



Bay Federal

CREDIT UNION

Making a real difference



2014 Annual Report

A Letter from the Chair and the President and CEO

The past year was a pivotal one for Bay Federal Credit Union and we are excited to share our successes with you. The Credit Union had a productive year of growth and investment in our community. Our focus on member service, community service, strategic partnerships and growth of our lending portfolio is evident in our results. In 2014, our membership grew to 58,000, assets grew to \$734M, 7% over the prior year, and Bay Federal continues to be well-capitalized with a capital-to-asset ratio of 7.89%, up from 7.21% in 2013.

In 2014, Bay Federal began the process for merging the members of Santa Cruz County Employees Credit Union into Bay Federal's community of members. We are very pleased to welcome both their employees and members to Bay Federal.

Bay Federal continues to perform well financially. We have made investments in the overall operations of the credit union to increase long-term member value. At a time when financial institutions are raising fees or rolling out even more complicated fee structures, Bay Federal opted to keep our fee structure simple, and in several cases, decreased fees. For example, there is no longer a fee to join Bay Federal. We will continue to look at how we can provide member value through reduced fees in the years to come.

Bay Federal also managed loan interest rates to ensure we maintained competitive rates on home and auto loans, and also focused on offerings that rewarded our membership for their commitment and trust. Our loan programs enabled members to refinance loans from other financial institutions and save money by lowering monthly payments. In early 2014, we released a redesigned and searchable website to make member education and access to the Credit Union's services and products even easier. Members can now initiate loan applications from our website.

In addition, in 2014, with the support of our Board of Directors, the Credit Union invested in staff education to expand our employee's knowledge and to better serve our growing membership. We made significant investments in our software solutions and technology infrastructure to ensure Bay Federal is ready for future advancements such as an integrated online banking and mobile solution and enhanced information security.

Member information security is of paramount concern at Bay Federal, and it is a moving paradigm every year. In 2014, three major retailers had security breaches that caused significant inconvenience for our membership due to credit or debit card numbers being compromised. While the breaches were not caused by Bay Federal, we are committed to improving the experience when fraudulent activity affects our members. We have invested in new technology that will enable our members to receive instant card replacements and activation at any one of our seven local branches. This service will be available in 2015.

The arrival of 2015 brings excitement and many new opportunities. We are broadening our home loan program to include Jumbo and Adjustable Rate Mortgages and we expanded our sales team to enhance member service. We will bring forward a completely new online banking experience in the second half of the year, allowing members to have truly integrated mobile, tablet and computer accessibility. We will complete our merger of Santa Cruz County Employees Credit Union into our organization, welcoming their rich history as part of our story and their members as part of our family. And, we will continue to invest in the employee and member experience making Bay Federal a better place to do your banking.

We are grateful for the commitment of our staff, our dedicated volunteer Board of Directors, and our loyal membership. Your support of Bay Federal, a true financial cooperative, is what allows us to make a real difference in the financial lives of those we serve in our community; yesterday, today and well into the future.

Sincerely,

Sheila Joyce Kellerman, Board Chair

Carrie L. Birkhofer, President and CEO



Sheila Joyce Kellerman
Board Chair



Carrie L. Birkhofer
President and CEO

Highlights from 2014

- Bay Federal Credit Union funded over \$60 million in local home loans.
- \$87 million in new and used auto loans were funded through our in-branch lending and partnerships with local dealerships.
- Our CFS* Investment Services Program assisted our members with investing over \$17 million for college and retirement savings, growing the assets under management to \$147 million.
- \$139,000 was refunded to members through our VISA cash back rewards program.
- 88% of members surveyed rated their overall service experience at Bay Federal Credit Union to be very good or excellent.
- 100% of our employees donated their time and money to assist local non-profit organizations for the 12th consecutive year.
- Bay Federal was honored with the coveted rating as the "Best Financial Institution" by readers of regional newspapers, including Santa Cruz Weekly, Press Banner and The Santa Cruz Sentinel.

*Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer (Member FINRA/SIPC) and SEC Registered Investment Advisor. Products offered through CFS: are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal. Investment Representatives are registered through CFS. Bay Federal Credit Union has contracted with CFS to make non-deposit investment products and services available to credit union members. CFS is located at 10150 Meany Dr. San Diego, CA 92121.



Supervisory Committee and Treasurer's Report

Bay Federal Credit Union's assets grew by 7%, ending 2014 at \$734M. This growth is attributable to the core areas of checking and savings accounts. The Credit Union posted earnings of \$6.9M and continued to be well-capitalized at 7.89%. These positive results were achieved due to close management of operating expenses, an increase in auto, mortgage and credit card lending, and a significant improvement in the local economy; resulting in a reduction in the provision for loan losses due to lower loan delinquencies.

The Supervisory Committee secured the services of Orth, Chakler, Murnane and Company to perform a certified financial audit of the Credit Union in 2014. The CPAs stated that the financial statements presented fairly the financial position of the Credit Union as of June 30, 2014. The Credit Union continues to be diligent in its focus to improve internal controls and enhance risk management practices. The Credit Union also enlisted industry experts for best practices and conducted several audits by external experts which pointed to safety and security being adhered to in management's daily practices.

The low interest rate environment has tempered deposit growth somewhat; however, positive trends continue to be experienced in the lending portfolio. The Credit Union actively monitors exposure from potential and actual losses from the mortgage, mobile home and auto loan portfolios. Staff has been successful in mitigating actual losses by continually improving loan modification programs and assisting members in the time of need.

Bay Federal Credit Union is focused on providing exceptional and affordable financial services for the benefit of all of its members. Bay Federal will continue to focus on growing profitably and with safety and security in mind for the future of our financial cooperative.

Making a Real Difference

Our commitment to the communities and members we serve is tangible in everything we do. Bay Federal seeks to adhere to strong community service through volunteerism and by offering financial education to members in the community. We strive for an excellent member experience and to provide value to our membership daily. Each decision made at Bay Federal is preceded by the question: Will this make a real difference? Our values of Professionalism, Appreciation, Care and Compassion, Integrity, Fun and Friendly, Innovation, and Community are lived by all employees daily, and these values directly affect the member experience and the whole community experience of Bay Federal.

Our employees are committed to the community and the membership of Bay Federal. In 2014, Bay Federal employees and its members raised over \$72,000 for 35 local non-profit agencies. Our employees willingly gave their personal time, contributing a conservative estimate of 3,650 volunteer hours. We provide in-kind contributions, volunteers and fund-raising for organizations that provide significant services to our shared community. Key partnerships include the United Way of Santa Cruz County, Second Harvest Food Bank, Community Bridges Meals on Wheels, Big Brothers Big Sisters, Boys and Girls Club, American Cancer Society, Alzheimer's Association and many more.

Bay Federal's passion for improving our shared community is keenly exhibited in our financial education program. Our roots in education run deep, as we began as Santa Cruz County Teacher's Federal Credit Union in 1957. During 2014, our dedicated team members provided 92 classroom presentations, reaching 1,617 students and 180 adults on topics such as budgeting, saving for college, understanding credit scores and using credit responsibly. Free materials and financial counseling continue to be available through Bay Federal Credit Union and our partners.

As we look ahead to 2015, Bay Federal Credit Union remains committed as an active community partner to support non-profit agencies and financial education initiatives.

Discover, Learn, Engage

We invite you to learn more about how we are making a real difference year-round. Follow us on Facebook, Twitter, LinkedIn, Instagram or visit our website at www.bayfed.com. Feel free to share valuable financial education tips and community engagement information with your family and friends!



Statement of Income

For the year ending December 31, 2014 (unaudited)

Interest Income

Interest on Loans	\$22,426,937
Interest on Investments	<u>2,519,236</u>
Total Interest Income.....	24,946,173

Interest Expense

Dividends and Interest.....	788,878
Interest on Borrowed Money.....	<u>2,487,716</u>
Total Interest Expense.....	3,276,594

Net Interest Income.....	21,669,579
Provision for Loan Loss	<u>334,173</u>

Net Interest Income Net of Provision.....	21,335,406
Non-Interest Income	11,001,807

Operating Expenses

Compensation and Benefits	15,613,178
Operations	4,066,648
Occupancy	1,495,276
Other Expenses.....	<u>4,252,952</u>
Total Operating Expenses.....	<u>25,428,054</u>
Net Income	<u>\$6,909,159</u>

Statement of Financial Condition

As of December 31, 2014 (unaudited)

Assets

Member Loans (net).....	\$459,081,876
Cash	10,020,040
Investments	236,164,953
Land, Building and Equipment.....	13,027,771
Other	<u>16,032,475</u>
Total Assets	<u>\$734,327,115</u>

Liabilities, Deposits and Equity

Notes Payable.....	\$48,000,000
Other Liabilities.....	10,751,754
Member Deposits	617,554,234
Equity	<u>58,021,127</u>
Total Liabilities, Deposits and Equity ..	<u>\$734,327,115</u>



Minutes from March 26, 2014 Annual Meeting

Chair Osmer called the meeting to order at 6:00 pm and welcomed staff, volunteers, and members to the 2013 Annual Meeting. A quorum was established and the 2012 Annual Meeting minutes were approved. Osmer introduced the Board of Directors and Supervisory Committee and thanked them for dedicating their time and commitment to the financial well-being of the membership and ensuring we make a real difference in the community.

He expressed that the Credit Union provided millions of dollars' in loans to help members purchase vehicles, homes and that we provided home equity loans to help with education expenses for members' children. Assistance was also provided in investment and retirement planning to help members plan their future. In addition, the organization continues to ease financial burdens faced by members through educational outreach, loan modifications and new loan programs.

President and Chief Executive Officer's Report

Birkhofer noted that the Credit Union was started in 1957 with \$40 and has now grown to over \$700 million. In 2013, members borrowed \$109 million for local home loans and over \$24 million for auto loans. Over the years, the Credit Union has grown, but still remains focused on 'people helping people'. The financial education program reached 1,800 students and over 90 adults and provided information on topics like budgeting, saving for the future and understanding credit scores.

Improvements were made to mobile technology allowing members to use devices to manage their finances quickly. A new Credit Union website was designed which will help members' access credit union resources and locate information easily.

Birkhofer thanked staff for its dedication to serving the membership and the community. Employees and members donated over \$70,000 for 37 local non-profit agencies. For the 11th consecutive year, 100% of all employees have participated in community support activities. Birkhofer thanked staff for the pride they have for the community and the service they provide to members.

Supervisory Committee Report

Supervisory Committee Chair Pat Pfremer introduced the Supervisory Committee. Individuals are appointed by the Board of Directors and they volunteer their time and expertise to ensure the stability of the Credit Union. The committee oversees internal controls and works with the Internal Audit team as well as outside CPA audit teams. In 2013 the Committee secured the services of Orth, Chakler, Murnane and Company to perform a certified financial audit of the Credit Union. OCM stated that the financial statements presented fairly the financial position of the Credit Union. The Committee continues work on enhancing risk management procedures and improving internal controls. Committee activities throughout the year proved the management team is diligent in upholding Credit Union policies and procedures.

Election Results

Chair Pfremer announced the results of the annual Board of Directors election. Having received no petitions for board nominations from the membership, the following nominees have been re-elected: Bob Bugalski, Ivonne Guzman, and Sheila Kellerman, Jessica Dixon, and Jim Phillips. Congratulations!

Osmer and Pfremer thanked all the employees of Bay Federal Credit Union for all their commitment to the community and dedication to the Credit union.

Scholarship Presentations

Birkhofer and Osmer presented Dawn Wingert and David Sorrento each with a \$500 Mac McCormac Employee Scholarships. Wingert is pursuing a Psychology Degree and Sorrento is working towards a degree in computer programming. Three student members were presented with \$1,000 education scholarships.

Adjournment

At 6:40 p.m., the meeting was adjourned.

Susan Riddle, Recorder



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Board of Directors

Sheila J. Kellerman

Board Chair

Dennis Osmer

Board Vice Chair

Kathleen L. Bodmer

Secretary

Jim Phillips

Treasurer

Taylor Bateman

Director

Bob Bugalski

Director

Jessica Dixon

Director

Ivonne J. Guzman

Director

Michael Leung

Director

Associate Directors

Jordan Ciliberto

Associate Director

Julie Haff

Associate Director

Piret Harmon

Associate Director

Danny Keith

Associate Director

Supervisory Committee

Patricia J. Pfremer

Co-Chair

Suzanne Shaug

Co-Chair

Richard Mills

Committee Member

Executive Team

Carrie L. Birkhofer

President and
Chief Executive Officer

Cameron Haste

Executive Vice President and
Chief Operations Officer

Tonée Picard

Executive Vice President and
Chief Development Officer