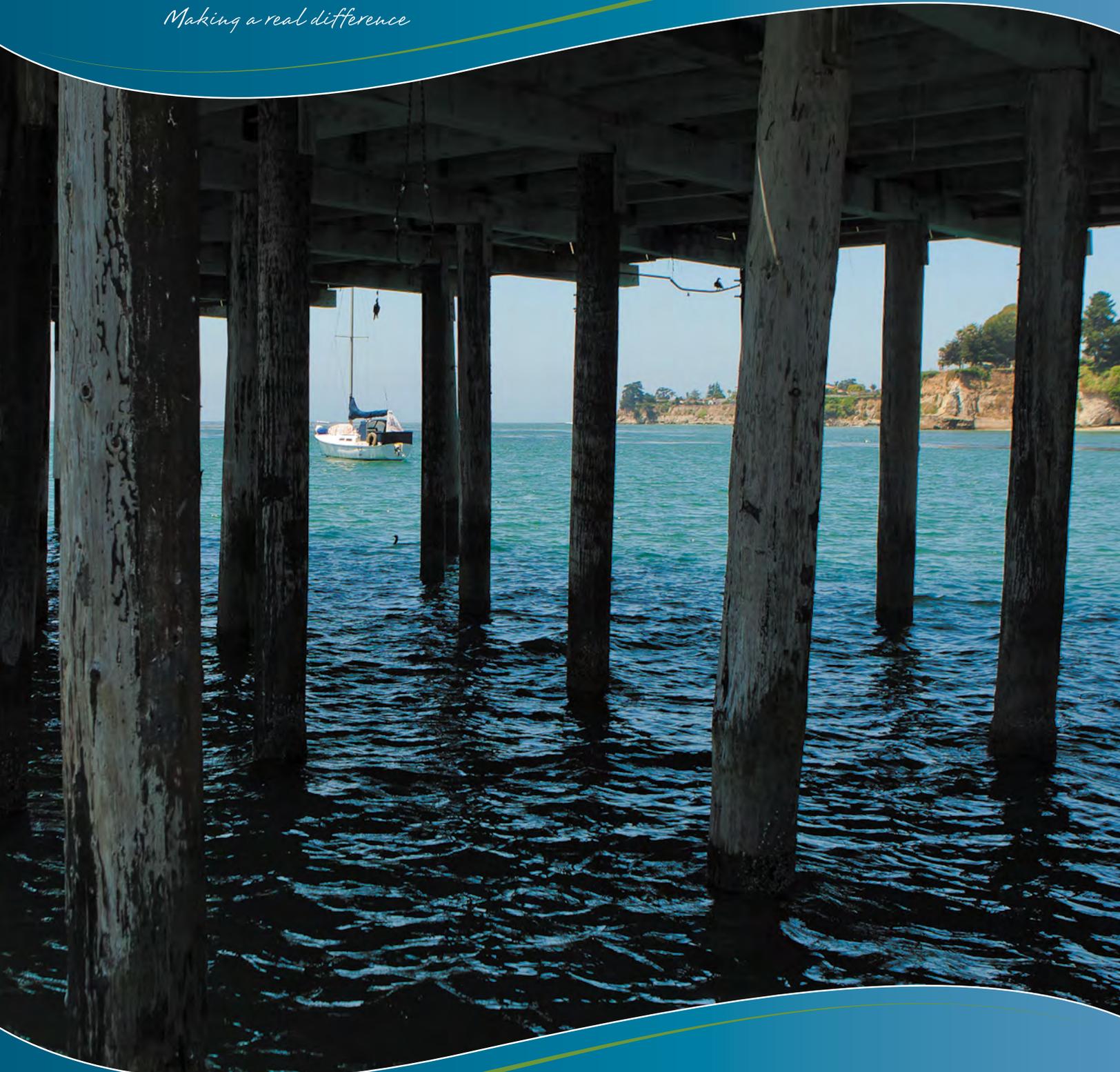




Bay Federal
CREDIT UNION

Making a real difference



2012 Annual Report

A Letter from the Chairman and the President and CEO

Bay Federal Credit Union continues to serve our members and community by providing desired financial products and services. In 2012, the Credit Union grew its loan portfolio, investment services and new member relationships, resulting in strong net income and growth in equity compared to 2011. We continue to see signs of recovery in our local market as evidenced by strong mortgage and auto loan financing activity. In addition to providing financial products, we support our membership through community volunteerism and financial education.

We have remained steadfast in our efforts to improve efficiencies and reduce operating expenses throughout our organization and we have repriced several products to reduce the cost burden on the entire membership. These changes have resulted in improvements to our net income and capital ratio. Net income at the end of the year was \$4.02 million, and our capital ratio is considered adequately capitalized at 6.57%.

2013 will bring exciting enhancements to our electronic channels. Banking with Bay Federal Credit Union will be easier than ever before. In addition to our new mobile banking solution, we will expand our electronic services to include a complete website redesign that will integrate online account opening and online loan applications, and the enhancement of internal technologies to improve the branch experience. We are also staging for growth in auto lending, mortgage lending, investment services and business services areas, and reinvesting in education and training for our team members. We will continually fine tune our business model to improve service and product offerings while also focusing on the financial strength of our member-owned financial institution.

We wish to express our sincere appreciation to the entire membership, our employees and our dedicated volunteers who serve on the Board of Directors and Supervisory Committee. Your generous support of your financial cooperative truly makes a real difference in the financial lives of those we serve.



Dennis Osmer, Chairman



Carrie L. Birkhofer, President and CEO

Supervisory Committee and Treasurer's Report

Bay Federal Credit Union's assets grew by 4%, ending 2012 at \$678 million. This growth was in the core areas of checking and savings accounts. The Credit Union posted earnings of \$4.02 million and remained adequately capitalized at 6.57%. These results were achieved due to non-interest income growth, closely managing operating expenses and an increase in auto and mortgage lending. The dollar amount and number of delinquent loans continued to decline in 2012, although mortgage loan losses have remained relatively steady.

The Supervisory Committee secured the services of Orth, Chakler, Murnane and Company to perform a certified financial audit of the Credit Union in 2012. The CPAs stated that the financial statements presented fairly the financial position of the Credit Union as of June 30, 2012.

The Credit Union has continued its focus on improving internal controls and enhancing risk management procedures this year, utilizing industry experts for best practices.

2012's financial results for the Credit Union are tempered with the low interest rate environment and continued economic pressures faced by our members. We continue to monitor exposure to losses from "underwater" home loans, and have mitigated actual losses by offering home loan modifications to help members in their time of need.

Bay Federal Credit Union strives to provide exceptional and affordable services to all of our members, and we will continue to focus on growing profitably for the benefit of all members in the years to come.



Dennis Osmer
Chairman



Carrie L. Birkhofer
President and CEO

Highlights from 2012:

- *Bay Federal funded over \$163 million in local home loans compared to \$52 million in 2011.*
- *\$22 million in new and used auto loans were funded, providing members with reliable transportation.*
- *Our CFS* Investment Services program assisted our members with investing over \$12.5 million for college and retirement in 2012.*
- *85% of members surveyed rated the overall service experience at Bay Federal to be very good or excellent.*
- *100% of our employees donated their time and money to assist local non-profit organizations for the 10th consecutive year.*
- *We were voted the "Best Financial Institution" by readers of the regional newspapers, including the Good Times, Press Banner, Santa Cruz Weekly and the Santa Cruz Sentinel.*
- *We installed 19 new, highly automated ATMs throughout Santa Cruz County.*
- *BayFedMobile, a dynamic mobile banking solution, was launched in December 2012.*

* 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.

Annual Meeting, Tuesday, March 26, 2013 6:00 pm

Agenda

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|--|-----------------------------------|
| I: Call to Order | V: Supervisory Committee's Report |
| II: Approval of Minutes from March 27, 2012 | VI: Election Results |
| III: Chairman's Report | VII: Items from the Floor |
| IV: President and Chief Executive Officer's Report | VIII: Adjournment |

Minutes from March 27, 2012 Annual Meeting

Chairman's Report

Chairman Dennis Osmer called the meeting to order at 6:00 pm and welcomed staff, volunteers, and members. A quorum was established and the prior year Annual Meeting minutes were approved. Osmer introduced the Board of Directors and Supervisory Committee. They devote their time, energy, and focus to ensure the success of the Credit Union. Osmer introduced Supervisory Committee nominees Suzanne Shaug and Tami Corum. Though it has been challenging to navigate the economic environment of the past few years, Bay Federal remains faithful to creating mutually beneficial relationships with members and providing exceptional service, convenient delivery and fair prices.

President and Chief Executive Officer's Report

Many achievements were made in the past year which benefited members, employees and the community. Indirect auto lending was reintroduced and \$13 million in affordable auto loans were funded. Loan modifications contributed to a decrease in loan defaults. Bay Federal received national recognition as one of the top 300 credit unions for mortgage loan funding. Bay Federal earned the "Organization of the Year" award from United Way, and several local papers awarded Bay Federal with the "Best Financial Institution" award.

Birkhofer thanked staff for the pride they have in Bay Federal and thanked the volunteers for their dedication in ensuring the overall strength of the Credit Union. For the 9th consecutive year, 100% of employees participated in community support activities. Looking ahead, the Credit Union plans to install new image enabled ATMs, introduce mobile banking and additional online services.

Birkhofer and Osmer presented three students with \$1,000 education scholarships. Anna Schweikert and Janene Adema were the recipients of the Mac McCormac Employee Scholarship.

Supervisory Committee Report

Chairperson Pat Pfremer introduced the Committee. They volunteer their time and expertise to oversee internal controls, work with Internal Audit and outside CPA audit teams. The services of Orth, Chakler, Murnane and Company (OCM) were secured to perform a certified financial audit, and OCM determined June 30, 2011 financial statements were accurately presented. The Committee continues to 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. 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.

Election Results

Chairman Osmer announced the results of the annual Board of Directors election. Two incumbents were nominated for two open positions. Having received no petitions from the membership, Kathleen Lawler Bodmer and Michael Leung have been elected by acclamation.

Adjournment

At 6:30 pm, the meeting was adjourned.

Susan Riddle, Recorder

Statement of Income

for the year ending December 31, 2012 (unaudited)

INTEREST INCOME

Interest on Loans	\$ 23,291,963
Interest on Investments	1,451,949
Total Interest Income	24,743,912

INTEREST EXPENSE

Dividends and Interest	\$ 3,444,875
Interest on Borrowed Money	2,918,510
Total Interest Expense	6,363,385

Net Interest Income

Provision for Loan Losses

Interest Income Net of Provision

Non-Interest Income

OPERATING EXPENSES

Compensation and Benefits	\$ 13,068,613
Operations	3,105,381
Occupancy	1,464,829
Other Expenses	4,140,873
Total Operating Expenses	21,779,696
Net Income	4,025,676

Statement of Financial Condition

as of December 31, 2012 (unaudited)

ASSETS

Member Loans (net)	\$ 427,948,952
Cash	11,614,336
Investments	206,975,932
Land, Building and Equipment	14,542,416
Other	17,388,667
Total Assets	678,470,303

LIABILITIES, DEPOSITS AND EQUITY

Notes Payable	\$ 60,000,000
Other Liabilities	9,018,526
Member Deposits	565,224,847
Equity	44,226,930
Total Liabilities, Deposits and Equity	678,470,303

Making a Real Difference in the Financial Lives of those in the Communities We Serve

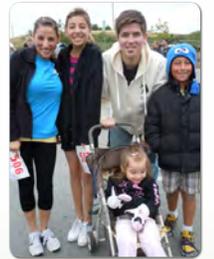
Bay Federal Credit Union has a long history of service to our community, from the first loan for a baby crib, to our financial literacy programs for children and adults, our passion is to give back to the communities in which we live and work.

2012 marked the 10th consecutive year that 100% of our employees volunteering in our community. Our employees have raised funds and volunteered countless hours of their personal time to support area schools, non-profits and community organizations. Some of the non-profit organizations that we actively support include:

- 4-H Leadership Team
- Above the Line
- Alzheimer's Association
- American Cancer Society's Relay For Life
- Big Brothers/Big Sisters of Santa Cruz County
- Blue Star Moms
- Boy and Girl Scouts of America
- Boys and Girls Club of Santa Cruz and Monterey Counties
- Cabrillo College Foundation
- Cell Phones for Soldiers
- Children's Miracle Network
- Community Bridges
- Court Appointed Special Advocates (CASA)
- Dientes
- Dominican Hospital Foundation
- Habitat For Humanity
- Homeless Services Center
- HOPE Services
- Jacob's Heart
- Meals on Wheels
- Pajaro Valley Shelter Services
- PAPÁs
- Partners For Peace
- Salinas Jaycees
- Santa Cruz AIDS Project
- Santa Cruz and Pajaro Valley Shelter Services
- Santa Cruz County Schools
- Santa Cruz County Head Start Programs
- Save Our Shores
- Santa Cruz AIDS Project
- Second Harvest Food Bank
- Senior's Council Foster Grandparents Organization
- Sienna House
- United Way of Santa Cruz County
- Valley Churches United
- Volunteer Centers of Santa Cruz County
- Women's Crisis Support - Defensa de Mujeres
- Your Future Is Our Business
- YWCA - Teens Program

Bay Federal Credit Union contributes and supports the efforts of over 75 local non-profit agencies, education and sports in each school district in our county, and is an active partner in all local Chamber of Commerce organizations.

We invite you to learn more about how we are making a real difference! Follow us on Facebook, Twitter or LinkedIn, or visit our website at www.bayfed.com.



Board of Directors

Dennis Osmer
Chairman

H. Duane Smith
Vice Chairman

Michael Leung
Treasurer

Kathleen L. Bodmer
Secretary

Bob Bugalski
Director

Sheila Joyce Kellerman
Director

Jessica Dixon
Director

Ivonne J. Guzman
Director

Jim Phillips
Director

Danny Keith
Associate Director

Supervisory Committee

Patricia J. Pfremer
Chairperson

Phil Kidder
Committee Member

Richard Mills
Committee Member

Suzanne Shaug
Committee member

Tami Corum
Committee member

Bob Bugalski
Board Liaison

Executive Team

Carrie L. Birkhofer
President and CEO

Cameron Haste
EVP, Chief Operations Officer

Tonée Picard
EVP, Chief Development Officer



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