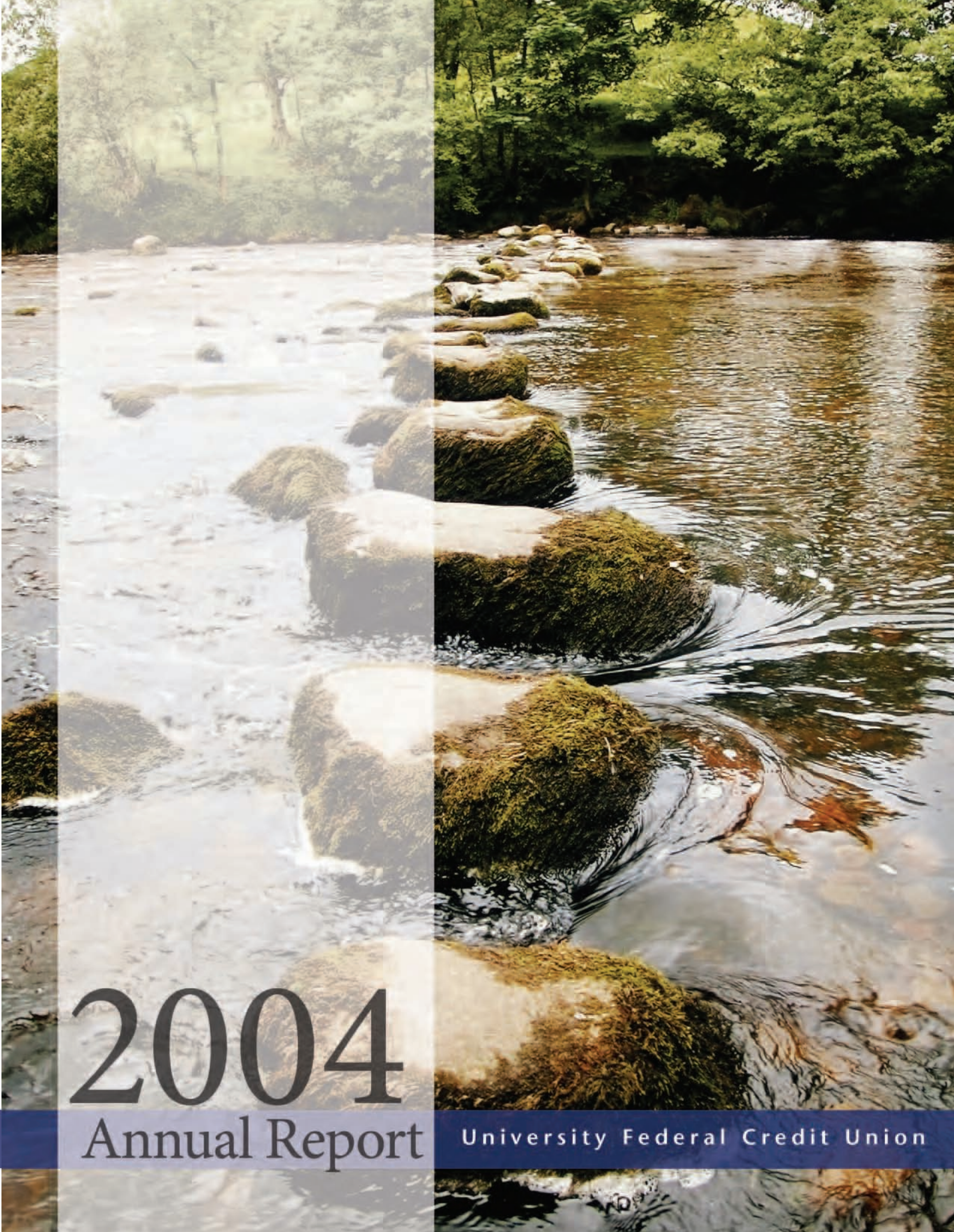
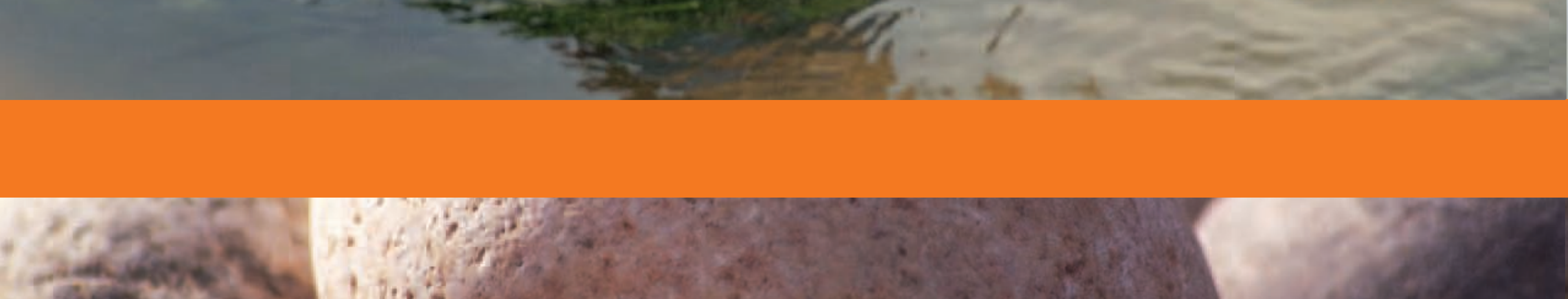


2004 Annual Report

University Federal Credit Union



your own path.

Contents:

Chairman's Report

2004 marked another exceptional year for University Federal Credit Union—in both financial results and the quality of member service. During the past year, your Board of Directors, executive management and staff worked hand-in-hand to achieve several noteworthy milestones, including:

Expanded Free ATM Access. University Federal Credit Union members now have free access to more than 170 ATMs in the Austin and Galveston metropolitan areas through a new UFCU partnership with several other credit unions. Together with the thousands of shared branch locations across the U.S. at which University Federal Credit Union members can conduct their business, the ATM partnership greatly enhances the level of convenience offered members.

Top Austin Employer. The Austin Business Journal named UFCU one of Austin's Best Places to Work in the large business category. This extraordinary achievement means your Credit Union will continue to be an employer of choice for the best and brightest talent, thereby positioning itself to deliver the high quality service our members deserve.

Financial Soundness. The National Credit Union Administration, our federal regulator and insurer of member deposits, awarded University Federal Credit Union its highest possible rating. In 2004, your Credit Union met or exceeded all key financial objectives and, at $642 million in assets, continues to be Austin's largest locally-owned financial institution.

Enhanced Consumer Education. Several years ago, your Credit Union committed to helping individual members achieve financial success through unbiased consumer education—a commitment which continues to grow. In 2004, we celebrated the fifth anniversary of our Wheels 101 and Second Chance auto purchase and educational programs. Since their inception, more than 8,000 members have saved $8 million in finance charges through these programs.

Buying a car, financing a home, or arranging for college education loans are complicated transactions. As a member-owned cooperative, we are not simply in the business of making loans and generating deposits. It is our goal to help every member be financially successful—by equipping them with trustworthy, unbiased consumer financial education, and the very best financial products and services available in the marketplace. Over the coming months, you will see a continued focus on consumer education to help you make wise financial decisions. After all, as a member-owned cooperative, we are successful only when you, our members, are successful.

On behalf of the fine men and women who comprise our volunteer Board of Directors, I extend a heart-felt "thank you" to each of you, our 102,000 members, for your membership and business.

Respectfully submitted,

Dr. Carl E. Hansen
Chairman of the Board

Board of Directors 2004

Standing from left to right:

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

Seated from left to right:

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

Not pictured:

Jerry Davis, Associate

Supervisory Committee

Dr. Ned H. Burns, Chairman
Dana M. Malone, Secretary
Doris F. Constantine
Chris A. Plonsky
Reagan Y. Sakai
Dr. Michael Harris, Associate

Principal Officers:

President/CEO:

Tony C. Budet

Senior Vice Presidents:

Steve E. Kubala, Operations/COO
Yung V. Tran, CPA, Finance/CFO
James A. Nastars, Lending and Collections

Vice Presidents:

Michael T. Hintz, Information Technology
Sheila J. Wojcik, Ph.D., Membership

Board of Directors

President's Report

As I write this, it is early in 2005 and the headlines in credit union trade magazines are filled with news of decisions by at least two large Texas credit unions to transform themselves into mutual savings institutions and news of the Texas Legislature's struggles to generate sufficient tax revenues to fix our State's education finance challenges once and for all. University Federal Credit Union has little control over the latter issue but, with respect to the former, let it be known that at UFCU, the credit union cooperative spirit is alive and well and we have no plans whatsoever to change that.

I take great pride in the fact that credit unions around the country have opened their facilities—1,500+ to date—for use by members of other credit unions in a cooperative manner. Locally, UFCU has joined forces with many Austin and Galveston-area credit unions to cooperatively share our respective ATM networks, thereby making almost 200 ATMs available to our respective members at no cost.

Other cooperative ventures are also well underway. Together with Capitol Credit Union, UFCU operates two drive-through lanes at that credit union's Ben White/South Congress Avenue facility in South Austin. We continue to discuss with other credit unions the possibility of jointly constructing and operating new branches and sharing existing facilities. Such cost effective means to enhance convenience to members permit us to keep our products and services competitively priced.

I often overhear members in our lobbies speaking on cell phones saying they are "down at the bank" taking care of business. Admittedly, from the outside looking in, we may look very much like a bank, but those who choose to examine us more carefully will see very distinct and valuable differences.

First, we are a **financial cooperative** owned by our 102,000 members, whereas most banks are owned and controlled by a select few investors.

UFCU is a **not-for-profit** organization through which members pool their financial resources to help one another, whereas a bank's primary objective is to maximize its return to its investor-owners.

UFCU members **democratically elect a volunteer Board of Directors,** whereas banks compensate their appointed directors. Our members have a say in who runs their financial institution, and how they run it.

UFCU membership is available only to those individuals within its **field of membership,** whereas banks serve the general public. No one understands, and can meet, your financial needs better than us.

UFCU pays property and payroll taxes, but is **exempt from federal income tax** under Section 501(c)(1) of the Internal Revenue Code, whereas a (non-S corporation) bank's income is generally taxed. Our tax-exempt status enables UFCU to pass those tax savings to its members in the form of dividends.

As part-owner of UFCU, you trust us to deliver **unbiased consumer educational resources.** After all, as a co-op, we're successful only when we position our members for financial success.

As if those aren't sufficient distinctions, listen to this… **Credit unions have been ranked No. 1 with respect to customer satisfaction for 10 consecutive years** in the *American Banker Newspaper's* annual customer satisfaction survey. Those of you who frequently interact with our staff are certainly not surprised to hear that. At UFCU, we are passionate about delivering quality service.

Even though our $642 million in assets makes University Federal Credit Union the largest locally-owned financial institution in Austin, we have no Wall Street-types to impress. You, our members, are our only focus. This is your financial cooperative. You own us. We are unique in our structure, unique in our mission, and unique in how we've measured success for 69 years. Thank you for your membership and business!

Respectfully submitted,

Tony C. Budet
President/CEO

Treasurer's Report

The economy entered 2004 with much promise, but slowed substantially at mid-year when the Federal Reserve Bank's Open Market Committee, in an effort to curb inflationary pressure, initiated a series of increases to its targeted fed funds interest rate. Additionally, the war abroad continued to generate uncertainty in financial markets, thereby stifling economic growth. Despite such economic conditions, University Federal Credit Union in 2004 again experienced exceptional financial performance. We believe our continued success is the direct result of our unrelenting commitment to provide our members exceptional service and well designed and delivered products and services that fully meet their financial needs.

Total assets ended the year at $642 million, representing annual growth of 8%, while member deposits grew $39 million, or 7%, to $575 million. The Credit Union continued actively meeting its members' credit needs in 2004, disbursing $411 million in new loans, which boosted total loans outstanding to $488 million, an increase of $32 million, or 7%. On total revenues of $47 million, UFCU generated net income of $6.4 million, boosting reserves to $54 million, an increase of 12%. This additional capital financially strengthens University Federal Credit Union and positions the organization to further expand and enhance member services and convenience, respectively.

UFCU Financial Services, LLC, our wholly owned financial subsidiary, continued helping members build and manage their wealth through attractive, nontraditional financial products and services, including comprehensive financial planning, online brokerage services, a variety of insurance alternatives, and attractive tax preparation services.

A new year usually brings uncertainties and 2005 is no different. However, University Federal Credit Union is financially positioned to successfully face such challenges. We remain committed to expanding and enhancing products and services to fully meet our members' evolving needs.

Respectfully submitted,

Arthur B. Martinez
Treasurer

Supervisory Committee Chairman's Report

The Supervisory Committee's primary responsibility is to ensure University Federal Credit Union's financial statements accurately and fairly portray the organization's financial condition. To accomplish this task, the Committee retained the independent accounting firm of Orth, Chakler, Murnane & Co. to audit the financial statements. We are pleased to present their unqualified opinion in the Independent Auditors' Report as part of this Annual Report.

In addition to retaining an independent auditor, this Board-appointed volunteer committee meets throughout the year to review UFCU's asset management practices. The Committee directs Assurance Service's internal audit activities, including regular reviews of internal controls and regulatory compliance matters. We also meet on a regular basis with management to review issues of safety and soundness. This includes reviewing management compliance with commitments made in response to recommendations of internal auditors, third-party consultants, and the National Credit Union Administration, our federal regulator. Committee members keep abreast of governance issues by attending Board meetings, reviewing Board materials, and attending educational events focused on industry issues.

We applaud management for its commitment and continued responsiveness to audit and exam issues. Such action ensures critical issues of network security, employee safety, and member privacy are preemptively addressed.

For their time and efforts, I personally thank individual Committee members: Dana Malone, Doris Constantine, Chris Plonsky, Reagan Sakai, and Dr. Michael Harris. The Committee is grateful to the Board of Directors for its ongoing support.

Respectfully submitted,

Dr. Ned H. Burns
Supervisory Committee Chairman

February 11, 2005

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, 2004 and 2003, 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.

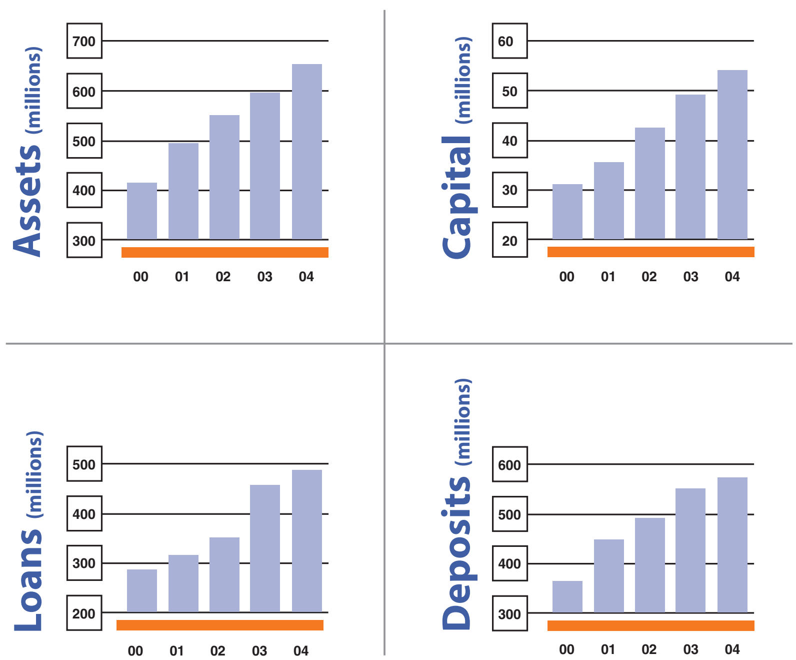
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes 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 consolidated financial position of University Federal Credit Union as of December 31, 2004 and 2003, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants

Financial Highlights:



Independent Auditors' Report

Financials 2003/2004

Consolidated Statements of Financial Condition:

Assets

	As of December 31, 2004	As of December 31, 2003
Cash and cash equivalents	$35,072,455	$43,752,823
Investments:		
Available-for-sale	85,296,608	66,819,525
Other	7,521,801	5,659,901
Loans held for sale, student loans	26,385,682	25,082,057
Loans held for sale, real estate	1,257,163	600,000
Loans to members, net of allowance for loan losses	457,472,003	426,852,473
Accrued interest receivable	2,160,792	2,080,104
Prepaid and other assets	4,065,634	3,110,392
Property and equipment	17,102,504	15,662,762
NCUSIF deposit	5,242,414	5,062,272
Total assets	$641,577,056	$594,682,309

Liabilities & Members' Equity

	As of December 31, 2004	As of December 31, 2003
LIABILITIES:		
Members' share and savings accounts	$574,508,255	$535,856,106
Accrued expenses and other liabilities	13,498,786	11,091,507
Total liabilities	588,007,041	546,947,613
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Regular reserve	8,004,559	8,004,559
Undivided earnings	46,521,072	40,077,117
Accumulated other comprehensive (loss)/income	(955,616)	(346,980)
Total members' equity	53,570,015	47,734,696
Total liabilities and members' equity	$641,577,056	$594,682,309

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

Consolidated Statements of Income:

	For the years ended December 31, 2004	2003
INTEREST INCOME:		
Loans to members	$27,746,568	$27,812,230
Investments	2,968,210	2,896,711
Total interest income	30,714,778	30,708,941
INTEREST EXPENSE:		
Members' share and savings accounts	5,605,742	6,244,647
Borrowed funds	5,075	11,439
Total interest expense	5,610,817	6,256,086
Net interest income	25,103,961	24,452,855
PROVISION FOR LOAN LOSSES	2,150,618	2,460,094
Net interest income after provision for loan losses	22,953,343	21,992,761
NON-INTEREST INCOME:		
Fees and service charges	14,445,248	13,205,077
Gain on sale of student loans	2,346,304	2,145,697
Total non-interest income	16,791,552	15,350,774
	39,744,895	37,343,535
NON-INTEREST EXPENSE:		
Compensation and employee benefits	14,931,446	13,950,940
Office operating	12,339,432	11,387,596
Marketing and business development	2,302,526	1,966,801
Loan servicing	1,961,273	1,761,309
Professional and outside services	569,168	355,718
Travel and conference	485,038	545,074
Other	428,545	537,814
Loss on sale of real estate loans	283,512	814,592
Loss on sale of investments	—	35,231
Total non-interest expense	33,300,940	31,355,075
Net income	$6,443,955	$5,988,460

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

Consolidated Statements of Comprehensive Income:

	For the years ended December 31, 2004	2003
NET INCOME	$6,443,955	$5,988,460
OTHER COMPREHENSIVE INCOME:		
Net Unrealized holding (losses) on available-for-sale investments arising during the period	(608,636)	(894,042)
Reclassification adjustments for losses/(gains) included in net income	—	35,231
Other comprehensive (loss)	(608,636)	(858,811)
Comprehensive income	$5,835,319	$5,129,649

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

Consolidated Statements of Members' Equity:

For the years ended December 31, 2004, and 2003

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2002	$8,004,559	$34,088,657	$511,831	$42,605,047
Net income	—	5,988,460	—	5,988,460
Other comprehensive loss	—	—	(858,811)	(858,811)
Balance, December 31, 2003	8,004,559	40,077,117	(346,980)	47,734,696
Net income	—	6,443,955	—	6,443,955
Other comprehensive loss	—	—	(608,636)	(608,636)
Balance, December 31, 2004	$8,004,559	$46,521,072	($955,616)	$53,570,015

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

Consolidated Statements of Cash Flows:

	For the years ended December 31, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,443,955	$5,988,460
Adjustments:		
Provision for loan losses	2,150,618	2,460,094
Depreciation and amortization	2,674,399	2,801,799
Amortization/accretion of investment premiums/discounts, net	159,325	488,285
Amortization of deferred fees and costs	468,709	496,669
Loss on sale of investments	—	35,231
Capitalization of servicing rights	(585,628)	(501,450)
Amortization of servicing rights	107,249	48,481
Loss on sale of real estate loans	869,140	1,316,042
Gain on sale of student loans	(2,346,304)	(2,145,697)
Changes in operating assets and liabilities:		
Loans held for sale, student loans	1,042,679	688,863
Loans held for sale, mortgage loans	(957,930)	—
Accrued interest receivable	(80,688)	61,349
Prepaid and other assets	(476,863)	119,180
Accrued expenses and other liabilities	2,407,279	(126,866)
Net cash provided by operating activities	11,875,940	11,730,440
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales, and repayments of available-for-sale securities	29,941,225	72,568,300
Purchase of available-for-sale securities	(49,186,269)	(27,682,162)
Net change in other investments	(1,861,900)	15,995,778
Net change in loans to members, net of charge-offs	(50,857,464)	(149,175,877)
Recoveries on loans charged off	238,559	216,545
Expenditures for property and equipment	(4,114,141)	(3,929,502)
Proceeds from sale of mortgage loans	16,811,675	44,145,494
Change in NCUSIF deposit	(180,142)	(623,442)
Net cash used in investing activities	(59,208,457)	(48,484,866)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	38,652,149	43,807,270
Net cash provided by financing activities	38,652,149	43,807,270
Net change in cash and cash equivalents	(8,680,368)	7,052,844
Cash and cash equivalents at beginning of year	43,752,823	36,699,979
Cash and cash equivalents at end of year	$35,072,455	$43,752,823
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	$5,610,817	$6,255,514
SCHEDULE OF NON-CASH TRANSACTIONS:		
Change in unrealized gain/loss on investments	$608,636	$858,811
Transfer from loans to members to loans held for sale, real estate	$17,380,048	$45,610,451

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

Notes to the Consolidated Financial Statements

1

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. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

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, mortgage servicing rights 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 Organizations (CUSOs), UFCU Financial Services, LLC and UFCU Real Estate Services, LLC. All significant intercompany accounts and transactions 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 as available-for-sale and other. 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.

FEDERAL HOME LOAN BANK (FHLB) STOCK

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The Credit Union's minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost within other investments and its disposition is restricted.

LOANS HELD FOR SALE

Loans 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 to members are stated at the amount of unpaid principal net of certain deferred fees and costs and reduced by 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). Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Recoveries on loans previously charged off are credited to the allowance for loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for incurred loan losses in the portfolio by applying a historical loan loss rate to consumer loan pools that have similar risk characteristics. Individually significant, non-homogeneous loans are measured for impairment in accordance with SFAS No. 114. These loans are evaluated individually based on an examination of the current financial information of the borrower and an estimate of the value of the collateral, if any. If the carrying value of any of these loans is greater than the estimated net realizable value of the property or of the collateral securing these loans, a reserve is established for the difference.

Note One: SIGNIFICANT ACCOUNTING POLICIES—CONTINUED.

LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES, continued

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 loan origination costs 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 SFAS No. 91, "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

MORTGAGE SERVICING RIGHTS

Mortgage servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in prepaid and other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

Service fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

PROPERTY AND EQUIPMENT

Land is carried at cost. 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.

NCUSIF INSURANCE PREMIUMS

Credit unions are 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 2004 and 2003 insurance premium.

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.

REGULAR RESERVE

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

FEDERAL AND STATE TAX EXEMPTION

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

RECLASSIFICATIONS

Certain 2003 consolidated financial statement amounts have been reclassified to conform with classifications adopted in 2004.

Note Two: INVESTMENTS

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

	As of December 31, 2004			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	$38,549,382	$94,050	($260,245)	$38,383,187
Mutual funds	35,206,394	—	(746,520)	34,459,874
Federal agency securities	12,496,448	8,773	(51,674)	12,453,547
	$86,252,224	$102,823	($1,058,439)	$85,296,608

	As of December 31, 2003			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	$19,466,312	$76,370	($93,712)	$19,448,970
Mutual funds	34,207,629	—	(395,400)	33,812,229
Federal agency securities	13,492,564	75,248	(9,486)	13,558,326
	$67,166,505	$151,618	($498,598)	$66,819,525

The following tables show the gross unrealized losses and fair value of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	As of December 31, 2004					
	Less than 12 months		12 months or Longer		Total	
Available-for-sale:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$22,555,726	$170,425	$7,459,250	$89,820	$30,014,976	$260,245
Mutual funds	—	—	34,459,874	746,520	34,459,874	746,520
Federal agency securities	8,945,008	51,674	—	—	8,945,008	51,674
	$31,500,734	$222,099	$41,919,124	$836,340	$73,419,858	$1,058,439

	As of December 31, 2003					
	Less than 12 months		12 months or Longer		Total	
Available-for-sale:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$10,839,014	$70,231	$1,167,692	$23,481	$12,006,706	$93,712
Mutual funds	14,984,653	89,339	18,827,575	306,061	33,812,228	395,400
Federal agency securities	3,490,250	9,486	—	—	3,490,250	9,486
	$29,313,917	$169,056	$19,995,267	$329,542	$49,309,184	$498,598

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. Additionally, the decline in these fair values is largely due to increases in market interest rates, and the fair values of the securities are expected to be recovered as these securities approach their maturity date and/or market rates decline. Management has the ability to hold these securities for the foreseeable future.

Note Two: INVESTMENTS—CONTINUED

Other Investments:

	As of December 31, 2004	2003
Certificates of deposit	$4,985,000	$3,100,000
Federal Home Loan Bank Stock	1,086,800	1,432,400
Capital shares in Southwest Corporate Federal Credit Union	1,000,000	1,000,000
Stock in credit union service organization	450,001	127,501
	$7,521,801	$5,659,901

The Credit Union maintains deposits at Southwest Corporate Federal Credit Union which normally exceed federally insured limits. Included in the deposits with Southwest Corporate Federal Credit Union is a restricted capital share base which is required for membership. This amount was $1,000,000 as of December 31, 2004 and 2003.

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.

	As of December 31, 2004 Available-for-sale	
	Amortized Cost	Market Value
No contractual maturity	$35,206,394	$34,459,874
Within 1 year	1,500,000	1,507,280
1-5 years	10,996,448	10,946,267
	47,702,842	46,913,421
Mortgage-backed securities	38,549,382	38,383,187
	$86,252,224	$85,296,608

As of December 31, 2004 and 2003, securities having a market value of approximately $50,836,000 and $30,172,000, respectively, were pledged as collateral to secure borrowed funds.

There were no sales of investments classified as available-for-sale during the year ended December 31, 2004. Proceeds from the sale of investments classified as available-for-sale approximated $10,000,000 for the year ended December 31, 2003. Gross losses of approximately $35,600 and gross gains of approximately $400 were realized on the sale of investments classified as available-for-sale during the year ended December 31, 2003.

Note Three: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31, 2004	2003
Loans outstanding:		
Vehicle	$196,492,684	$175,019,984
Real estate	172,419,066	177,314,047
Unsecured	66,609,521	58,902,590
Member business loans	12,879,856	8,088,478
Shares and other collateral	10,122,208	8,460,584
	458,523,335	427,785,683
Deferred fees and costs	1,575,176	2,132,381
	460,098,511	429,918,064
Less allowance for loan losses	(2,626,508)	(3,065,591)
	$457,472,003	$426,852,473

Loans on which the accrual of interest has been discontinued or reduced approximated $1,349,000 and $936,000 as of December 31, 2004 and 2003, respectively. If interest on these loans had been accrued, such income would have approximated $73,000 and $40,000 for the years ended December 31, 2004 and 2003, respectively.

Note Three: LOANS TO MEMBERS—CONTINUED

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

	For the years ended December 31, 2004	2003
Balance, beginning of the year	$3,065,591	$3,431,290
Provision for loan losses	2,150,618	2,460,094
Recoveries	238,559	216,545
Loans charged off	(2,828,260)	(3,042,338)
Balance, end of year	$2,626,508	$3,065,591

Note Four: PROPERTY AND EQUIPMENT

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

	As of December 31, 2004	2003
Land	$1,695,591	$1,436,427
Buildings	8,141,624	6,279,336
Furniture and equipment	15,920,118	14,402,008
Leasehold improvements	5,769,625	5,879,011
	31,526,958	27,996,782
Less accumulated depreciation and amortization	(14,424,454)	(12,334,020)
	$17,102,504	$15,662,762

Note Five: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	As of December 31, 2004	2003
Share drafts	$145,526,513	$130,446,627
Shares and equivalents	167,702,114	162,087,032
Money market accounts	143,967,395	126,983,496
IRA shares	21,324,745	21,167,995
Share and IRA certificates:	95,987,488	95,170,956
	$574,508,255	$535,856,106

The aggregate amount of members' time deposit accounts in denominations of $100,000 or more was approximately $16,203,000 and $16,671,000 as of December 31, 2004 and 2003, respectively.

Scheduled maturities of certificates are as follows:

	As of December 31, 2004	2003
Within 1 year	$60,054,120	$68,058,778
1 to 2 years	18,772,261	15,009,625
2 to 3 years	7,928,901	5,875,800
3 to 4 years	4,119,765	3,827,235
4 to 5 years	5,061,674	2,351,298
Thereafter	50,767	48,220
	$95,987,488	$95,170,956

SHARE INSURANCE

Members' shares are insured by the NCUSIF to a maximum of $100,000 for each member. Individual Retirement Accounts carry an additional $100,000 coverage.

Note Six: EMPLOYEE BENEFITS

401(K) PROFIT SHARING PLAN

Participation in the 401(k) profit sharing plan is limited to 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 years ended December 31, 2004 and 2003, 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 expense for the plan approximated $837,000 and $746,000 for the years ended December 31, 2004 and 2003, respectively.

Note Seven: COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2004, the Credit Union maintained a $20,000,000 unsecured and unused line-of-credit agreement with Southwest Corporate Federal Credit Union.

As of December 31, 2004, 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, 2004, the unused line of credit was $5,440,000.

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, 2004, the unused line of credit was approximately $43,830,000.

The Credit Union leases certain office space and equipment. The minimum noncancellable lease obligations approximate the following as of December 31, 2004:

Year ending December 31,	Amount
2005	$1,267,000
2006	1,147,000
2007	979,000
2008	586,000
2009	421,000
Thereafter	2,038,000
	$6,438,000

Rental expense under operating leases was approximately $1,598,000 and $1,476,000 for the years ended December 31, 2004, and 2003, 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 consolidated financial statements.

Note Eight: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT 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 amounts recognized in the consolidated statements of financial condition. 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, 2004, the unfunded members' total lines of credit approximated $127,186,000. 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: REGULATORY CAPITAL

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 consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth 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 (as defined in NCUA's Rules and Regulations) to total assets (as defined in NCUA's Rules and Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2004 and 2003 was 5.22% and 5.39% respectively. The minimum requirement to be considered complex under the regulatory framework is 6.0%. Management believes, as of December 31, 2004 and 2003, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent call reporting period, the NCUA categorized the Credit Union 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 7.0% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2004		As of December 31, 2003	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$54,525,631	8.50%	$48,081,677	8.09%
Amount needed to be classified as "adequately capitalized"	$38,495,372	6.00%	$35,680,939	6.00%
Amount needed to be classified as "well capitalized"	$44,911,268	7.00%	$41,627,762	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original net worth category of "well capitalized." In performing its calculation of total assets, the Credit Union used the quarter-end option as of December 31, 2004, as permitted by regulation.

Note Ten: LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans are summarized as follows:

	As of December 31, 2004	2003
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association	$86,155,000	$44,832,000
Custodial escrow balances	$292,000	$168,000

Note Eleven: MORTGAGE SERVICING RIGHTS

The components of capitalized mortgage servicing rights, included in prepaid and other assets, are as follows:

	As of December 31, 2004	2003
Mortgage servicing rights:		
Balance, beginning of year	$452,969	$—
Additions	585,628	501,450
Amortization	(107,249)	(18,325)
	931,348	483,125
Less allowance for market value impairment	(29,425)	(30,156)
Balance, end of year	$901,923	$452,969
Estimated fair value of mortgage servicing rights	$901,923	$452,969

The fair value of mortgage servicing rights was determined by using a discount rate of 9.0% as of December 31, 2004 and 2003 and an average prepayment speed of 11.71% and 10.77% as of December 31, 2004 and 2003, respectively.

Note Twelve: FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment 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 AND CASH EQUIVALENTS

The carrying amount is a reasonable estimation of fair value.

INVESTMENTS

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

MORTGAGE SERVICING ASSETS

Fair values of mortgage servicing assets are obtained from an independent third party evaluation.

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. 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., and the history of past sales.

MEMBERS' SHARE AND SAVINGS ACCOUNTS

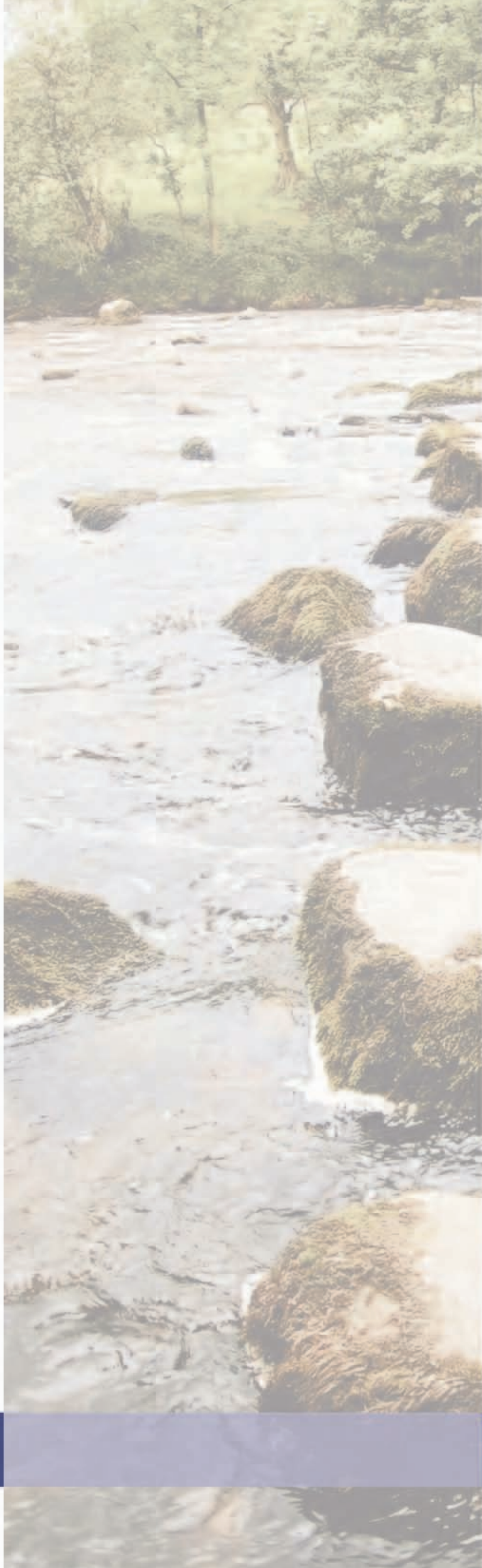
The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate share certificates should be estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued; however, management has determined that the fair 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.

COMMITMENTS TO EXTEND CREDIT

The fair value of commitments to extend credit is equivalent to the amount of credit extended since the Credit Union does not charge fees to enter into these commitments and the commitments are not stated at fixed rates.

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

	As of December 31, 2004		As of December 31, 2003	
Financial Assets:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$35,072,455	$35,072,455	$43,752,823	$43,752,823
Investments:				
Available-for-sale	$85,296,608	$85,296,608	$66,819,525	$66,819,525
Other	$7,521,801	$7,521,801	$5,659,901	$5,659,901
Loans held for sale	$27,642,845	$28,764,236	$25,682,057	$26,748,044
Loans to members, net	$457,472,003	$457,472,003	$426,852,473	$426,852,473
Mortgage servicing asset	$901,923	$901,923	$452,969	$452,969
Financial liabilities:				
Members' share and savings accounts	$574,508,255	$574,508,255	$535,856,106	$535,856,106
Unrecognized financial instruments:				
Commitments to extend credit	$—	$127,186,000	$—	$108,470,000



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