



Bethpage
Federal Credit Union

Annual Report

2004



VALUE AND SERVICE

OUR VISION

Commitment to extraordinary **value** and **service**, anytime, anywhere



Directory

Public Access Branches

Bay Shore
591 Montauk Highway

Glen Cove
111 School Street

Hempstead
170 Fulton Avenue

Melville
722 Walt Whitman Road

North Babylon
1350 Deer Park Avenue

Port Jefferson
4802 Nesconset Highway

Riverhead
889 Harrison Avenue

Limited Access Branches

Greenlawn
(BAE Systems employees)

Islandia
(Computer Associates employees)

Local Shared Service Centers

Amityville, Teachers FCU
 Bay Shore, Teachers FCU
 Bohemia, Teachers FCU
 Commack, Teachers FCU
 East Meadow, Nassau County FCU
 Farmingville, Teachers FCU
 Flushing, Qside FCU
 Garden City, Nassau County FCU
 Hauppauge, Long Island State EFCU
 Holbrook, Teachers FCU
 Islandia, Suffolk FCU
 Manhattan, First Entertainment CU
 Manhattan, Skyline FCU

Medford, Suffolk FCU
 Miller Place, Suffolk FCU
 North Babylon, Teachers FCU
 Oceanside, Oceanside Christopher FCU
 Port Jefferson Station, Teachers FCU
 Riverhead, Suffolk FCU
 Seaford, Oceanside Christopher FCU
 Selden, Teachers FCU
 South Setauket, Teachers FCU
 Syosset, Nassau Educators FCU
 Valley Stream, Nassau Educators FCU
 Westbury, Nassau Educators FCU

Main Office

899 S. Oyster Bay Road
 Bethpage, NY 11714
 1.800.628.7070
 www.bethpagefcu.com

Corporate Information

Board of Directors

James J. Joyce
Chairman

Philip Gandolfo
Vice Chairman

Richard B. Turan
Treasurer

Robert F. Kelly
Secretary

Don Balducci
 Francis E. Campbell
 Thomas D. Gill
 John C. Komst
 Sam Piazzola

Associate Directors

Arnold F. Sparr
 Jaci Clement
 Jryl Washington

Supervisory Committee

Peter Letizia
Chairman

Michael W. Grieco
 Joseph Moliterno
 John Scano

Executive Staff

Kirk Kordeleski
President & Chief Executive Officer

Wayne N. Grossé
Executive Vice President

Brian Clarke
Senior Vice President & CFO

Gary Barello
Senior Vice President - Human Resources

Robert Hoppenstedt
Senior Vice President - Member Services

Michele Dean
Vice President & COO, CUSO Operations



We do business in accordance with the Federal Fair Housing Law and the Equal Credit Opportunity Act.



Your savings are federally insured to \$100,000 by the National Credit Union Administration, a U.S. Government agency.



President's Message

Consistent growth and extraordinary service—these phrases characterize the year 2004 at Bethpage Federal Credit Union. The concepts of growth and member service go hand-in-hand as it is through financial growth that Bethpage can provide our members with enhanced services, the best rates in the market, and more extensive product offerings—all benefits of banking at the best financial institution on Long Island!

It is our goal that Long Islanders not merely join Bethpage; we want them to make Bethpage their primary financial institution of choice. That is why it is imperative that we constantly refresh our product mix and services while continuing to offer our members better rates and a higher level of service than they would find elsewhere.

The best value in banking— we return our profits to you!

There is a reason why Bethpage is able to offer higher savings rates and lower loan rates than the banks! Bethpage returns its profits back to the members, not to outside shareholders, in the forms of better rates and lower fees. Whether you are saving for a college education, buying a home or borrowing to renovate your current residence, Bethpage is the best place to turn to make those dreams a reality. Strong financial performance and operational efficiency permit Bethpage to offer the best rates while, at the same time, invest in new products and services.

In 2004, to give our members more choices, especially in a changing rate environment, we introduced the 16-month Certificate, the 39-month Bump-up Certificate and the extremely popular Premium Savings account, which attracted many new members to the credit union.

Our traditional loan products, including the Home Equity Line of Credit and Home Equity loans, saw record volume as well. To make it more convenient to apply for a Bethpage vehicle loan, we have enlarged our in-direct auto dealer channel; it is now possible to acquire a Bethpage vehicle loan at more than 180 dealerships throughout Long Island. Bethpage Business Banking has also been expanded to offer more checking options and other accounts for business owners with better rates, lower fees and our renowned service.

Unmatched member service

Providing the highest level of service—that is nothing less than extraordinary—remains the vision of all of us at Bethpage. Our commitment to service drives us to invest in new computer systems, new branches, new products and more convenient options for our members.

To ensure that Bethpage is providing the highest level of service and convenience, we regularly survey our members to assess how we're doing and to determine how we can improve our performance. In 2004, more than eight out of ten members surveyed indicated that they are "highly to extremely" satisfied with Bethpage, nearly double that of banking customers. We are grateful for your comments, and will continue to work to earn your praise.

You cannot deliver the best service without the best employees. What was particularly encouraging is that you cited the Bethpage staff as the primary reason for your satisfaction with Bethpage. We expect that when you visit a branch or call our Telephone Service Center, you will notice the Bethpage difference—as the staff never loses sight that they're not just speaking to a member, but an owner! We are especially

proud of the dedicated Bethpage staff members that each embody our Vision and ensure that your experience at Bethpage is the best it can be.

More ways to bank with us

Bethpage has consistently invested in the latest technology to make banking at Bethpage simpler, more flexible and more convenient for our members. We remain on the forefront of Online Banking and Telephone Banking services, offering our members access to their accounts 24/7, whether they are home, at work or away on vacation.

We are equally committed to expanding our "bricks and mortar" branch network as well, as many of our members still prefer to bank in person. Our Hempstead branch completed its first year of operation, achieving its goal of providing banking services to this diverse community in need of banking services. With the merger of ALL Federal Credit Union, we have added a branch in North Babylon, our eighth full-service location. Plus, we have begun to pave the way for several new branch openings for 2005, including Huntington Village and Smithtown.

Thank you for your membership

While Bethpage evolves into an even larger and stronger credit union, our Vision remains the same: to provide you, our members, with extraordinary value and service, anytime, anywhere. Please spread the word about Bethpage among your friends and neighbors and suggest that they, too, become members of the best financial institution on Long Island!

Kirk Kordeleski
President and Chief Executive Officer

TO OUR



Chairman's Message

The difference is ownership

We are always mindful that Bethpage Federal Credit Union is a member-owned financial cooperative. The heart of the credit union philosophy is to offer financial services to enrich the lives of its members—to help them purchase homes, buy cars, and save for retirement all at better rates than they'd find elsewhere. By adhering to this mission, we, at Bethpage, not only want to meet, but to consistently exceed the expectations of our members.

Proud to serve the underserved

Bethpage has long supported the "Access Across America" program organized by the National Credit Union Administration (NCUA) to provide financial services to the segments of society that are often ignored by most financial institutions. Bethpage is committed to bringing its banking services to underserved communities of Long Island and helping these residents achieve their dreams.

Focus on the Long Island Community

Bethpage was granted a Community Charter in 2003, and now opens its doors to nearly everyone who lives, works, worships or attends school on Long Island*. To generate awareness among those who were not familiar with Bethpage, we launched our first broad-based advertising in print media. Bethpage became the exclusive sponsor of Newsday's Community Champions

program, a weekly feature that showcases the region's not-for-profit organizations. In addition, Bethpage sponsored such popular events as the Bethpage FCU Air Show at Jones Beach, the Nassau County Fair, and the Long Island Fall Festival at Huntington. As throughout its history, Bethpage has supported philanthropic institutions that provide youth education, recreation, artistic, and healthcare initiatives throughout our region, and we continue to do so today. Through this combination of media promotion, event sponsorship, and charitable involvement, Bethpage has heightened its visibility as both a major financial provider as well as a strong community partner for all of Long Island. In recognition of our service to the Long Island community, the Long Island Association named Bethpage the "2004 Small Business Advocate of the Year."

Growth in financial strength and membership

Of course, none of this could be accomplished without strong financial growth. In 2004, Bethpage's assets grew by 21%, surpassing \$2 billion. This means that not only did Bethpage double in size within the past five years, but also cemented its place as the largest credit union on Long Island in terms of assets. Our loan volume showed consistent growth—over 19% versus the prior year—as more members turned to Bethpage for their mortgage, home equity, and vehicle

loan needs. During the first full year of our Community Charter, our membership grew to more than 126,000 members, a 4% increase. In addition, Bethpage added nearly 50 new Corporate Business Partners, bringing the total number to more than 260 organizations.

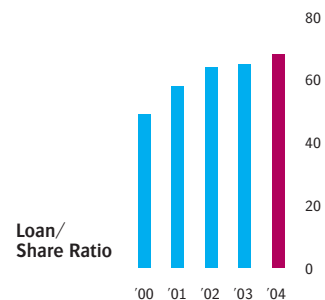
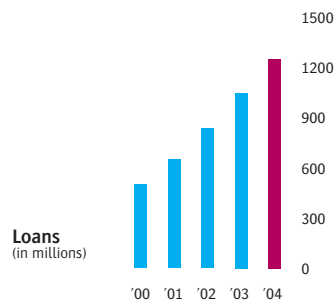
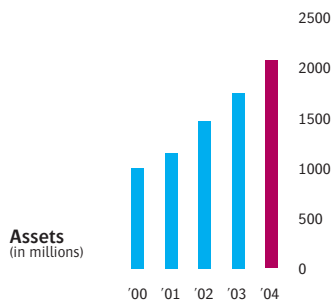
Providing extraordinary value and service, anytime, anywhere

This Vision statement is not just a slogan; it is the cornerstone of our organization and defines the Bethpage difference. Bethpage Federal Credit Union exists to provide financial products to enrich the lives of our members.

On behalf of the employees, the Management team, the Associate Directors, Supervisory Committee, and the volunteer Board of Directors, I want to thank you for your continuing membership and support. It is our unwavering commitment to value and service that has brought your credit union to where we are today, and we will continue to build upon this Vision as we move through 2005 and beyond. We look forward to serving you all now and well into the future.

James J. Joyce
Chairman

*Membership in Bethpage is open to those who live, work, worship or attend school in Nassau County or Suffolk County (excluding East Hampton, Southampton and Shelter Island).



Consolidated Statements of Financial Condition

December 31, 2004 and 2003

(in thousands)

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 60,266	\$ 57,885
Investments		
Available-for-sale	652,510	562,886
Other	63,347	31,653
Loans held for sale	1,234	3,608
Loans receivable, net	1,244,069	1,039,268
Accrued interest receivable	10,146	10,159
Property and equipment	14,451	14,197
National Credit Union Share Insurance Fund deposits	13,964	12,421
Other assets	11,804	12,431
	<u>\$ 2,071,791</u>	<u>\$ 1,744,508</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$1,846,703	\$ 1,523,618
Accrued expenses and other liabilities	41,464	39,160
	<u>1,888,167</u>	<u>1,562,778</u>
Commitments and contingent liabilities		
Members' Equity		
Retained earnings	189,489	179,163
Accumulated other comprehensive (loss) income	(5,865)	2,567
	<u>183,624</u>	<u>181,730</u>
	<u>\$ 2,071,791</u>	<u>\$ 1,744,508</u>

Consolidated Statements of Income

For the years ended December 31, 2004 and 2003
(in thousands)

	2004	2003
INTEREST INCOME		
Interest on loans receivable	\$ 53,860	\$ 50,674
Interest on investments and cash equivalents	20,056	23,334
	<hr/>	<hr/>
Total interest income	73,916	74,008
INTEREST EXPENSE		
Dividends on members' shares	28,261	26,852
	<hr/>	<hr/>
NET INTEREST INCOME	45,655	47,156
PROVISION FOR LOAN LOSSES		
	3,337	2,400
	<hr/>	<hr/>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	42,318	44,756
NON-INTEREST INCOME		
Members' shares service charges and other fees	6,681	4,542
Mortgage servicing and loan fees	2,710	2,702
Gain on sale of mortgage loans	1,908	5,931
Investment services and insurance fees - commissions	1,769	1,396
Other non-interest income	204	1,660
	<hr/>	<hr/>
Total non-interest income	13,272	16,231
	<hr/>	<hr/>
Net income before expenses	55,590	60,987
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	21,383	23,522
Operations	22,145	18,321
Occupancy	2,791	2,500
	<hr/>	<hr/>
Total general and operating expenses	46,319	44,343
	<hr/>	<hr/>
NET INCOME	<u>\$ 9,271</u>	<u>\$ 16,644</u>

Consolidated Statements of Members' Equity and Comprehensive Income (Loss)

For the years ended December 31, 2004 and 2003
(in thousands)

	Regular Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Balance, December 31, 2002	\$ 21,091	\$ 141,428	\$ 162,519	\$ (5,392)	\$ —
Net income		16,644	16,644		16,644
Reclassification adjustment for realized gains on investments included in net income					(155)
Net change in unrealized holding (losses) gains on available-for-sale investments				7,612	7,767
Minimum pension liability				347	347
Comprehensive income					\$ 24,603
Balance, December 31, 2003	21,091	158,072	179,163	2,567	—
Net assets acquired in a merger	293	762	1,055		
Net income		9,271	9,271		9,271
Net change in unrealized holding (losses) gains on available-for-sale investments				(9,236)	(9,236)
Minimum pension liability				804	804
Comprehensive income					\$ 839
Balance, December 31, 2004	\$ 21,384	\$ 168,105	\$ 189,489	\$ (5,865)	

Consolidated Statements of Cash Flows

For the years ended December 31, 2004 and 2003
(in thousands)

	2004	2003
OPERATING ACTIVITIES		
Net income	\$ 9,271	\$ 16,644
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	774	427
Amortization of net premium on investments	6,361	3,589
Provision for loan losses	3,337	2,400
Depreciation and amortization	2,660	1,918
Gain on sale of investments	0	(231)
Write-downs of investments	78	0
Loss on disposal of property and equipment	0	53
Decrease in loans held for sale	2,374	30,051
Decrease (increase) in accrued interest receivable	13	(617)
Increase in other assets	(147)	(9,166)
Increase in accrued expenses and other liabilities	3,108	11,545
	<hr/>	<hr/>
Net cash provided by operating activities	27,829	56,613
INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(300,179)	(280,096)
Proceeds from maturities of available-for-sale investments	194,935	116,381
Proceeds from sales of available-for-sale investments	0	30,246
Purchases of held-to-maturity investments	0	(37,976)
Proceeds from maturities of held-to-maturity investments	0	139,853
Transfer of available-for-sale investment to cash	(55)	55
Net increase in other investments	(31,567)	(2,933)
Net increase in loans receivable	(208,138)	(245,650)
Increase in the National Credit Union Share Insurance Fund deposits	(1,543)	(1,702)
Net assets acquired in a merger	1,055	0
Purchases of property and equipment	(2,914)	(4,597)
	<hr/>	<hr/>
Net cash used in investing activities	(348,351)	(286,419)
FINANCING ACTIVITIES		
Net increase in members' shares	323,085	243,637
	<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	2,381	13,831
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	57,885	44,054
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 60,266	\$ 57,885
	<hr/> <hr/>	<hr/> <hr/>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares	\$ 28,261	\$ 26,852

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

1. SIGNIFICANT ACCOUNTING POLICIES

Organization: Bethpage Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Bethpage e-Strategies, LLC. The Credit Union owns 51% of Land Bound Services, LLC, and CU Settlements Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Other affiliates in which there is at least 20% ownership are accounted for by the equity method; those in which there is less than 20% ownership are carried at cost.

Use of Estimates in the Preparation of Financial Statements: The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Cash, Cash Equivalents and Cash Flows: Cash and cash equivalents consist of cash on hand, demand deposits, overnight investments and non-term share deposits in a corporate credit union. For purposes of reporting cash flows, loans receivable, other investments and members' shares are reported net.

Investments: Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income (loss). Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse.

Loans Receivable and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans receivable is recognized over the terms of the loans and is calculated using the simple interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by non-payment of a monthly installment by the due date.

Large groups of smaller-balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures.

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 collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Transfers and Servicing of Financial Assets: The Credit Union accounts for transfers and servicing of financial assets in accordance with SFAS No. 140, Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities. SFAS No. 140 requires application of a financial component's approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

The Credit Union generally retains the right to service mortgage loans sold to others. The cost allocated to the mortgage servicing rights retained has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income.

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans. The Credit Union stratifies its capitalized mortgage servicing rights based on the type of loan, interest rate and origination date of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

Accrued Interest on Loans: Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

Property and Equipment: Land is carried at cost. Building, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing 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 terms of the related leases.

National Credit Union Share Insurance Fund Deposits: The deposits 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 federally insured Credit Union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board.

NCUSIF Insurance Premium: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2004 and 2003 insurance premiums.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Management.

In prior years, the Credit Union reported members' shares as members' equity in the accompanying consolidated statement of financial condition. This method of accounting was not in accordance with accounting principles generally accepted in the United States of America, which requires members' shares to be reported as liabilities. A qualified opinion was rendered in previously issued consolidated financial statements due to this classification.

Income Taxes: The Credit Union is exempt, by statute, from federal income taxes.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2004, other comprehensive income (loss) includes no reclassification adjustments.

Reclassifications: Certain account reclassifications have been made to the 2003 consolidated financial statements in order to conform to classifications used in the current year.

2. INVESTMENTS

Investments classified as available-for-sale consist of the following (in thousands):

December 31, 2004	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 501,108	\$ 2,879	\$ (3,763)	\$ 500,224
Mortgage-backed securities	152,109	170	(1,349)	150,930
Equity securities	5	1,351	0	1,356
	<u>\$ 653,222</u>	<u>\$ 4,400</u>	<u>\$ (5,112)</u>	<u>\$ 652,510</u>

December 31, 2003	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 530,579	\$ 8,314	\$ (649)	\$ 538,244
Mortgage-backed securities	23,777	24	(126)	23,675
Equity securities	6	961	0	967
	<u>\$ 554,362</u>	<u>\$ 9,299</u>	<u>\$ (775)</u>	<u>\$ 562,886</u>

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2004 are as follows (in thousands):

Available-for-sale	Fair Value	Continuous Unrealized Losses Existing For:		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
U.S. government obligations and federal agencies securities	\$ 366,302	\$ (3,143)	\$ (620)	\$ (3,763)
Mortgage-backed securities	134,569	(1,224)	(125)	(1,349)
	<u>\$ 500,871</u>	<u>\$ (4,367)</u>	<u>\$ (745)</u>	<u>\$ (5,112)</u>

There are a total of 95 investments with unrealized losses as of December 31, 2004. The unrealized losses associated with these investments are considered temporary as the Credit Union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2003 are as follows (in thousands):

Available-for-sale	Fair Value	Continuous Unrealized Losses Existing For:		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
U.S. government obligations and federal agencies securities	\$ 82,850	\$ (649)	\$ 0	\$ (649)
Mortgage-backed securities	11,582	(126)	0	(126)
	<u>\$ 94,432</u>	<u>\$ (775)</u>	<u>\$ 0</u>	<u>\$ (775)</u>

There are a total of 20 investments with unrealized losses as of December 31, 2003. The unrealized losses associated with these investments are considered temporary as the Credit Union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

During 2003, in connection with its asset/liability management program, the Credit Union transferred its entire held to maturity portfolio to its available for sale portfolio. The amortized costs of these securities at the time of transfer was \$413,051,000 and the related unrealized gain was \$15,894,000.

Other investments consist of the following (in thousands):

December 31	2004	2003
Certificates of deposit in banks and savings institutions	\$ 9,288	\$ 4,944
Share certificates in a corporate credit union	45,600	18,600
Member capital account in a corporate credit union	8,459	8,109
	<u>\$ 63,347</u>	<u>\$ 31,653</u>

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

The Credit Union did not have any investment sales in 2004. Gross realized gains and losses on sales of investments available-for-sale were approximately \$159,000 and \$4,000 in 2003, respectively.

At December 31, 2004 there were approximately \$31,915,000 in credit union and bank deposits with individual balances in excess of the insured limit and maturity dates ranging from no maturity to August 2007.

Investments by maturity as of December 31, 2004 are summarized as follows (in thousands):

	Available-for-sale		Other
	Amortized Cost	Fair Value	
No contractual maturity	\$ 5	\$ 1,356	\$ 8,459
Less than 1 year maturity	162,185	162,068	10,249
1 - 5 years maturity	332,767	329,920	44,351
Over 5 years maturity	6,156	8,236	288
Mortgage-backed securities	152,109	150,930	
	<u>\$ 653,222</u>	<u>\$ 652,510</u>	<u>\$ 63,347</u>

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. Equity securities and member capital accounts have been classified with no contractual maturity.

3. LOANS RECEIVABLE

Loans receivable consist of the following (in thousands):

December 31	2004	2003
Mortgage loans:		
Fixed rate	\$ 325,779	\$ 307,364
Variable rate	242,223	202,797
Home equity line of credit, variable rate	367,072	270,472
Business secured loans	9,598	3,278
Commercial participation loans	9,934	0
	<u>954,606</u>	<u>783,911</u>
Vehicle loans	180,836	169,824
Vehicle participation loans	10,521	0
Consumer loans	65,030	55,703
Credit card loans, unsecured	32,293	30,965
	<u>1,243,286</u>	<u>1,040,403</u>
Deferred net loan origination costs	6,155	3,949
Allowance for loan losses	(5,372)	(5,084)
	<u>\$ 1,244,069</u>	<u>\$ 1,039,268</u>

The Credit Union has purchased commercial loan participations originated by various other credit unions. All of these loan participations were purchased without recourse and are secured by real property. The Credit Union also purchased vehicle participation loans that consist of pools of vehicle loans. These loans were purchased non-recourse with limited subordination, in which the Credit Union is responsible for loan losses that exceed 4.5% for one pool and 5.0% for another pool of the original principal balance. The originating credit unions perform all servicing functions on these loans.

The following is an analysis of the allowance for loan losses (in thousands):

Years ended December 31	2004	2003
Balance, beginning of year	\$ 5,084	\$ 5,586
Provision for loan losses	3,337	2,400
Recoveries	839	599
Loans charged off	(4,070)	(3,501)
Allowance for loan losses acquired in merger	182	0
	<u>182</u>	<u>0</u>
Balance, end of year	<u>\$ 5,372</u>	<u>\$ 5,084</u>

Loans on which accrual of interest has been discontinued or reduced amounted to approximately \$1,699,000 and \$2,039,000, respectively, at December 31, 2004 and 2003.

Outstanding mortgage loan commitments at December 31, 2004 and 2003 total approximately \$40,273,000 and \$47,045,000, respectively.

Available credit on home equity and unsecured lines of credit is summarized as follows (in thousands):

December 31	2004	2003
Home equity	\$ 207,616	\$ 157,694
Credit card	113,909	95,908
Other consumer	90,267	87,311
Other unused member business loan	95	293
	<u>\$ 411,887</u>	<u>\$ 341,206</u>

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the consolidated financial statements.

4. 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 at December 31, 2004 and 2003 are summarized as follows (in thousands):

December 31	2004	2003
Mortgage loans underlying pass-through securities:		
FNMA	\$ 722,370	\$ 632,175
Charlie Mac, LLC	6,656	0
	<u>\$ 729,026</u>	<u>\$ 632,175</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately \$2,787,000 and \$2,186,000 at December 31, 2004 and 2003, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2004 and 2003 were as follows (in thousands):

Years ended December 31	2004	2003
Balance, beginning of year	\$ 6,184	\$ 1,622
Servicing assets recognized during the year	1,614	4,989
Amortization of servicing assets	(774)	(427)
Balance, end of year	<u>\$ 7,024</u>	<u>\$ 6,184</u>
Fair value of mortgage servicing rights	\$ 7,685	\$ 6,974

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows (in thousands):

December 31	2004	2003
Land	\$ 1,712	\$ 1,712
Building	12,343	12,085
Furniture and equipment	6,784	6,200
Data processing	9,752	7,727
Leasehold improvements	1,820	1,756
	<u>32,411</u>	<u>29,480</u>
Accumulated depreciation and amortization	<u>(17,960)</u>	<u>(15,283)</u>
	<u>\$ 14,451</u>	<u>\$ 14,197</u>

6. MEMBERS' SHARES

Members' shares are summarized as follows (in thousands):

December 31	2004	2003
Regular shares	\$ 696,165	\$ 315,768
Share draft accounts	179,175	160,262
Money market accounts	434,297	564,682
Individual retirement accounts – Money Market	151,510	168,784
Certificates	385,556	314,122
	<u>\$ 1,846,703</u>	<u>\$ 1,523,618</u>

Shares by maturity as of December 31, 2004 are summarized as follows (in thousands):

No contractual maturity	\$ 1,461,147
0 - 1 year maturity	179,959
1 - 2 years maturity	51,432
2 - 3 years maturity	45,189
3 - 4 years maturity	73,331
4 - 5 years maturity	35,645
	<u>\$ 1,846,703</u>

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

Members' shares are insured up to \$100,000 through the National Credit Union Share Insurance Fund.

The aggregate amount of certificates in denominations of \$100,000 or more at December 31, 2004 and 2003 is approximately \$79,356,000 and \$51,375,000, respectively.

7. CONCENTRATIONS OF CREDIT RISK

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. Under a community charter approved during 2003 by the National Credit Union Administration ("NCUA"), the Credit Union's field of membership includes all individuals who live, work, worship or attend school in New York's Nassau County and in substantially all of New York's Suffolk County. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which borrowers reside.

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of \$50,000,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2004 and 2003, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union has approximately \$9,707,000 and \$10,000,000 outstanding commitments to sell loans at December 31, 2004 and 2003, respectively. There are no commitments to sell investments at December 31, 2004.

9. EMPLOYEE BENEFITS

The Credit Union sponsors a funded, non-contributory defined benefit pension plan for the benefit of its employees. The Credit Union also sponsors an un-funded, non-contributory non-qualified defined benefit Supplemental Executive Retirement plan. The plans call for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist primarily of equity securities. During the year ended December 31, 2004, the mortality table was updated from the 1983 Group Annuity Mortality Table to the RP2000 Mortality Table.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee's age, years to retirement, and years to Medicare benefits. Other assumptions include that the plan will pay a portion of the health care premium for the retirees, and a factor of the health care cost trend rate. During the year ended December 31, 2004, the mortality table was updated from the 1983 Group Annuity Mortality Table to the RP2000 Mortality Table.

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2004 and 2003 are as follows (in thousands):

	Pension Plans		Postretirement Benefit	
	2004	2003	2004	2003
Benefit obligation at December 31	\$ 25,545	\$ 24,011	\$ 5,889	\$ 4,511
Fair value of plan assets	20,232	14,761	0	0
Funded status	<u>\$ (5,313)</u>	<u>\$ (9,250)</u>	<u>\$ (5,889)</u>	<u>\$ (4,511)</u>
Accrued benefit cost recognized in the consolidated statements of financial condition	\$ 3,838	\$ 7,854	\$ 2,750	\$ 2,385
Accumulated benefit obligation	<u>\$ 23,936</u>	<u>\$ 22,521</u>	<u>\$ 0</u>	<u>\$ 0</u>
Assumptions used to determine benefit obligation:				
Discount rate	6.00%	6.25%	6.00%	6.25%
Rate of compensation increase	5.00%	6.00%	-	-
Net pension cost	\$ 1,491	\$ 2,907	\$ 742	\$ 581
Employer contribution	\$ 4,718	\$ 1,978	\$ 217	\$ 188
Benefit payments	\$ 994	\$ 1,511	\$ 217	\$ 188
Assumptions used to determine net pension cost:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Discount rate—special termination benefits	N/A	6.25%	N/A	6.25%
Expected long-term return on plan assets	8.00%	8.00%	-	-
Rate of compensation increase	6.00%	6.00%	-	-

The net pension costs for 2003 includes \$964,000 of special termination benefits expenses associated with an early retirement plan and a settlement loss of \$227,000.

	Postretirement Benefit	
	2004	2003
Assumptions used to determine health care inflation:		
Medical trend rates	12.0% - 5.0%	13.0% - 4.8%
Dental trend rates	8.0% - 5.0%	7.0% - 5.0%
Year of ultimate rate achievement	2013	2012

The funded, non-contributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

The Credit Union's pension plan weighted-average asset allocations by asset category are as follows:

	Pension Plans	
	2004	2003
Equity securities	81%	81%
Debt securities	19%	19%
	<u>100%</u>	<u>100%</u>

Bethpage Federal Credit Union's pension's investment strategies are to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The investment strategies are targeted to produce a total return that, when combined with Bethpage Federal Credit Union's contributions to the Plan, will maintain the funds' ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash. The aggregate fund allocation guidelines are as follows:

Asset Class	Minimum	Maximum
Large Cap Domestic Equity	30%	80%
Small Cap Domestic Equity	5%	25%
International Equity	10%	35%
Intermediate Fixed Income	15%	40%
Cash and Cash Equivalents	3%	50%

The Credit Union expects to contribute \$1,306,000 to the pension plans and \$295,000 to the postretirement plan in 2005.

The following pension and postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

Year ending December 31	
2005	\$ 1,250
2006	1,326
2007	1,367
2008	1,420
2009	1,479
2010 - 2014	<u>8,614</u>
	<u>\$ 15,456</u>

The Credit Union has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately \$458,000 and \$431,000, respectively, to the plan for the years ended December 31, 2004 and 2003.

10. MEMBERS' EQUITY

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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and 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 to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2004 and 2003 were 5.7% and 5.7%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. 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, and December 31, 2003, 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% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table (in thousands):

	December 31, 2004		December 31, 2003	
	Amount	Ratio/Requirement	Amount	Ratio/Requirement
Amount needed to be classified as "adequately capitalized"	\$ 124,307	6.0%	\$ 104,670	6.0%
Amount needed to be classified as "well capitalized"	\$ 145,025	7.0%	\$ 122,116	7.0%
Actual net worth	\$ 189,489	9.1%	\$ 179,163	10.3%

Because the RBNW requirement is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

11. BUSINESS COMBINATION

On October 29, 2004, the Credit Union merged with AIL Federal Credit Union. The merger was accounted for similar to a pooling of interest. The statement of financial condition and the results of operations and cash flows of AIL Federal Credit Union prior to the merger date were not included in the consolidated financial statements, since the effect would have not been significant. The unaudited results of operations and applicable account balances of the separate entity for periods prior to the combination are as follows (in thousands):

	October 31, 2004	December 31, 2003
Total assets	\$ 12,074	\$ 12,707
Loans receivable	3,021	3,788
Allowance for loan losses	(220)	(45)
Members' shares	10,902	11,201
Members' equity	1,055	1,452
Net loss	(398)	(187)

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members, and executive officers. The aggregate loans to related parties at December 31, 2004 and 2003 are \$4,157,920 and \$2,601,574, respectively. Deposits from related parties at December 31, 2004 amounted to \$2,472,819.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or 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 class of financial instruments for which it is practicable to estimate fair value:

Investments

Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans Receivable

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the Credit Union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

Members' Shares

The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Off-Balance-Sheet Financial Instruments

The fair values for the Credit Union's off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The estimated fair value of the Credit Union's financial instruments are summarized as follows (in thousands):

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 60,266	\$ 60,266	\$ 57,885	\$ 57,885
Investments				
available-for-sale	652,510	652,510	562,886	562,886
Other investments	63,347	63,347	31,653	31,653
Loans held for sale and loans receivable, net	1,245,303	1,237,587	1,042,876	1,050,925
Accrued interest receivable	10,146	10,146	10,159	10,159
Financial Liabilities:				
Members' shares	1,846,703	1,846,696	1,523,618	1,527,021

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial condition of Bethpage Federal Credit Union (a federally chartered credit union) and Subsidiaries as of December 31, 2004 and the related consolidated statements of income, members' equity and comprehensive income (loss), and cash flows for the year 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 audit. The consolidated financial statements of Bethpage Federal Credit Union and Subsidiaries for the year ended December 31, 2003 were audited by other auditors whose report, dated March 23, 2004,

expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe our audit provides 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 Bethpage Federal Credit Union and Subsidiaries as of December 31, 2004 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



McGladrey & Pullen
Beverly, Massachusetts
March 17, 2005

Supervisory Committee's Message

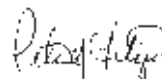
The Supervisory Committee is composed of independent volunteers who are primarily responsible for ensuring that the financial condition of Bethpage Federal Credit Union is accurately stated and presented. The Committee is also responsible for verifying that the Credit Union is responding to members' needs, requests and suggestions. During 2004, the Credit Union engaged the services of McGladrey & Pullen, LLP to conduct the annual audit of Bethpage Federal Credit Union's financial statements. An annual audit is required by federal regulations. The 2004 audited financial statements of the Credit Union, and related independent auditor's reports, are included in this annual report.

The year 2004 continued the growth trend for the Credit Union. Bethpage has surpassed \$2 billion in assets, which have doubled over the last five years. The Credit Union has been planning for this growth. A couple of key areas to mention are the continual upgrades in technology applications and infrastructure, as well as working on implementing metrics to measure operational and financial performance. These continued improvements to systems and processes help to reduce risk while continuing to maintain high levels of service and member satisfaction.

This past year, the Bethpage Federal Credit Union also changed its auditors to

the credit union industry experts McGladrey & Pullen, LLP. They will help provide better insight into how to plan for future regulatory changes and risks that are unique to the credit union industry. This will provide the Credit Union a higher level of service than it had in the past.

As the Bethpage Federal Credit Union continues to evolve, these steps provide assurance that the financial condition is accurately stated and presented.



Peter Letizia
Supervisory Committee Chairman



Bethpage
Federal Credit Union

Banking among friends[®]

1.800.628.7070 www.bethpagefcu.com