

SHAPING THE FUTURE

ANNUAL REPORT 2016

Northeast
CREDIT UNION



The road to success is not a path you find,
but a trail you blaze.

- Robert Brault

PRESIDENT'S AND CHAIRMAN'S REPORT

RESPECTFULLY SUBMITTED BY: TIMOTHY J. COLLIA, PRESIDENT/CEO
AND PHILIP W. SULLIVAN, CHAIRMAN/BOARD OF DIRECTORS

Anything worthwhile requires hard work, and that's how we feel about releasing this annual report. It's a true labor of love, and it is rewarding to be able to share the progress Northeast Credit Union made in 2016, while also sharing our vision and goals for the year ahead. And of course, it is an opportunity to thank you, our members, for your loyalty, support and invaluable insights.

Last year it was important that we acknowledge our 80 years as a credit union and celebrate the many people who have made your credit union what it is. It was our intention to do this in ways that honored the past, celebrated the present, and foster the future, and that effort was a great success. The fact that so many of you have placed your trust in NECU for so long means the world to us. And while enjoying the milestone was important, so, too, is our continued progress.

Progress was an inspiration for us as we began looking ahead to 2017. As we go through life, professionally and personally, the hope is that everything you experience, good and bad, leads to growth. That means progress! This has very much been the case over the past 12 months at NECU. Our internal team, our membership base, and our offerings have all continued to grow.

Speaking of growth, as many of you have heard, this summer we are merging with Ocean Communities Federal Credit Union of Maine. By combining our institutions, not only will we become one of the top credit unions in the Northeast with 124,000+ members, we will have 20 branches. From the Great North Woods of New Hampshire, through the Upper Valley region, across Merrimack Valley, to the Seacoast and now, into Southern Maine. It's an exciting time for NECU, and as you read ahead, you'll see what a strong 2016 we had and a strong outlook for 2017 as well.



A PANORAMIC VIEW 2016 BY THE NUMBERS

The numbers we are reporting this year are a direct reflection of the health and stability of your credit union. NECU closed out 2016 with total assets of \$1.1 billion, an increase of \$26.2 million or 2.4% on the year. Deposits reached \$948.9 million by December 31st for an increase of \$51.8 million or 5.8%. Our members continue to make Northeast Credit Union their lender of choice, helping us finish the year with record loan balances once again, totaling \$967.6 million for 2016. That total marks an increase of \$25.6 million or 2.7% on the year. We experienced strong loan growth, and like last year, our loan delinquency ratios remained below the industry averages. All in all, our financial activity translated into a net income of \$7.4 million, which supported a return on assets of 0.68%.



COMMUNITY GUIDES THE WAY

DESTINATION: A BETTER FUTURE

NECU and all of our branches continued to support organizations in 2016 that are making positive impacts in their own communities and beyond. Included in that list are: United Way, Honor Flight New England, Make-A-Wish New Hampshire, Maine Credit Union League's Campaign for Ending Hunger, Seacoast Shipyard Association, and Portsmouth Naval Shipyard. Whether it was a small group fundraiser or a large community event, our staff rallied around their cause and worked together to achieve greatness. The excitement and passion are contagious, and the encouragement shared among our team has been nothing short of inspirational.

The truth is, we've seen a tremendous outpouring of support for our community from our staff over the past year. More than 115 employees volunteered their time to represent Northeast Credit Union and to make a difference in their neighborhoods. Some took the time to lend a hand at the CU 4 Reality financial literacy fairs in schools. Some volunteered at town events like Dover's Apple Harvest Day, Portsmouth's Market Square Day, or Berlin's River Fire event. Others went out on their own to help at smaller fundraising events, working with various organizations that have a great impact on our community members. We are proud of the teamwork that has been demonstrated and we're looking forward to another exciting year of volunteerism and community support.

FINANCIAL EDUCATION: INFORMED DECISIONS AT EVERY TURN

Whether through our website or social media channels, from hosting workshops to maintaining financial education centers in our branches, we try to provide information to help you make informed decisions on products or services you're interested in. The fact remains, however, that the younger you begin to understand finances, the better prepared you will be. So in 2016 our grassroots efforts continued in the communities we serve.

We continued our support of the CU 4 Reality Program at schools in Bartlett, Berlin, Gorham, Manchester, Rochester and Tamworth. CU 4 Reality helps students learn how to manage their finances, a skill that will serve them well as they begin to ponder their futures. Our financial education outreach efforts did not stop there, though.

Your credit union once again supported New Hampshire Jump\$tart Coalition, an organization providing financial education to students beginning in pre-kindergarten and, believe it or not, all the way through college! We continued in our support of Banzai, an award-winning financial literacy education program that provides middle and high school teachers with innovative tools for the enhancement of their home economics curricula. More than 1,600 students in 70 different New Hampshire schools participated in Banzai in 2016.



REACHING FOR THE STARS GUIDING THE WAY

As a trusted neighbor, we understand the unique challenges our neighbors face and we remain steadfast in our commitment to community service and support. Through our community sponsorship program, we focus our efforts on the following impact areas:

FINANCIAL LITERACY
EDUCATION
FAMILY FINANCIAL STABILITY
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT
COMMUNITY DEVELOPMENT

BLAZING A TRAIL FOR 2017

We, as credit union employees, are always trying to be better. We make it our business to identify industry trends and be proactive in providing products and services to suit your lifestyles and financial goals. It all comes down to understanding your needs. That said, some of our organizational goals for the year are to:

- Provide a level of service beyond what you will find anywhere else
- Enhance convenience for you through market expansions and by investing in technology
- Maintain financial strength of the cooperative
- Continue to bolster our leadership capabilities and foster our culture of teamwork

When we work together as a team, and share knowledge and experience, we get the best results. That, ultimately, is how we best serve you, our valuable members. With all of that said, here is a sampling of the product and service-related developments that are now, or will be soon, available at NECU:

- Shared branching: Widespread branch access and greater person-to-person contact for members. More convenience, more access.
- Rewards program: This will encourage members

- to use more services to earn more rewards. Simply put, everybody wins!
- Love Your Community: This is our new brand campaign, to be rolled out in the coming months. It focuses on our dedication to - and involvement in - the communities where we serve and live.

As always, we thank the multiple generations of families that continue to do business with us. We appreciate your time and continued support. For those just joining us, we're excited to help you on your way; please know we are going to be with you through every stage of your lives.

Regardless of how long you've been with NECU, we will continue to reward the loyalty you show us with hard work and by listening to your needs. Your opinions and suggestions are vital to what we do! When we hear what is working - and what needs work - it shapes our thinking and decision-making as the cooperative continues to grow.

The entire team at Northeast Credit Union wishes you, our valued members, happiness, health and success in 2017. We have much to be excited about in the year ahead, and every confidence that this year will be even better than the last. Together, we are shaping our future.

BEYOND BOUNDARIES

STAYING ON TRACK WITH TECHNOLOGY

Our commitment to enhancing our members' experiences across all delivery channels was much of our focus in 2016; always seeking to provide robust online and mobile solutions that are secure, easy to use and include the latest vetted functionality offered in the industry.

Some of the enhancements we rolled out for our members in the past year were:

- Mobile Wallet Technology
- Person to Person Payments
- Biometrics for mobile devices
- "Remember Me" feature for mobile devices
- Password self-reset option
- Self-Registration for mobile deposit
- Expanded eStatement history
- EBill presentment for Bill Payers
- New funding options for online payments

We appreciate and value your feedback as we continue to balance technology innovation and the pace of change impacting you, our members, and we are committed to learning from each initiative, as we work to provide you with a highly satisfying online experience.

SUPERVISORY COMMITTEE REPORT

RESPECTFULLY SUBMITTED BY:
GERALD J. GOUVEIA, CHAIRMAN, SUPERVISORY COMMITTEE

Northeast Credit Union Supervisory Committee's mission and purpose is to protect the financial welfare of its members by examining the affairs of Northeast Credit Union, directing and overseeing an annual audit of the Credit Union's financial statements, and reporting to the appropriate regulatory agencies as required.

The Committee provides independent advice, assistance, and recommendations to the Board in the oversight of the credit union's operations (internal and external) and audit functions, and supports the Board of Directors in the fulfillment of its oversight responsibilities.

The Committee's primary duties and responsibilities include: monitoring the integrity of financial reporting, compliance with legal and regulatory requirements, appointment and supervision of independent auditors, performance of internal audit functions, evaluation of internal controls and operational risk management, evaluation of the performance of credit union officials, and providing an avenue of communication among the independent auditors, independent third parties performing operational auditing/quality control functions, and the Board.

During 2016, the Supervisory Committee engaged the following firms to provide auditing services for Northeast Credit Union:

- Berry Dunn - External Audit
- MacPage LLC - Internal Audit Support and Compliance Support with the Bank Secrecy Act, the Office of Foreign Assets Control, and the Patriot Act
- Castlegarde - IT Security

Northeast Credit Union received an unmodified opinion from the 2016 External Audit. The Bank Secrecy Act, the Office of Foreign Assets Control, and the Patriot Act Compliance Audit were all satisfactory and the IT Security Audit conducted by Castlegarde found the credit union to be among the strongest performing credit unions in IT

security and IT management. MacPage LLC continued to provide the credit union with Internal Audit support and their reports to us indicate that NECU's internal controls are effective and working as designed.

In addition to these audits, the National Credit Union Administration (NCUA) and the State of New Hampshire Banking Department conducted an on-site examination of Northeast Credit Union during 2016. There were no significant findings and the credit union received very high ratings from both of these agencies as well.

In conclusion, the Supervisory Committee is pleased to report that the credit union ended 2016 in a very strong position and enters 2017 in an excellent position to serve the financial needs of its members.

PROTECTING ASSETS
WHILE CLIMBING TO
THE TOP



RESULTS THAT REALLY SHINE

THE NUMBERS TELL THE STORY

Northeast Credit Union has been a trusted neighbor and the financial partner of choice for our members since 1936. With all that has evolved since our founding, one thing remains constant - our central focus is our members and the communities in which we serve.

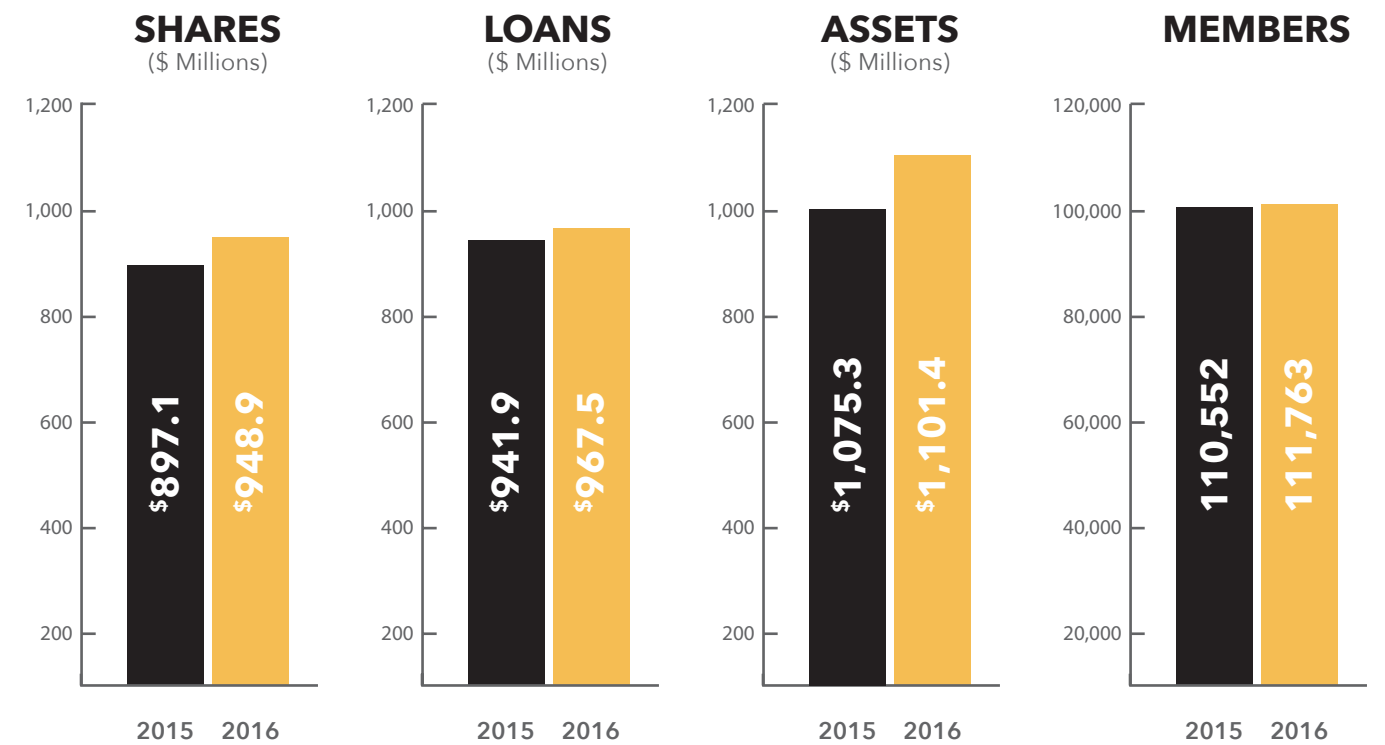
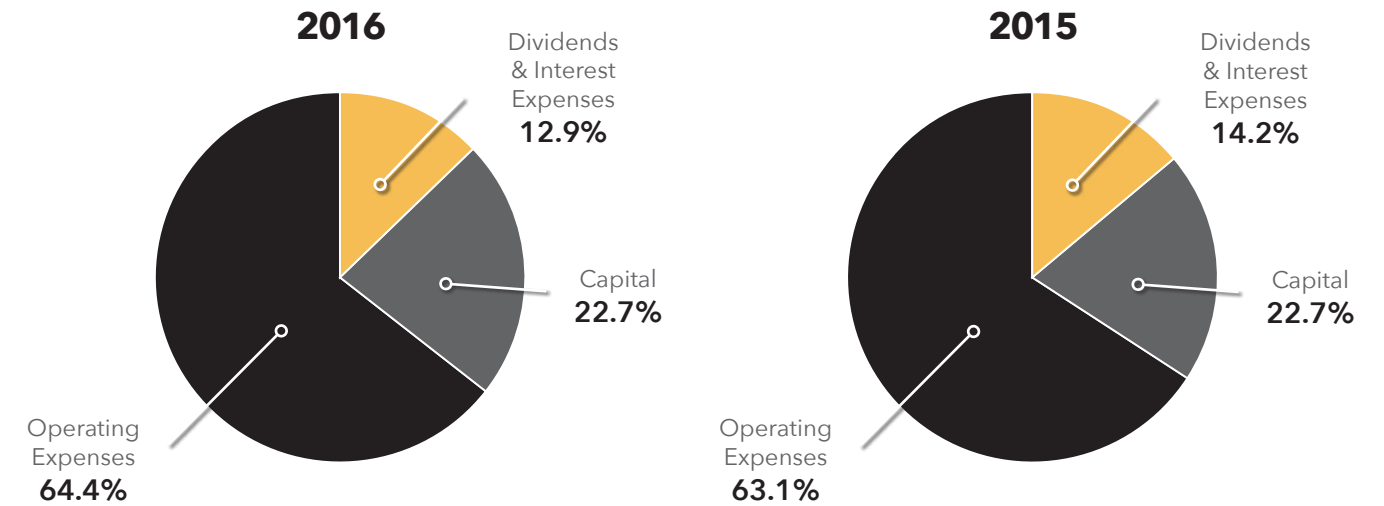
COMPARATIVE BALANCE SHEET

	2016	2015	% Change
ASSETS			
Loans to Members	967,554,276	941,946,822	2.7
Less:			
Allowance for Loan Loss	(6,876,258)	(7,221,861)	-4.8
Net Loans	960,678,018	934,724,961	2.8
Cash & Receivables	14,521,039	13,305,599	9.1
Investments	84,611,783	85,227,483	-0.7
Accrued Income	2,374,371	2,267,576	4.7
Prepaid Expense	1,369,157	1,546,344	-11.5
Fixed Assets	19,997,912	20,606,070	-3.0
Other Assets	8,964,755	9,190,913	-2.5
Deposit in NCUSIF	8,936,036	8,402,346	6.4
Total Assets	1,101,453,072	1,075,271,292	2.4
LIABILITIES & EQUITY			
Accounts Payable	2,269,872	1,696,838	33.8
Notes Payable	27,702,076	60,923,150	-54.5
Accrued Expenses	2,278,696	2,321,644	-1.8
Other Liabilities	4,074,429	4,450,141	-0.8
Shares	948,921,110	897,074,628	5.8
Regular Reserve	9,442,618	9,442,618	0.0
Undivided Earnings	106,764,271	99,362,273	7.4
Total Liabilities & Equity	1,101,453,072	1,075,271,292	2.4

INCOME STATEMENT

	2016	2015	% Change
INCOME			
Interest on Loans	32,957,063	32,331,460	1.9
Income from Investments	739,338	424,163	74.3
Fees & Charges	5,830,255	5,127,754	13.7
Other Income	8,372,881	8,417,882	-0.5
Total Operating Income	47,899,537	46,301,259	3.5
OPERATING EXPENSES			
Compensation	12,168,483	11,882,828	2.4
Employee Benefits	3,656,051	3,615,382	1.1
Travel/Conference/Training	287,745	224,292	28.3
Association Dues	85,147	80,606	5.6
Office Occupancy	2,280,306	2,280,096	0.0
Office Operations	4,540,825	4,518,232	0.5
Education & Promotions	1,489,722	1,194,221	24.7
Loan Service Expense	2,133,041	1,809,834	17.9
Professional and Outside Services	3,215,000	2,662,218	20.8
Data Processing	829,920	766,097	8.3
Operating Fee	15,500	60,300	-74.3
Cash (Over) and Short	(1,257)	1,276	-198.5
Annual Meeting Expense	5,828	4,678	24.6
Misc. Operating Expense	138,607	112,326	23.4
Total Operating Expenses	30,844,919	29,216,385	5.6
Non-Operating Gains/(Losses)	(172,945)	(245,374)	-29.5
Provision for Loan Losses	(3,316,749)	(4,476,000)	-25.9
Income Before Dividends	13,564,924	12,363,500	9.7
Less Dividends/Interest Expense Paid	(6,162,924)	(6,594,162)	-6.5
Net Income	7,402,000	5,769,338	28.3

OPERATING INCOME DISTRIBUTION



IN LOVING MEMORY OF ROBERT W. YOUNG



On December 6, 2016, Northeast Credit Union lost one of their own, Bob Young. A member of the Credit Union’s Board of Directors since 1977, he served in many capacities over his nearly four decades of service to the credit union. In addition to his Board duties, he also volunteered on multiple committees, including the Marketing Committee and Delinquency Committee. Young served his country for four years in the Air Force and spent the majority of his career in the SRA office at the Portsmouth Naval Shipyard, retiring in 1988. He served on the Kittery Town Council as Chairman and was devoted to many civic organizations including the Primetime Club and Traip Academy Golden Grads; was also a member and past president of the Kittery

Historical & Naval Museum and an over 50 year member of Naval Lodge #184 AF & AM in Kittery.

“Northeast Credit Union has lost a respected leader and a dedicated director, and the credit union industry has truly lost one of its finest contributors,” said Tim Collia, Northeast Credit Union’s president and CEO. “Our thoughts and prayers are for Bob’s family and friends”.

“He was truly a people person, teacher, and mentor and he positively changed the lives of the people he touched,” said Phil Sullivan, Northeast Credit Union’s Chairman. “Bob was a great example of how to balance a successful career with family life, and service to his community. We will all miss him deeply.”

CONGRATULATIONS TO RAYMOND MULLALY



After serving 42 years as a member of Northeast Credit Union’s Board of Directors, Raymond “Ray” Mullaly will be retiring on March 21, 2017. A member of the Credit Union since a young age, Mr. Mullaly was elected to the Board in 1975. Mullaly has served on all of the Credit Union committees throughout his tenure, most recently he has been a member of the Delinquency Committee. In the past four decades, he has attended more than 1,000 meetings, volunteered an estimated 2,000 hours and has dedicated himself to the credit union’s members and employees, to his fellow Board members, and to the community at large.

In his many years of service, Ray has been very passionate about the Credit Union and always an advocate for doing what was best for the member, as his peers on the board describe him “Ray was always ready to serve in any

capacity needed. He could always be counted on to give his wise opinion during deliberations.”

Ray retired from the Internal Revenue Service (IRS) as a Revenue Officer. He holds a B.S. in Education from Plymouth Teachers College, and completed graduate coursework at Plymouth State College, University of Connecticut, and Central Connecticut. Active in his community, he has been a member of Portsmouth Lodge of Elks for 53 years, where he also served as an Exalted Ruler, Past State President, Past District Deputy and is now an Honorary Life member. He’s also a member of the Warwick Club for 16 years, and a member of the Loyal Order of Moose for 20 years. He was a Selectman for Ward 3 in Portsmouth, has been a little league coach and a certified sports official. Ray and his wife Shirley reside in Portsmouth, New Hampshire.

EXECUTIVE TEAM



Timothy J. Collia
*President/
Chief Executive Officer*



Michael H. Gagnon
*Senior Vice President/
Chief Technology Officer*



Stephen J. Giguère
*Senior Vice President/
Chief Financial Officer*



Andrea E. Pruna
*Senior Vice President/
Chief Marketing & Retail Officer*



Thomas J. Weaver
*Senior Vice President/
Chief Lending Officer*



Suzanne R. Ladd
*Vice President
Consumer Lending*



Jonathan T. Otterson
*Vice President
Investments*



Traci J. Tenggren
*Vice President
Human Resources*



David J. Wolf
*Vice President
Indirect Lending*

BOARD MEMBERS

Philip W. Sullivan, *Chairman*

Gerald J. Gouveia, *Vice Chairman*

Victor M. Collinino, *Treasurer*

Theresa P. Palumbo, *Secretary*

Raymond L. Bald

Richard P. Fournier

Justin S. Gamester

Karen S. Groves

Raymond F. Mullaly

Regis M. Saucier

Robert W. Young

VOLUNTEERS

Scott J. Barden; Troy A. Blanchard; Michael V. Palumbo

Regardless of how much we grow, we will
always measure our success by helping one
member at a time to better their financial lives.

- Timothy J. Collia
Northeast Credit Union President/Chief Executive Officer

