

PRESIDENT & CHAIRMAN'S MESSAGE

2002 ANNUAL REPORT

On behalf of AmeriCU's Board and Management Team, we are pleased to report another successful year for your financial cooperative.

As of year end 2002:

- Deposits had risen by 5.8%, ending the year at \$341.5 million overall.
- Combined Consumer and Mortgage loans had grown by 6.3%, reaching the \$251.9 million level.
- Total Assets increased 6.7%, to \$372.4 million, placing us in the top 3% of credit unions nationally.
- Net earnings were \$4.4 million, which contributed to highly capitalized net worth position for our cooperative.

Results such as these are enviable and evidence the financial soundness of your credit union. This is a focus that Management and the Board take very seriously. Behind these financial results were three predominant driving forces:

Strong Loan Demand. Few of us can remember when rates were this low. In 2002, members took advantage of historically low interest rates to finance purchases and reorganize debt. By year end, \$105.4 million in new and used auto, home equity, boat and RV, credit card and other consumer loans were funded. Another \$103.9 million funded members' new and refinanced home mortgages.

Dominance of Short Term Savings. While total deposits grew by 5.5% overall, AmeriCU, like many other financial institutions, experienced a shift within the deposit portfolio throughout 2002. Continued concerns about volatile markets saw many investors choosing the security of insured, short term savings and Money Market accounts versus longer term certificates.

Increased Usage of Automated Services. Throughout 2002, we also saw increasing member usage and preference for a variety of automated delivery channels, including AmeriCU's online account access, loan applications and bill payment. Over 14,000 members now actively utilize these online services, at their convenience, for a large portion of their banking needs. Also on the rise is usage of our many branch-based Check Cashing ATMs, for cashing personal and payroll checks instead of waiting for traditional teller line processing. Twenty-four/seven services like these are what members have asked for, and we're working to deliver more.

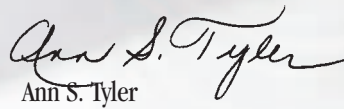
In today's economic environment – characterized by nervous investors, a somewhat shaky economy and geopolitical issues – strategy matters more than ever, in business and in our personal finances.

As we enter 2003, our economy stands poised for recovery. We anticipate that spending and borrowing will continue to be strong and that, as markets strengthen, consumers will regain confidence to make other investments.

Whether your financial needs call for auto, mortgage or equity financing, no-fee checking, online bill payment and free ATM withdrawals, insurance, investments or retirement or education planning, our team of financial service professionals – through both AmeriCU and our wholly owned subsidiary AmeriCU Services, LLC – are here to help make all the pieces work together.

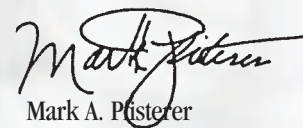
Our vision – “to be our members' primary financial services resource” – is more than a lofty intention. It is an expression of our desire to exceed member expectations by building beneficial and lasting member relationships, and to do that by providing excellent financial services. Each day, all of us at AmeriCU work to bring this vision to life.

Our greatest priority is you, our member. We are determined to deliver the best quality of service and financial performance our members deserve. Together, we can reach our fullest potential.



Ann S. Tyler

Chairman of the Board



Mark A. Pusterer

President and CEO

Audited Consolidated Financial Statements
and
Other Financial Information

AMERICU CREDIT UNION
AND SUBSIDIARIES

December 31, 2002 and 2001



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AMERICU CREDIT UNION AND SUBSIDIARIES

December 31, 2002 and 2001

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SUPERVISORY COMMITTEE MESSAGE

The Supervisory Committee is appointed by the Board of Directors to represent the membership. As your representatives, the Committee attends monthly Board meetings and has free and open access to Credit Union personnel and financial records. In conjunction with the Internal Audit Department, the Committee actively performs cash counts, resolves member concerns and determines that internal controls are established and effectively maintained. A primary function of the Supervisory Committee is to ensure that the Credit Union's financial records are properly maintained and that they accurately reflect the operations of the Credit Union. To accomplish this function, the Independent Certified Public Accounting firm of Firley, Moran, Freer & Eassa, P.C. conducted a certified audit of the Credit Union's financial statements for the period ending December 31, 2002. Based on the favorable audit that has been conducted by the external auditors, the Supervisory Committee is satisfied that your Credit Union is in good financial condition and that financial statements are reported in accordance with accounting principles, generally accepted in the United States of America (GAAP).

SUPERVISORY COMMITTEE

Robert J. Angelhow
Chairman

Luis M. Marina
Member

James Saporito
Member

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee
and Board of Directors
AmeriCU Credit Union
Rome, New York

We have audited the accompanying consolidated statements of financial condition of AmeriCU Credit Union and Subsidiaries as of December 31, 2002 and 2001 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 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 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 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 AmeriCU Credit Union and Subsidiaries as of December 31, 2002 and 2001, 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 (GAAP).

Firley, Moran, Freer & Eassa, P.C.

Firley, Moran, Freer & Eassa, P.C.
Certified Public Accountants
Syracuse, New York
February 6, 2003

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AMERICU CREDIT UNION AND SUBSIDIARIES

	December 31,	
	2002	2001
ASSETS		
Cash	\$ 23,317,367	\$ 23,004,078
Investments – available for sale	23,591,934	8,767,294
Investments – held to maturity	2,000,000	2,060,575
Investments – other	52,005,193	59,641,967
Loans to members, net of allowance for loan losses	248,700,166	233,652,176
Loans held for sale	2,846,399	1,124,588
Accrued interest receivable	1,235,021	1,324,120
Other assets	6,248,474	6,410,307
Property and equipment, net	12,492,628	13,262,811
TOTAL ASSETS	\$ 372,437,182	\$ 349,247,916
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share accounts	\$ 341,474,594	\$ 322,653,381
Accounts payable and accrued liabilities	2,182,199	2,406,458
TOTAL LIABILITIES	343,656,793	325,059,839
LEASES, COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY	28,780,389	24,188,077
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 372,437,182	\$ 349,247,916

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

AMERICU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2002	2001
INTEREST INCOME		
Interest on loans	\$ 20,795,683	\$ 20,427,450
Interest on investments	2,548,767	2,959,350
	<u>23,344,450</u>	<u>23,386,800</u>
INTEREST EXPENSE		
Dividends on members' share accounts	7,652,597	10,762,567
Borrowed funds	407	1,760
	<u>7,653,004</u>	<u>10,764,327</u>
NET INTEREST INCOME	<u>15,691,446</u>	<u>12,622,473</u>
PROVISION FOR LOAN LOSSES	<u>1,450,000</u>	<u>1,717,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>14,241,446</u>	<u>10,905,473</u>
NONINTEREST INCOME		
Fees, service charges and other income	9,634,755	9,333,568
Gain on sales of loans	965,878	700,955
Gain on sales of investments	165,622	73,751
Miscellaneous	958	1,564
	<u>10,767,213</u>	<u>10,109,838</u>
NONINTEREST EXPENSE		
Compensation and benefits	7,903,312	7,145,525
Office occupancy and operations	8,264,402	7,198,205
Professional services	3,532,287	3,619,980
Membership services	597,348	449,991
Miscellaneous	261,465	354,311
	<u>20,558,814</u>	<u>18,768,012</u>
NET INCOME	<u>\$ 4,449,845</u>	<u>\$ 2,247,299</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AMERICU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2002	2001
NET INCOME	<u>\$ 4,449,845</u>	<u>\$ 2,247,299</u>
OTHER COMPREHENSIVE INCOME:		
Unrealized gains (losses) on investments:		
Unrealized holding gains arising during period, net	301,658	401,566
Reclassification adjustment for amounts included in net income	(165,622)	(73,751)
OTHER COMPREHENSIVE INCOME	<u>136,036</u>	<u>327,815</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 4,585,881</u>	<u>\$ 2,575,114</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

AMERICU CREDIT UNION AND SUBSIDIARIES

	Surplus	Appropriated Undivided Earnings	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2000	\$14,169,599	\$200,000	\$7,398,931	\$(164,941)	\$21,603,589
Transfers and other	2,678,872		(2,669,498)		9,374
Net income			2,247,299		2,247,299
Other comprehensive income				327,815	327,815
BALANCES AT DECEMBER 31, 2001	<u>16,848,471</u>	<u>200,000</u>	<u>6,976,732</u>	<u>162,874</u>	<u>24,188,077</u>
Transfers and other	1,693,995		(1,687,564)		6,431
Net income			4,449,845		4,449,845
Other comprehensive income				136,036	136,036
BALANCES AT DECEMBER 31, 2002	<u>\$18,542,466</u>	<u>\$200,000</u>	<u>\$9,739,013</u>	<u>\$ 298,910</u>	<u>\$28,780,389</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AMERICU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,449,845	\$ 2,247,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,450,000	1,717,000
Depreciation and amortization	1,905,062	1,737,016
Investment premium and discount amortization	(424,184)	105,678
Gain on sales of loans	(965,878)	(700,955)
Gain on sales of investments	(165,622)	(73,751)
Changes in operating assets and liabilities:		
Accrued interest receivable	89,099	(128,277)
Other assets	(587,729)	(1,674,767)
Accounts payable and accrued liabilities	(224,259)	(1,502,438)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,526,334	1,726,805
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments – available for sale	3,043,303	1,779,649
Proceeds from sale of investments – available for sale	15,808,233	4,952,893
Purchase of investments – available for sale	(32,942,843)	(3,000,000)
Proceeds from maturities of investments – held to maturity	59,515	435,923
Net decrease (increase) in other investments	7,636,774	(39,428,301)
Loan originations, net of principal collected	(16,497,990)	(6,773,094)
Proceeds from sale of other real estate owned	749,562	701,189
Origination of and proceeds from loans held for sale, net	(755,933)	412,518
Purchases of property and equipment	(1,134,879)	(3,552,214)
NET CASH USED IN INVESTING ACTIVITIES	(24,034,258)	(44,471,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	18,821,213	46,697,736
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,821,213	46,697,736
NET INCREASE IN CASH	313,289	3,953,104
CASH AT BEGINNING OF YEAR	23,004,078	19,050,974
CASH AT END OF YEAR	\$ 23,317,367	\$ 23,004,078
SUPPLEMENTAL DISCLOSURES		
Dividends on members' share accounts	\$ 7,652,597	\$ 10,762,567
Interest on notes	\$ 407	\$ 1,760

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AMERICU CREDIT UNION AND SUBSIDIARIES

December 31, 2002 and 2001

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business: AmeriCU is a state-chartered cooperative association organized in accordance with the provisions of the State of New York and is administratively responsible to the New York State Banking Department. It promotes thrift among, and creates a source of credit for, its members located primarily in the New York State counties of Oneida, Onondaga, Cayuga, Madison and Jefferson.

Principles of Consolidation: The consolidated financial statements include the accounts of Hamilton Associates, Inc. and AmeriCU Services, LLC, credit union organizations (collectively the CUOs) incorporated for the primary purpose of providing services to AmeriCU's members. These services include electronic tax filing, insurance and investment services. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates: The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in conformity with GAAP 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 that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments: The Credit Union accounts for its investments under Financial Accounting Standards Board Statement No. 115 (FASB 115) - Accounting for Certain Investments in Debt and Equity Securities. FASB 115 requires the Credit Union to categorize each investment as either available for sale, held to maturity or trading.

Investments – Available for Sale: Investments classified as available for sale are those debt securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell investments classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Credit Union's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Investments available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in members' equity as accumulated other comprehensive income (loss). Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Investments – Held to Maturity: Investments classified as held to maturity are those debt securities which the Credit Union has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These investments are carried at cost adjusted for amortization of premium and accretion of discount over their contractual lives.

Investments – Trading: The Credit Union currently has no trading securities.

Investments – Other: Other investments consist primarily of interest-earning depository accounts. The investments generally have no contractual maturity.

Loans to Members and Allowance for Loan Losses: Loans receivable that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management evaluates the allowance for loan losses on a regular basis. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. Because of uncertainties inherent in the estimation process, management's estimate of loan losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible, if any, cannot be estimated.

Management discontinues accruing interest on a loan when it believes, after considering economics, business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

Loan Origination and Commitment Fees and Related Costs: Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the straight line method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

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 in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Property and Equipment: Land is stated at cost. Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation; however, their accounts are insured up to \$100,000 per member through the National Credit Union Share Insurance Fund (NCUSIF). 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 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 by regulation to maintain a statutory reserve. The reserve, which is represented as surplus in the financial statements, is a regulatory restriction of undivided earnings and is not available for the payment of dividends. The appropriated undivided earnings was established at the discretion of the Board of Directors and is not available for the payment of dividends.

Advertising Costs: The Credit Union follows the policy of expensing its advertising costs (including any production costs) as incurred. Advertising expense was \$82,737 and \$232,479 for the year ended December 31, 2002 and 2001, respectively.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The credit union organizations (CUOs), however, are subject to federal and state income taxes. Operations of the CUOs resulted in immaterial amounts of income tax expense in 2002 and 2001.

Consolidated Statements of Cash Flows: For the purpose of the statements of cash flows, the Credit Union considers cash on hand and certain operating bank account balances to be cash. Certain items which meet the definition of cash equivalents, such as certificates of deposits with maturities of three months or less, are included in "investments – other".

NOTE B – INVESTMENTS

Investments have been classified in the statements of financial condition according to management's intent. The amortized costs of investments and their approximate fair value are as follows (in 000's):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
INVESTMENTS AVAILABLE FOR SALE				
	December 31, 2002			
Federal agency securities	\$ 23,418	\$ 207	\$ (34)	\$23,591
	December 31, 2001			
Federal agency securities	\$ 8,710	\$ 147	\$ (90)	\$ 8,767

INVESTMENTS HELD TO MATURITY

	December 31, 2002			
Federal agency securities	\$ 2,000	\$ 19	\$ -0-	\$ 2,019
	December 31, 2001			
Federal agency securities	\$ 2,061	\$ 29	\$ (1)	\$ 2,089

Gross gains of approximately \$169,901 and \$73,751 and gross losses of approximately \$4,279 and \$-0- were realized on sales of available for sale investments in 2002 and 2001, respectively.

The federal agency securities consist of mortgage backed securities. The securities are not due at a single maturity date, rather they mature based on the weighted average contractual maturities of the underlying collateral. The amortized cost and estimated fair value of the federal agency securities at December 31, 2002, by contractual maturity, are shown below.

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in 000's):

	Investments Available for Sale		Investments Held to Maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less			\$ 2,000	\$ 2,019
Due from one to five years	\$ 9,582	\$ 9,668		
Due from five to ten years	7,597	7,661		
Due over ten years	6,239	6,262		
	<u>\$ 23,418</u>	<u>\$ 23,591</u>	<u>\$ 2,000</u>	<u>\$ 2,019</u>

NOTE C – LOANS TO MEMBERS

The composition of loans to members is as follows (in 000's):

	December 31,	
	2002	2001
Vehicles	\$ 75,998	\$ 78,427
Mortgages	89,794	85,673
Credit cards and other lines of credit	13,989	15,728
Unsecured signature/personal	25,306	21,833
Home equity/improvement loans	46,557	34,897
Education	240	217
Business loans	92	292
	GROSS LOANS TO MEMBERS	
	251,976	237,067
Less allowance for loan losses	3,276	3,415
	NET LOANS TO MEMBERS	
	\$ 248,700	\$ 233,652

A summary of loans by interest rate type as of December 31, 2002 and 2001 is as follows (in 000's):

	December 31,	
	2002	2001
Variable	\$ 60,916	\$ 58,458
Fixed	191,060	178,609
	<u>\$ 251,976</u>	<u>\$ 237,067</u>

A summary of the changes in the allowance for loan losses is as follows (in 000's):

	Year ended December 31,	
	2002	2001
Balance at beginning of year	\$ 3,415	\$ 4,209
Provision charged to operations	1,450	1,717
Loans charged off	(2,119)	(3,317)
Recoveries	530	806
	BALANCE AT END OF YEAR	
	\$ 3,276	\$ 3,415

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately \$540,000 at December 31, 2002 and \$1,164,000 at December 31, 2001. If interest on those loans had been accrued, such income would have approximated \$9,000 and \$35,000 for the year ended December 31, 2002 and 2001, respectively.

Loans to Board of Directors, committee members and employees amounted to approximately \$4,195,000 at December 31, 2002.

NOTE D – OTHER ASSETS

Other assets consist of (in 000's):

	December 31,	
	2002	2001
National Credit Union Share Insurance Fund deposit	\$ 3,119	\$ 2,916
Accounts receivable and miscellaneous clearing accounts	1,986	1,726
Other real estate owned	249	723
Sponsor payrolls receivable	346	423
Prepaid and deferred expenses	166	339
Investments in unconsolidated credit union service organizations	382	283
	<u>382</u>	<u>283</u>
	TOTAL OTHER ASSETS	
	<u>\$ 6,248</u>	<u>\$ 6,410</u>

National Credit Union Share Insurance Fund Deposit: The National Credit Union Share Insurance Fund (NCUSIF) deposit is in accordance with federal regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to 1 percent of insured shares (using a determination date of December 31). The deposit is adjusted annually to reflect changes in the Credit Union's insured shares and, should the Credit Union terminate its insurance coverage, is refundable to the extent it is not impaired by losses.

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

Other Real Estate Owned: Other real estate owned represents property acquired by the Credit Union through or in lieu of foreclosure and is recorded at approximate net realizable value. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management, and reductions in the values of properties are charged to operations if the carrying value of a property exceeds the lower of its carrying amount or its fair value less estimated costs to sell.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following (in 000's):

	December 31,	
	2002	2001
Land	\$ 1,490	\$ 1,490
Buildings	6,872	6,689
Furniture, fixtures and equipment	4,588	4,306
Automatic teller machines	3,745	4,552
Leasehold improvements	842	828
	<u>17,537</u>	<u>17,865</u>
Accumulated depreciation and amortization	<u>(5,044)</u>	<u>(4,602)</u>
	<u>\$ 12,493</u>	<u>\$ 13,263</u>

Depreciation and amortization expense amounted to \$1,905,062 and \$1,737,016 in 2002 and 2001, respectively.

NOTE F – MEMBERS' SHARE ACCOUNTS

Members' share accounts are summarized as follows (in 000's):

	Weighted Average Dividend Rate at:			
	December 31,		December 31,	
	2002	2001	2002	2001
Regular shares	1.20%	1.90%	\$125,316	\$109,745
Share drafts	.22%	.30%	57,535	52,678
Money Market Shares	1.56%	2.25%	37,198	35,226
IRA shares	2.13%	2.85%	11,398	9,182
Certificates	3.84%	5.05%	<u>110,028</u>	<u>115,822</u>
TOTAL MEMBERS' SHARE ACCOUNTS			<u>\$341,475</u>	<u>\$322,653</u>

The aggregate amount of members' share accounts over \$100,000 was \$28,352,718 and \$23,874,474 at December 31, 2002 and 2001, respectively.

At December 31, 2002, scheduled maturities of share certificates, including IRA certificate accounts, are as follows (in 000's):

Range of Dividend Rate	Year ending December 31,					Total
	2003	2004	2005	2006	2007	
0.00% - 3.99%	\$ 64,372	\$ 4,319	\$ 1,806	\$ 533	\$ 64	\$ 71,094
4.00% - 4.99%	797	1,609	1,026	4,700	3,360	11,492
5.00% - 5.99%	6,847	1,532	1,599	236	-0-	10,214
6.00% - 6.99%	<u>4,933</u>	<u>5,542</u>	<u>5,041</u>	<u>1,712</u>	<u>-0-</u>	<u>17,228</u>
	<u>\$ 76,949</u>	<u>\$ 13,002</u>	<u>\$ 9,472</u>	<u>\$ 7,181</u>	<u>\$ 3,424</u>	<u>\$110,028</u>

Dividend expense on members' share accounts is summarized as follows (in 000's):

	December 31,	
	2002	2001
Regular shares	\$ 1,742	\$ 2,694
Share drafts	215	241
Money market	679	1,001
IRA shares	275	310
Certificates	<u>4,742</u>	<u>6,517</u>
	<u>\$ 7,653</u>	<u>\$ 10,763</u>

NOTE G – LINE OF CREDIT

The Credit Union has a \$45 million line of credit agreement with Empire Corporate Federal Credit Union secured by the assets of the Credit Union. There were no outstanding amounts under this facility at December 31, 2002 and 2001, respectively. The interest rate is determined by Empire at the time of borrowing and is established based on current market rates. The rate was 2.75% at December 31, 2002.

NOTE H – EMPLOYEE BENEFIT PLAN

The Credit Union maintains a 401(k) pension plan covering substantially all employees. The Plan allows employees to defer a portion of their salary through contributions to the Plan. The Credit Union makes matching contributions to the plan, after one year of service, based on 50% of the elected salary deferrals up to 6% of compensation. Expense for the years ended December 31, 2002 and 2001 amounted to approximately \$143,000 and \$125,000, respectively.

NOTE I – LEASES, COMMITMENTS AND CONTINGENCIES

Lease Commitments: The Credit Union leases various office space. The minimum remaining non-cancelable lease obligations approximate the following as of December 31, 2002:

Year ended December 31,	Amount
2003	\$ 26,820
2004	27,004
2005	22,688
2006	9,371
2007	9,555
	<u>\$ 95,438</u>

Rent expense was approximately \$41,000 and \$61,000 for the years ended December 31, 2002 and 2001.

Financial Instruments with Off-Balance Sheet Risk: The Credit Union enters into commitments to extend credit in the normal course of meeting the financial needs of its members. Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to a member (as long as there is no violation of any condition established in the contract). These commitments involve, to varying degrees, elements of credit, interest rate or liquidity risk in excess of the amount recognized in the statements of financial condition.

Credit risk is the possibility that loss may occur from the counterpart's failure to perform according to the terms of the contract. Interest rate risk is due to fluctuations in interest rates that may decrease the market value of a financial instrument. Liquidity risk is the risk that the Credit Union will not be able to meet its contractual obligations as they come due.

The Credit Union uses the same credit policies in making commitments as it does for on-balance sheet instruments. The Credit Union controls the credit risk of commitments to extend credit through credit approvals, credit limits, monitoring procedures, and management's evaluation of each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the member.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amounts of the commitments. A summary of the contract amounts of the Credit Union's commitments to extend credit at December 31, 2002 is as follows (in 000's):

Unused lines of credit, excluding credit cards	\$ 12,242
Unused credit card lines	36,705
Loans approved not yet disbursed	<u>10,573</u>
	<u>\$ 59,520</u>

Since portions of the above commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements.

Financial Instruments with Concentrations of Credit Risk: The Credit Union has identified certain credit risk concentrations in relation to its on and off balance sheet financial instruments. A credit risk concentration is defined as a significant credit exposure to an individual or a group engaged in similar activities or affected similarly by economic conditions.

The Credit Union maintains cash balances with depository financial institutions that customarily exceed federally insured limits.

The Credit Union originates residential real estate loans throughout Central and Northern New York. These loans are underwritten to comply with secondary market standards and are secured by the underlying collateral. The Credit Union also grants various secured and unsecured consumer type loans.

NOTE J – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of December 31, 2002 and 2001.

Cash: The fair value of cash on hand and on deposit is the carrying value.

Investments – Available for Sale: The fair value equals quoted market prices.

Investments – Held to Maturity: For investment balances available on demand the carrying amount is a reasonable estimate of fair value. For securities with contractual maturities fair value is their quoted market prices.

Investments – Other: The fair value is the carrying value.

Loan to Members: The fair value of loans with adjustable interest rates is the carrying value. The fair value of loans with fixed rates of interest is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Loans Held For Sale: The fair value of loans held for sale are based on quoted market prices.

Members' Share Accounts: The fair value of share draft, regular share and money market deposit accounts is the amount payable on demand. The fair value of fixed-maturity certificate accounts is estimated using the rates currently offered for deposits of similar remaining maturities.

The carrying amount and fair value of financial instruments of the Credit Union as of December 31, 2002 and 2001 follows (in 000's):

	December 31, 2002		December 31, 2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash	\$ 23,317	\$ 23,317	\$ 23,004	\$ 23,004
Investments – available for sale	23,591	23,591	8,767	8,767
Investments – held to maturity	2,000	2,019	2,061	2,089
Investments – other	52,005	52,005	59,642	59,642
Total Investments	\$ 77,596	\$ 77,615	\$ 70,470	\$ 70,498
Loans to members	\$251,976	\$259,733	\$237,067	\$238,532
Allowance for loan losses	(3,276)		(3,415)	
Net loans	\$248,700	\$259,733	\$233,652	\$238,532
Loans held for sale	\$ 2,846	\$ 2,846	\$ 1,125	\$ 1,125
Financial Liabilities:				
Members' share accounts	\$341,475	\$337,558	\$322,653	\$325,070
Off balance sheet items:				
Commitments to extend credit		\$ 59,520		\$ 49,697

NOTE K – MORTGAGE LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition.

The approximate unpaid principal balances of these loans and the custodial escrow accounts are summarized as follows (in 000's):

	December 31,	
	2002	2001
Mortgage loan portfolios serviced	\$169,557	\$148,962
Custodial escrow accounts	\$ 1,544	\$ 1,364

NOTE L – REGULATORY CAPITAL

The Credit Union is subject to regulatory net worth ratio requirements. In addition, there are also Risked Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. Failure to meet minimum net worth or RBNW 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.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios of net worth to assets and RBNW ratios. Management believes, as of December 31, 2002, that the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the institution's category. The Credit Union's RBNW ratio is below the 6% minimum requirement to be considered a complex credit union. As of December 31, 2002, the Credit Union RBNW requirement is 4.35%.

The Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%. As of December 31, 2002, the Credit Union's net worth ratio is 7.73%



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Joseph J. Turczyn,
Vice Chairman

Richard A. Smith,
Chief Financial Officer

George C. Bauer, III,
Recording Officer

James A. Wasielewski,
Director

Sharon L. Miazga,
Director

John A. Stevenson,
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*President and Chief
Executive Officer*

Sonya E. Ezell,
Executive Assistant

Mark J. Livesey,
Manager, Internal Auditor

Sandra J. Adkins,
Manager, Human Resources

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Vice President, Loan Division

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*Manager, Consumer
Loan Credit*

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Manager, Credit Card Services

Deborah Griffin,
*Manager, Loan Work Out
and Recovery*

Mary Elizabeth Musa,
*Manager, Residential
Mortgages*

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Christopher A. Wood,
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*Vice President, Information
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*Manager, Cost and
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*Vice President,
Branch Services*

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*Manager, Automated Delivery
and Operating Systems*

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*Manager, Automated Delivery
Systems and Services*

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Manager, Member Call Center

Dyana L. Herrig,
*Central Regional
Branch Manager*

Marie C. Palmer,
*Branch Service Manager,
Rome and School Road Offices*

Jacqueline M. Palmer,
*Branch Service Manager,
Griffiss Office*

William R. Myrick, Jr.
*Eastern Regional
Branch Manager*

Ellen M. Traub,
*Branch Service Manager,
Commercial Drive Office*

Gail J. Nicolaisen,
*Branch Service Manager,
Oneida Office*

Marianne M. Herne,
*Western Regional
Branch Manager*

Carolyn R. Lampman,
*Branch Service Manager,
Syracuse Office*

Karen Lockwood,
*Branch Service Manager,
Auburn Office*

Tina M. Wildhaber,
*Northern Regional
Branch Manager*

Mary Ellen Lingenfelter,
*Branch Service Manager,
Fort Drum Offices*



Rome Office

*1916 Black River Boulevard
Rome, NY 13440*

Griffiss Office

*Griffiss Business and Technology Park
292 Market Street
Rome, NY 13440*

School Road Office

*6000 School Road
Rome, NY 13440*

Commercial Drive Office

*4957 Commercial Drive
Yorkville, NY 13495-1102*

Oneida Office

*280 Genesee Street
Oneida, NY 13421*

Syracuse Office

*6303 Thompson Road
Syracuse, NY 13206*

Liverpool Office

*7474 Oswego Road
Liverpool, NY 13090*

Auburn Office

*Auburn Plaza, 217 Grant Avenue
Auburn, NY 13021*

Riva Ridge Office

*Building P10750
Fort Drum, NY 13603*

Lewis Avenue Office

*Building T614
Fort Drum, NY 13603*

Watertown Mortgage Office

*215 Washington Street, Suite 108
Watertown, NY 13601*