

2017 ANNUAL REPORT



MEMBER CONNECTIONS



MESSAGE FROM THE CHAIRMAN



CONNECTING WITH OUR COMMUNITIES

When a Special Olympian is handed a medal, or a critically ill child is granted a wish, or a young boy with a developmental disability unwraps a holiday gift, NEFCU is proud to have a hand in helping make all of these moments happen on Long Island.

Eighty years ago this April, a handful of Valley Stream teachers laid down the roots for what is now NEFCU. As one would expect from forward-thinking teachers, the betterment of society and community were of extreme importance. So, as our roots grew eastward and northward on Long Island, we became firmly entrenched in the towns, villages and cities where we serve.

NEFCU is proud of the difference we make through our support of the arts, education, environment and community-based programs. We have long rewarded students who could benefit from academic scholarships through our various "Making a Difference" Scholarship programs and encouraged educators to develop innovative classroom projects through our Funding Your Ideas Teacher Grant program. We have seen the rewards of assisting local non-profits through our holiday "Seasons of Giving" effort, and we have felt the powerfully emotional effects of supporting the local Make-A-Wish Foundations.

This year, we celebrate our seventh consecutive year of partnering with the Special Olympics, the 18th year of providing gifts to students at the Center for Development Disabilities, the 15th year of participating in the Muscular Dystrophy Association Summer Camp, and the fifth year of collecting dresses for Becca's Closet Prom Dress Donation Drive, a program that provides prom dresses to disadvantaged girls on Long Island.

Lending a hand to help make dreams come true or bringing a smile to a neighbor's face or simply making a place, a day or a night more memorable, is what drives our community commitment. Providing this "helping hand" is rooted in our credit union history and will remain our guiding principle as we move into the future.

As we continue to expand our presence on Long Island, our connection to our members and the community will continue to strengthen. Forging deeper bonds with our members is paramount to our success, and no one does that more effectively than our caring, highly-qualified and dedicated staff.

Whether it's servicing a branch, call center or online banking, NEFCU employees are the cornerstones on which we build the most advanced, convenient and member-driven banking institution on Long Island. Our goal is to build stronger relationships and provide higher standards at every one of these delivery channels.

NEFCU members have made it clear that they want branches, mainly because nothing provides this valuable "human touch" quite like a branch. That's why we've begun staffing them with a greater number of experts on mortgages, investments and other products and services that are best served by a personal interaction. And it's why we're continuing to expand our footprint by opening four new locations this year.

To that end, we have instituted a number of measures to ensure our members are provided with the best personal service possible. We measure performance, via a widely-accepted industry service metric called Net Promoter Score (NPS), at every level of delivery - from inbound phone calls, to branch transactions, to online interactions, to ongoing member relationships.

NPS helps us identify where we're excelling and where we need to make changes.

One of the goals of NPS is to provide such a positive end-to-end relationship with a member that they would want to recommend us to others. Quite simply, we want a member to be so confident and satisfied that they would want friends, family and neighbors to experience the same level of excellence.

Surveys and direct outreach to members also helps us pinpoint issues that need addressing. For the past 15 years, we have participated in a program where we have "mystery shoppers" interact with our member service representatives at branches, over the phone and via e-mail. From this, we see how person-to-person engagements are handled to ensure that all future interactions are positive ones for our members.

All of this is intended to demonstrate that NEFCU truly is your credit union. Creating these positive experiences every day is what guides us. Whether it's inside a branch or out in the towns and villages in which we serve, we'll continue to do all we can to make NEFCU a great credit union and a great community partner.

Despite the immense changes in banking over the past 80 years, or even the last five, NEFCU refuses to lose that personal connection to its members and our Long Island neighbors. So, as our members reach out to us in so many different ways today, our hand will always be there to greet a member, lift a community or applaud those so deserving of our support.

George Plevretes

Chairman of the Board of Directors



MESSAGE FROM THE PRESIDENT

CONNECTING THROUGH TECHNOLOGY

It used to be that a credit union's growth strategy was simple: find an unoccupied corner on a busy downtown street and open your doors. That's where your members were, and that's where you needed to be.

Of course, you also needed the right products and services to get people into your doors, and successful relationship-building techniques to keep them coming back, but the old real estate mantra of "Location, location, location" was key.

Today, the concept of "location" has been given a revised definition. Branches have become just one piece in an ever-evolving matrix of moves that we make to ensure that we are where members are. It means being on our members' desktops, in their pockets on smartphones, and even throughout their homes via new and exciting virtual assistant devices that we plan to launch.

NEFCU members want banking at their fingertips, literally. They want their accounts - and our services - to be a click, swipe or tap away. Fortunately, we anticipated this need years ago, and that foresight has put us on the leading edge of modern day banking today.

It seems that every announcement we make today is billed as a "First." In the past year, we were the first financial institution on Long Island to install ActivEdge anti-skimming devices to our network of ATMs, and the first credit union on Long Island to offer interactive teller machines (ITMs) at our branches.

We also plan to be the first credit union to introduce transaction-based, voice-banking capabilities over Google Home and Amazon Alexa devices. This bold move toward artificial intelligence-based banking will enable members to manage their accounts directly from their digital assistants.

In just a few short years, we have seen the transformative power of digital banking. Last year, more than one-third of our members actively used mobile or online banking and we saw a 13 percent increase in digital deposits, a 40 percent increase in online payments, and a remarkable 85 percent increase in the number of new accounts opened online.

Convenience is key. So, in 2017 we debuted a host of mobile and online enhancements that include the ability to view online statements via our mobile app, improved capabilities for transfers and alerts, easier search capabilities, and the introduction of a smart watch mobile app.

In 2018, we will continue to anticipate the needs of our mobile-centric members. This year, we'll be introducing many new enhancements to our digital offerings: a new personal management solution for better budgeting, card controls that allow our members to turn off or manage their NEFCU credit card with their mobile device, enhanced alerts to help members combat fraud, and an online tracker to help checking members maximize the interest on their GO Green checking account.

One would think that with all these technology enhancements, a "digital divide" of sorts would be created; separating the member from a NEFCU representative. What we've actually discovered is that digital enhancements have actually led to new and exciting ways in which members interact with us.

Our branches have become a hub for so many members. It's where NEFCU's human touch is on full display. It's where our member service representatives walk the floor and sit across from members to provide advice and counsel

on everything from mortgages and HELOCs to youth accounts and credit cards.

Even our latest ITM technology delivers a human element. It's reassuring to know that the helpful and friendly teller on the ITM screen is located just a few miles away in our Westbury headquarters.

What's much more reassuring to members is our commitment to safeguarding our members' accounts and privacy.

The number of security precautions and protocols we've put in place is staggering. Recently, we have undertaken security measures ranging from fingerprint and multifactor authentication on mobile banking, enhanced encryption of member data and upgraded networks that safeguard our internal systems.

As mentioned previously, we are the first credit union on Long Island to install Diebold's ActivEdge devices on our ATMs to prevent skimming. Also, we have made small improvements such as masking account and social security numbers on statements and tax forms, and big investments in infrastructure to combat cyber fraud and ensure safety. Furthermore, we have developed materials to educate our members and we are sponsoring local programs that keep kids safe on the internet.

We are at a time and place where anything is possible. And just as we find ourselves at the forefront of banking technology and customer service, our members are finding us just as easily at their local branch, their kitchen table, or their beach chair at Robert Moses. Remember, it's not where we're located, it's where we are found.

Edward P. Paternostro

President and Chief Executive Officer

TREASURER'S REPORT



A summary of the financial statements audited by our independent auditors, CliftonLarsonAllen LLP, begins on the bottom of this page and reflects our financial position with total assets at year-end of \$2.84 billion.

Rules and regulations for the operation of our Credit Union are prescribed by the National Credit Union Administration (NCUA), which is part of the Executive Branch of the Federal Government. The National Credit Union Share Insurance Fund (NCUSIF), established by Congress, insures our Share deposits. This fund is managed under the direction of the NCUA Board.

Our Credit Union's soundness and competitive rates encouraged deposits to grow to \$2.54 billion.

By December of 2017, our membership reached 181,445 with NEFCU members receiving more than \$20 million in dividends.

Loans and investments are the Credit Union's primary source of earnings; last year's total gross loans increased to \$2.28 billion with delinquencies at 0.63% of total loans. During this period of low interest rates, NEFCU pursued a policy of careful rate management and capital increased to \$268 million.

It has been a pleasure working with the Investment Committee, Management, and my fellow Directors.

George Zweier
Board Treasurer

FINANCIAL HIGHLIGHTS (dollars in the thousands)

| As of December 31, | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|
| Assets | \$2,847,891 | \$2,587,206 | \$2,378,632 |
| Deposits | \$2,542,253 | \$2,305,231 | \$2,121,371 |
| Gross Loans | \$2,282,509 | \$2,033,295 | \$1,842,690 |
| Capital | \$267,982 | \$246,400 | \$227,033 |
| Dividends | \$20,284 | \$17,343 | \$16,610 |
| Members | 181,445 | 171,186 | 161,481 |
| Loans to Deposits | 89.78% | 88.20% | 86.86% |
| Net Worth to Assets | 9.95% | 9.95% | 9.88% |
| Delinquent Loans to Total Loans | 0.63% | 0.75% | 0.86% |



SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is a volunteer group of NEFCU members appointed by the Board of Directors. We are responsible for ensuring the soundness of the Credit Union's operations and the compliance of Credit Union policies with state and federal regulations. We oversee the Credit Union's internal audit function. In addition, the Committee has regular contact with membership to ensure that member requests have been properly addressed.

The Supervisory Committee engaged CliftonLarsonAllen LLP, to perform an independent audit of NEFCU's 2017 financial statements. The 2017 audited financial statements of the Credit Union are available upon request. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the results of the audit determined that NEFCU's 2017 financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

At this time, the Supervisory Committee can report that NEFCU has effective internal controls and continues to follow established policies and procedures in compliance with state and federal regulations.

A handwritten signature in black ink, appearing to read "Harry Peltz".

Harry Peltz
Chair of the Supervisory
Committee



STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands)

As of December 31,

| | 2017 | 2016 |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and Cash equivalents | \$ 117,302 | \$ 174,198 |
| Available for sale Securities | 367,516 | 304,918 |
| Other Investments | 1,905 | 2,170 |
| Loans Held for Sale | 1,165 | 1,929 |
| Net Loans to Members | 2,283,926 | 2,034,176 |
| Accrued Interest Receivable | 7,793 | 6,744 |
| Deposit in National Credit Union Share Insurance Fund | 24,196 | 21,837 |
| Property and Equipment, net | 24,147 | 23,980 |
| Prepaid expenses and other assets | 19,941 | 17,254 |
| Total Assets | \$ 2,847,891 | \$ 2,587,206 |
| LIABILITIES AND MEMBERS' EQUITY LIABILITIES | | |
| Members' Share Accounts | \$ 2,542,253 | \$ 2,305,231 |
| Accrued expenses and other liabilities | 37,656 | 35,575 |
| Total Liabilities | \$ 2,579,909 | \$ 2,340,806 |
| MEMBERS' EQUITY | | |
| Retained earnings, substantially restricted | \$ 283,379 | \$ 257,495 |
| Accumulated other comprehensive income | | |
| Net unrealized holding gain on available for sale securities | (5,003) | (2,818) |
| Defined benefit pension liability | (10,394) | (8,277) |
| Total accumulated other comprehensive income | (15,397) | (11,095) |
| Total Members' Equity | 267,982 | 246,400 |
| Total liabilities and Members' Equity | \$ 2,847,891 | \$ 2,587,206 |

STATEMENTS OF INCOME

(dollars in thousands)

As of December 31,

| | 2017 | 2016 |
|---|------------------|------------------|
| INTEREST INCOME | | |
| Interest and fees on loans | \$ 84,281 | \$ 73,522 |
| Interest on investments | 7,904 | 7,172 |
| Total Interest income | 92,185 | 80,694 |
| INTEREST EXPENSE | | |
| Interest expense on share accounts | 20,284 | 17,343 |
| Interest expense on borrowings | 7 | 10 |
| Total Interest expense | 20,291 | 17,353 |
| Net Interest Income | 71,894 | 63,341 |
| PROVISION FOR LOAN LOSSES | | |
| | 8,420 | 6,217 |
| Net interest income after provision for loan losses | 63,474 | 57,124 |
| NON-INTEREST INCOME | | |
| | 20,230 | 18,596 |
| | 83,704 | 75,720 |
| NON-INTEREST EXPENSES | | |
| Compensation | 20,613 | 18,695 |
| Employee benefits | 7,752 | 6,126 |
| Office occupancy | 5,399 | 4,949 |
| Office operations | 4,439 | 4,306 |
| Plastic card | 5,184 | 5,642 |
| Member service | 8,154 | 7,975 |
| Marketing and membership development | 4,534 | 3,845 |
| General and administrative | 1,745 | 1,709 |
| | 57,820 | 53,247 |
| Income from ongoing operations | 25,884 | 22,473 |
| Share insurance recapitalization charge* | - | - |
| NET INCOME | \$ 25,884 | \$ 22,473 |

*Assessments for the National Credit Union Share Insurance Fund recapitalization and the Corporate Credit Union Stabilization Fund.

CORPORATE INFORMATION

BOARD OF DIRECTORS

George P. Plevretes, JD, MBA, Chairman of the Board
Dr. George J. Papaioannou, First Vice Chair
Louis Fiore, Second Vice Chair
Dr. William J. Russo, Secretary
George Zweier, Treasurer
Madeleine Sewell, Assistant Treasurer
Catherine T. Banigo, Director
Matthew McDonough, Director
Kamille Wolff Dean, Director
Francis A. De Mita, Chairman Emeritus

SUPERVISORY COMMITTEE

Harry Peltz, Chairperson
Suzanne Boehmcke, Vice-Chair
Eileen Aliani, Secretary
Arthur Cole, Member
Victor Patino, Member
Michael Ippolito, Associate Member

BRANCHES

Bay Shore - 2 East Main Street - 24-Hour ATM
Commack - 6514 Jericho Turnpike - 24-Hour ATM
Deer Park - 1934 Deer Park Ave - 24-Hour ATM
Franklin Square - 648 Hempstead Turnpike - 24-Hour ATM
Greenvale - 90 Northern Boulevard - 24-Hour ATM
Huntington Station - 721 East Jericho Turnpike - 24-Hour ATM
Levittown - 3359 Hempstead Turnpike - 24-Hour ATM
Massapequa - 5455 Merrick Road - 24-Hour ATM
New Hyde Park - 1636 Marcus Avenue - 24-Hour ATM
Oceanside - 3195 Long Beach Road - 24-Hour ATM
Plainview - 525 Old Country Road - 24-Hour ATM
Rockville Centre - 556 Merrick Road - 24-Hour ATM
Syosset - 103 Jackson Avenue - 24-Hour ATM
Valley Stream - 264 East Merrick Road - 24-Hour ATM
Wantagh - 1157 Wantagh Avenue - 24-Hour ATM
Westbury - 1000 Corporate Drive - 24-Hour ATM

MANAGEMENT

Edward P. Paternostro, President & CEO
John De Ieso, EVP, Chief Operating Officer
Eileen Nolan, EVP, Chief Marketing & Sales Officer
Michele Dean, Chief Lending Officer
Kristin DeJesus, Chief Human Resources Officer
JoJo Seva, Chief Information Officer
Michael Shonborn, Chief Financial Officer
Fadia Al-Najjar, Senior VP, Operations
Susan Becker, Senior VP, Internal Audit
Robin Block, Senior VP, Organization Process Management
Eric Oterson, Senior VP, Channel Development
Laureen Straub, Senior VP, Sales Management
Patricia Arena, VP, Member Experience
Valerie Garguilo, VP, Marketing & Community Relations
Charles Giuliano, VP, Business Lending
Chuck Price, VP, Lending
Tajram Rampersaud, VP, Operations
Sylwester Godlewski, AVP, Human Resources
Jaime Herrera, AVP, Controller
Teresa O'Donoghue, AVP, Compliance, Fraud & Quality Assurance
William Phillips, AVP, Organizational Development
Cliff Roehn, AVP, Information Technologies
Diahann Ryan, AVP, District Management
Raymond Schwetz, AVP, Business Services
Howard Shim, AVP, Commercial Credit Officer



The credit union for better banking

www.myNEFCU.org | 516.561.0030



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color, religion, sex or national origin.



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