

NORTHEAST CREDIT UNION
ANNUAL REPORT
2009



Northwood Branch

YOUR TRUSTED NEIGHBOR

President and Chairman's Report

The economy continued to challenge everyone in 2009. Consumers continued to be wary of spending, unemployment continued to rise and your credit union experienced higher loan losses. Despite the struggling economy Northeast was well-positioned to weather these storms, and weather them we did. Sound lending practices, controlling expenses, solid risk management and an unrelenting focus on providing great member service helped us achieve a positive bottom line despite significant budget impacts outside our control. For example, the corporate stabilization expense imposed by our regulator NCUA that affected all credit unions resulted in an assessment to us in excess of a million dollars. These events necessitated postponing moving forward on our plans for branch expansion in Berwick Maine. However, as we begin to recover from this unprecedented economic downturn, Northeast finds itself carving out an even more central place in the financial lives of those in the communities we serve. We look to the days and months ahead with cautious optimism.

As the public has grown to distrust large financial institutions, Northeast's distinction of serving our local communities and only our local communities for nearly 74 years serves us well. Over the years, we've come to know our members' needs better than large banks ever could and have built a solid reputation as the local credit union our members know and trust. Meeting members' lending needs, promoting thrift, providing financial information and advice are among the things we do everyday to help improve our members' financial lives and contribute to the strength of the communities in which they live. During times of financial hardship, we've worked with members to put them on the path to financial recovery. Members' needs for home loans and credit cards are made and serviced locally not in another part of our country. And, our strong relationships with local auto dealers continue to provide convenient one stop shopping and financing at local dealerships.

FINANCIAL AND MEMBERSHIP GROWTH

Results for 2009 show growth in assets, loans, and membership. We ended the year with \$654 million in assets, growing 1.9 percent; an indication of sustaining competitive product and service offerings, despite the turbulent economy. During the past year we loaned \$329.3 million dollars to members growing loans outstanding 5.9 percent. And, we welcomed 10,644 new credit union members reaching a total membership of 64,076 and an annual growth of 5.5 percent.

FOCUS ON CONVENIENCE AND SERVICE

Improving convenient access to services has been an essential component to our continued growth. In 2009 we relocated our Manchester Branch to a more accessible downtown location and continued to expand relationships with local auto dealers. We've heightened awareness of online service convenience that has resulted in an ever increasing number of members experiencing safer, quicker ways to access their financial statements as well as making their bill payments without writing checks.

President and Chairman's Report

COMMUNITY OUTREACH

Northeast Credit Union is deeply rooted in the communities that we serve and we understand the unique challenges we share. Bettering the overall health of our neighborhoods by supporting organizations such as United Way of the Greater Seacoast, the NH Make-A-Wish Foundation, and Maine Credit Union League's Campaign for Ending Hunger is done with great pride. In 2009 Northeast also supported the NH Food Bank with a \$10,000 donation to help the increasing number of local families struggling with such basic necessities as food. We continued our partnership with the CASH Coalition of Southeastern NH to bring Volunteer Income Tax Assistance (VITA) services to ensure low-to moderate income people secure their entitled tax benefits.

As we begin a new decade we remain true to our mission:

Consistent with the principles, philosophy and values of the credit union movement, Northeast Credit Union provides safe, high quality financial services to meet the needs of our member-owners, enhancing their financial well-being while maintaining the strength of the credit union.

This constant purpose we believe fosters a true sense of member-ownership and strengthens the bond with those whom this credit union was created for. In the year ahead, we look forward to welcoming more new members by offering the consumer friendly alternative not found at big banks. Lower fees, better rates and local solutions for the financial products members need most such as credit cards, auto loans and mortgages will help drive the new relationships we seek to build.

Among our biggest challenges in the year ahead will be effectively dealing with regulatory reform. Congress and the various federal and state regulatory agencies are keeping a keen eye on all aspects of financial institutions, including how they are governed, in an effort to keep the nation from experiencing another devastating downturn. Regulatory changes already signed into law affects both our checking and credit card product offerings. Although the cost of compliance will be enormous our members can rest assured we will work hard to minimize any adverse effects of these changes and that we will continue to provide the great value they've come to expect. As your trusted neighbor, that's our promise. Thank you for your continued support.

Peter J. Kavalauskas
President/CEO

Philip W. Sullivan
Chairman, Board of Directors

Supervisory Committee Report

Northeast Credit Union's Supervisory Committee's primary function is to ensure the financial soundness and stability of our credit union. Ongoing reviews and audits make sure that credit union records are maintained properly, honestly and accurately; that policies established by law and by the Board of Directors are carried out faithfully; and that members' assets are safeguarded and used properly. To accomplish this, the Committee utilized the services of several outside professional organizations throughout the year.

The Committee engaged the following firms to provide auditory services for Northeast Credit Union to audit and express an opinion on the credit union's financial statements.

- McGladrey & Pullen LLP – Financial Audits
- RSM McGladrey, Inc. – Compliance Audits
- MacDonald Page & Co. LLC – Internal Audits

In the opinion of McGladrey & Pullen, the consolidated financial statements of Northeast Credit Union and its Subsidiary for the year ended June 30, 2009 presented fairly, in all material respects, the consolidated results of operations, in conformity with accounting principles generally accepted in the United States of America.

Additionally, the Committee engaged CastleGarde to provide a security vulnerability assessment, testing security policy, procedures and standards compliance review. We received a positive audit report for our computer systems, network controls and information security.

The past year has been a great example of the Supervisory Committee working for you, the members of Northeast Credit Union. Having shared "what" we have done, it's also important to focus on "why" we do it and that is to help give members the means to make their lives better and applying the credit union philosophy to everything we do as your Supervisory Committee.

Respectfully submitted,

James Biracree
Chairperson, Supervisory Committee

Financial Highlights

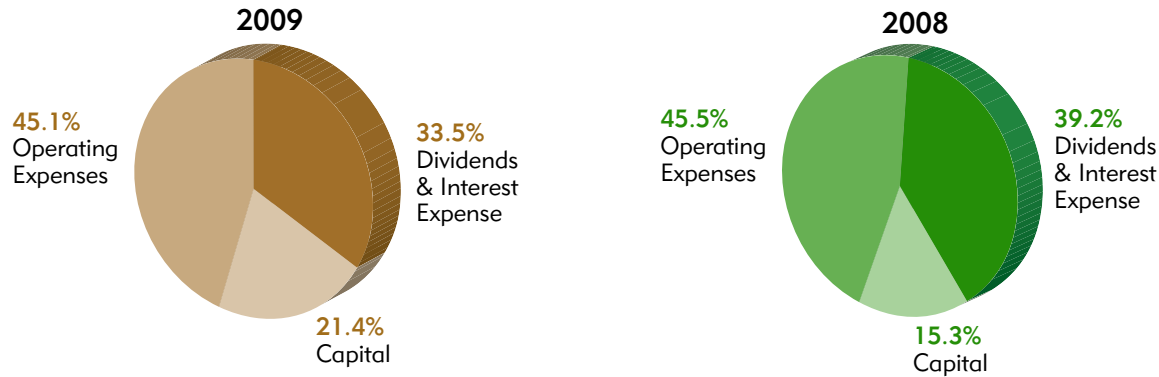
INCOME	2009	2008	% CHANGE
Interest on Loans	\$31,675,888	\$28,420,788	11.5
Income from Investments	1,070,700	3,332,290	-67.9
Fees & Charges	4,109,023	3,633,197	13.1
Other Income	4,977,815	4,913,730	1.3
TOTAL OPERATING INCOME	\$41,833,425	\$40,300,004	3.8
OPERATING EXPENSES			
Compensation	7,643,463	7,526,209	1.6
Employee Benefits	2,212,997	2,008,722	10.2
Travel/Conference/Training	164,966	194,004	-15.0
Association Dues	56,249	50,727	10.9
Office Occupancy	1,515,563	1,343,120	12.8
Office Operations	2,790,725	2,977,520	-6.3
Education and Promotions	608,486	597,781	1.8
Loan Service Expense	1,620,171	1,488,903	8.8
Prof. and Outside Services	2,072,028	2,021,039	2.5
State of NH Examination Fee	54,998	(1,622)	-3490.8
Cash (Over) and Short	2,006	5,670	-64.4
Annual Meeting Expense	4,895	5,707	-14.2
Misc. Operating Expense	106,160	127,207	-16.5
TOTAL OPERATING EXPENSES	\$18,852,708	\$18,344,987	2.8
Non-Operating Gains/(Losses)	(1,246,911)	(70,825)	1660.6
Provision for Loan Losses	(7,688,466)	(4,753,005)	61.8
Income Before Dividends	14,045,340	17,131,187	-18.0
Less Dividends/Interest Expense Paid	(14,001,992)	(15,808,846)	-11.4
NET INCOME	\$43,348	\$1,322,341	-96.7

Comparative Balance Sheet

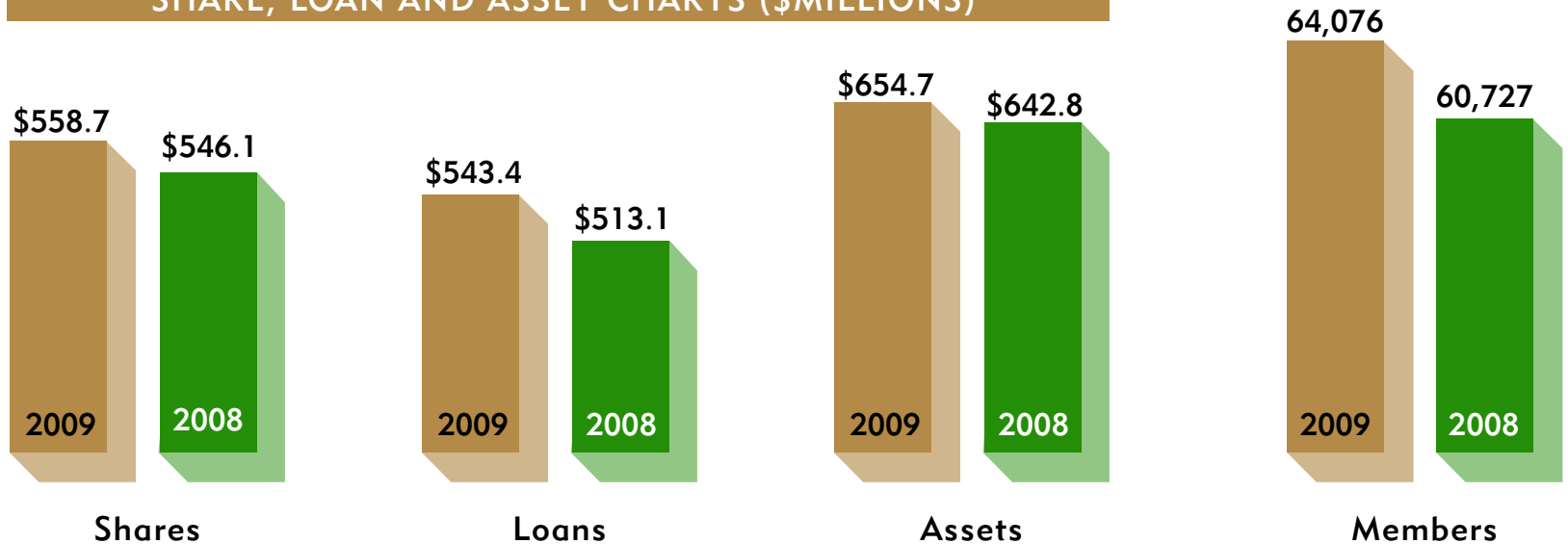
ASSETS	2009	2008	% CHANGE
Loans to Members	\$543,364,840	\$513,068,944	5.9
Loans in Liquidation	34,126	323,315	-89.4
Less:			
Allowance for Loan Loss	(6,325,058)	(4,110,016)	53.9
NET LOANS	\$537,073,909	\$509,282,243	5.5
Cash & Receivables	8,973,934	6,820,628	31.6
Investments	80,871,782	98,153,821	-17.6
Accrued Income	2,065,435	2,505,252	-17.6
Prepaid & Deferred Expense	706,925	1,000,256	-29.3
Fixed Assets	16,762,417	17,215,063	-2.6
Other Assets	2,815,882	3,462,995	-18.7
Deposit in NCUSIF	5,442,496	4,306,206	26.4
TOTAL ASSETS	\$654,712,781	\$642,746,464	1.9
LIABILITIES & EQUITY			
Accounts Payable	594,388	1,087,677	-45.4
FHLB Loan	40,183,299	42,337,604	-5.4
Accrued Expenses	1,548,712	1,459,460	6.1
Other Liabilities	2,999,495	1,212,277	147.4
Shares	558,735,784	546,062,875	2.3
Regular Reserve	9,442,618	9,442,618	0.0
Undivided Earnings	41,208,485	41,143,953	0.2
TOTAL LIABILITIES & EQUITY	\$654,712,781	\$642,746,464	1.9

Comparative Balance Sheet

OPERATING INCOME DISTRIBUTION



SHARE, LOAN AND ASSET CHARTS (\$MILLIONS)



BOARD OF DIRECTORS

Philip W. Sullivan
Chairman

John Murtagh, Jr.
Vice Chairman

Victor Collinino
Treasurer

Theresa Palumbo
Secretary

Raymond Mullaly

Gerald Gouveia

Robert W. Young

SUPERVISORY COMMITTEE

James Biracree
Chairperson

Heather N. Greenwood

Gerald Gouveia

SENIOR MANAGEMENT TEAM

Peter J. Kavalauskas
President
Chief Executive Officer

Richard D. Parks
Senior Vice President
Chief Financial Officer

Michael T. Chisholm
Senior Vice President
Chief Operations Officer

Ramona Dow
Vice President
Marketing and Strategic Initiatives

Paul J. Colangelo
Vice President
Human Resources

Robert Wester
Vice President
Operations

Thomas Weaver
Vice President
Lending

Michael Gagnon
Vice President
Information Systems

Jonathan Otterson
Vice President
Investment and Insurance Services

BRANCHES

Portsmouth
100 Borthwick Avenue

Concord
55 Pleasant Street
Federal Building

Dover
9 Members Way

Exeter
82 Portsmouth Avenue

Lee
145 Calef Highway

Manchester
340 Wilson Street

Northwood
144 First New Hampshire Turnpike

Portsmouth Naval Shipyard
Building 14

Rochester
200 Charles Street

Consistent with the principles, philosophy and values of the credit union movement, **Northeast Credit Union** provides safe, high quality financial services to meet the needs of our member-owners, enhancing their financial well-being while maintaining the strength of the credit union.

Northeast
CREDIT UNION
Your Trusted NeighborSM



Equal Housing Lender

www.necu.org

1.888.436.1847



Federally insured by NCUA