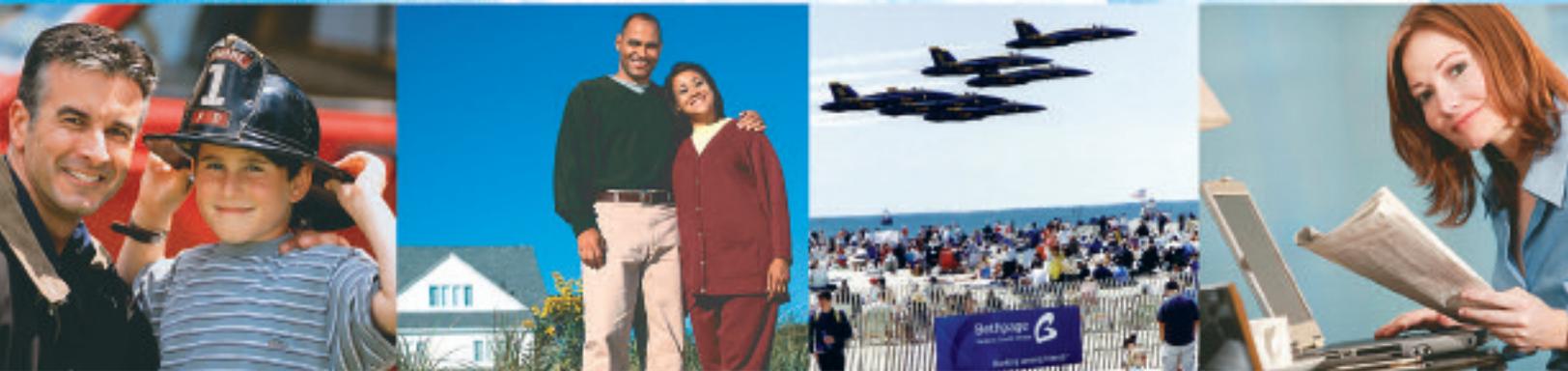
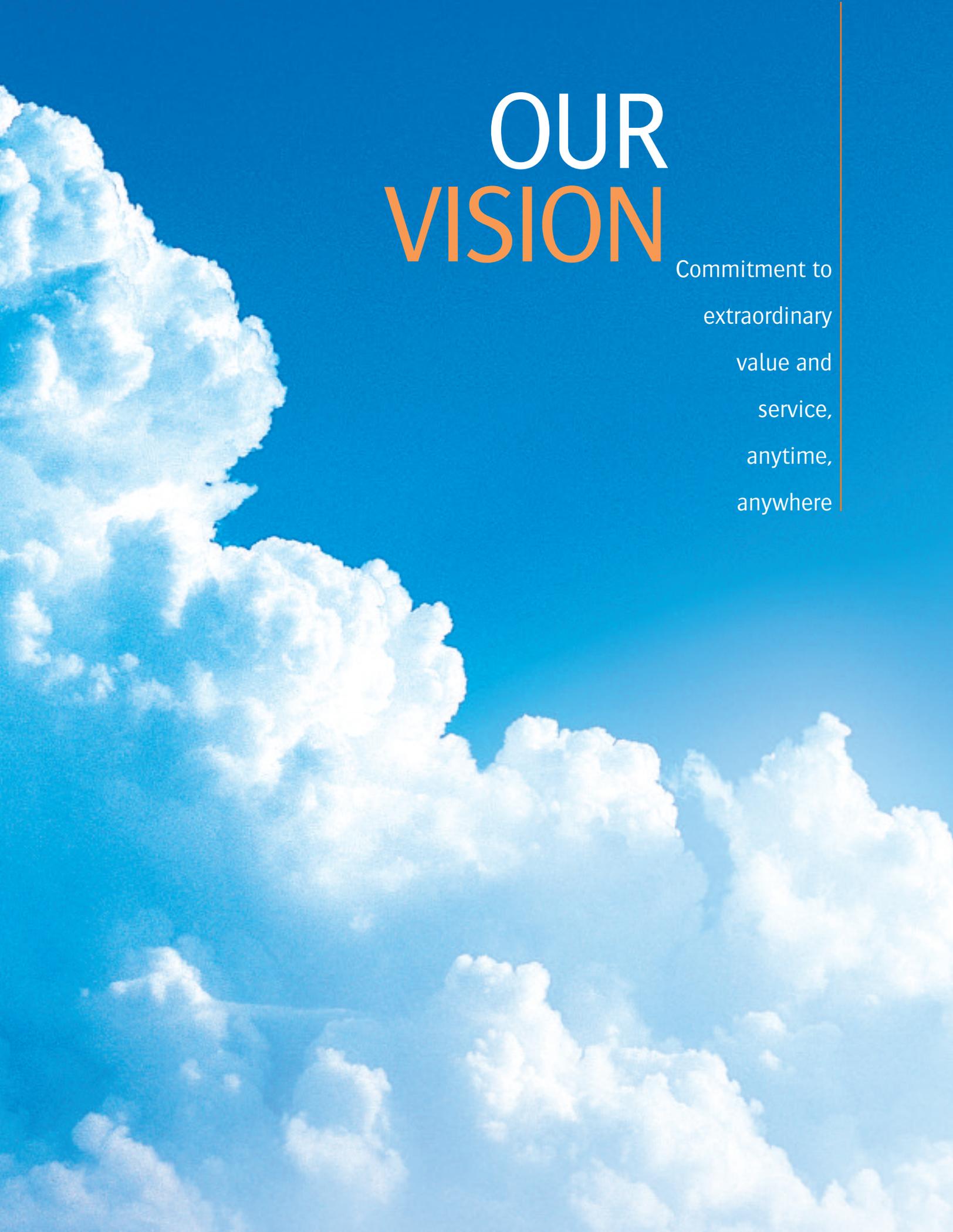




Bethpage
Federal Credit Union

2005 ANNUAL REPORT





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

- Bay Shore, NY
591 Montauk Highway
- Farmingdale
1033 Route 109
- Glen Cove, NY
111 School Street
- Hempstead, NY
170 Fulton Avenue
- Huntington, NY
33 Gerard Street
- Melville, NY
722 Walt Whitman Road
- North Babylon, NY
1350 Deer Park Avenue
- Port Jefferson, NY
4802 Nesconset Highway
- Riverhead, NY
1095 Old Country Road
- Smithtown, NY
240 Middle Country Road

Limited Access Branches

- Greenlawn (BAE Systems employees)
- Islandia (CA employees)

Local Shared Service Centers

- Amityville, Teachers FCU
- Bay Shore, Teachers FCU
- Bohemia, Teachers FCU
- Commack, Teachers FCU
- East Meadow, Nassau Financial FCU
- Farmingville, Teachers FCU
- Flushing, Qside FCU
- Garden City, Nassau Financial FCU
- Hauppauge, Long Island State EFCU
- Holbrook, Teachers FCU
- Islandia, Suffolk FCU
- Manhattan, First Entertainment CU
- Manhattan, Justice FCU
- Manhattan, Skyline FCU
- Miller Place, Suffolk FCU
- Medford, Suffolk FCU
- North Babylon, Teachers FCU
- Oceanside, Oceanside Christopher FCU
- Plainview, Nassau Educators FCU
- Port Jefferson Station, Teachers FCU
- Riverhead, Suffolk FCU
- Rockville Centre, Nassau Educators 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

Corporate Information

Board of Directors

Philip Gandolfo, Chairman

Richard B. Turan, Vice Chairman

Don Balducci, Treasurer

Robert F. Kelly, Secretary

Francis E. Campbell

Thomas D. Gill

James Joyce

John C. Komst

Sam Piazzola

Associate Director

Jaci Clement

Supervisory Committee

Peter Letizia, Chairman

Joseph Moliterno, Secretary

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

Linda Armyn

Vice President, Business Development/
Business Services

Michele Dean

Vice President, Lending
& COO, CUSO Operations

Gary Jendras,

Vice President, Internal Audit

Douglas Picht

Vice President, Information Technology



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



TO OUR

Bethpage is soaring to new heights. Judged by every measure, the year 2005 was a successful one for Bethpage Federal Credit Union. Guided by our Vision to provide our members with extraordinary value and service, anytime, anywhere, more Long Islanders than ever before discovered Bethpage — a different type of financial institution.

Consistent growth

Over the past year, Bethpage assets grew by 8 percent to \$2.23 billion. Deposits rose by 8 percent to \$2 billion and loans increased by 14 percent to \$1.4 billion. Our membership now totals more than 130,000 members and nearly 300 Corporate Business Partner companies representing diverse industries throughout Long Island.

This consistent growth is the direct result of the Bethpage difference. As a not-for-profit financial institution, Bethpage reinvests its “profits” into providing our members with the highest rates on savings, free checking with interest, the lowest rates on loans, low fees, and more services than any bank would offer.

Broadening our product mix

Bethpage offers financial products that will make a real difference in the lives of our members. Home Equity loans and lines of credit continue to be among our most popular products as more members are looking for cost-effective options to improve their homes, consolidate high credit card debt or pay for college expenses. Our vehicle loans continue to expand through GrooveCar, where Bethpage members can finance their vehicle purchase at more than 200 dealerships.

For most Long Islanders, home ownership is a centerpiece of realizing their financial dreams. That's why Bethpage introduced the Home Loan Payment Relief (HeLPeR) mortgage that lets members with household income up to \$125,000 afford the monthly payments of a home purchase.

To better serve our business members, we offer Cash Management Solutions, Commercial loans and a Step-up Checking account that pays interest on checking balances.

We continue to expand our products beyond savings and loans — while providing the same great value and service that you deserve. Bethpage Risk Management Services, LLC offers auto, homeowners, umbrella and commercial insurance policies to our members, saving them as much as 20% off what they had been paying. Members can now save on dental work, vision and

prescriptions through Dental Benefits Plus and tax preparation services through Turbo Tax.

Making banking more convenient

We recognize that it is important to expand our branch network to make Bethpage more accessible for more members. In 2005, Bethpage has opened full-service branches in North Babylon, Huntington, and Smithtown. Farmingdale and a new, expanded branch in Riverhead are opening in spring 2006, increasing the number of Bethpage and Shared Service Center branches to 47 on Long Island alone. Watch for more new branches to open later in 2006. Our new branches are truly state-of-the-art; complete with plasma screens, 24/7 ATMs, large conference rooms, online banking kiosks, coin machines that are free for Bethpage members — all in a lush, contemporary banking environment.

Of course, we want to make it easy to access your money anywhere and everywhere. Beginning in 2005, Bethpage members can access cash at the ATMs at all 7-Eleven convenience stores surcharge-free. When added to our extensive network of King Kullen and Shared Service Center ATMs, Bethpage members now have access to more than 200 surcharge-free ATMs throughout Long Island and more than 3,500 nationwide.

Bethpage has always been on the forefront of telephone and online banking technology. To better serve your needs, we adjusted the hours that our Bethpage Telephone representatives are available six days per week. As a service to our members, we eliminated per item fees for Online Bill Payment. Now, all members enjoy free Online Banking and free Bill Payment, whether or not they have direct deposit.

Soaring into the future

We are pleased to report our success, but we won't stop there. We will continue to enhance our service to make Bethpage membership even more valuable for each and every one of you.

Thank you for another year of your membership and support. It is a privilege to serve you, and we hope that you will continue to recommend Bethpage to your family and friends. We will uphold our commitment to you — to be the best community financial institution on Long Island.

Kirk Kordeleski
President and Chief Executive Officer

MEMBERS



Chairman's Message

Extraordinary service. Usually we use this phrase to describe the level of service you should expect from Bethpage. However, our dedication to service extends beyond our membership. Our commitment to serve the needs of Long Islanders — particularly the youth and the underserved — distinguishes Bethpage from the other financial institutions on Long Island. It's truly extraordinary.

Knowing who's the owner

Bethpage is a financial cooperative that is owned by its members. That difference in ownership translates to a level of service that you just won't find at any bank. If you call our phone center or visit a branch, you can immediately sense the difference in how you are treated at a member-owned financial institution.

Helping the underserved

Another attribute that differentiates Bethpage from other institutions is our commitment to the financial needs of the underserved. Bethpage is dedicated to providing affordable financial services to those who are ignored by other financial institutions. To improve financial literacy, we offer seminars given by our financial counselor, who assists members with debt problems, savings options or purchasing a home. At tax time, through the Volunteer Income Tax Assistance (VITA) program, Bethpage provides free tax preparation assistance to low-income families at our Glen Cove, Hempstead and Bay Shore branches.

Historically, families have moved to Long Island in order to own a home and have a great environment to raise a family; affordable housing continues to drive the vitality of the entire Long Island community. Bethpage has taken a leadership role in respect to the Workforce Housing initiatives on Long Island. We regularly offer first-time homebuyer seminars to give straightforward, honest advice to those looking for their first or next home. To make mortgages more affordable, Bethpage launched a new Home Loan Payment Relief (HeLPeR) mortgage that provides more affordable payments for qualified borrowers. Through its participation in CURealty, Bethpage members who purchase a home can earn a rebate of up to 1% back on the purchase price when they use a CURealty-approved agent for their sale or purchase.

The heart of our community

Our commitment to service extends beyond the boundaries of our membership; there is no other financial institution that is more committed to serving the Long Island community than Bethpage Federal Credit Union.

It is important to all of us that Long Island continues to be a great place to live, work and raise a family. To that end, Bethpage is involved in more than 40 individual charities, donating more than 900 collective hours to organizations that help raise money to fund health programs, preserve our history and mentor young people in Nassau and Suffolk Counties. The Association of Fundraising Professionals named Bethpage the Outstanding Corporation in 2005 in recognition of our contribution to the Long Island community.

Bethpage is particularly committed to the youth of the area, as it is through our young people that Long Island will continue to grow and prosper. We support project GRAD, Brass/Student Program, Grumman Retirees Club scholarships, Bethpage Foundation scholarships and the Bethpage Endowed Scholarship at Adelphi University, among other programs.

Sometimes our community extends beyond the geographic boundaries of Long Island. When Hurricane Katrina severely impacted the southeast, Bethpage not only contributed to the Red Cross through a match program, but also partnered with Bellco Credit Union to cover the costs of getting the Jackson County Credit Union, of Pascagoula Mississippi back in operating order. We even sent volunteer staff to assist in that endeavor.

Bethpage Air Show at Jones Beach

There is no single event that better embodies the spirit of Bethpage Federal Credit Union than the Bethpage Federal Credit Union Air Show at Jones Beach. Held over the Memorial Day holiday at the nation's largest beach, this air show has become one of Long Island's premier family events — attended by hundreds of thousands of local residents each year. Bethpage is honored to be able to present this world-class event that both symbolizes our shared heritage of technology and achievement, and also serves as an aspiration for our hopes and dreams on the horizon.

All of us — our employees, Management team, Associate Directors, Supervisory Committee, and volunteer Board of Directors — are grateful for your membership. It is our pleasure to serve you with the extraordinary value and service that define the Bethpage difference!

A handwritten signature in blue ink that reads "Philip Gandolfo". The signature is fluid and cursive.

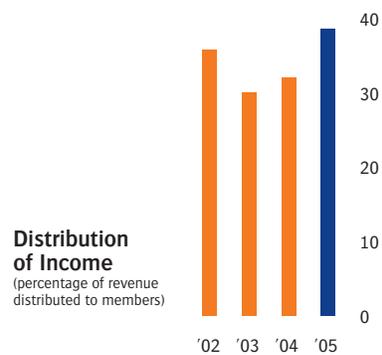
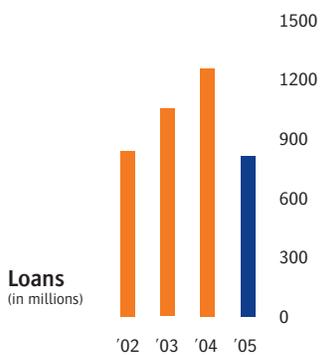
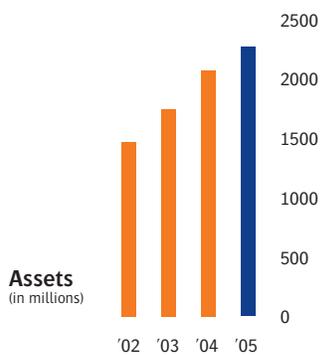
Philip Gandolfo
Chairman

Consolidated Statements of Financial Condition

December 31, 2005 and 2004

(in thousands)

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 67,935	\$ 60,266
Investments		
Available-for-sale	590,796	652,510
Other	101,301	63,347
Loans held for sale	862	1,234
Loans receivable, net	1,418,626	1,244,069
Accrued interest receivable	11,850	10,146
Property and equipment	13,895	14,451
National Credit Union Share Insurance Fund deposits	13,955	13,964
Other assets	11,418	11,804
	<u>\$ 2,230,638</u>	<u>\$ 2,071,791</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$ 1,987,803	\$ 1,846,703
Accrued expenses and other liabilities	50,470	41,464
	<u>2,038,273</u>	<u>1,888,167</u>
Commitments and contingent liabilities		
Members' Equity		
Retained earnings	209,384	189,489
Accumulated other comprehensive loss	(17,019)	(5,865)
	<u>192,365</u>	<u>183,624</u>
	<u>\$ 2,230,638</u>	<u>\$ 2,071,791</u>



Consolidated Statements of Income

For the years ended December 31, 2005 and 2004
(in thousands)

	2005	2004
INTEREST INCOME		
Interest on loans receivable	\$ 72,427	\$ 53,860
Interest on investments and cash equivalents	22,726	20,056
	<hr/>	<hr/>
Total interest income	95,153	73,916
INTEREST EXPENSE		
Dividends on members' shares	42,995	28,261
	<hr/>	<hr/>
NET INTEREST INCOME	52,158	45,655
PROVISION FOR LOAN LOSSES		
	3,981	3,337
	<hr/>	<hr/>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	48,177	42,318
NON-INTEREST INCOME		
Members' shares service charges and other fees	6,401	6,681
Mortgage servicing and loan fees	3,264	2,710
Gain on sale of mortgage loans	1,031	1,908
Investment services and insurance fees - commissions	4,357	1,769
Other non-interest income	3,788	204
	<hr/>	<hr/>
Total non-interest income	18,841	13,272
	<hr/>	<hr/>
Net income before expenses	67,018	55,590
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	21,435	21,383
Operations	22,493	22,145
Occupancy	3,195	2,791
	<hr/>	<hr/>
Total general and administrative expenses	47,123	46,319
	<hr/>	<hr/>
NET INCOME	<u>\$ 19,895</u>	<u>\$ 9,271</u>

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

For the years ended December 31, 2005 and 2004
(in thousands)

	Regular Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
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)	–
Net income		19,895	19,895		19,895
Net change in unrealized holding (losses) gains on available-for-sale investments				(9,936)	(9,936)
Minimum pension liability				(1,218)	(1,218)
Comprehensive income					\$ 8,741
Balance, December 31, 2005	\$ 21,384	\$ 188,000	\$ 209,384	\$ (17,019)	

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004
(in thousands)

	2005	2004
OPERATING ACTIVITIES		
Net income	\$ 19,895	\$ 9,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	927	774
Amortization of net premium on investments	6,813	6,361
Provision for loan losses	3,981	3,337
Depreciation and amortization	2,684	2,660
Write-downs of investments	0	78
Decrease in loans held for sale	372	2,374
(Increase) decrease in accrued interest receivable	(1,704)	13
Increase in other assets	(539)	(147)
Increase in accrued expenses and other liabilities	7,787	3,108
	<hr/>	<hr/>
Net cash provided by operating activities	40,216	27,829
INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(178,191)	(300,179)
Proceeds from maturities of		
available-for-sale investments	223,154	194,935
Transfer of available-for-sale investment to cash	0	(55)
Net increase in other investments	(37,954)	(31,694)
Net increase in loans receivable	(178,538)	(208,138)
Decrease (increase) in the National Credit Union		
Share Insurance Fund deposit	9	(1,543)
Net assets acquired in a merger	0	1,055
Purchases of property and equipment	(2,127)	(2,914)
	<hr/>	<hr/>
Net cash used in investing activities	(173,647)	(348,533)
FINANCING ACTIVITIES		
Net increase in members' shares	141,100	323,085
	<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	7,669	2,381
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	60,266	57,885
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 67,935	\$ 60,266
	<hr/> <hr/>	<hr/> <hr/>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares	\$ 42,995	\$ 28,261

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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 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 non-term 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.

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. Additionally, the Credit Union performs a loan-by-loan analysis of impaired commercial participation loans and assigns an appropriate reserve amount based on the facts and circumstances related to the impairment of the loan.

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: 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, 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.

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 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.

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 2005 and 2004 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.

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 2005 and 2004, other comprehensive income (loss) includes no reclassification adjustments.

Reclassifications: Certain account reclassifications have been made to the 2004 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, 2005	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 459,095	\$ 30	\$ (8,893)	\$ 450,232
Mortgage-backed securities	130,518	83	(1,825)	128,776
Municipal bonds	11,831	0	(43)	11,788
	<u>\$ 601,444</u>	<u>\$ 113</u>	<u>\$ (10,761)</u>	<u>\$ 590,796</u>

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>

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, 2005 and 2004 are as follows (in thousands):

December 31, 2005	Fair Value	Continuous Unrealized Losses Existing For:		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
Available-for-sale				
U.S. government obligations and federal agencies securities	\$ 440,204	\$ (5,629)	\$ (3,264)	\$ (8,893)
Mortgage-backed securities	110,148	(524)	(1,301)	(1,825)
Municipal bonds	11,788	(43)	(0)	(43)
	<u>\$ 562,140</u>	<u>\$ (6,196)</u>	<u>\$ (4,565)</u>	<u>\$ (10,761)</u>

December 31, 2004	Fair Value	Continuous Unrealized Losses Existing For:		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
Available-for-sale				
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 116 and 95 investments with unrealized losses as of December 31, 2005 and 2004, respectively. 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.

Other investments consist of the following (in thousands):

December 31	2005	2004
Certificates of deposit in banks and savings institutions	\$ 4,646	\$ 9,288
Share certificates in a corporate credit union	88,000	45,600
Member capital account in a corporate credit union	8,655	8,459
	<u>\$ 101,301</u>	<u>\$ 63,347</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.

At December 31, 2005 and 2004, there were approximately \$132,701,000 and \$31,915,000, respectively, in credit union and bank deposits with individual balances in excess of the insured limit and maturity dates ranging from no maturity to March 2013.

Investments by maturity as of December 31, 2005 are summarized as follows (in thousands):

	Available-for-sale		Other
	Amortized Cost	Fair Value	
No contractual maturity	\$ 0	\$ 0	\$ 8,655
Less than 1 year maturity	110,826	109,854	52,106
1 - 5 years maturity	360,100	352,166	40,445
Over 5 years maturity	0	0	95
Mortgage-backed securities	130,518	128,776	0
	<u>\$ 601,444</u>	<u>\$ 590,796</u>	<u>\$ 101,301</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. Member capital accounts have been classified with no contractual maturity.

3. LOANS RECEIVABLE

Loans receivable consist of the following (in thousands):

December 31	2005	2004
Mortgage loans:		
Fixed rate	\$ 367,085	\$ 326,368
Variable rate	260,727	242,223
Home equity line of credit, variable rate	408,430	365,579
Business secured loans	9,993	9,598
Commercial participation loans	38,006	9,934
	<u>1,084,241</u>	<u>953,702</u>
Vehicle loans	207,565	180,730
Vehicle participation loans	23,500	10,521
Consumer loans	70,043	66,037
Credit card loans, unsecured	31,230	32,293
	<u>1,416,579</u>	<u>1,243,283</u>
Deferred net loan origination costs	7,463	6,158
Allowance for loan losses	(5,416)	(5,372)
	<u>\$ 1,418,626</u>	<u>\$ 1,244,069</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, 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 following is an analysis of the allowance for loan losses (in thousands):

Years ended December 31	2005	2004
Balance, beginning of year	\$ 5,372	\$ 5,084
Provision for loan losses	3,981	3,337
Recoveries	830	839
Loans charged off	(4,767)	(4,070)
Allowance for loan losses acquired in merger	0	182
	<u>\$ 5,416</u>	<u>\$ 5,372</u>

Outstanding mortgage loan commitments at December 31, 2005 and 2004 total approximately \$22,586,000 and \$40,273,000, respectively.

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

December 31	2005	2004
Home equity	\$ 243,581	\$ 207,616
Credit card	151,999	113,909
Other consumer	90,205	90,267
Other unused member business loan	4,013	95
	<u>\$ 489,798</u>	<u>\$ 411,887</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, 2005 and 2004 are summarized as follows (in thousands):

December 31	2005	2004
Mortgage loans underlying pass-through securities:		
FNMA	\$ 769,475	\$ 722,370
Charlie Mac, LLC	18,482	6,656
	<u>\$ 787,957</u>	<u>\$ 729,026</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately \$4,386,000 and \$2,787,000 at December 31, 2005 and 2004, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2005 and 2004 were as follows (in thousands):

Years ended December 31	2005	2004
Balance, beginning of year	\$ 7,024	\$ 6,184
Servicing assets recognized during the year	1,406	1,614
Amortization of servicing assets	(927)	(774)
Impairment of servicing assets	(82)	0
Balance, end of year	<u>\$ 7,421</u>	<u>\$ 7,024</u>
Fair value of mortgage servicing rights	\$ 9,317	\$ 7,685

5. PROPERTY AND EQUIPMENT

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

December 31	2005	2004
Land	\$ 1,712	\$ 1,712
Building	12,420	12,343
Furniture and equipment	7,278	6,784
Data processing	10,163	9,752
Leasehold improvements	3,000	1,820
	<u>34,573</u>	<u>32,411</u>
Accumulated depreciation and amortization	(20,678)	(17,960)
	<u>\$ 13,895</u>	<u>\$ 14,451</u>

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, 2005 are as follows:

Years ending December 31	
2006	\$ 1,312
2007	1,022
2008	915
2009	892
2010	854
Subsequent years	<u>2,996</u>
	<u>\$ 7,991</u>

Rental expense for the years ended December 31, 2005 all facilities leased under operating leases totaled \$1,271,271.

6. MEMBERS' SHARES

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

December 31	2005	2004
Regular shares	\$ 369,929	\$ 696,165
Share draft accounts	176,620	179,175
Money market accounts	589,014	434,297
Individual retirement accounts – money market	124,590	151,510
Certificates	<u>727,650</u>	<u>385,556</u>
	<u>\$ 1,987,803</u>	<u>\$ 1,846,703</u>

Shares by maturity as of December 31, 2005 are summarized as follows (in thousands):

No contractual maturity	\$ 1,260,153
0 - 1 year maturity	479,359
1 - 2 years maturity	79,571
2 - 3 years maturity	84,135
3 - 4 years maturity	38,107
4 - 5 years maturity	<u>46,478</u>
	<u>\$ 1,987,803</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, 2005 and 2004 is approximately \$203,655,000 and \$79,356,000, 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, 2005 and 2004, 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 \$1,958,000 and \$4,038,000 outstanding commitments to sell loans at December 31, 2005 and 2004, respectively. There are no commitments to sell investments at December 31, 2005.

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. Effective December 31, 2004 the mortality table was updated from the 1983 Group Annuity Mortality Table to the RP2000 Mortality Table. The change was reflected in the December 31, 2004 disclosure amounts, but was not included in the 2004 pension expense. The reason the change would not have been reflected in the 2004 pension expense is that the 2004 expense was based on the assumptions as of December 31, 2003.

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. Effective December 31, 2004 the mortality table was updated from the 1983 Group Annuity Mortality Table to the RP2000 Mortality Table. The change was reflected in the December 31, 2004 disclosure amounts, but was not included in the 2004 pension expense. The reason the change would not have been reflected in the 2004 pension expense is that the 2004 expense was based on the assumptions as of December 31, 2003.

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2005 and 2004 are as follows (in thousands):

	Pension Plans		Postretirement Benefit	
	2005	2004	2005	2004
Benefit obligation at December 31	\$ 27,375	\$ 25,545	\$ 5,759	\$ 5,889
Fair value of plan assets	21,369	20,232	0	0
Funded status	<u>\$ (6,006)</u>	<u>\$ (5,313)</u>	<u>\$ (5,759)</u>	<u>\$ (5,889)</u>
Accrued benefit cost recognized in the consolidated statements of financial condition	\$ 4,439	\$ 3,838	\$ 3,267	\$ 2,750
Minimum pension liability recognized in the consolidated statements of financial condition	\$ 6,371	\$ 5,153	\$ 0	\$ 0
Accumulated benefit obligation	<u>\$ 25,692</u>	<u>\$ 23,936</u>	<u>\$ 0</u>	<u>\$ 0</u>
Assumptions used to determine benefit obligation:				
Discount rate	5.80%	6.00%	5.80%	6.00%
Rate of compensation increase	5.00%	5.00%	-	-
Net pension cost	\$ 708	\$ 1,491	\$ 679	\$ 742
Employer contribution	\$ 1,310	\$ 4,718	\$ 322	\$ 217
Benefit payments	\$ 1,007	\$ 994	\$ 322	\$ 217
Assumptions used to determine net pension cost:				
Discount rate	6.00%	6.30%	6.00%	6.30%
Expected long-term return on plan assets	8.00%	8.00%	-	-
Rate of compensation increase	5.00%	5.00%	-	-
Inflation rate	3.00%	3.00%	-	-
Assumptions used to determine health care inflation:				
Medical trend rates			11.0% - 5.0%	12.0% - 5.0%
Dental trend rates			7.5% - 5.0%	8.0% - 5.0%
Year of ultimate rate achievement			2013	2013

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	
2005	2004
Equity securities	81%
Debt securities	19%
<u>100%</u>	<u>100%</u>

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 Credit Union expects to contribute \$2,600,000 to the pension plans and \$306,000 to the postretirement benefit plan in 2006.

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

Years ending December 31

2006	\$ 1,340
2007	1,369
2008	1,411
2009	1,449
2010	1,489
2011 - 2015	<u>8,767</u>
	<u>\$ 15,825</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 \$366,000 and \$456,000, respectively, to the plan for the years ended December 31, 2005 and 2004.

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, 2005 and 2004 were 5.65% and 5.7%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2005 and 2004, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent call reporting period, and 2004, 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, 2005		December 31, 2004	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 133,838	6.0%	\$ 124,307	6.0%
Amount needed to be classified as "well capitalized"	\$ 156,145	7.0%	\$ 145,025	7.0%
Actual net worth	\$ 209,384	9.4%	\$ 189,489	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.

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
Total assets	\$ 12,074
Loans receivable	3,021
Allowance for loan losses	(220)
Members' shares	10,902
Members' equity	1,055
Net loss	(398)

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, 2005 and 2004 are \$4,348,538 and \$4,157,920, respectively. Deposits from related parties at December 31, 2005 and 2004 amounted to \$2,662,455 and \$2,472,819, respectively.

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, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 67,935	\$ 67,935	\$ 60,266	\$ 60,266
Investments				
available-for-sale	590,796	590,796	652,510	652,510
Other investments	101,301	101,301	63,347	63,347
Loans held for sale and loans receivable, net	1,419,488	1,407,263	1,245,303	1,237,587
Accrued interest receivable	11,850	11,850	10,146	10,146
Financial Liabilities:				
Members' shares	1,987,803	1,983,660	1,846,703	1,846,696

Independent Auditor's Report

We have audited the accompanying consolidated statements of financial condition of Bethpage Federal Credit Union (a federally chartered credit union) and Subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income, members' equity and comprehensive income (loss), and cash flows for the years then ended. These 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 audits.

We conducted our audits 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 audits provide 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, 2005 and 2004 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



McGladrey & Pullen
Beverly, Massachusetts
March 17, 2006

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 2005, the Credit Union again 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 2005 audited financial statements of the Credit Union, and related independent auditor's reports, are included in this annual report.

The year 2005 was marked with an increased commitment from Bethpage to serve its members by adding new branches in the community. The Credit Union has expanded its service capabilities by adding three new branches, with more planned in 2006. This expansion is in line with Bethpage's strategic goal of continuing to leverage its community charter in an effective and planned manner.

Bethpage is also focusing on measuring operational effectiveness and how it ties into financial performance. This is being accomplished by implementing metrics and scorecards that link individual actions to the goals of the organization. This type of improvement to systems and processes will lead to reduced risk.

All of these achievements demonstrate Bethpage's continued commitment to providing better service and convenience to the membership. This has led to a higher 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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