2007 ANNUAL REPORT

CONVENIENCE | SERVICE | GROWTH

Bethpage
Federal Credit Union

OUR VISION

Commitment to extraordinary

value and **service**, anytime, anywhere.

Main Office

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

Directory

Public Access Branches

Bethpage (Main Office)
899 South Oyster Bay Road

Bay Shore
591 Montauk Highway

Commack (King Kullen Supermarket)
120 Veterans Highway

Farmingdale
1033 Route 109

Freeport
210 West Merrick Road

Glen Clove
111 School Street

Hempstead
170 Fulton Avenue

Huntington
33 Gerard Street

Levittown (King Kullen Supermarket)
3284 Hempstead Turnpike

Lynbrook
613 Sunrise Highway

Massapequa
6257 Sunrise Highway

Melville
722 Walt Whitman Road (Rte. 110)

Mineola
131 Jericho Turnpike

North Babylon
1350 Deer Park Avenue

Port Jefferson
4802 Nesconset Highway

Riverhead
1095 Old Country Road

Smithtown
240 Middle Country Road

Limited Access Branches

Islandia (CA employees only)

Local Shared Service Centers

Amityville, Teachers FCU
Bay Shore, Teachers FCU
Briarwood, Melrose FCU
Central Islip, Teachers FCU
Commack, Teachers FCU
East Meadow, Nassau Financial FCU
Farmingdale, Sperry Associates FCU
Farmingville, Teachers FCU
Flushing, Qside FCU
Garden City Park, Sperry Associates FCU
Garden City, Nassau Financial FCU
Hauppauge, Island FCU
Hauppauge, Long Island State EFCU
Hicksville, Island FCU
Holbrook, Teachers FCU
Islandia, Suffolk FCU
Manhattan, First Entertainment CU
Manhattan, Justice FCU
Manhattan, Skyline FCU
Massapequa, Nassau Educators FCU
Medford, Suffolk FCU
Miller Place, Suffolk FCU
Mineola, Winthrop-University Hospital CU
North Babylon, Teachers FCU
Oceanside, Nassau Financial FCU
Oceanside, Oceanside Christopher FCU
Plainview, Nassau Educators FCU
Port Jefferson Station, Teachers FCU
Riverhead, Suffolk FCU
Riverhead, Teachers FCU
Rockville Centre, Nassau Educators FCU
Rocky Point, Teachers FCU
Sayville, Island FCU
Seaford, Oceanside Christopher FCU
Selden, Teachers FCU
Smithtown, Teachers FCU
South Setauket, Teachers FCU
Syosset, Nassau Educators FCU
Valley Stream, Nassau Educators FCU
West Babylon, Suffolk FCU
Westbury, Nassau Educators FCU

EQUAL HOUSING LENDER

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

NCUA

Your savings are federally insured to at least $100,000 and backed by the full faith and credit of the United States Government.

Corporate Information

Board of Directors

Philip Gandolfo, Chair
Richard B. Turan, Vice Chair
Robert F. Kelly, Secretary
Don Balducci, Treasurer

Francis E. Campbell
Thomas D. Gill
John C. Komst
Dr. Michelle Nearon
Sam Piazzola

Associate Directors
Jaci Clement
Jorge A. Martinez

Supervisory Committee

Peter Letizia, Chair
Joseph Moliterno, Secretary

Ann Butera
John Scano

Executive Team

Kirk Kordeleski
President & Chief Executive Officer

Wayne N. Grossé
Chief Operating Officer

Brian Clarke
Senior Vice President & CFO

Robert Hoppenstedt
Senior Vice President, Operations & Marketing

Michele Dean
Senior Vice President, Lending
& COO, CUSO Operations

Linda Armyn
Vice President, Corporate Development
& Government Affairs

James Breen
Vice President, Information Technology

Gary Jendras
Vice President, Internal Audit

Kevin Kavanah
Vice President, Branch Administration
& Business Services

Lisa King
Vice President, Human Resources

Gerard Schmitt
Vice President, Marketing

President's Message

Bethpage Federal Credit Union — our success is in the numbers! In October 1941, we had one small location servicing only employees of Grumman Corporation. At the end of 2007, we had 15 full service branches servicing all of Long Island. In 2008 we're adding Freeport and Massapequa with additional branches planned!

The reason behind our success and growth: We are not a bank. We are your credit union and you own us. You trust us and are very satisfied with Bethpage; 98% of surveyed members were either satisfied or extremely satisfied with the service received. Today, Bethpage is the number one credit union on Long Island with over $3.0 billion in assets. It is because of you — our members, our owners.

Our Service Promise to You

Our mission has always been to provide extraordinary value and service to each of our members. We provide value through the highest savings rates, lowest loan rates and lowest fees of any financial institution on Long Island, but that is only part of the story. Relationships are built through the service that is provided every day.

Lynbrook Branch Manager, Linda S., was contacted by a member just before the branch closed to say she was on her way over with funds drawn from her account at another financial institution. As a result of Linda staying past closing, the member was able to open additional accounts and receive information on Bethpage car loans. The member was very appreciative of Linda's patience in handling her accounts and keeping the branch open late for her. Linda leads by example, showing how important it is to WOW our members with great service!

You will always receive the most extraordinary service we are capable of providing when you walk into a branch, call our Telephone Service Center, or log onto our website. And that is a promise! We are working with highly respected organizations like JD Power & Associates to manage and measure member satisfaction, we send out post transactional surveys for instant feedback on our performance, and we introduced internal surveys to measure how well our employees support each other to deliver on our service promise.

Continued Commitment to Our Members

Another way we show our commitment is through our ever-growing network of convenient products, services and locations!

50+ Loctations. There are more than 50 locations across Long Island where you can access your accounts, including 17 full-service Bethpage branches! If you can't find a Bethpage branch near your home or work, you can be sure there is one of more than 35 Shared Service Centers nearby. We are even open seven days a week in our King Kullen branches! Mineola was added to our branch network and construction began on our newest branches in Freeport and Massapequa. Visit **www.bethpagefcu.com** for a location near you.

200+ Surcharge-Free ATMs Located Wherever You Need Them. Across Long Island, you have surcharge-free access to more than 200 ATMs. As a Bethpage member, you will find surcharge-free ATMs in every 7-Eleven, King Kullen, Costco and Walgreens on Long Island — because we don't think you should pay to access your own money!

2,900+ Shared Service Centers Across the United States. A Shared Service Center is owned by multiple credit unions, including Bethpage! As a Bethpage member, you can conduct many of the same transactions at these locations that you can at your Bethpage branch, including: make deposits, withdrawals and transfers, get account histories, cash checks, make loan payments and receive notary services! To find a Shared Service Center, go to www.creditunion.net.

138,500+ Bethpage Members. Bethpage members represent a diverse cross-section of the economy, including employees of the largest organizations on Long Island. Becoming a member has never been easier! Bethpage membership is open to anyone who lives, works, worships, goes to school or regularly does business in Nassau or Suffolk counties (with the exception of East Hampton, Southampton and Shelter Island).

Continued Commitment to Long Island

Bethpage joined the GreenLevittown.com campaign under a proposal by Nassau County Executive Thomas Suozzi. The plan seeks to retrofit Levittown's 17,000 homes with energy-saving equipment. As a partner in the GreenLevittown.com campaign, Bethpage offers Levittown residents exclusive financing opportunities.

Levittown is just one of the communities we serve directly through our network of branches. We are actively involved in all the communities where we have branches, from Riverhead to Hempstead and everywhere in-between. We partner with local businesses like the Book Revue in Huntington and provide financial education to community groups like local chapters of the Girl Scouts.

Providing sound and trustworthy financial advice to all Long Islanders is part of our organizational DNA. Toward that end, Bethpage hosted a Latino Roundtable to better understand the needs of this population. An initiative to reach this often underserved group will be launched in 2008.

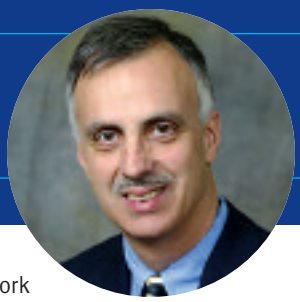
As new opportunities arise throughout Long Island that benefits you, our members, Bethpage will be a supporter and a partner.

Bethpage continues to lead the way in financial institutions — for our members and because of our members. We look forward to seeing you in the branches and being able to serve your financial needs.

Thank you.

Kirk Kordeleski | President and Chief Executive Officer

Chairman's Message



During these uncertain financial times, Bethpage Federal Credit Union stands out as a model of stability. As a not-for-profit financial cooperative, Bethpage Federal Credit Union is actually owned by its members — we put the needs of our members first. Banks exist for the primary purpose of providing profits for their outside stockholders. Plus, unlike banks that have a paid board or directors representing their shareholders, here we have a volunteer board of directors whose only interest is protecting yours.

In 2007, Bethpage Federal Credit Union achieved another year of phenomenal growth. By continuing to provide extraordinary service and value to our members, our market share on Long Island grew by almost 12% and our assets topped the $3 billion mark. Our continued growth is a direct result of the trust our members place in us and I thank you for your support.

At Bethpage, we invest profits back into better rates and into serving you. Any earnings that are generated are re-invested in new branches, new products and services, new technologies...all to provide even more safety, efficiency and convenience for our member/owners.

Bethpage Federal Credit Union **is** banking among friends. Since our start with Grumman employees in 1941, Bethpage has consistently done what was right, and best, for our members, our owners!

The Heart of Bethpage Beats for All Long Islanders

The credit union philosophy of People Helping People is the foundation for every decision we make; and it is why we continue to invest in the communities and future of Long Island through support of not-for-profit and charitable organizations that serve the residents.

Bethpage employees once again stepped up and donated more than 1,000 hours to volunteers with a variety of not-for-profit groups building wheelchair ramps, providing teams to help with backyard clean-up for the elderly and holiday shopping with foster children and their families. Our work with groups such as United Way, Rebuilding Together, Project GRAD, Education & Assistance Corp., just to name a few, provides us an opportunity to get out into the communities we have branches in.

Our not-for-profit workshops continued in partnership with the Association for Fundraising Professionals of Long Island (AFP-LI) and with the Center for Not-For-Profit Leadership at Adelphi University. Workshops in 2007 provided attendees with the opportunity to discuss a variety of topics including finding the right accounting firm, how to put together the best board for their organization, and how to approach political representatives to obtain support for their causes.

In addition to our continued work with Long Island's not-for-profit and charitable organizations, Bethpage also launched a new media partnership with some of these groups — The Heart of Bethpage. The goal of this program is to generate awareness of Bethpage's efforts for these worthy causes and to generate goodwill and support for the organizations themselves. The Heart of Bethpage promotes each partner charity for a three-month period in the media via print and radio ads. The group chosen to launch the program in 2007 was Island Harvest; four new groups will be promoted in 2008.

the Heart of Bethpage
Bethpage Federal Credit Union

Bethpage in the Community

Bethpage's presence in the community is seen and felt year-round. However, between Memorial Day and the end of the year, Bethpage's presence is even more apparent!

The Bethpage Federal Credit Union Air Show at Jones Beach kicked-off the 2007 summer season for over 400,000 attendees with the featured U.S. Air Force Thunderbirds. We will see the return of this Memorial Day Weekend staple with the U.S. Navy Blue Angels in 2008!

Families were able to sit under the stars with a picnic dinner listening to legendary performers at the Planting Fields Arboretum throughout the summer. Kids under 10 years old went free at the FOTA Summer Festival courtesy of Bethpage!

Almost 85,000 people turned out for the Girl Scouts of Suffolk County Holiday Light Show during November and December 2007. Bethpage was a part of that — providing a stop along the tour. Bethpage employees created and built a Bethpage "house" complete with blue lights to help raise over $100,000 for the Girl Scouts of Suffolk County outreach programs!

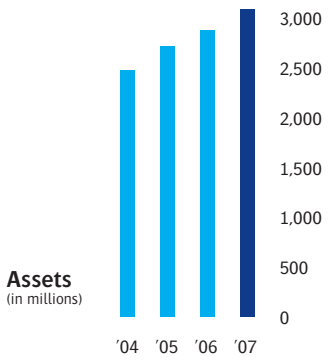
It is because of our members that Bethpage is able to take part in these events and give back to Long Island year after year! So from everyone involved in the day-to-day running of Bethpage Federal Credit Union, we thank you, our members, for your ongoing support!

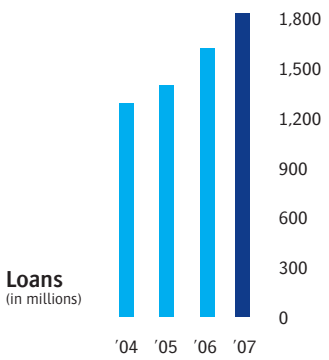
Philip Gandolfo | Chairman

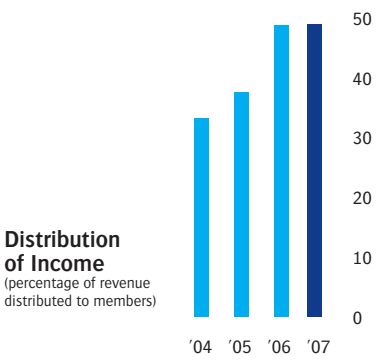
Consolidated Statements of **Financial Condition**

December 31, 2007 and 2006 (in thousands)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 41,324	$ 139,190
Investments		
Available-for-sale	843,304	551,847
Other	235,816	98,276
Loans held for sale	715	340
Loans receivable, net	1,834,540	1,634,483
Mortgage servicing rights, net	5,029	6,136
Accrued interest receivable	15,429	12,578
Property and equipment	17,742	15,075
National Credit Union Share Insurance Fund deposits	20,396	15,656
Other assets	3,566	3,688
	$ 3,017,861	$ 2,477,269
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 2,496,231	$ 2,185,764
Borrowed funds	241,031	35,491
Accrued expenses and other liabilities	38,048	37,748
Total liabilities	2,775,310	2,259,003
Commitments and contingent liabilities		
Members' equity		
Retained earnings	237,701	224,726
Accumulated other comprehensive loss	4,850	(6,460)
Total members' equity	242,551	218,266
	$ 3,017,861	$ 2,477,269







The accompanying notes are an integral part of these statements.

Consolidated Statements of **Income**

For the years ended December 31, 2007 and 2006 (in thousands)

	2007	2006
INTEREST INCOME		
Interest on loans receivable	$ 112,268	$ 95,778
Interest on investments and cash equivalents	41,938	28,557
Total interest income	154,206	124,335
INTEREST EXPENSE		
Dividends on members' shares	90,895	68,317
Interest on borrowed funds	4,529	316
Total interest expense	95,424	68,633
NET INTEREST INCOME	58,782	55,702
PROVISION FOR LOAN LOSSES	9,289	6,590
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	49,493	49,112
NON-INTEREST INCOME		
Members' shares service charges and other fees	8,113	8,165
Mortgage servicing and loan fees	1,203	2,955
Gain on sale of mortgage loans	615	236
Investment services and insurance fees – commissions	4,370	4,688
Other non-interest income	1,855	171
Total non-interest income	16,156	16,215
Net income before expenses	65,649	65,327
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	24,179	22,200
Operations	24,038	23,757
Occupancy	4,457	4,028
Total general and administrative expenses	52,674	49,985
NET INCOME	$ 12,975	$ 15,342

The accompanying notes are an integral part of these statements.

Consolidated Statements of **Members' Equity & Comprehensive Income (Loss)**

For the years ended December 31, 2007 and 2006 (in thousands)

	Regular Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2005	$ 21,384	$ 188,000	$ 209,384	$ (17,019)	$ –
Net income		15,342	15,342		15,342
Net change in unrealized holding (losses) gains on available-for-sale investments				4,188	4,188
Minimum pension liability				6,371	6,371
Comprehensive income					$ 25,901
Balance, December 31, 2006	21,384	203,342	$ 224,726	(6,460)	–
Net income		12,975	12,975		12,975
Net change in unrealized holding (losses) gains on available-for-sale investments				11,310	11,310
Comprehensive income					$ 24,285
Balance, December 31, 2007	$ 21,384	$ 216,317	$ 237,701	$ 4,850	

The accompanying notes are an integral part of these statements.

Consolidated Statements of **Cash Flows**

For the years ended December 31, 2007 and 2006 (in thousands)

	2007	2006
OPERATING ACTIVITIES		
Net income	$ 12,975	$ 15,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	1,598	1,523
Amortization of net premium on investments	891	3,050
Provision for loan losses	9,289	6,590
Gain on sale of loans	(615)	(236)
Depreciation and amortization	2,819	2,641
(Increase) decrease in loans held for sale	(375)	522
Increase in accrued interest receivable	(2,851)	(728)
Increase in other assets	122	310
Increase (decrease) in accrued expenses and other liabilities	300	(12,722)
Net cash provided by operating activities	24,153	16,292
INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(1,099,927)	(118,203)
Proceeds from maturities of available-for-sale investments	245,454	158,290
Proceeds from sale of available-for-sale investments	573,435	—
Net (increase) decrease in other investments	(137,540)	3,025
Net increase in loans receivable	(209,222)	(222,450)
Increase in the National Credit Union Share Insurance Fund deposit	(4,740)	(1,701)
Comprehensive income	—	6,371
Purchases of property and equipment	(5,486)	(3,821)
Net cash used in investing activities	(638,026)	(179,489)
FINANCING ACTIVITIES		
Increase in borrowed funds	695,369	35,491
repayment of borrowed funds	(489,829)	—
Net increase in members' shares	310,467	197,961
Net cash provided by financing activities	516,007	233,452
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(97,866)	71,255
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	139,190	67,935
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 41,324	$ 139,190
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 95,121	$ 68,634

The accompanying notes are an integral part of these statements.

A. 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 Management Services, 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 nonterm share deposits in a corporate credit union. For purposes of reporting cash flows, loans receivable, other investments, 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 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.

Federal Home Loan Bank Stock: The Credit Union as a member of the Federal Home Loan Bank (FHLB) system is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans and 4.5% of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value. Therefore, the Credit Union's investment in FHLB stock is covered at cost and tested for impairment. At December 31, 2007, management did not believe the stock was impaired.

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 nonpayment of a monthly installment by the due date.

The Credit Union maintains its allowance for loan losses in accordance with SFAS No. 5, "Accounting for Contingencies," and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Both statements require the Credit Union to evaluate the collectibility of interest and principal loan payments. SFAS No. 5 requires the accrual of a loss when it is probable that a loan has been impaired and the amount of the loss can be reasonably estimated. SFAS No. 114 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price of fair value of the collateral.

A loan is defined under SFAS No. 114 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Credit Union considers its investment in residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under SFAS No. 5. With respect to the Credit Union's investment in commercial and other loans, and its evaluation of impairment thereof, management believes such loans are adequately collateralized and as a result impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

It is the Credit Union's policy to charge off unsecured credits that are more than ninety days delinquent. Similarly, collateral-dependent loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 at that time.

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 collectibility 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: Prior to January 1, 2007, the Credit Union accounted for transfers and servicing of financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 required 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.

Beginning January 1, 2007, the Credit Union accounts for the right to service mortgage loans sold to others under SFAS No. 156, "Accounting for Servicing of Financial Assets — an amendment of FASB statement No. 140." 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.

SFAS No. 156 requires the Credit Union to recognize as a separate asset the right to service mortgage loans for others as of January 1, 2007. An institution that acquires mortgage servicing rights through either the purchase or the origination of mortgage loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the mortgage servicing rights. Under SFAS No. 156, the Credit Union could elect to either amortize the mortgage servicing rights over the life of the loan or carry the mortgage servicing rights at fair value. Under both methodologies, the mortgage servicing rights would be tested for impairment. Management elected to continue with the amortization method of accounting for mortgage servicing rights.

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, term, investor, maturity date 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.

The Credit Union entered into loan sales agreements that due to the terms of the agreements are required to be classified as secured borrowings under SFAS No. 140.

The mortgage servicing rights recorded by the Credit Union, calculated in accordance with SFAS No. 140 for those rights acquired prior to January 1, 2007 and under SFAS No. 156 for those rights acquired subsequent to January 1, 2007, were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic" value of the pool, i.e., the net realizable present value to an acquirer of the servicing rights.

The valuation of mortgage servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management's assumptions regarding mortgage prepayment speeds and interest rates. Impairment is measured based on the fair value of each pool. Management utilizes periodic third-party valuations by qualified market professionals to evaluate the fair value of its capitalized mortgage servicing assets.

Accrued Interest on Loans: Interest is accrued as earned unless the collectibility of the loan is in doubt. 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 nonaccrual status or subsequently charged off are 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 Deposit: The deposit 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.

Members' Shares: Members' shares are the 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.

Income Taxes: The Credit Union is exempt, by statute, from Federal and state income taxes.

Pension Plan: The Credit Union has a qualified, noncontributory defined-benefit pension plan covering substantially all of its employees. The Credit Union's policy is to fund an amount in excess of the minimum amount required under ERISA.

The Credit Union adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)" effective January 1, 2007. SFAS No. 158 requires an employer to: (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end balance sheet; and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. SFAS No. 158

does not change how an employer determines the amount of net periodic benefit cost. The Credit Union adopted the provisions requiring the measurement date as of the balance sheet date for the year ended December 31, 2007. There was no effect on the balance sheet or income statement for the adoption of SFAS No. 158.

Comprehensive Income: The Credit Union records unrealized gains and losses on available-for-sale securities in other comprehensive income in the members' equity. Gains and losses on available-for-sale, securities reclassified to net income as gains or losses are realized upon the sale of securities. There were no reclassification adjustments for either year ended December 31, 2007 or 2006.

Recent Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." The Statement is effective for all financial statements issued for fiscal years beginning after November 15, 2007, or January 1, 2008 as to the Credit Union. The Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Adoption of SFAS No. 157 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year after November 15, 2007, or January 1, 2008 as to the Credit Union. The Credit Union adopted SFAS No. 159 as required without material effect on the statement of financial condition or statement of income, as management did not identify any financial assets or liabilities to which to apply the fair values.

B. INVESTMENTS

Investments classified as available-for-sale consist of the following:

December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 233,148	$ 1,149	$ (243)	$ 234,054
Mortgage-backed securities	326,261	3,511	(375)	329,397
Municipal bonds	45,883	808	—	46,691
Auction rate securities	233,162	—	—	233,162
	$ 838,454	$ 5,468	$ (618)	$ 843,304

December 31, 2006	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	$ 404,870	$ 69	$ (5,474)	$ 399,465
Mortgage-backed securities	136,403	318	(1,296)	135,425
Municipal bonds	17,034	22	(99)	16,957
	$ 558,307	$ 409	$ (6,869)	$ 551,847

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, 2007 and 2006 are as follows (in thousands):

December 31, 2007		Continuous Unrealized Losses Existing For:					
Available- for-sale	Fair Value	No. of Securities	Less Than 12 Months	No. of Securities	More Than 12 Months	No. of Securities	Total Unrealized Losses
U.S. government obligations and Federal agencies securities	$105,576	—	$ —	21	$ (243)	21	$ (243)
Mortgage-backed securities	51,356	7	(48)	13	(327)	20	(375)
	$156,932	7	$ (48)	34	$ (570)	41	$ (618)

December 31, 2006		Continuous Unrealized Losses Existing For:					
Available- for-sale	Fair Value	No. of Securities	Less Than 12 Months	No. of Securities	More Than 12 Months	No. of Securities	Total Unrealized Losses
U.S. government obligations and Federal agencies securities	$380,078	29	$ (271)	68	$(5,203)	97	$(5,474)
Mortgage-backed securities	72,695	9	(97)	23	(1,199)	32	(1,296)
Municipal bonds	14,154	3	(56)	2	(43)	5	(99)
	$466,927	41	$ (424)	93	$(6,445)	134	$(6,869)

The unrealized losses associated with these investments are considered temporary as the Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the temporary unrealized loss is due to the interest rate and credit environment.

Other investments consist of the following:

December 31	2007	2006
Certificates of deposit in banks and savings institutions	$ 12,367	$ 2,990
Share certificates in a corporate credit union	202,000	84,000
Federal Home Loan Bank	12,115	2,344
Member capital account in a corporate credit union	9,334	8,942
	$ 235,816	$ 98,276

Certificates are generally nonnegotiable and nontransferable, 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 Credit Union held $12,115 and $2,344 of Federal Home Loan Bank of New York (FHLBNY) stock as of December 31, 2007 and 2006. FHLBNY stock is a restricted investment and is carried at cost, which is par value.

At December 31, 2007 and 2006, there were approximately $239,368 and $201,649, respectively, in credit union and bank deposits with individual balances in excess of the insured limit.

Investments by maturity as of December 31, 2007 are summarized as follows:

	Available-for-sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ —	$ —	$ 21,449
Less than 1 year maturity	401,140	401,152	132,123
1 – 5 years maturity	98,908	100,153	82,149
5 – 10 years maturity	12,145	12,602	95
Mortgage-backed securities	326,261	329,397	—
	$ 838,454	$ 843,304	$ 235,816

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. Member capital accounts have been classified with no contractual maturity.

There were $255,129 in available for sale securities and $12,115 in FHLBNY stock pledged as collateral for borrowed funds at December 31, 2007.

3. LOANS RECEIVABLE

Loans receivable consist of the following:

December 31	2007	2006
Mortgage loans:		
Fixed rate	$ 727,765	$ 569,586
Hybrid/balloon	291,085	263,510
Home equity line of credit, variable rate	389,706	387,577
Business secured loans	11,692	11,822
Commercial participation loans	103,001	69,937
	1,523,249	1,302,432
Vehicle loans	217,097	212,318
Vehicle participation loans	11,528	15,765
Consumer loans	51,527	71,980
Credit card loans, unsecured	32,379	31,080
	1,835,780	1,633,575
Deferred net loan origination costs	6,666	7,458
Allowance for loan losses	(7,906)	(6,550)
	$ 1,834,540	$ 1,634,483

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 collateralized by real property. The Credit Union also purchased vehicle participation loans originated by various other credit unions that consist of pools of vehicle loans. These loans were purchased nonrecourse, full recourse and limited subordination. In limited subordination, the Credit Union is responsible for loan losses that exceed thresholds varying between 3.5% and 5%. The originating credit unions perform all servicing functions on these loans.

The Credit Union offers nontraditional hybrid/balloon mortgage loans to its members. Hybrid/Balloon loans consist of loans that are fixed for an initial period of three, five or seven years.

After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment shock to the borrower.

During 2007, the Credit Union did not engage in subprime lending.

The Credit Union entered into an agreement to sell the credit card loan portfolio in December 2006. Due to specific provisions of the sale agreements, the transaction is treated as secured borrowings under SFAS 140. Since the Credit Union has not released effective control over those assets, the loans are required to be classified as pledged. Credit card loans pledged under these participation loan agreements totaled $32,379 as of December 31, 2007.

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

Years ended December 31	2007	2006
Balance, beginning of year	$ 6,550	$ 5,416
Provision for loan losses	9,289	6,590
Recoveries	1,036	1,341
Loans charged off	(8,969)	(6,797)
Balance, end of year	$ 7,906	$ 6,550

Outstanding mortgage loan commitments at December 31, 2007 and 2006 total approximately $38,590 and $32,383, respectively.

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

December 31	2007	2006
Home equity	$ 267,312	$ 253,057
Other consumer	127,217	128,069
Other unused member business loan	13,414	20,155
	$ 407,943	$ 401,281

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 financial statements.

D. 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, 2007 and 2006 are summarized as follows:

December 31	2007	2006
Mortgage loans underlying pass-through securities:		
FNMA	$ 680,714	$ 722,002
Charlie Mac, LLC	19,910	19,979
Freddie Mac	15,544	—
	$ 716,168	$ 741,981

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately $4,740 and $4,312 at December 31, 2007 and 2006, respectively

A summary of the changes in the balance of mortgage servicing rights in 2007 and 2006 were as follows (in thousands):

Years ended December 31	2007	2006
Balance, beginning of year	$ 6,136	$ 7,421
Servicing assets recognized during the year	491	238
Amortization of servicing assets	(1,560)	(1,510)
Impairment of servicing assets	(38)	(13)
Balance, end of year	$ 5,029	$ 6,136
Fair value of mortgage servicing rights	$ 7,821	$ 8,700

E. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

December 31	2007	2006
Land	$ 1,735	$ 1,712
Building	14,737	13,017
Furniture and equipment	8,840	7,156
Data processing	12,020	10,795
Leasehold improvements	5,337	4,504
	42,669	37,184
Accumulated depreciation and amortization	(24,927)	(22,109)
	$ 17,742	$ 15,075

The Credit Union leases various offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2007 are as follows:

Years ending December 31	
2008	$ 1,505
2009	1,619
2010	1,592
2011	1,365
2012	1,095
Subsequent years	5,598
	$ 12,774

Rental expense for the years ended December 31, 2007 and 2006 for all facilities leased under operating leases totaled $1,756 and $1,598, respectively.

F. MEMBERS' SHARES

Members' shares are summarized as follows:

December 31	2007	2006
Regular shares	$ 253,316	$ 279,623
Share draft accounts	190,760	195,829
Money market accounts	645,111	582,746
Individual retirement accounts – money market	98,639	107,581
Certificates	1,308,405	1,019,985
	$ 2,496,231	$ 2,185,764

Shares by maturity as of December 31, 2007 are summarized as follows:

No contractual maturity	$ 1,187,826
0 – 1 year maturity	1,119,847
1 – 2 years maturity	66,564
2 – 3 years maturity	62,013
3 – 4 years maturity	23,681
4 – 5 years maturity	36,300
	$ 2,496,231

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.

The National Credit Union Share Insurance Fund insures members' shares up to $100, and certain individual retirement and Keogh accounts up to $250.

The aggregate amount of certificates in denominations of $100 or more at December 31, 2007 and 2006 is approximately $385,359 and $300,558, respectively.

At December 31, 2007, overdraft demand shares reclassified to loans totaled $208.

G. BORROWED FUNDS

In 2006, the Credit Union entered into a sale agreement to sell their credit card loan portfolio. Due to specific provisions of the sale agreements, the transaction is treated as secured borrowings under SFAS 140. Specific provisions of the agreements include the Credit Union's option to repurchase these loans in five years as specified in the contract.

Since the Credit Union has not released effective control over those assets, the loans are classified as pledged, and a secured borrowing was established. Outstanding credit card loan balances under this loan agreement totaled $32,379 and $31,080 at December 31, 2007 and 2006, respectively.

The Credit Union has $205,380 in borrowings from FHLBNY. All borrowings from FHLBNY are set to mature in 2008 with interest rates ranging from 4.36% to 4.60% and a weighted average interest rate of 4.51%.

The Credit Union has line of credits with various financial institutions. The terms of the agreements call for the pledging of assets as security for any and all obligations taken by the Credit Union under the agreements. The agreements provide for a total credit limit of $202 million with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2007 and 2006, there were no borrowings under these agreements. Additionally, there were no draws outstanding on these lines of credit for any material length of time in 2007 or 2006. The agreements are reviewed for continuation by the lender and the Credit Union annually.

H. 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.

I. COMMITMENTS AND CONTINGENT LIABILITIES

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 $5,896, and $908 in outstanding commitments to sell loans at December 31, 2007 and 2006, respectively. There are no commitments to sell investments at December 31, 2007.

J. EMPLOYEE BENEFITS

The Credit Union sponsors a funded, noncontributory defined benefit pension plan for the benefit of its employees. The Credit Union also sponsors an unfunded, noncontributory, nonqualified 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.

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.

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2007 and 2006 are as follows:

	Pension Plans		Postretirement Benefit	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	$ 27,344	$ 27,375	$ 5,912	$ 5,759
Service cost	928	827	298	239
Interest cost	1,655	1,561	352	328
Plan amendments	—	128	—	(20)
Benefits paid	(1,085)	(1,076)	(265)	(231)
Actuarial net gain	(2,726)	(1,471)	(497)	(163)
Benefit obligation at end of year	$ 26,116	$ 27,344	$ 5,800	$ 5,912
Change in plan assets				
Fair value of plan assets at beginning of year	$ 26,036	$ 21,369	$ —	$ —
Actual return on plan assets	1,246	3,141	—	—
Employer constributions	2,000	2,602	266	231
Benefits paid	(1,085)	(1,076)	(266)	(231)
Fair value of plan assets at end of year	$ 28,197	$ 26,036	$ —	$ —
Net amount recognized				
Funded status	$ 2,080	$ (1,308)	$ (5,800)	$ (5,912)
Unrecognized net loss	—	5,713	—	1,799
Unrecognized transition obligation	—	—	—	363
Unrecognized prior service cost	—	(921)	—	—
	$ 2,080	$ 3,484	$ (5,800)	$ (3,750)
Accumulated benefit obligation	23,873	25,236		
Weighted average assumptions as of December 31,				
Discount rate	6.85%	6.13%	6.73%	6.13%
Expected return on plan assets	8.00%	8.00%		
Rate of compensation increase	5.00%	5.00%		
Inflation	3.00%	3.00%		
Health care inflation				
Medical trend rates			10.0%–5.0%	10.0%–5.0%
Year of ultimate achievement			2013	2013
Dental trend rates			7.5%–5.0%	7.5%–5.0%
Year of ultimate achievement			2013	2013

	1% point increase	1% point decrease
Effect on total service and interest cost components	$ 127	$ (98)
Effect on postretirement benefit obligation	848	(677)

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 approximates by asset category as follows:

	Pension Plans	
	2007	2006
Equity securities	80%	80%
Debt securities	20%	20%
	100%	100%

The 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 the 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 minimum contribution requirement is zero for the pension plans and approximately $331 to the postretirement benefit plan in 2008.

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

Years ending December 31	
2008	$ 1,454
2009	1,487
2010	1,509
2011	1,582
2012	1,644
2013 – 2016	10,129
	$ 17,805

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Credit Union believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the Credit Union will be entitled to a subsidy.

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 $473 and $499, respectively, to the plan for the years ended December 31, 2007 and 2006.

K. 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 generally accepted accounting principles. 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 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, 2007 and 2006 were 5.71% and 5.66%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2007 and 2006, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent call reporting period, and 2006, 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 (dollars in thousands):

	December 31, 2007		December 31, 2006	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	$ 181,072	6.0%	$ 148,636	6.0%
Amount needed to be classified as "well capitalized"	$ 211,250	7.0%	$ 173,409	7.0%
Actual net worth	$ 237,701	7.8%	$ 224,726	9.1%

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.

L. 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, 2007 and 2006 are $2,750 and $4,017 respectively. Deposits from related parties at December 31, 2007 and 2006 amounted to $1,590 and $1,865, respectively.

M. 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 and Borrowed Funds

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 and borrowed funds 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 :

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 41,324	$ 41,324	$ 139,190	$ 139,190
Investments available-for-sale	843,304	843,304	551,847	551,847
Other investments	235,816	236,980	98,276	98,276
Loans receivable, net	1,834,540	1,843,667	1,634,483	1,603,290
Accrued interest receivable	15,429	15,429	12,578	12,578
Financial Liabilities:				
Members' shares	2,496,231	2,493,270	2,185,764	2,180,651
Borrowed funds	241,031	241,031	35,491	35,491

N. SUBSEQUENT EVENT

At December 31, 2007, the Credit Union's portfolio of investment securities included approximately $233,162 of auction rate securities. These investments have high credit quality ratings of AA or AAA. Auction rate securities are long term, variable rate bonds tied to short term interest rates. Auction rate securities have a long term nominal maturity with interest rates reset through a modified Dutch auction, at predetermined short term intervals, usually 7, 28, or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest is paid at the current period based on the interest rate determined in the prior auction period.

Recent uncertainties in the credit markets have negatively impacted the Credit Union's ability to liquidate investments in auction rate securities because, in recent auctions, the amount of securities submitted for sale has exceeded the amount of purchase orders. The Credit Union is not certain as to when the liquidity issues relating to these investments will improve. As a result of the timing of the recent auction failures beginning in February 2008, the Credit Union is uncertain as to the current fair market value of the auction rate securities they hold. Based on an analysis of other-than-temporary impairment factors, including, but not limited to, whether the credit ratings of the issuers or the insurers deteriorate, or the issuers' ability to meet financial obligations deteriorates, the Credit Union may be required to write-down certain auction rate securities as a charge to earnings if any of their auction rate securities are deemed to be other-than-temporarily impaired. Such impairment charge would reduce net income and could be material to the Credit Union's results of operations. Management evaluated the market value of these securities, concluding that the values stated herein are appropriate.

Based on the Credit Union's expected operating cash flows, and their other sources of cash, they do not expect the lack of liquidity in these investments to affect their ability to execute their current business plan.

Independent Auditor's Report

To the Members of
Bethpage Federal Credit Union
Bethpage, New York

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, 2007 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Bethpage Federal Credit Union as of and for the year ended December 31, 2006 were audited by other auditors. Those auditors expressed an unqualified opinion on those statements in their report dated April 27, 2007.

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 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 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, 2007 and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Grant Thornton LLP
New York, New York
April 24, 2008

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 2007, the Credit Union engaged the services of Grant Thornton LLP to conduct the annual audit of Bethpage Federal Credit Union's financial statements. An annual audit is required by federal regulations. The 2007 audited financial statements of the Credit Union, and related independent auditor's reports, are included in this annual report.

The year 2007 was again marked with an increased commitment from Bethpage to serve its members by adding new branches in the community. Bethpage Federal Credit Union expanded its service capabilities by adding a new branch in Mineola with construction beginning on branches in Massapequa and Freeport.

Bethpage continues to focus on measuring operational efficiency, financial performance and member service. This is being accomplished by implementing service level agreements on internal scorecards and independent surveys. This type of improvement to systems and processes will reduce risk while providing our members with better service.

All of these achievements demonstrate Bethpage's continued commitment to providing better service and convenience to the membership, and this has lead to a high level of member satisfaction. These steps ensure the members' needs are being addressed while providing assurance that the Credit Union's financial condition is accurately stated and presented.

Peter Letizia
Supervisory Committee Chairman

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