout the year, Committee members also attend various educational conferences, ensuring we stay abreast of critical industry issues.

We on the Supervisory Committee are proud to volunteer our time to serve University Federal Credit Union. We wish to thank the Board of Directors, management and staff for their support and cooperation during what was a very productive and rewarding year.

February 7, 2002

To the Supervisory Committee of University Federal Credit Union:

We have audited the accompanying consolidated statements of financial condition of University Federal Credit Union, as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide 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 University Federal Credit Union as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Company

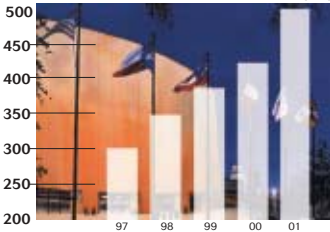
Certified Public Accountants

Orth, Chakler, Murnane & Co.

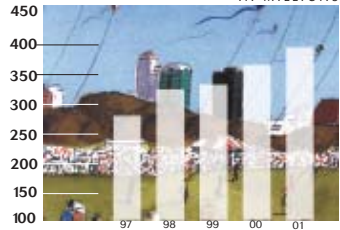
Auditors' Report

Financial Highlights

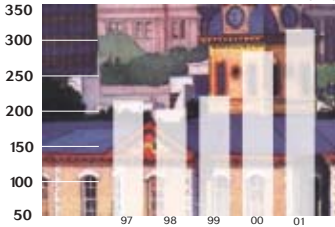
IN MILLIONS



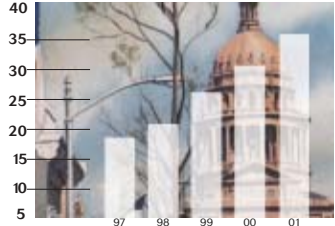
IN MILLIONS



IN MILLIONS



IN MILLIONS



Assets

	As of December 31,	
	2001	2000
Cash and cash equivalents	\$34,117,049	\$15,703,191
Investments:		
Available-for-sale	110,383,696	111,285,073
Held-to-maturity	—	1,499
Other	9,889,416	3,289,746
Loans held for sale	22,059,234	20,072,854
Loans to members, net of allowance for loan losses	294,771,144	260,122,262
Accrued interest receivable	2,303,443	2,931,474
Prepaid and other assets	2,039,096	1,524,937
Property and equipment	12,202,910	11,473,988
NCUSIF deposit	3,947,500	3,348,195
	<u>\$491,713,488</u>	<u>\$429,753,219</u>
Total assets		

Liabilities And Members' Equity

	As of December 31,	
	2001	2000
LIABILITIES:		
Members' share and savings accounts	\$443,613,739	\$369,940,083
Accrued expenses and other liabilities	11,783,617	12,403,532
Borrowed funds	56,990	16,656,371
Total liabilities	<u>455,454,346</u>	<u>398,999,986</u>
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Regular reserve	8,004,559	8,004,559
Undivided earnings	27,583,466	23,243,369
Accumulated other comprehensive income/(loss)	671,117	(494,695)
Total members' equity	<u>36,259,142</u>	<u>30,753,233</u>
Total liabilities and members' equity	<u>\$491,713,488</u>	<u>\$429,753,219</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Income

	For the years ended December 31,	
	2001	2000
INTEREST INCOME:		
Loans to members	\$23,993,332	\$20,637,068
Investments	6,656,687	7,400,122
Total interest income	30,650,019	28,037,190
INTEREST EXPENSE:		
Members' share and savings accounts	12,291,757	10,668,005
Borrowed funds	211,483	807,139
Total interest expense	12,503,240	11,475,144
Net interest income	18,146,779	16,562,046
PROVISION FOR LOAN LOSSES		
Net interest income after provision for loan losses	2,057,875	804,799
NON-INTEREST INCOME:		
Fees and service charges	9,808,845	8,091,436
Gain on sale of loans	1,868,873	1,764,611
Total non-interest income	11,677,718	9,856,047
	27,766,622	25,613,294
NON-INTEREST EXPENSE:		
Compensation and employee benefits	11,271,040	9,862,147
Other operating expenses	8,739,203	7,863,214
Occupancy	1,622,986	1,451,692
Marketing and business development	1,347,040	1,107,065
Professional and outside services	404,425	308,202
Loss on disposition of property and equipment	41,831	10,908
Total non-interest expense	23,426,525	20,603,228
Net income	\$4,340,097	\$5,010,066

The accompanying notes are an integral part of these consolidated financial statements.



Consolidated Statements Of Comprehensive Income

	For the years ended December 31,	
	2001	2000
NET INCOME	\$4,340,097	\$5,010,066
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains on available-for-sale investment arising during the period	1,165,812	2,705,063
Reclassification adjustments for gains/losses included in net income	—	—
Other comprehensive income	1,165,812	2,705,063
Comprehensive income	\$5,505,909	\$7,715,129

Consolidated Statements Of Members' Equity

	For the years ended December 31, 2001 and 2000			
	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1999	\$5,537,140	\$20,700,722	(\$3,199,758)	\$23,038,104
Net income	—	5,010,066	—	5,010,066
Other comprehensive income	—	—	2,705,063	2,705,063
Transfers:				
Statutory Provision for loan losses	3,272,218	(3,272,218)	—	—
	(804,799)	804,799	—	—
Balance, December 31, 2000	8,004,559	23,243,369	(494,695)	30,753,233
Net income	—	4,340,097	—	4,340,097
Other comprehensive income	—	—	1,165,812	1,165,812
Balance, December 31, 2001	\$8,004,559	\$27,583,466	\$671,117	\$36,259,142

The accompanying notes are an integral part of these consolidated financial statements.

	For the years ended	
	December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,340,097	\$5,010,066
Adjustments:		
Provision for loan losses	2,057,875	804,799
Depreciation and amortization	1,882,728	1,722,051
(Accretion) amortization of investment premiums/discounts	489	(34,878)
Amortization of deferred fees and costs	551,338	861,859
Loss on disposition of property and equipment	41,831	10,908
Changes in operating assets and liabilities:		
Loans held for sale	(1,986,380)	(1,117,360)
Accrued interest receivable	628,031	(310,161)
Prepaid and other assets	(514,159)	(224,241)
Accrued expenses and other liabilities	(619,915)	4,505,440
Net cash provided by operating activities	<u>6,381,935</u>	<u>11,228,483</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales, and repayments of available-for-sale securities	109,236,150	8,880,052
Purchase of available-for-sale securities	(107,169,450)	(567,321)
Proceeds from maturities and repayments of held-to-maturity securities	1,499	2,280,836
Net change in other investments	(6,599,670)	(183,339)
Proceeds from sale of property and equipment	5,500	17,031
Net change in loans, net of charge-offs	(37,535,758)	(63,055,304)
Recoveries on loans charged off	277,663	245,265
Expenditures for property and equipment	(2,658,981)	(1,986,522)
Change in NCUSIF deposit	(599,305)	(222,151)
Net cash used in investing activities	<u>(45,042,352)</u>	<u>(54,591,453)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	73,673,656	31,221,248
Net change in borrowed funds	(16,599,381)	(477,149)
Net cash provided by financing activities	<u>57,074,275</u>	<u>30,744,099</u>
Net change in cash and cash equivalents	18,413,858	(12,618,871)
Cash and cash equivalents at beginning of year	15,703,191	28,322,062
Cash and cash equivalents at end of year	<u>\$34,117,049</u>	<u>\$15,703,191</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	<u>\$12,513,857</u>	<u>\$11,506,637</u>
SCHEDULE OF NON-CASH TRANSACTIONS:		
Change in unrealized gain/loss on investments	<u>\$1,165,812</u>	<u>\$2,705,063</u>

Note One: Significant Accounting Policies**Organization**

University Federal Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members.

Consolidated Financial Statements

The preparation of consolidated 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 the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the significant accounts of its wholly owned Credit Union Service Organization (CUSO), UFCU Financial Services, LLC. All significant intercompany accounts and transaction have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and non-term share deposits in Southwest Corporate Federal Credit Union. Amounts due from banks and the corporate credit union may, at times, exceed federally insured limits.

Investments

Investments are classified into the following categories: held-to-maturity, available-for-sale, and other. Investment securities classified as held-to-maturity are measured at amortized cost. This classification is based upon the Credit Union's intent and ability to hold these investment securities to full maturity. Investment securities classified as available-for-sale are measured at market value as of the consolidated statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity. The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of SFAS No. 95, "Statement of Cash Flows."

Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for amortization of premiums and accretion of discounts over the term of the investment by a method which approximates the interest method. Adjustments are recognized to interest income on investments.

Loans Held for Sale

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

Loans to Members and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, net of certain deferred fees and costs and an allowance for loan losses. 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 for loan losses is maintained at an amount that represents management's estimate of potential losses which may be sustained in the liquidation of currently outstanding loans. Management's periodic evaluation of the adequacy of the allowance account 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.

Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan exceeds 90 days delinquent or when management believes that collection of interest is doubtful. Generally, loan fees which are charged to members are recognized in income when received and direct loan origination costs on loans to members are recognized in expenses when incurred; however, certain costs paid on indirect automobile loans and home equity loans are deferred over the life of the loan as an adjustment to yield on loans using a method that approximates the interest method. This is not materially different from fees and expenses that would have been recognized under the provisions of Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Buildings, 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 term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Members' Share and Savings Accounts

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve is not available for the payment of interest.

Regulatory Capital

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA. Failure to meet minimum net worth requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct effect on the Credit Union's financial statements. As of December 31, 2001, the Credit Union met all capital adequacy requirements to which it was subject.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes.

Note Two: Investments

The amortized cost and estimated market value of investments are as follows:

<i>Available-for-sale:</i>	As of December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal agency securities	\$22,000,000	\$170,990	(\$41,825)	\$22,129,165
Mutual funds	15,024,608	49,648	—	15,074,256
Mortgage-backed securities	72,687,971	636,440	(144,136)	73,180,275
	<u>\$109,712,579</u>	<u>\$857,078</u>	<u>(\$185,961)</u>	<u>\$110,383,696</u>

<i>Available-for-sale:</i>	As of December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal agency securities	\$74,352,886	\$2,722	(\$290,548)	\$74,065,060
Mutual funds	9,310,755	428	(129,891)	9,181,292
Mortgage-backed securities	28,116,127	78,637	(156,043)	28,038,721
	<u>\$111,779,768</u>	<u>\$81,787</u>	<u>(\$576,482)</u>	<u>\$111,285,073</u>

<i>Held-to-maturity:</i>	As of December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	\$1,499	\$—	\$—	\$1,499

Other investments:

	As of December 31,	
	2001	2000
Federal Home Loan Bank Stock	\$725,700	\$2,396,700
Money market account	8,166,004	15,546
Certificate of deposit	100,000	—
Capital shares in Southwest Corporate Federal Credit Union	750,000	750,000
Stock in credit union service organization	147,712	127,500
	<u>\$9,889,416</u>	<u>\$3,289,746</u>

The Credit Union maintains deposits at Southwest Corporate Federal Credit Union which normally exceed federally insured limits. Included in the deposit with Southwest Corporate Federal Credit Union is a restricted capital share base which is required for membership. This amount was \$750,000 as of December 31, 2001 and 2000.

The amortized cost and estimated market value of investments by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

Note Two: Investments (Continued)

No contractual maturity
 Within 1 year
 1-5 years
 5 - 10 years

Mortgage-backed
 securities

As of December 31, 2001	
<i>Available-for-sale</i>	
Amortized Cost	Market Value
\$15,024,608	\$15,074,256
—	—
17,500,000	17,623,540
4,500,000	4,505,625
37,024,608	37,203,421
72,687,971	73,180,275
<u>\$109,712,579</u>	<u>\$110,383,696</u>

Note Three: Loans To Members

The composition of loans to members is as follows:

Loans outstanding:

Vehicle
 Unsecured
 Real estate
 Shares and other collateral

Deferred fees and costs

Less allowance for loan losses

As of December 31,	
2001	2000
\$181,552,401	\$169,192,281
48,751,628	46,976,196
60,864,084	40,954,056
5,969,109	4,759,565
297,137,222	261,882,098
830,488	990,846
297,967,710	262,872,944
(3,196,566)	(2,750,682)
<u>\$294,771,144</u>	<u>\$260,122,262</u>

Loans on which the accrual of interest has been discontinued or reduced approximated \$668,000 and \$820,000 as of December 31, 2001 and 2000, respectively. If interest on these loans had been accrued, such income would have approximated \$25,000 and \$43,000 for the years ended December 31, 2001 and 2000, respectively.

A summary of the activity in the allowance for loan losses is as follows:

Balance, beginning of the year
 Provision for loan losses
 Recoveries
 Loans charged off
 Balance, end of year

For the years ended December 31,	
2001	2000
\$2,750,682	\$3,318,744
2,057,875	804,799
277,663	245,265
(1,889,654)	(1,618,126)
<u>\$3,196,566</u>	<u>\$2,750,682</u>

Note Four: Property And Equipment

A summary of the Credit Union's property and equipment is as follows:

Land
 Buildings
 Furniture and equipment
 Leasehold improvements
 Leased equipment (capital lease)

 Less accumulated depreciation and amortization

As of December 31,	
2001	2000
\$1,436,426	\$1,436,426
6,049,768	5,874,843
11,595,570	10,011,207
1,585,392	1,508,666
166,488	143,371
20,833,644	18,974,513
(8,630,734)	(7,500,525)
<u>\$12,202,910</u>	<u>\$11,473,988</u>

Note Five: Members' Share And Savings Accounts

Members' share and savings accounts are summarized as follows:

	Weighted-Average Rate as of December 31, 2001	As of December 31, 2001		2000
	Share drafts	0.69%	\$106,604,755	\$101,838,802
Money market accounts	2.00%	99,734,148	71,395,638	
Shares and equivalents	1.96%	103,060,711	87,879,737	
IRA shares	3.00%	15,934,427	14,522,989	
		<u>325,334,041</u>	<u>275,637,166</u>	
Share and IRA certificates:				
1.73% - 4.00%		27,521,440	407,355	
4.01% - 5.00%		39,294,698	9,743,009	
5.01% - 6.00%		32,894,959	39,569,977	
6.01% - 7.25%		18,568,601	44,582,576	
		<u>118,279,698</u>	<u>94,302,917</u>	
		<u>\$443,613,739</u>	<u>\$369,940,083</u>	

The aggregate amount of members' share and savings accounts over \$100,000 was approximately \$87,841,000 and \$56,560,000 as of December 31, 2001 and 2000, respectively.

Note Six: Employee Benefits**Target Benefit Retirement Plan**

During the year ended December 31, 2000, the Credit Union maintained a target benefit retirement plan for all employees who met specific age and service year limitations. Effective January 1, 2001, this plan was merged into the 401(k) profit sharing plan. Employer contributions to this plan during the year ended December 31, 2000 were set by a predefined formula and employees became fully vested upon completion of seven full years of qualifying service.

401(k) Profit Sharing Plan

Participation in the 401(k) profit sharing plan is limited to all employees who meet specific age and service year limitations. Employees may contribute up to the maximum limits authorized by the Internal Revenue Service. During the year ended December 31, 2000, the Credit Union did not contribute into this plan; however, for the year ended December 31, 2001, the Credit Union made a discretionary contribution of 4% of employees' compensation, which is subject to a five-year vesting schedule at the rate of 20% per year. The 401(k) profit sharing plan is structured to match 100% of employees' elective contributions up to 3% of compensation, and 50% of contributions to the extent that such contributions exceed 3% but do not exceed 5% of compensation. Employee contributions and the employer matching contributions vest immediately. The total expense for both plans approximated \$601,000 and \$477,000 for the years ended December 31, 2001 and 2000, respectively.

Note Seven: Commitments And Contingent Liabilities

As of December 31, 2001, the Credit Union maintained a \$15,000,000 unsecured and unused line-of-credit agreement with Southwest Corporate Federal Credit Union.

As of December 31, 2001, the Credit Union maintained a \$6,000,000 unsecured and unused line-of-credit agreement with Bank of America.

The Credit Union has entered into a secured line-of-credit agreement to borrow funds from Southwest Corporate Federal Credit Union. Amounts borrowed under this line-of-credit agreement are secured by investments safe kept at Southwest Corporate Federal Credit Union. The available line of credit under this agreement fluctuates based on the amount of investments safe kept at Southwest Corporate Federal Credit Union. As of December 31, 2001, the unused line of credit was \$8,950,000.

The Credit Union has entered into a secured line-of-credit agreement with the Federal Home Loan Bank of Dallas. Amounts borrowed under this line-of-credit agreement are secured by investments safe kept with the Federal Home Loan Bank of Dallas. The available line-of-credit under this agreement fluctuates based on the amount of investments safe kept at the Federal Home Loan Bank of Dallas. As of December 31, 2001, the unused line of credit was approximately \$85,400,000.

The Credit Union leases certain office space and equipment. The minimum noncancellable lease obligations are shown to the right as of December 31, 2001.

The related rental expense was approximately \$871,000 and \$634,000 for the years ended December 31, 2001, and 2000, respectively.

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

Year ending December 31,	Amount
2002	\$1,007,000
2003	988,000
2004	955,000
2005	743,000
2006	649,000
Thereafter	767,000
	<u>\$5,109,000</u>

Note Eight: Off-Balance-Sheet Risk And Concentrations Of Credit Risk**Off-Balance-Sheet Risk**

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit.

These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Credit Union's exposure to credit loss in the event of nonperformance by its members is represented by the contractual amount of those instruments.

Concentrations of Credit Risk

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 2001, the members' total lines of credit approximated \$116,525,000, of which approximately \$82,759,000 had not been funded. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Austin, Texas area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk.

Note Nine: Fair Values Of Financial Instruments

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and 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 of the financial instruments for which it was practicable to estimate.

Cash

The carrying amount is a reasonable estimation of fair value.

Investments

Estimated fair values for investments are obtained from quoted market prices where available.

Loans to Members

The estimated fair value of variable-rate loans is the current carrying amount. For estimation of fair value purposes, credit card loans are considered variable-rate loans since interest rates may be changed by the Credit Union. The fair value of fixed-rate loans should be estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued; however, management has determined that the fair value of these loans would not be materially different from the carrying amount. Therefore, the fair value of fixed-rate loans is the carrying amount.

Loans Held for Sale

The carrying amount of mortgage loans held for sale is a reasonable estimation of fair value due to the short period of time that they are held in the Credit Union's portfolio. The fair value of student loans held for sale was estimated based on the terms of the contract with North Texas Higher Education Authority, Inc.

Members' Share and Savings Accounts

The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate share certificates should be estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued; however, management has determined that the fair value of fixed-rate share certificates would not be materially different from the carrying amount. Therefore, the fair value of fixed-rate share certificates is the carrying amount.

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows:

	As of December 31, 2001		As of December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash	\$34,117,049	\$34,117,049	\$15,703,191	\$15,703,191
<i>Investments:</i>				
Available-for-sale	\$110,383,696	\$110,383,696	\$111,285,073	\$111,285,073
Held-to-maturity	\$—	\$—	\$1,499	\$1,499
Other	\$9,889,416	\$9,889,416	\$3,289,746	\$3,289,746
Loans held for sale	\$22,059,234	\$22,918,020	\$20,072,854	\$20,949,750
Loans to members, net	\$294,771,144	\$294,771,144	\$260,122,262	\$260,122,262
<i>Financial liabilities:</i>				
Members' share and savings accounts	\$443,613,739	\$443,613,739	\$369,940,083	\$369,940,083
<i>Unrecognized financial instruments:</i>				
Commitments to extend credit	\$—	\$82,759,000	\$—	\$74,071,000



Officers

From Left To Right Seated:

**Tony C. Budet,
President/CEO**

**Sheila J. Wojcik, Ph.D.,
Vice President, Human Resources and Performance Development**

From Left To Right Standing:

**Yung V. Tran, CPA,
Vice President, Finance/CFO**

**James A. Nastars,
Vice President, Lending and Collections**

**Michael T. Hintz,
Vice President, Information Technology**

**Steve E. Kubala,
Senior Vice President, Operations/COO**

Select Employee Groups

The following companies, organizations, associations, colleges and universities are included in the field of membership of University Federal Credit Union.

Austin, Texas Area

Abbott Laboratories
American Institute of Architects, Austin Chapter
Applied Research Laboratories, UT Austin
Austin Area Chapter National Assoc. of Certified Public Accountants and employees of members
Austin Association of Remodeling Contractors
Austin Board of Realtors and employees of members
Austin Chapter of the Texas Society of Certified Public Accountants, Chapter Office employees
Austin Coca-Cola/Dr. Pepper Bottling Company
Austin Diagnostic Clinic
Austin Presbyterian Theological Seminary and Graduate Students
Austin Software Council
Austin Surplus Lines Agency, Inc.
Austin Technology Incubator
ASAP Cargo, Inc.
Better Business Bureau, Austin
BOC Edwards Kochina
Brazos Higher Education Service Corporation
Chartered Semiconductor Manufacturing
Concordia University: Faculty, Staff, and Students
Cortex Interactive, Inc.
Crossroads Systems
Encompass Inc./Mech of Texas, Inc.
Episcopal Seminary of the Southwest and Graduate Students
Exterprise, Inc.
FG Squared
Fox Service Co. Inc.
fragTX
Gila Corporation
Gold Tower Club - for members age 55 and over
Goodwill Industries of Central Texas
Harte-Hanks Direct Marketing
High End Systems, Inc.
Holt, Rinehart and Winston
Huston-Tillotson College: Faculty, Staff, and Students
Intel Corporation
Interactive Ensemble
J.C. Evans Construction Company
J.J. Pickle Research Center
MCI World Com
Mental Health Assoc., Austin Area
Microelectronics Computer Corporation (MCC)
Modus Media International
Newjistics
Northwestern Mutual Life Insurance Agency, District Office
Polydyne Software, Inc.
Pro-Ed
ProTrader Securities Corporation
Resources for Living
Samuels Jewelers
SEMATECH, Inc.
St. Edward's Alumni Association, Austin Chapter
St. Edward's University: Faculty, Staff and Students
State Credit Union Commission
Steck-Vaughn Publishing Company
Sysco Food Services of Austin
Texas Council on Family Violence

Texas District of The Lutheran Church, Missouri Synod. This includes all full-time employees serving the Texas District office which is located in Austin
Texas Electric Cooperatives, Inc., employees who work in or are paid from Austin, Texas (including employees who work in Jasper, Texas)
Texas Guaranteed Student Loan Corporation
Texas International Education Consortium
Texas Medical Liability Trust
Texas Society of Psychiatric Physicians, members of the Austin and Galveston/Jefferson Chapters, and employees and staff members of each respective dues-paying member
Texwood
TManage, Inc.
Tonic Software
Tower Records
Turner Collie & Braden, Inc.
University Co-op Bookstore, UT Austin
University of Texas at Austin: Faculty, Staff and Students
University of Texas at Austin:
Longhorn Foundation Members
University of Texas at Austin: Offices, Bureaus, Divisions, and Activities occupying facilities of UT Austin and listed in the UT Directory
University of Texas Ex-Students' Association -Austin Chapter
University Federal Credit Union employees and their family members
University of Texas System Office
University United Methodist Church employees
UT Neighborhood Longhorn Program
Virtualco, Inc.
Vignette Corp.
Wheatsville Co-op, employees and members
White Lodging Services
YWCA of Greater Austin employees

Galveston, Texas Area

Edgewater Retirement Center
Family Health Care Centers
Galveston Catholic School: Employees Only
Galveston College: Faculty, Staff, and Students
Galveston County Health District
Galveston Historical Foundation
Gulf Coast Center
O'Connell High School: Employees Only
Seabone ChalNGe Corps.
Shriners Burns Hospital
Texas A & M University, Galveston Campus Faculty, Staff, and Students
Texas Department of Corrections
Transitional Learning Community
Unitarian Universalist Fellowship of Galveston County
University Area Association
University of Texas Medical Branch: Faculty, Staff, and Students

Taylor, Texas Area

Taylor Community - all persons who live or work in the city of Taylor, Texas

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428 Postoffice Street, Galveston, Texas

Highway 79

201 West Taylor Avenue, Round Rock, Texas

North Guadalupe

4611 Guadalupe Street, Austin, Texas

South Mopac

5033 US Highway 290 West at MoPac, Austin, Texas

Steck

330S Steck Avenue, Austin, Texas

Taylor

407-A North Main Street, Taylor, Texas

University at Dobie Mall

2025 Guadalupe Street, Austin, Texas

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