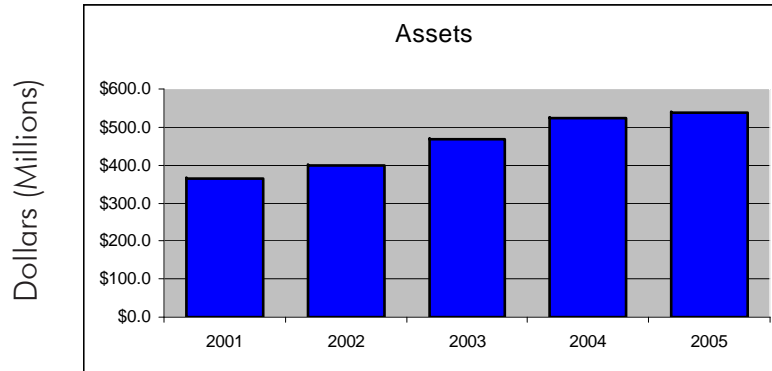


2005 PROGRESS

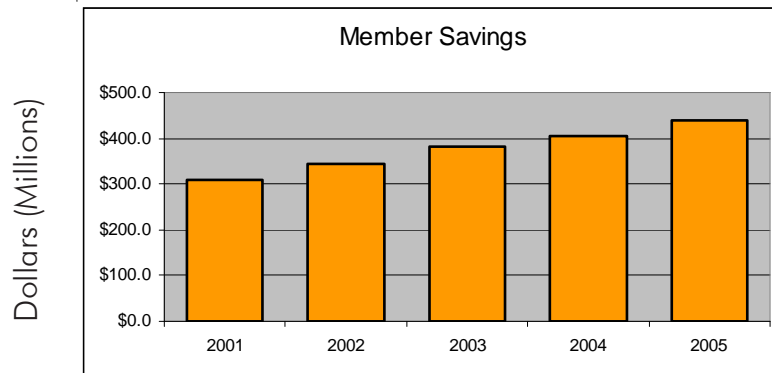


Report to Members

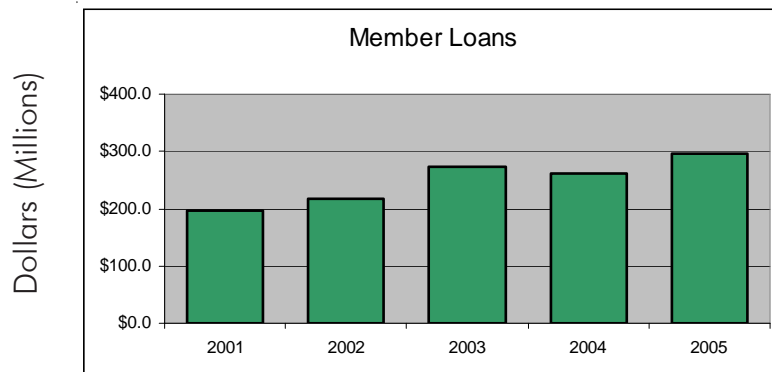
at the Annual Meeting on April 4, 2006



ASSETS \$537,650,949 2.8% INCREASE OVER 2004



SAVINGS \$438,009,489 8.0% INCREASE OVER 2004



LOANS \$296,319,240 12.9% INCREASE OVER 2004

Born out of need, with a commitment to the principles of honesty and fair play, Northrop Grumman Federal Credit Union was founded on August 26, 1946, as a benefit to Northrop employees. This year as the Credit Union's 60th anniversary is being celebrated, it is with great pride that we reflect on the many milestones that, one by one, have contributed to the outstanding growth of this organization. Over the past sixty years, the Credit Union has helped hundreds of thousands of members and their families achieve their personal dreams of owning a home, acquiring a college education, buying a new car, and saving for that once in a lifetime vacation or an added resource for retirement.

Your Board of Directors supports the standard that service and price (lower loan rates and higher savings rates) are the most sought-after attributes that our membership look for in their Credit Union. Focusing on these strategic drivers will continue to guide our decisions as we plan for the future. As we strive to remain the financial institution of choice for our expanding membership, service and price will continue to differentiate your Credit Union from the competition.

Northrop Grumman Federal Credit Union is a people business. Realizing that our success not only depends on making dreams and aspirations come true for our members, we also respond when needed with our resources to provide "Quality of Life Value" products such as our Voluntary Insurance Programs. Our strengths are derived from that bond of a common employment that exists within the "One Northrop Grumman" community.

For nearly sixty years, employees and retirees of one of the foremost defense providers in America have made their trusted choice for personalized financial services Northrop Grumman Federal Credit Union. We are proud to share our successes with each of you as we fulfill our mission of providing our loyal member/owners an uncommon financial advantage.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 38,205,205	\$ 28,727,838
Investments		
Available-for-sale	174,960,819	198,562,568
Other	17,328,509	22,162,313
Loans to members, net	296,319,240	262,332,766
Accrued interest receivable	2,032,951	1,726,987
Property and equipment	2,410,197	2,610,894
NCUSIF deposit	3,918,651	3,735,018
Other assets	2,475,377	3,133,158
	<u>\$ 537,650,949</u>	<u>\$ 522,991,542</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$ 438,009,489	\$ 405,479,064
Notes payable	39,800,000	60,000,000
Accrued expenses and other liabilities	4,377,339	3,432,638
Total liabilities	<u>482,186,828</u>	<u>468,911,702</u>
Commitments and contingent liabilities		
Members' Equity		
Retained earnings	60,894,906	56,054,498
Accumulated other comprehensive loss	(5,430,785)	(1,974,658)
Total members' equity	<u>55,464,121</u>	<u>54,079,840</u>
	<u>\$ 537,650,949</u>	<u>\$ 522,991,542</u>

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
INTEREST INCOME		
Interest on loans to members	\$ 15,914,695	\$ 15,197,528
Interest on investments and cash equivalents	8,701,246	7,371,284
	<u>24,615,941</u>	<u>22,568,812</u>
INTEREST EXPENSE		
Dividends on members' shares	6,867,801	4,415,972
Interest on notes payable	1,502,771	1,272,508
	<u>8,370,572</u>	<u>5,688,480</u>
NET INTEREST INCOME	16,245,369	16,880,332
PROVISION FOR LOAN LOSSES	518,321	1,900,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>15,727,048</u>	<u>14,980,332</u>
NON-INTEREST INCOME		
Fee income	1,869,380	1,483,129
Interchange income	630,993	542,492
Shared branching income	350,488	358,910
Net realized (loss) gain on sales of available-for-sale investments	(232,923)	248,117
Other	925,261	740,926
	<u>3,543,199</u>	<u>3,373,574</u>
	<u>19,270,247</u>	<u>18,353,906</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	7,202,833	7,189,278
Operations	5,976,094	5,912,032
Occupancy	1,250,912	1,254,180
	<u>14,429,839</u>	<u>14,355,490</u>
NET INCOME	<u>\$ 4,840,408</u>	<u>\$ 3,998,416</u>