

*CHARTWAY*<sup>®</sup> FEDERAL CREDIT UNION  2003 ANNUAL REPORT

For every dream, a way.





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## CHAIRMAN'S MESSAGE



A new year is upon us, full of aspirations and endless possibilities. As I reflect on where our organization is today, one question comes to mind. "How do we acknowledge our success?"

One way, of course, is to count it. Certainly, the tally marks at Chartway add up to some impressive numbers. Our growth has been fantastic, with 28 branches in six states, and more branches on the way. In fact, by the time you read this, we'll have opened several more. Our growth in assets has been just as phenomenal.

In fact, we are closing in on assets of one billion dollars, which has long been a goal.

And when you measure our progress in human terms, the success is especially apparent. From our original membership of seven visionaries forming this organization some 45 years ago, we have grown to more than 141,000 members strong. That's a lot of moms, dads, kids, grandparents and families benefiting from Chartway's financial services.

With these added members came the need for expanded services, and we have grown to provide them. Our services have increased from a simple savings account offered by a single teller at Norfolk's Naval Air Station in 1959 to include almost any financial transaction you wish to make—from virtually any location accessible by phone, in person or the Internet. And new products and services are always being added to improve our members' quality of life today and in the future.

Along the way, we endeavor to improve our member service at every level. From the teller line to the President/CEO, your Board of Directors and the many volunteers who make up Chartway, member relations are a top priority. And we'll settle for nothing less than the excellence you have come to expect and that characterizes every one of our branches.

Throughout our nation, the past year has been one of recovery and healing, as well as one facing continued challenges at home and overseas. Looking ahead, we acknowledge our successes with deep gratitude. And we extend this pledge to all we serve and will serve in the

future: Be assured, we'll always remain true to our "People Helping People" philosophy, offering each member the support of the Chartway family, and the best financial experience possible.

I began this message with a single question: "How do we acknowledge our success?" I think I know how.

To all of our members, whose participation we value so highly, thank you. To all of the volunteers who give of themselves and their time, thank you. To our dedicated Board of Directors, thank you. And to our outstanding professional staff, thank you.

You are the truest measure of Chartway's success. Your support, creativity, caring and vision have enabled us to prosper for the benefit of those we serve. Your contributions will be the foundation of our continued success and strength.

You are the truest  
measure of  
Chartway's success.

A handwritten signature in dark ink that reads "John L. McGrath". The signature is written in a cursive style with a prominent initial "J".

John L. McGrath  
Chairman of the Board

## PRESIDENT'S MESSAGE



As I reflect on 2003, my first thoughts are not to wonder where it went, not that I am a year wiser, but what we accomplished in such a short period of time. I am delighted to report many milestones achieved that add up to greater value for you—our members.

The past year saw many technological improvements, from our retooling of chartway.com and eBranch to the introduction of online applications for credit cards, equity and auto loans. In addition, we introduced to you interactive email support through our online contact center. Enhancing the way you can benefit from our services through the Internet is an ongoing mission. I'm pleased to say these initiatives make managing your money, as well as finding information and answers, even easier.

But the good news is just beginning. In addition to our growth in cyberspace, we've expanded our bricks-and-mortar services with equal zeal. This year, you saw the opening of our first two in-store branches in Farm Fresh grocery stores at 1620 Cedar Road in Chesapeake and 1200 N. Military Highway in Norfolk, along with the relocation of our Lynnhaven branch to a new home conveniently across the street from Lynnhaven Mall at 770 Lynnhaven Parkway in Virginia Beach. We also opened a freestanding branch directly across from Old Dominion University at 4702 Hampton Boulevard in Norfolk. In addition,

seven new ATM's became available to better serve our members.

Making our services so conveniently available to you is a direction we'll

continue to pursue in the coming months and years.

**We want to be your financial institution of choice. Every decision we make is in support of that goal.**

The Hampton Boulevard branch was a positive companion to the launch of our new Student Checking Account. This and our Elite 50 Checking Account for members over age 50 were two new products we introduced to serve your unique banking needs.

your



CHARTWAY OPENS ITS FIRST TWO IN-STORE BRANCHES AT FARM FRESH GROCERY STORES.



EMPLOYEES AND MEMBERS RAISE OVER \$165,000 FOR THE MAKE-A-WISH FOUNDATION, MAKING OUR 2003 CHARITY GOLF CLASSIC THE MOST SUCCESSFUL CAMPAIGN EVER.



CHARTWAY LAUNCHES NEW CHARTWAY.COM WITH IMPROVED NAVIGATION AND MORE SUPPORT TO MAKE MEMBER SERVICES AND USAGE EASIER THAN EVER.



DEDICATION OF CHARTWAY STAFF MEMBERS MAKES CHARTWAY THE FIRST FINANCIAL INSTITUTION IN HAMPTON ROADS TO REOPEN IN THE WAKE OF HURRICANE ISABEL.



CHARTWAY OPENS NEW FREESTANDING BRANCH ACROSS FROM OLD DOMINION UNIVERSITY ALONG WITH OUR NEW STUDENT CHECKING ACCOUNT.

As is customary, the dedication of our staff shone brilliantly throughout the year and continues to be a source of great pride for our credit union. In the wake of Hurricane Isabel—the most destructive storm in Virginia’s recorded history—our credit union was the first financial institution to reopen. And it’s all thanks to our staff. They put aside their personal struggles, navigated debris-clogged streets and downed power lines to open our branch doors and to serve you just two days after the destruction. Their dedication is an inspiration to us all and the true reason our credit union stands apart.

Further evidence of this heartfelt caring can be seen through our corporate philanthropy. Employees and members raised more than \$165,000 for the 2003 Charity Golf Classic—our most successful campaign ever—yielding the largest contribution to be made in the Make-A-Wish Foundation®’s Eastern Virginia Chapter. Such acts of hard work and generosity enabled Chartway and the Make-A-Wish Foundation to grant the wishes of 38 critically ill children.

As the year 2003 comes to an end, I still hear some of the old stories that have been running around for some time now. Bank X merges with Bank Y, leaving customers out in the cold with 10,000 employees losing their jobs and the bank fees on your account now takes 27 pages to explain. At Chartway, we’ve maintained the same “People Helping People” philosophy. Since October of 1959, the owners of Chartway are still the same—just the numbers have grown. The branches remain the same—just the number of locations has multiplied. We still provide to you the same friendly service, only how we provide it has changed. We’re able to bring you more services, delivered more conveniently and faster to better meet your changing financial needs. First and foremost, we want to be your financial institution of choice. Every decision we make is in support of that goal. And we know that to win your approval, your trust and your business, we have to be better than all the other options.

As I write this message, just as I have for 16 years, I think of all that we have been through together. Most of those events bring a smile to my face, and yet there are those few moments that I need to swallow hard and fight back the tears. But through it all, it has provided us with knowledge to move forward and create better ways to provide you with the products and services you want. The most valued lesson I have learned over the years is how important it is to make new friends, but even more important is to hold onto and grow old friendships.

But after all is said and done, one benchmark still holds true at the end of the day—how do we meet your expectations? That answer is simple. When surveyed this year, 96% of you believe we meet or exceed your expectations. That resounding endorsement and the successes of the past year assure me that you value our contributions and recognize we’re making a positive difference in your quality of life.

Look for more of the same as we move forward. Be assured that our organization and the people behind it care about you, your family and your welfare—and that we all have your best interests and dreams at heart.



Ronald L. Burniske  
President and CEO

## TREASURER'S REPORT



While helping our members to achieve their dreams, Chartway continued to fulfill a dream that impacts us all: building a strong, successful financial institution. Throughout 2003, we enjoyed steady and inspiring growth. This growth allows us the opportunity to add new members to our Chartway family. New membership provides Chartway additional and valuable opportunities to enrich the lives of its members.

In 2003, we excelled in the expansion of Chartway's branch network, including new territories to be serviced in Florida, Texas and Rhode Island. This year, we added four new branch locations in Virginia—Hampton Boulevard branch across from Old Dominion University in Norfolk, our first two grocery store-based locations in Farm Fresh in Chesapeake and Norfolk, and the relocation of our Lynnhaven branch to a new home across the street from the Lynnhaven Mall in Virginia Beach. All deliver a level of convenience that members need and appreciate. They are innovative locations and solutions that help position us for a prosperous future.

As we move forward, we continue the momentum to build upon our sound financial position. Chartway Federal Credit Union saw steady increases in all facets of operations during 2003, reinforcing the ability of our credit union to serve your needs. As of September 30, 2003, our assets were \$896,497,159. This represents a growth of \$44,188,989. Share deposits grew a total of \$34,104,176 for the year. We had a net increase in loans of \$6,106,418. Gross income for our 12-month period, as reported by the independent firm of McGladrey & Pullen, LLP, Certified Public Accountants totaled \$54,186,151, which was distributed as follows: \$15,313,244 of gross income in dividends to our members; \$10,585,929 of gross income in reserves and undivided earnings (retained earnings); and \$28,286,978 to offset credit union operating expenses.

Reserves and undivided earnings are the foundation of financial stability. They ensure the future success of Chartway. At year-end, these retained earnings totaled \$80,364,319. You can be confident that Chartway is secure and able to meet the challenges of the future. With our continued pursuit of innovation and dedication to member service, we look forward to even more inspiring growth and expanded ability to serve you as a trusted financial resource.

A dream that impacts  
us all: building a  
strong, successful  
financial institution.

A handwritten signature in black ink that reads "Carl M. Atkinson".

Carl M. Atkinson  
Treasurer

financial



## 2003 BOARD OF DIRECTORS

Front row, from left to right:

John L. McGrath  
Chairman of the Board  
Melvin S. Mizelle  
2nd Vice Chairman  
E. L. "Lou" Gull, Jr.  
1st Vice Chairman

Middle row, from left to right:

Carl M. Atkinson  
Treasurer  
Bettye P. Machen  
Director  
James J. Sibley  
Director  
David L. Carmichael  
Secretary

Back row, from left to right:

Edward A. Foshay  
Director  
Albert C. Merritt  
Director

a strong,  
successful  
institution.

## SUPERVISORY COMMITTEE'S REPORT

The Federal Credit Union Act requires the Supervisory Committee to evaluate the adequacy and effectiveness of the internal security controls put in place by Chartway management.

Because our primary goal is always to protect the interest of our members, we contracted an independent certified public accounting firm to examine the year ending September 30, 2003. Following the examination and audit, we received an opinion letter confirming that Chartway's financial statements conform to generally accepted accounting principles.

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial condition of Chartway Federal Credit Union (a federally chartered credit union) and Subsidiaries as of September 30, 2003 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

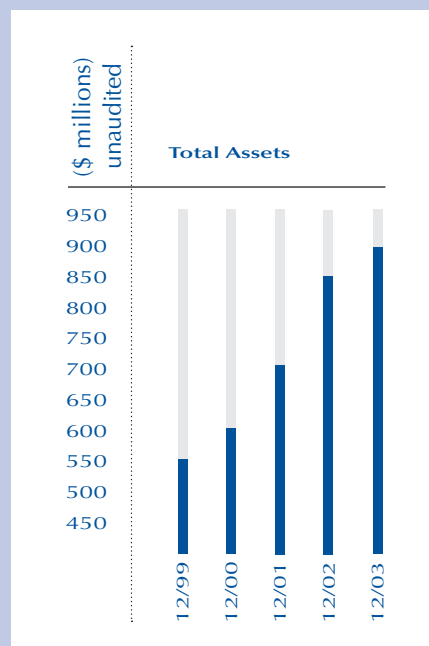
The Credit Union has reported shares as members' equity in the accompanying consolidated statements of financial condition that, in our opinion, should be reported as liabilities in order to conform to accounting principles generally accepted in the United States of America. If these shares were properly reported, liabilities would increase and members' equity would decrease by \$811,583,526 as of September 30, 2003.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chartway Federal Credit Union and Subsidiaries as of September 30, 2003 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen  
Certified Public Accountants

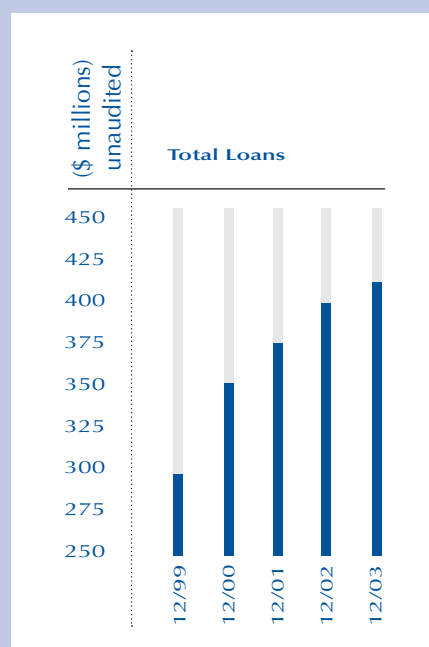
## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION SEPTEMBER 30, 2003

ASSETS	2003
Cash and cash equivalents	\$228,306,143
Investments	
Available-for-sale	18,669,417
Held-to-maturity	214,206,496
Other	3,436,677
Loans to members, net	406,307,447
Loans held for sale	1,700,295
Accrued interest receivable	4,386,249
Property and equipment	7,448,813
National Credit Union Insurance Fund deposit	7,107,294
Other assets	4,928,328
	<b>\$896,497,159</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>	
Liabilities	
Accrued expenses and other liabilities	\$4,458,548
Commitment and contingent liabilities	
Members' Equity	
Members' shares	811,583,526
Retained earnings, substantially restricted	80,364,319
Accumulated other comprehensive income	90,766
	<b>\$892,038,611</b>
	<b>\$896,497,159</b>



## CONSOLIDATED STATEMENT OF INCOME SEPTEMBER 30, 2003

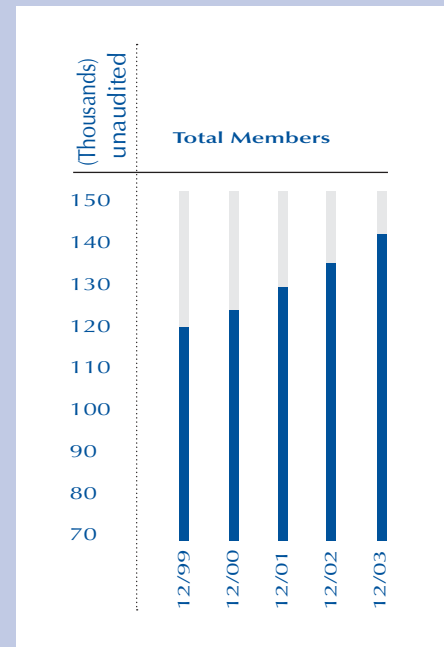
INTEREST INCOME	2003
Interest on loans to members	\$31,438,838
Interest on investments and cash equivalents	8,488,713
	<b>39,927,551</b>
<b>INTEREST EXPENSE</b>	
Dividends on members' shares	15,313,244
	<b>24,614,307</b>
<b>NET INTEREST INCOME</b>	
<b>PROVISION FOR LOAN LOSSES</b>	1,451,667
	<b>23,162,640</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	
<b>NON-INTEREST INCOME</b>	
Net gains on sales of loans	1,073,140
Service charges and other fees	11,153,660
Other non-interest income	2,031,800
	<b>14,258,600</b>
	<b>37,421,240</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	
Salaries and benefits	14,108,269
Operations	11,799,516
Occupancy	2,379,193
	<b>28,286,978</b>
	<b>9,134,262</b>
<b>NET INCOME</b>	
<b>OTHER COMPREHENSIVE INCOME</b>	
Unrealized holding losses on investments classified as available-for-sale	(47,493)
	<b>\$9,086,769</b>



The accompanying notes  
are an integral part of these statements.

## CONSOLIDATED STATEMENT OF MEMBERS' EQUITY SEPTEMBER 30, 2003

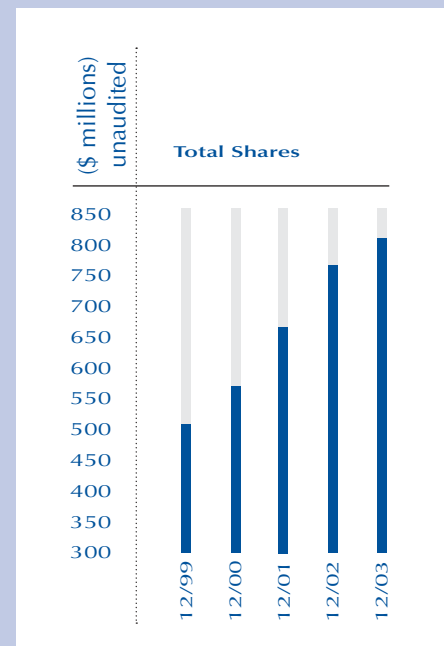
	Regular Reserve	Retained Earnings Unappropriated	Total	Accumulated Other Comprehensive Income
Balance, September 30, 2002	\$8,964,617	\$62,265,440	\$71,230,057	\$138,259
Net Income		9,134,262	9,134,262	
Net Change in Unrealized Gains (Losses) on Available-for-Sale Investments			0	(47,493)
Balance, September 30, 2003	\$8,964,617	\$71,399,702	\$80,364,319	\$90,766



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## CONSOLIDATED STATEMENT OF CASH FLOWS SEPTEMBER 30, 2003

OPERATING ACTIVITIES	2003
Net income	\$9,134,262
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of net premium on investments	2,807,780
Provision for loan losses	1,451,667
Depreciation and amortization	1,498,051
Gains on sale of loans	(1,073,140)
Proceeds from sale of loans	55,900,484
Originations of loans held for sale	56,833,338
Decrease in accrued interest receivable	230,537
Increase in other assets	(1,585,307)
Increase in accrued expenses and other liabilities	998,044
Net cash provided by operating activities	126,195,716
INVESTING ACTIVITIES	
Purchases of available-for-sale investments	(34,887)
Purchases of held-to-maturity investments	(191,525,134)
Proceeds from maturities of held-to-maturity investments	171,824,997
Net increase in other investments	(110,191)
Net increase in loans to members	(118,163,482)
Increase in the National Credit Union Insurance Fund deposit	(870,443)
Purchases of property and equipment	(1,737,611)
Net cash used in investing activities	(140,616,751)
FINANCING ACTIVITIES	
Net increase in members' shares	34,104,176
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>19,683,141</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>208,623,002</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$228,306,143</b>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Dividends paid on members' shares	\$15,325,721



The accompanying notes are an integral part of these statements.

# NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2003

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

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

**Use of Estimates in the Preparation of Financial Statements:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

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

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

**Cash, Cash Equivalents and Cash Flows:** Cash and cash equivalents consist of cash on hand, demand deposits, overnight funds and non-term share deposits in a corporate credit union. For purposes of reporting cash flows, loans to members, other investments and members' shares are reported net.

**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 accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using

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

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

**Loans to Members and Allowance for Loan Losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple interest method 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 Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by non-payment of a monthly installment by the due date.

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

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in 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. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued, but not collected for loans that are placed on non-accrual status or subsequently charged off, is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

## NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### SEPTEMBER 30, 2003

**Property and Equipment:** Land is carried at cost. Building, leasehold improvements and furniture and equipment are carried at cost, less accumulated depreciation and amortization. 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 terms of the related leases.

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

**NCUSIF Insurance Premium:** The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2003 and 2002 insurance premiums.

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

**Comprehensive Income:** Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statement of financial condition. For 2003 and 2002, other comprehensive income includes no reclassification adjustments.

## 2. INVESTMENTS

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

September 30, 2003	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Guaranteed loans made to the U.S. Agency for International Development	\$964,336	\$62,022	\$0	\$1,026,358
Mutual funds of U.S. government obligations and federal agency securities	15,939,897	31,550	0	15,971,447
U.S. government obligations and federal agencies securities	1,631,529	0	(2806)	1,628,723
Mortgage-backed securities	42,889	0	0	42,889
	<u>\$18,578,651</u>	<u>\$93,572</u>	<u>\$(2806)</u>	<u>\$18,669,417</u>

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

September 30, 2003	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$214,206,496	\$992,519	\$(52,849)	\$215,146,166

Other investments as of September 30, 2003 consist of the following:

Certificates of deposit	\$201,574
Credit Union Service Corporation of Virginia	327,958
CU24 Stock	23,385
Member capital accounts in corporate credit unions	<u>2,883,760</u>
	<u>\$3,436,677</u>

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value. At September 30, 2003, there was approximately \$234,587,000 in credit union and bank deposits with individual balances in excess of the insured limit.

## NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### SEPTEMBER 30, 2003

Investments by maturity as of September 30, 2003 are summarized as follows:

	Available-for-Sale		Held-to-Maturity		Other
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
No contractual maturity	\$15,939,897	\$15,971,447	\$0	\$0	\$3,235,103
Less than 1 year maturity	196,425	195,999	124,255,406	124,972,276	201,574
1 – 5 years maturity	1,435,104	1,432,724	89,951,090	90,173,890	0
Over 5 years maturity	964,336	1,026,358	0	0	0
Mortgage-backed securities	42,889	42,889	0	0	0
	<u>\$18,578,651</u>	<u>\$18,669,417</u>	<u>\$214,206,496</u>	<u>\$215,146,166</u>	<u>\$3,436,677</u>

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

### 3. LOANS TO MEMBERS

Loans to members as of September 30, 2003 consist of the following:

Mortgage loans:	
Fixed rate	\$22,119,515
Variable rate	486,574
Home equity and second mortgages	<u>88,722,996</u>
	111,329,085
Vehicle loans	211,452,748
Government guaranteed student loans	3,235,621
Credit card loans, unsecured	52,584,357
Consumer loans, primarily unsecured	<u>30,615,647</u>
	409,217,458
Deferred net loan origination fees	2,056,714
Allowance for loan losses	<u>(3,266,430)</u>
	<u>\$408,007,742</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 September 30, 2003 total \$397,770.

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

	Year Ended September 30, 2003
Balance, beginning of year	\$5,156,104
Provision for loan losses	1,451,667
Recoveries	558,910
Loans charged off	<u>(3,900,251)</u>
Balance, end of year	<u>\$3,266,430</u>

Loans on which accrual of interest has been discontinued or reduced amounted to \$1,851,180 at September 30, 2003. Outstanding mortgage loan commitments at September 30, 2003 total approximately \$2,870,811.

## NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### SEPTEMBER 30, 2003

Available credit on home equity and unsecured lines of credit as of September 30, 2003 is summarized as follows:

Home equity	\$18,665,000
Credit card	122,523,000
Other consumer	5,859,000
	<u>\$147,047,000</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.

#### 4. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2003 are summarized as follows:

Land	\$584,261
Building	4,820,762
Leasehold improvements	19,405,490
Furniture and equipment	9,027,644
	33,838,157
Accumulated depreciation and amortization	<u>(26,389,344)</u>
	<u>\$7,448,813</u>

The credit union leases 19 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 September 30, 2003 are as follows:

Years ended September 30	
2004	\$774,445
2005	774,445
2006	675,648
2007	491,236
2008	323,041
Subsequent years	<u>1,411,891</u>
	<u>\$4,450,706</u>

Rental expense for the years ended September 30, 2003 for all facilities leased under operating leases totaled \$826,915.

#### 5. MEMBERS' SHARES

Members' shares as of September 30, 2003 are summarized as follows:

Regular shares	\$ 329,115,145
Checking accounts	131,918,075
Money Market accounts	83,398,669
Individual Retirement Account shares	37,158,528
Certificates	<u>229,993,109</u>
	<u>\$811,583,526</u>

## NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### SEPTEMBER 30, 2003

Shares by maturity as of September 30, 2003 are summarized as follows:

No contractual maturity	\$581,590,417
0 – 1 year maturity	184,179,487
1 – 2 years maturity	20,965,865
2 – 3 years maturity	12,206,913
3 – 4 years maturity	4,350,345
4 – 5 years maturity	8,290,499
	\$811,583,526

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

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

The aggregate amount of time deposits in denominations of \$100,000 or more at September 30, 2003 is approximately \$81,640,000.

#### 6. CONCENTRATIONS OF CREDIT RISK

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

#### 7. COMMITMENTS & CONTINGENT LIABILITIES

The Credit Union utilizes demand loan agreements with several corporate credit unions. The terms of these agreements call for the pledging of assets as security for any and all obligations taken by the Credit Union under these agreements. The agreements provide for a total credit limit of \$15,500,000 with interest charged at a rate determined by the lender on a periodic basis. At September 30, 2003, there were no borrowings under these agreements. These agreements are reviewed for continuation by the lender and the Credit Union annually.

The Credit Union maintains a "Lending Agreement" with the Federal Reserve Bank of Richmond (Federal Reserve). Under the terms of this agreement, the Credit Union may make applications to the Federal Reserve for advances of funds. Interest rate is determined by the lender. Advances under the agreement are collateralized by a pledge of Credit Union assets. There were no outstanding borrowings at September 30, 2003.

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

The Credit Union has no outstanding commitments to sell investments at September 30, 2003.

#### 8. EMPLOYEE BENEFITS

The Credit Union has a 401(k) pension plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage reductions. Pension costs are accrued and funded on a current basis. The Credit Union contributed \$406,714 to the plan for the year ended September 30, 2003.

The Credit Union has deferred compensation agreements with members of the executive management team that provides benefits payable to these employees based on years of service with the Credit Union as defined in the agreement. The estimated liability under the agreements is being accrued on a straight-line basis over the remaining years until the eligible employees attain retirement status as defined in the agreement. The Credit Union has accrued approximately \$437,737 under these agreements for the year ended September 30, 2003.

#### 9. MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirement as of September 30, 2003 was 4.36%. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of September 30, 2003, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2003, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action.

## NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

### SEPTEMBER 30, 2003

To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category. The Credit Union’s actual capital amounts and ratios are presented in the following table:

	September 30, 2003	
	Amount	Ratio/Requirement
Amount needed to be classified as “adequately capitalized”	\$53,789,830	6.00%
Amount needed to be classified as “well capitalized”	62,754,801	7.00%
Actual net worth	80,364,319	8.96%

Because the RBNW is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

#### 10. 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 shares, checking accounts, money market accounts and individual retirement 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, loans held for sale and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

**Off-Balance-Sheet Financial Instruments:** The fair values for the Credit Union’s off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

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

	September 30, 2003	
	Carrying Amount	Fair Value
<b>Financial Assets:</b>		
Cash and cash equivalents	\$228,306,143	\$228,360,143
Investments available-for-sale	18,578,651	18,669,417
Investments held-to-maturity	214,206,496	215,146,166
Other investments	3,436,677	3,436,677
Loans to members, net	406,307,447	414,920,000
Loans held-for-sale	1,700,295	1,700,295
Accrued interest receivable	4,386,249	4,386,249
<b>Financial Liabilities:</b>		
Members’ shares	811,853,526	744,621,000

# MANAGERS AND COMMITTEES

## EXECUTIVE MANAGEMENT

Ronald L. Burniske  
*President/Chief Executive Officer*

Paul V. Annunziata  
*Chief Operating Officer*

Jeffrey L. Garrenton  
*Executive Vice President of Sales*

## SENIOR MANAGEMENT

John W. Blum  
*Vice President of Operations*

René G. Bollinger  
*Vice President of Human Resources*

Anthony M. Figlio  
*Vice President of Lending*

Spencer A. Jones  
*Vice President of E-Business*

Janet E. Lawson  
*Vice President of Finance*

Kimberly J. Oates  
*Vice President of Retail*

Nancy B. Porter  
*Vice President of Marketing*

Phillip A. Richards  
*Vice President of Strategy*

Glenn B. Thomas  
*Vice President of Technology*

## SUPPORT MANAGEMENT

Paul J. D'Ambrosio  
*Director of Facilities*

Sidney J. Baumann  
*Director of Investments & Insurance*

Matthew A. Foss  
*Account Executive Business Development*

Cynthia R. Fulcher  
*Director of Office Operations*

Ann-Marie Lewis  
*Director of Compliance*

Kenneth L. Maddrey  
*Director of Retail*

Denise A. McRoberts  
*Director of Information Technology*

M. Wendy Phelps  
*Director of Retail*

Melissa D. Stocker  
*Director of Contact Center*

Celia C. Woodham  
*Director of Operations*

## SALES MANAGEMENT

Donna K. Bunton  
*21st Street, City Centre, Corporate Center & Hampton Blvd.  
Sales Manager*

Jennifer W. Cuocco  
*Ferrell Parkway, Greenbrier, Southern & U-20 Sales Manager*

M. Suzanne Dull  
*Cedar Road Farm Fresh, Great Bridge, Main Street Farm Fresh,  
Military Highway Farm Fresh, Western Branch Blvd. Farm Fresh &  
Western Branch Sales Manager*

Donna L. Kroll  
*St. Petersburg (Certegey), Northeast Shopping Center &  
65th Avenue North Sales Manager*

Barbara P. Lane  
*General Booth, Great Neck, Holland Windsor Crossing,  
Lynnhaven & Pembroke Meadows Sales Manager*

Lori A. Ruzzano  
*Wakefield & Warwick Sales Manager*

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

## BACK OFFICE MANAGEMENT

Danielle Y. Alston-Jones  
*Internal Auditor*

Jill A. Haag  
*Executive Office Manager*

Pamela M. Kline  
*System Operations Manager*

Amy E. Mallett  
*Marketing Manager*

Jason D. Marlowitz  
*eBusiness Manager*

Wendy E. Matthews  
*Collections Manager*

Robert L. Miller  
*Accounting Manager*

Christine C. Olson  
*Human Resource/Training Manager*

Elizabeth K. O'Toole  
*Quality Assurance Manager*

Susan C. Richardson  
*Desktop Technologies Manager*

Robin D. Talhelm  
*Mortgage Lending Manager*

Matthew D. Thompson  
*Consumer Lending Manager*

David G. Ullrich  
*Telecommunications Manager*

Brian A. York  
*Product Manager*

## MANAGERS AND COMMITTEES CONT'D

### ASSET LIABILITY MANAGEMENT COMMITTEE

Bettye P. Machen, *Chairman*  
Carl M. Atkinson, *Vice Chairman*  
E. L. "Lou" Gull, Jr.  
Melvin S. Mizelle  
Alfred R. Chambers  
Ronald J. Menia, *Associate Member*  
Judy K. Sparrow, *Associate Member*  
Ronald L. Burniske  
Paul V. Annunziata

### DIRECTORS SCHOLARSHIP COMMITTEE

Bettye P. Machen, *Chairman*  
Robert O. Holmes  
George E. Sauer  
Nancy B. Porter  
Celia C. Woodham

### HUMAN RESOURCE COMMITTEE

James J. Sibley, *Chairman*  
E. L. "Lou" Gull, Jr., *Vice Chairman*  
Edward A. Foshay  
C. Philip Machen, Jr.  
Ronald J. Menia  
Robert O. Holmes  
René G. Bollinger, *Advisor*

### LEGISLATIVE REGULATORY COMMITTEE

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*Chairman/Legislative Representative*  
David L. Carmichael, *Vice Chairman*  
Alfred R. Chambers  
Wayne E. Foshay  
Paul V. Annunziata  
Jeffrey L. Garrenton  
Ann Marie Lewis

### LOAN REVIEW COMMITTEE

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James J. Sibley

### MEMBERSHIP GROWTH COMMITTEE

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Edward A. Foshay, *Vice Chairman*  
Richard A. McGrath  
René G. Bollinger  
Jeffrey L. Garrenton  
Phillip A. Richards  
Matt A. Foss, *Advisor*

### NEW SERVICES COMMITTEE

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Edward A. Foshay  
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Richard R. Ahlborn  
Ronald L. Perry  
George E. Sauer  
Ronald L. Burniske  
René G. Bollinger  
Kimberly J. Oates  
Phillip A. Richards

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James J. Sibley  
Edna M. Atkinson  
Alfred R. Chambers  
Gene T. Siebels  
Lisa A. Deubler  
Laura Moreno  
JoAnn W. Morgan

### SUPERVISORY COMMITTEE

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Judy K. Sparrow, *Vice Chairman*  
Eleanor W. Willhoite, *Secretary*  
Dallas L. England  
Gary E. Royse  
Melvin S. Mizelle, *Associate Member*  
Cindy K. Nyberg, *Internal Controls Asst.*

### TECHNOLOGY COMMITTEE

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Robert O. Holmes  
Richard A. McGrath  
Spencer A. Jones  
Glenn B. Thomas

### VOLUNTEER RECRUITMENT & DEVELOPMENT COMMITTEE

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Melvin S. Mizelle, *Vice Chairman*  
David L. Carmichael  
Eddie N. Matney, *Associate Member*  
René G. Bollinger

CHARTWAY'S MISSION STATEMENT:

**To Bring People Together To Enhance Their Quality Of Life.**

This Mission Statement is the very essence of why our organization exists. For the past 40 years, our personality has been shaped by our commitment to go the distance for each member and provide assistance to our community. It reflects the strength of our character and the essence of who we are.

Like all successful companies, our brand is what we stand for—in essence, capturing what really drives us. Our brand represents our history, our spirit, our culture and our membership.

The words “For every dream, a way” capture the essence of our organization. As we enhance our members’ lives and help them realize their dreams, we are committed to make every member a lifelong member and Chartway their financial institution of choice.

